LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
A COMPONENT UNIT OF THE
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2014
ISSUED DECEMBER 17, 2014

LOUISIANA LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 15, 2014

Independent Auditor's Report

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Louisiana Agricultural Finance Authority (Authority), a component unit of the state of Louisiana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

ARW:CGEW:EFS:THC:aa
LAFA 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of the Louisiana Agricultural Finance Authority's (Authority) financial performance presents a narrative overview and analysis of the Authority's financial activities for the year ended June 30, 2014. This document focuses on the current-year's activities, resulting changes, and currently-known facts in comparison with the prior-year's information. Please read this information in conjunction with the Authority's basic financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The Authority's net position, the amount by which assets exceeded its liabilities, at the close of the fiscal year was $19,160,428, which represents a 31.6% increase from the end of the last fiscal year. The net position increased by $4,598,446, a positive financial indicator for the Authority.

- The Authority's operating revenue decreased by $7,794,173 or 36.6% and the operating expenses decreased by $1,922,830, or 22.2%. Despite the revenue reductions, the Authority was able to increase its net position through controlled expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the notes to the financial statements.

Basic Financial Statements

The basic financial statements present information for the Authority, as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position (pages 8-9) presents the current- and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the Authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position (page 10) presents information showing how the Authority's assets changed as a result of current-year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (pages 11-12) presents information showing how the Authority's cash changed as a result of current-year operations. The cash flows statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by Governmental Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Position
As of June 30, 2014 and June 30, 2013
(in thousands)

	2014	2013 Restated
Current and other assets	$26,212	$26,947
Capital assets	40,501	49,426
Total assets	66,713	76,373
Current liabilities	12,501	16,389
Long-term debt outstanding	35,052	45,422
Total liabilities	47,553	61,811
Net position:		
Net investment in capital assets	12,987	13,944
Restricted	911	751
Unrestricted	5,262	(133)
Total net position	$19,160	$14,562

The net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the amount of indebtedness attributable to the acquisition, construction, or improvement of those assets. Restricted net position represents those assets that are not available for spending as a result of legislative requirements, grant agreements, or other external restrictions. Conversely, unrestricted net position represents assets less liabilities that do not have any limitations on how these amounts may be spent.

An analysis of the more significant variations from 2013 to 2014 of certain components of net position is as follows:

- Capital assets decreased primarily from the sale of the Lacassine Syrup Mill, which reduced capital assets by $7,893,656. Liabilities decreased from debt principal payments. No new debt was issued in fiscal year 2014.

- The $4,598,446 increase in net position resulted from the Authority's concerted efforts to reduce expenses to coincide with revenue reductions.

Statement of Revenues, Expenses, and Changes in Net Position For the Years Ended June 30, 2014 and June 30, 2013 (in thousands)

	2014	2013 (Restated)
Operating revenues:		
Rental income	$3,822	$3,633
Intergovernmental revenues	9,432	17,221
Other	254	448
Total operating revenues	13,508	21,302
Nonoperating revenues:		
Federal revenues	208	1,490
Total revenues	13,716	22,792
Operating expenses:		
Operating and other services	6,758	8,681
Nonoperating expenses:		
Federal expenses	9	14
Loss on disposal of assets	2,351	
Other		148
Total nonoperating expenses	2,360	162
Total expenses	9,118	8,843
Change in net position	4,598	13,949
Net position, beginning of the year (restated)	14,562	613
Total net position	$19,160	$14,562

- The decrease in operating revenues of $7,794,173 (36.6%) is predominantly due to a decrease in contributions from the Louisiana Department of Agriculture (LDAF) totaling $7,789,155. LDAF's contributions decreased primarily because the Authority paid the outstanding balances on the Series 2006 and Series 2007 building project and equipment bonds in the fiscal year ended June 30, 2013, which reduced the Authority's cash needs for debt payments.

- The decrease in operating expenses of $1,922,830 (22.2%) is primarily due to declines in interest and depreciation expense.

- The increase in nonoperating expenses resulted primarily from the recognition of a loss totaling $2,643,656 associated with the sale of the Lacassine Syrup Mill.

