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, 2013
ISSUED MARCH 26, 2014

LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

February 28, 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, 2013, 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.

1600 NORTH THIRD STREET • POST OFFICE BOX 94397 • BATON ROUGE, LOUISIANA 70804-9397
WWW.LLA.LA.GOV • PHONE: 225-339-3800 • FAX: 225-339-3870

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, 2013, and the respective changes in financial position and cash flows 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 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 Report Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 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, CPA, CFE
Legislative Auditor

APD:CGEW:EFS:THC:mk

LAFA 2013

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, 2013. 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 assets exceeded its liabilities at the close of fiscal year 2013 by $15,126,190, which represents a 1,404.6% increase from last fiscal year, as adjusted. Net position increased by $14,049,285, as restated.

- The authority's operating revenue increased by $8,462,125 (or 65.4%) and the operating expenses decreased by $70,600,465 (or 89.1%).

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, 2013 and June 30, 2012
(in thousands)

	2013	2012 (Restated)
Current and other assets	$27,511	$34,804
Capital assets	49,426	51,597
Total assets	76,937	86,401
Current liabilities	16,389	28,523
Long-term debt outstanding	45,422	56,801
Total liabilities	61,811	85,324
Net position:		
Net investment in capital assets	13,944	2,590
Restricted	751	5,968
Unrestricted	431	(7,481)
Total net position	$15,126	$1,077

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 is those assets that do not have any limitations on what these amounts may be used for.

At its September 26, 2012, meeting, the authority granted the Commissioner of Agriculture and Forestry authority to purchase the outstanding principal and interest, which totaled $6,567,705 at June 30, 2012, on two Lake Charles Cane-Lacassine Mill, LLC loans guaranteed by the authority and the State Market Commission (SMC - transferred to the authority in fiscal 2009) (note 6).

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013 and June 30, 2012
(in thousands)

	2013	2012 (Restated)
Operating revenues:		
Rental income	$3,733	$2,817
Intergovernmental revenues	17,221	9,935
Other	448	188
Total operating revenues	21,402	12,940
Nonoperating revenues:		
Federal revenues	1,490	3,787
Other		
Total nonoperating revenues	1,490	3,787
Total revenues	22,892	16,727
Operating expenses:		
Operating and other services	8,681	10,597
Note receivable default		60,788
Settlement of claims and litigation		1,280
Purchase of guaranteed loans		6,568
Total operating expenses	8,681	79,233
Nonoperating expenses:		
Federal expenses	14	1,409
Other	148	
Total nonoperating expenses	162	1,409
Total expenses	8,843	80,642
Change in net position	14,049	(63,915)
Net position, beginning of the year (restated)	1,077	64,992
Total net position	$15,126	$1,077

The authority's total revenues increased $6,164,601 (36.9%), primarily due to a $7.3 million increase in intergovernmental revenues. The authority's total cost of all programs and services decreased by $71,848,257 (89.0%). For the fiscal year ended June 30, 2012, the authority recognized expenses totaling $67,355,936 associated with writing off the promissory note and purchasing loan guarantees from the Lake Charles Cane-Lacassine Mill, LLC's default on its promissory note for the purchase of the mill, and expenses totaling $1,280,000 associated with settlement of a judgment with Texans Credit Union for the default on a guaranteed loan for LA Cypress, LLC. The authority incurred no defaults or judgments during the fiscal year ended June 30, 2013.

CAPITAL ASSETS

At the end of 2013, the authority had $49,426,415 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 $2,170,622 (4.2%) over the last year, as adjusted.

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

	2013	2012
Land	$6,857	$6,857
Buildings and improvements	41,973	39,858
Equipment	385	2,122
Construction-in-progress	211	2,760
Total	$49,426	$51,597

DEBT ADMINISTRATION

The authority has $46,715,000 of revenue bonds outstanding at June 30, 2013, compared to $53,586,687 at June 30, 2012, a decrease of 12.8%.

During the fiscal year ended June 30, 2013, the authority issued Series 2012 revenue bonds totaling $6,705,000. Bond proceeds were used to acquire outstanding agricultural loans in the amount of $6,618,406 (note 6).