CAPITAL ASSETS

At the end of 2014, the Authority had $40,500,762 invested in a broad range of capital assets, including land, buildings, equipment, and construction-in-progress. This amount represents a net decrease (including additions and deductions) of $8,925,653 (18.1%) over the last year, as adjusted. The decrease is primarily attributed to the sale of the Lacassine Syrup Mill, which had a recorded value of $8,549,581 as of June 30, 2013.

Capital Assets at Year-End
(Net of Depreciation, in thousands)

	2014	2013
Land	$6,857	$6,857
Buildings and improvements	32,315	41,973
Equipment	1,104	385
Construction-in-progress	225	211
Total	$40,501	$49,426

DEBT ADMINISTRATION

The Authority has $38,930,000 in revenue bonds outstanding at June 30, 2014, compared to $46,715,000, year-end 2013; a decrease of $7,785,000 (16.7%). No new debt was issued by the Authority.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATIONS

The Authority's revenue is expected to remain constant as the number of properties and rental rates for those properties is not expected to change. Intergovernmental revenues are expected to remain constant to support the Authority's annual debt payments. Expenses are projected to remain constant because no significant changes in the Authority's operations are planned for fiscal 2015.

CONTACTING THE LOUISIANA AGRICULTURAL FINANCE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Catrina Phillips Irvin, Louisiana Department of Agriculture & Forestry, Post Office Box 3334, Baton Rouge, Louisiana 70821-3334.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Statement of Net Position, June 30, 2014

ASSETS	
Current assets:	
Cash (note 2)	$11,340,975
Accounts receivable (net)	206,158
Due from primary government (note 9)	916,571
Notes receivable (note 3)	3,366,130
Capital lease receivable	639,000
Other current assets	47,876
Total current assets	16,516,710
Noncurrent assets:	
Restricted assets:	
Cash (note 2)	5,053,221
Notes receivable (note 3)	4,125,634
Capital lease receivable	78,000
Other noncurrent assets	439,188
Property, plant, and equipment (net of depreciation) (note 4)	40,500,762
Total noncurrent assets	50,196,805
TOTAL ASSETS	66,713,515
LIABILITIES	
Current liabilities:	
Accounts payable	718,884
Due to Office of Community Development (note 3)	3,670,256
Unearned revenues	4,248
Bonds payable (note 6)	8,105,000
Other current liabilities	3,000
Total current liabilities	12,501,388

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Net Position, June 30, 2014

LIABILITIES (CONT.)	
Noncurrent liabilities:	
Due to Office of Community Development (note 3)	$4,226,699
Bonds payable (note 6)	30,825,000
Total noncurrent liabilities	35,051,699
TOTAL LIABILITIES	47,553,087
NET POSITION	
Net investment in capital assets	12,987,571
Restricted for other specific purposes	910,787
Unrestricted	5,262,070
TOTAL NET POSITION	$19,160,428

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

OPERATING REVENUES:	
Rental income	$3,822,096
Intergovernmental (note 11)	9,431,882
Use of money and property	198,437
Other	55,190
Total operating revenues	13,507,605
OPERATING EXPENSES:	
Administrative services	605,885
Contractual services	263,823
Operating services	1,438,661
Supplies	299,763
Professional services	126,567
Amortization of prepaid lease	46,875
Interest expense	1,874,238
Miscellaneous	7,153
Depreciation expense (note 4)	2,094,864
Total operating expenses	6,757,829
OPERATING INCOME	6,749,776
NONOPERATING REVENUES (Expenses)	
Nonoperating revenue - federal revenues	208,396
Nonoperating expense - federal expenses	(8,538)
Loss on disposal of fixed assets	(2,351,188)
Net nonoperating expenses	(2,151,330)
Change in net position	4,598,446
NET POSITION - BEGINNING OF YEAR, Restated (note 8)	14,561,982
TOTAL NET POSITION AT END OF YEAR	$19,160,428

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from customers	$3,914,660
Cash received from primary government	9,200,035
Cash payments to suppliers for goods and services	(2,679,056)
Cash payments for interest	(1,923,475)
Other receipts	253,627
Net cash provided by operating activities	8,765,791
Cash flows from noncapital financing activities:	
Operating grants received:	
Federal receipts	208,396
Federal disbursements	(8,538)
Loan receipts	6,243,889
Payments to Office of Community Development	(6,407,981)
Net cash provided by noncapital financing activities	35,766
Cash flows from capital and related financing activities:	
Principal paid on bonds	(7,785,000)
Proceeds from sale of capital assets	5,556,135
Acquisition/construction of capital assets	(1,077,964)
Capital lease payments received	639,000
Other payments	(1,764)
Net cash used by capital and related financing activities	(2,669,593)
Net increase in cash	6,131,964
Cash at beginning of year	10,262,232
Cash at end of year	$16,394,196

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Cash Flows, 2014

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$6,749,776
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	2,141,739
Changes in assets and liabilities:	
Decrease in receivables	27,173
(Increase) in due from primary government	(95,932)
Decrease in other assets	54,656
Increase in accounts payable	40,660
(Decrease) in due to other funds	(62,024)
(Decrease) in unearned revenues	(8,500)
(Decrease) in other liabilities	(81,757)
Total adjustments	2,016,015
Net cash provided by operating activities	$8,765,791
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash classified as current assets	$11,340,975
Cash classified as noncurrent assets	5,053,221
Total Cash	$16,394,196
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Disposal of capital assets	($2,657,323)
Capital assets traded in	(460,000)

(Concluded)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The Louisiana Agricultural Finance Authority (Authority) is a component unit of the state of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 3:261-284, within the Department of Agriculture and Forestry, State of Louisiana, and is domiciled in East Baton Rouge Parish. The Authority consists of nine members, one of whom is the commissioner of the Department of Agriculture and Forestry, and eight members appointed by the governor. The members may receive a per diem not to exceed $40 per meeting, plus mileage expenses. The Authority has no employees. Employees of the Department of Agriculture and Forestry perform the administrative and accounting functions of the Authority.

The Authority was established to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation of new loans and to supervise and use public employees, equipment, and material in carrying out public work. The bonds are limited special obligations of the Authority and do not constitute a general, special, or moral obligation of the state of Louisiana. In addition, the Authority can issue revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building and connected related facilities for use by the Department of Agriculture and Forestry in connection with the promotion and assistance of agriculture and forestry within the state. The revenue bonds are limited obligations of the Authority and do not constitute a debt of the state of Louisiana. Upon termination of the Authority by law, R.S. 3:283 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The accompanying financial statements have been prepared in accordance with such principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the state of Louisiana. The Authority is considered a component unit of the state of Louisiana because the state exercises oversight responsibility in that the governor appoints eight of the nine Authority members and is able to impose his will on the Authority. The accompanying financial statements present only the activity of the

Authority. Annually, the state of Louisiana issues basic financial statements that include the activity contained in the accompanying financial statements.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the Authority is considered a special-purpose government engaged only in business-type activities. All activities of the Authority are accounted for within a single proprietary (enterprise) fund.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position.

Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with the Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenue of the Authority is rental fees for office space and intergovernmental revenue from the Department of Agriculture and Forestry. Operating expenses include administrative expenses, interest, and depreciation on capital assets.

D. BUDGET PRACTICES

Although not required to submit a budget for legislative approval, the Authority prepares and submits an operating budget to its Board of Directors for approval.

E. CASH

Cash represents amounts in demand deposits and amounts on deposit with the fiscal agent bank. Under state law, the Authority may deposit funds within a fiscal agent bank organized under the laws of the state of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the Authority may invest in time certificates of deposit of state banks organized under the laws of the state of Louisiana, national banks having their principal offices in Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state chartered credit unions.

F. CAPITAL ASSETS

Property and equipment are valued at historical cost except for donated capital assets, which are recorded at their estimated value at the time of donation. Equipment includes all items valued at or above $5,000. Depreciation of all exhaustible capital assets of the Authority is charged as an expense against operations. Depreciation is computed using the straight-line method based on the estimated useful lives as follows:

	Years
Buildings and improvements	40
Equipment	5 or 10

G. COMPENSATED ABSENCES, PENSION BENEFITS, AND POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Authority has no employees. Department of Agriculture and Forestry employees perform the administrative and accounting functions for the Authority. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the Authority.

H. LONG-TERM OBLIGATIONS

Long-term obligations consist of bonds payable and of monies due to the Division of Administration, Office of Community Development (OCD) related to the Louisiana Farm and Agribusiness Recovery Loan and Grant Program (see note 3).

I. NET POSITION

Net position comprises the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following three components:

<u>Net investment in capital assets</u> consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

<u>Restricted net position</u> consists of resources subject to external constraints placed on the entity by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all other resources that are not included in the other categories previously mentioned.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Authority's policy is to first apply the expense toward restricted resources, then toward unrestricted resources.

J. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2014, the Authority implemented the following accounting standards:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 limits the use of the term, *deferred*, only for deferred outflows or inflows of resources as defined in the statement. Therefore, *deferred charges and prepaid expenses* are now reported as *prepaid expenses and advances*, and *deferred revenues* are reported as *unearned revenues*. In addition, Statement No. 65 requires that bond issuance costs be expenses in the year in which they occur. In accordance with Statement No. 65, the Authority removed the unamortized bond issuance costs from its statements and recorded the adjustment as a prior-year restatement of net position.

- GASB Statement No. 66, *Technical corrections-2012-an amendment of GASB Statements No. 10 and No. 62,* amends the aforementioned GASB statements and resolves conflicting guidance that resulted from the issuance of GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of Statement No. 66 had no impact on the financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantee,* requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also requires a government that has issued an obligation in a nonexchange transaction to report the obligation until legally released as an obligor and a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The implementation of Statement No. 70 had no impact on the financial statements.

2. CASH

For reporting purposes, cash represents amounts in interest-bearing demand deposits and amounts on deposit with the fiscal agent bank. At June 30, 2014, the Authority has cash deposits (book balances) of $16,394,196 as follows:

Interest-bearing demand deposits	$13,113,226
Cash with fiscal agent	3,280,970
Total	$16,394,196

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. Under state law, the Authority's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the Authority or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

The following is a breakdown by banking institution and amount of the collected bank balances:

Banking Instituion	Program or Type	Amount
Capital One - Demand Account	Operating Account	$13,202,724
Whitney Bank - Fiscal Agent	Investment Account	3,280,970
Total		$16,483,694

3. NOTES RECEIVABLE/DUE TO OFFICE OF COMMUNITY DEVELOPMENT

Notes receivable totaling $7,491,764 reported on the Statement of Net Position at June 30, 2014, is composed of the following:

Type	Balance at June 30, 2014	Noncurrent Portion
Louisiana Farm and Agribusiness Recovery Loan and Grant Program	$7,431,871	$4,090,273
State Market Commission and Farm Youth Loan Program	59,893	35,361
Total	$7,491,764	$4,125,634

On November 30, 2009, under a cooperative endeavor agreement, effective March 23, 2009, between the Authority and OCD, the Authority began issuing loans and grants for the Louisiana Farm and Agribusiness Recovery Loan and Grant Program. The funds were awarded by the U.S. Department of Housing and Urban Development with Community Development Block Grant Program (CDBG) funds, which are administered through OCD. At June 30, 2014, agribusiness and farm loans outstanding totaled $7,431,871. These loans are reported as notes receivable on the Statement of Net Position.

Amounts due to OCD totaling $7,896,955 reported on the Statement of Net Position represent the outstanding balance of notes receivable, including amounts paid by borrowers to the Authority but not remitted to OCD at June 30, 2014. In accordance with the cooperative endeavor agreement between the Authority and OCD, the Authority is liable to OCD only for the payments received from the borrowers; the Authority is not responsible to OCD for any unpaid amounts. For the year ended June 30, 2014, borrowers made payments totaling $6,241,764 to the Authority.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2014, follows:

	Beginning Balance July 1, 2013	Additions	Transfers	Deletions	Ending Balance June 30, 2014
Capital assets not being depreciated:					
Land	$6,857,393				$6,857,393
Nondepreciable asset held for sale	8,549,581		($655,925)	($7,893,656)	NONE
Construction-in-progress	210,943	$13,902			224,845
Total capital assets not being depreciated	15,617,917	13,902	(655,925)	(7,893,656)	7,082,238
Capital assets being depreciated:					
Land improvements	7,261,228				7,261,228
Buildings	45,150,417		655,925		45,806,342
Equipment	24,106,857	1,062,632		($532,895)	24,636,594
Total capital assets being depreciated	76,518,502	1,062,632	655,925	(532,895)	77,704,164
Less accumulated depreciation for:					
Land improvements	(3,544,645)	(378,044)			(3,922,689)
Buildings	(15,443,404)	(1,386,610)			(16,830,014)
Equipment	(23,721,955)	(330,210)		519,228	(23,532,937)
Total accumulated depreciation	(42,710,004)	(2,094,864)	NONE	519,228	(44,285,640)
Total capital assets (net)	$49,426,415	($1,018,330)	NONE	($7,907,323)	$40,500,762

5. LEASES

A. Capital Leases

The Authority, as lessee, has no capital leases.

B. Operating Leases

The total payments for operating leases, consisting of land and office space leases, during the fiscal year 2013-2014 amounted to $98,645. The following is a schedule by year of future minimum annual rental payments required under operating leases:

Year ending June 30,	Office Space	Land	Total Minimum Payments Required
2015	$51,022	$49,614	$100,636
2016	51,022	49,614	100,636
2017	51,022	49,614	100,636
2018	51,022	49,614	100,636
2019		49,614	49,614
2020-2022		118,912	118,912
Total	$204,088	$366,982	$571,070

C. Revenue Leases

Lessor - Sales-Type Lease

A lease is classified as a sales-type lease (1) when any one of the four capitalization criteria used to define a capital lease for the lessee is met; and (2) when both the following criteria are satisfied:

- Collectability of the minimum lease payments is reasonably predictable.
- No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

The Authority has entered into lease agreements with LDAF for vehicles which have been purchased by the Authority and leased to LDAF. The term of the lease agreement is from July 1, 2011, to June 30, 2017.

The Authority records that portion of capital lease receivables attributable to interest income as unearned revenue.

Lease	Date of Lease	Minimum Lease Payments Receivable	Remaining Interest to End of Lease	Remaining Principal to End of Lease
Minimum lease payments - vehicles	07/01/2011	$717,000	$4,248	$712,752
Less - amounts representing executory costs		NONE		
Minimum lease payments receivable		717,000		
Less - allowance for uncollectibles		NONE		
Net minimum lease payments receivable		717,000		
Estimated residual value of leased property		NONE		
Subtotal		717,000		
Less - unearned income		(4,248)		
Net investment in sales-type leases		$712,752		

The following is a schedule by year of minimum lease receivables as of June 30, 2014:

Year ending June 30,	Lease Receivable
2015	$639,000
2016	39,000
2017	39,000
Total	$717,000

D. Lessor - Operating Leases

When a lease agreement does not satisfy at least one of the four criteria (common to both lessee and lessor accounting) and both of the criteria for a lessor (collectability and no uncertain reimbursable costs), the lease is classified as an operating lease. In an operating lease, there is no simulated sale, and the lessor simply records rent revenues as they become due. The following property is on lease or held for leasing as of June 30, 2014:

	Cost	Accumulated Depreciation	Carrying Amount
Buildings	$20,603,480	($8,088,861)	$12,514,619
Land	145,189		145,189
Total carrying amount of property	$20,748,669	($8,088,861)	$12,659,808

The following is a schedule by year of minimum future rentals on non-cancelable operating leases as of June 30, 2014:

Year Ending June 30,	Space	Equipment	Land	Total
2015	$2,183,232	$200,731	$94,800	$2,478,763
2016	1,712,013	200,731	65,000	1,977,744
2017	1,636,491	200,731	50,000	1,887,222
2018	893,443		50,000	943,443
2019	798,000		50,000	848,000
2020-2024			50,000	50,000
Total	$7,223,179	$602,193	$359,800	$8,185,172

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2014.

6. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the Authority for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Bonds payable	$46,715,000	NONE	($7,785,000)	$38,930,000	$8,105,000

Details of all bonds outstanding at June 30, 2014, follow:

Issued for	Date Issued	Original Issue	Outstanding June 30, 2013	Issued (Redeemed)	Outstanding June 30, 2014	Maturity Date	Interest Rates
Series 2004 -							
Lacassine Syrup Plant	3/2/2004	$45,000,000	$9,010,000	($7,385,000)	$1,625,000	9/15/2015	4.23%
Series 2007:							
Multi-buildings and							
equipment purchases	10/1/2007	31,000,000	31,000,000		31,000,000	9/15/2017	5.25%
Series 2012 -							
Revenue Bonds	12/14/2012	6,705,000	6,705,000	(400,000)	6,305,000	9/15/2022	1.95%
Total		$82,705,000	$46,715,000	($7,785,000)	$38,930,000		

Debt service requirements to maturity are as follows:

Fiscal year ending	Principal	Interest	Total
2015	$8,105,000	$1,625,981	$9,730,981
2016	8,285,000	1,216,466	9,501,466
2017	8,700,000	783,810	9,483,810
2018	9,135,000	328,841	9,463,841
2019	400,000	91,748	491,748
2020-2023	4,305,000	210,014	4,515,014
Total	$38,930,000	$4,256,860	$43,186,860

As required by the bond indenture for the Series 2007 multi-buildings and equipment bonds, the Authority deposited bond proceeds totaling $3,100,000 into a debt reserve fund to be used by the trustee to pay principal and interest on the bonds if other available amounts are insufficient. At June 30, 2014, the balance in the debt reserve fund totaled $3,100,004.

7. CONDUIT DEBT OBLIGATIONS

In August 1995, the GASB issued Interpretation No. 2 (Disclosure of Conduit Debt Obligations). Governmental entities may enter into arrangements whereby a nongovernmental entity is able to finance the acquisition of facilities by issuing conduit debt obligations, which the GASB describes as follows:

> Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity.

The GASB concluded that conduit debt does not create a liability and, therefore, does not have to be presented on the governmental entity's financial statements.

The Authority is authorized by R.S. 3:266 to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation on new loans. During 1986, the Authority issued two bond issues (1986A I and 1986A II) totaling $300,000,000 that are currently in default.

Debt issued by the Authority for which the Authority and the government have no responsibility for repayment is not recorded in the accompanying financial statements and is comprised of the following issues:

Issued for	Interest Rates	Date Issued	Maturity Dates	Authorized and Issued	Retired to Date	Outstanding June 30, 2014
Agricultural Loan Program:						
	8.25%	1986A I	various	$150,000,000	$108,126,047	$41,873,953
	8.80%	1986A II	various	150,000,000	105,830,560	44,169,440
Total				$300,000,000	$213,956,607	$86,043,393

Both of the 1986 bond issues were payable solely from the proceeds of two Guaranteed Investment Contracts with Executive Life Insurance Company and from certain agricultural loans permitted under the financing program. The commissioner of insurance from the state of California placed Executive Life Insurance Company into conservatorship on April 11, 1991. Both of the 1986 series bonds subsequently defaulted.

Trustees of the two 1986 series defaulted bonds, referred to as LAFA I and LAFA II, have received distributions on behalf of bondholders under a modified plan of rehabilitation for Executive Life Insurance Company. Distributions through the fiscal year ended June 30, 2014, under the modified plan, including interest, total $155,194,856 for the LAFA I bonds and $154,896,258 for the LAFA II bonds. These distributions include court-ordered trust administration costs of $4,817,805 for the LAFA I bonds and $4,817,706 for the LAFA II bonds. Principal and interest of $108,126,047 and $42,251,004, respectively, have been paid for the LAFA I series bonds, and principal and interest of $105,830,560 and $44,247,992, respectively, have been paid for the LAFA II series bonds. Under the plan, distributions can continue until the conservator declares they are complete or the modified plan has expired.

8. NET POSITION RESTATED

The beginning net position as reflected on Statement B has been restated to reflect the following adjustments:

Net position, June 30, 2013	$15,126,190
Unamortized bond issuance costs	(464,208)
Rental income	(100,000)
Net position at June 30, 2013, as restated	$14,561,982

9. DUE FROM PRIMARY GOVERNMENT

At June 30, 2014, the Authority has amounts due to/from the primary government for the following:

Source	Total
Department of Agriculture and Forestry:	
Rentals and Bond Debt	$979,159
Salaries:	
Indian Creek	(12,728)
HUD Farm Program	(12,311)
Security guards	(73,577)
AES	1,205
Division of Administration-	
Office of Community Development	34,563
Department of Environmental Quality	260
Total due from primary government	$916,571

10. RISK MANAGEMENT AND CLAIMS AND LITIGATION

The Authority is exposed to various risks of losses related to general liability: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority is a party to various legal proceedings incidental to its business but is not involved in litigation seeking damages. In the opinion of management, all such matters are adequately covered by insurance purchased from the Office of Risk Management and are not expected to have a material effect on the financial statements.

During the past three years, there were no claims against the Authority that exceeded insurance coverage. During the year ended June 30, 2014, a total of $12,070 was expended for legal services.

11. INTERGOVERNMENTAL REVENUES

During the fiscal year ended June 30, 2014, the Authority received intergovernmental revenues from the primary government as follows:

Source	Total
Department of Agriculture and Forestry:	
Gaming Control Fund	$6,730,811
Licensing and Regulatory Board	1,605,870
Payments received from LDAF:	
Bond debt payments	815,000
Maintenance	111,061
Boll Weevil	28,800
Miscellaneous	24,298
Boll Weevil Assessments	113,664
Other	2,378
Total	$9,431,882

12. REVENUE USED AS SECURITY FOR REVENUE BONDS

Pledged revenues are specific revenues that have been formally committed to directly collateralize or secure debt of the pledging government. Pledged revenues must be disclosed for each period in which the secured debt remains outstanding and for each secured debt issued.

Specific pledged revenues are the net slot machine proceeds in R.S. 27:392(B)(4), the income and revenues in the Fertilizer Fund pursuant to R.S. 3:1311-1318, the income and revenues in the Feed Commission Fund pursuant to R.S. 3:1892-1907, the income and revenues in the Pesticide Fund pursuant to R.S. 3:3201-3257, and rental and lease income of the Authority.

The debt secured by the pledge totals $38,930,000. The approximate remaining amount of the pledge is $43,186,860 at June 30, 2014, representing $38,930,000 in principal and $4,256,860 in interest. The term of the commitment was 19 years beginning in March 2004 and ending in September 2022. The dedicated revenues are pledged 100% annually up to the current amount due for principal and interest. For fiscal year 2014, the pledged revenues recognized totaled $12,973,777. The principal requirement for fiscal year 2014 was $7,785,000, and the interest requirement was $1,923,475.

13. RELATED PARTY TRANSACTIONS

As discussed in note 3, during fiscal year 2014, the Authority administered the Louisiana Farm and Agribusiness Recovery Loan and Grant Program, administered through OCD. Under the program, the Authority has made loans and grants totaling $1,275,154 to 33 individuals employed by LDAF or who serve in a capacity within LDAF who, for reporting purposes, are considered related parties. These individuals, whose loans are allowable under R.S. 42:1113 (D)(l)(c)(iii) and under the cooperative endeavor agreement between the Authority and OCD, qualified for the loans based on pre-established criteria applied to all loan applicants. The balance of these loans at June 30, 2014 is $197,805.

Strain Cattle is a partnership owned by Charles Strain, Carolyn Strain, and Linda Strain who are the late father, mother, and aunt, respectively, of Mike Strain, DVM, Commissioner of the Louisiana Department of Agriculture and Forestry and Chairman of the Louisiana Agricultural Finance Authority. Strain Cattle participated in the Louisiana Farm and Agribusiness Recovery Grant and Loan Program and was awarded $36,535. The loan balance was paid in full during the year ended June 30, 2014.

14. SUBSEQUENT EVENTS

On July 7, 2014, the Authority and Porocel Properties, LLC (Porocel), entered into an agreement under which Porocel will lease property in Lacassine, Louisiana. The initial lease term begins September 1, 2014, and ends August 31, 2024, with renewal options for four additional 10-year terms. Payments to the Authority for the initial lease term total $3,125,000; however, Porocel has the option to offset a maximum of $500,000 in lease payments (representing the first two years' payments under the lease) for improvements made to the Lacassine property, which became assets of the Authority.

OTHER REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Exhibit A

The following pages contain a report on internal control over financial reporting and on compliance with laws, regulations, and other matters required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 15, 2014

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Louisiana Agricultural Finance Authority (Authority), a component unit of the state of Louisiana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this communication is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daryl G. Purpera, CPA
Legislative Auditor

ARW:CGEW:EFS:THC:aa

LAFA 2014