CONTACTING THE LOUISIANA AGRICULTURAL FINANCE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide residents, 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 Irvin, Louisiana Department of Agriculture and 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, 2013

ASSETS	
Current assets:	
Cash (note 2)	$4,392,455
Accounts receivable (net)	233,331
Due from primary government (note 9)	919,255
Notes receivable (note 3)	7,258,229
Capital lease receivable	639,000
Other current assets	253,406
Total current assets	13,695,676
Noncurrent assets:	
Restricted assets:	
Cash (note 2)	5,869,777
Notes receivable (note 3)	6,476,424
Capital lease receivable	717,000
Other noncurrent assets	752,522
Property, plant, and equipment (net of depreciation) (note 4)	49,426,415
Total noncurrent assets	63,242,138
TOTAL ASSETS	76,937,814
LIABILITIES	
Current liabilities:	
Accounts payable	678,224
Due to Office of Community Development (note 3)	7,910,263
Deferred revenues	12,748
Bonds payable (note 6)	7,785,000
Other current liabilities	3,000
Total current liabilities	16,389,235

(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, 2013

LIABILITIES (CONT.)	
Noncurrent liabilities:	
Due to Office of Community Development (note 3)	$6,492,389
Bonds payable (note 6)	38,930,000
Total noncurrent liabilities	45,422,389
TOTAL LIABILITIES	61,811,624
NET POSITION	
Net investment in capital assets	13,943,663
Restricted for other specific purposes	751,168
Unrestricted	431,359
TOTAL NET POSITION	$15,126,190

(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, 2013

OPERATING REVENUES:	
Rental income	$3,733,067
Intergovernmental (note 12)	17,221,037
Use of money and property	241,367
Other	206,307
Total operating revenues	21,401,778
OPERATING EXPENSES:	
Administrative services	648,657
Contractual services	246,982
Operating services	1,316,365
Supplies	267,173
Professional services	208,141
Amortization of bond issuance costs and prepaid lease	335,321
Interest expense	2,184,318
Miscellaneous	17,298
Depreciation expense (note 4)	3,456,404
Total operating expenses	8,680,659
OPERATING INCOME	12,721,119
NONOPERATING REVENUES (Expenses)	
Nonoperating revenue - federal revenues	1,489,828
Nonoperating expense - federal expenses	(13,443)
Loss on disposal of fixed assets	(148,219)
Net nonoperating revenues	1,328,166
Change in net position	14,049,285
NET POSITION - BEGINNING OF YEAR, Restated (note 8)	1,076,905
TOTAL NET POSITION AT END OF YEAR	$15,126,190

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, 2013

Cash flows from operating activities:	
Cash received from customers	$3,494,101
Cash received from primary government	18,771,169
Cash payments to suppliers for goods and services	(11,997,522)
Cash payments for interest	(3,042,005)
Other receipts	447,674
Net cash provided by operating activities	7,673,417
Cash flows from noncapital financing activities:	
Operating grants received:	
Federal receipts	1,489,828
Federal disbursements	(902,067)
Loan receipts	7,476,381
Payments to Office of Community Development	(6,495,313)
Net cash provided by noncapital financing activities	1,568,829
Cash flows from capital and related financing activities:	
Proceeds from sale of bonds	6,705,000
Principal paid on bonds	(13,576,687)
Payments on capital leases	(24,741)
Acquisition/construction of capital assets	(1,360,517)
Capital lease payments received	1,044,000
Net cash used by capital and related financing activities	(7,212,945)
Net increase in cash	2,029,301
Cash at beginning of year	8,232,931
Cash at end of year	$10,262,232

(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, 2013

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$12,721,119
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	3,791,725
Changes in assets and liabilities:	
(Increase) in receivables	(198,742)
Decrease in due from primary government	1,550,132
(Increase) in other assets	(561,669)
Increase in accounts payable	642,173
(Decrease) in deferred revenues	(40,224)
(Decrease) in other liabilities	(10,231,097)
Total adjustments	(5,047,702)
Net cash provided by operating activities	$7,673,417
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash classified as current assets	$4,392,455
Cash classified as noncurrent assets	5,869,777
Total Cash	$10,262,232
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Sale of assets through capital leases	($156,000)
Disposal of capital assets	(148,219)
Total noncash investing, capital, and financing activities	($304,219)

(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. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In addition, long-term obligations consist of monies due to the Division of Administration, Office of Community Development (OCD). This amount relates 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:

Net investment in capital assets 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.

Restricted net position 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, 2013, the authority implemented the following accounting standards:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* addresses issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of Statement No. 60 had no impact on the financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34,* modifies certain requirements for inclusion of component units in a government's financial statements. In addition, Statement No. 61 amends the requirement in GASB Statement No. 14 for determining and reporting major component units; clarifies the reporting of equity interests in legally separate organizations; and expands note disclosures explaining the rationale for the classification of each component unit. The implementation of Statement No. 61 had no impact on the financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* codifies certain accounting and financial reporting guidance included in the Financial Accounting Standards Board Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures that were issued on or before November 30, 1989, and do not conflict with current GASB pronouncements. The implementation of Statement No. 62 had no significant impact on the financial statements.

- GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The implementation of Statement No. 63 primarily affected the replacement of the term, "net assets," with "net position."

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, 2013, the authority has cash deposits (book balances) of $10,262,232 as follows:

Interest-bearing demand deposits	$6,703,752
Cash with fiscal agent	3,558,480
Total	$10,262,232

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	$6,820,865
Whitney Bank - Fiscal Agent	Investment Account	3,558,480
Total		$10,379,345

3. NOTES RECEIVABLE

Notes receivable totaling $13,734,653 reported on the Statement of Net Position at June 30, 2013, is composed of the following:

Type	Balance at June 30, 2013	Noncurrent Portion
Louisiana Farm and Agribusiness Recovery Loan and Grant Program	$13,513,865	$6,348,155
State Market Commission and Farm Youth Loan Program	220,788	128,269
Total	$13,734,653	$6,476,424

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, 2013, agribusiness and farm loans outstanding totaled $13,513,865. These loans are reported as notes receivable on the Statement of Net Position.

Amounts due to OCD totaling $14,402,652 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, 2013. 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. At June 30, 2013, borrowers have made payments totaling $7,386,781 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, 2013, follows:

	Beginning Balance July 1, 2012	Additions	Transfers	Deletions	Ending Balance June 30, 2013
Capital assets not being depreciated:					
Land	$6,857,393				$6,857,393
Nondepreciable asset held for sale	8,549,581				8,549,581
Construction-in-progress	2,759,818	$1,314,719	($3,863,594)		210,943
Total capital assets not being depreciated	18,166,792	1,314,719	(3,863,594)	NONE	15,617,917
Capital assets being depreciated:					
Buildings	41,286,823		3,863,594		45,150,417
Land improvements	7,261,228				7,261,228
Equipment	24,470,343	42,196		($405,682)	24,106,857
Total capital assets being depreciated	73,018,394	42,196	3,863,594	(405,682)	76,518,502
Less accumulated depreciation for:					
Buildings	(14,073,193)	(1,370,211)			(15,443,404)
Land improvements	(3,166,601)	(378,044)			(3,544,645)
Equipment	(22,348,355)	(1,708,149)		334,549	(23,721,955)
Total accumulated depreciation	(39,588,149)	(3,456,404)	NONE	334,549	(42,710,004)
Total capital assets (net)	$51,597,037	($2,099,489)	NONE	($71,133)	$49,426,415

Information relating to construction-in-progress follows:

Project	Costs to Date	Estimated Completion Date	Estimated Cost to Complete
Indian Creek Sewerage Upgrade	$38,310	not available	$400,000
Lacassine Rail Spur	172,633	not available	4,000,000
Total	$210,943		$4,400,000

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 2012-2013 amounted to $95,830. 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
2014	$46,216	$49,614	$95,830
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
2019-2023		168,526	168,526
Total	$250,304	$416,596	$666,900

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:

- Collectibility 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 deferred 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	$1,356,000	$12,748	$1,343,252
Less - amounts representing executory costs		NONE		
Minimum lease payments receivable		1,356,000		
Less - allowance for uncollectibles		NONE		
Net minimum lease payments receivable		1,356,000		
Estimated residual value of leased property		NONE		
Subtotal		1,356,000		
Less - unearned income		(12,748)		
Net investment in sales-type leases		$1,343,252		

The following is a schedule by year of minimum lease receivables as of June 30, 2013:

Year ending June 30,	Lease Receivable
2014	$639,000
2015	639,000
2016	39,000
2017	39,000
Total	$1,356,000

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, 2013:

	Cost	Accumulated Depreciation	Carrying Amount
Buildings	$19,947,555	($7,363,736)	$12,583,819
Land	507,482		507,482
Total carrying amount of property	$20,455,037	($7,363,736)	$13,091,301

The following is a schedule by year of minimum future rentals on non-cancelable operating leases as of June 30, 2013:

Year Ending June 30,	Amount
2013	$2,331,341
2014	1,772,646
2015	1,737,127
2016	1,667,087
2017	943,443
2018-2022	898,000
Total	$9,349,644

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2013.

6. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the authority for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Bonds payable	$53,586,687	$6,705,000	($13,576,687)	$46,715,000	$7,785,000

Details of all bonds outstanding at June 30, 2013, follow:

Issued for	Date Issued	Original Issue	Outstanding June 30, 2012	Issued (Redeemed)	Outstanding June 30, 2013	Maturity Date	Interest Rates
Series 2004 -							
Lacassine Syrup Plant	3/2/2004	$45,000,000	$16,165,000	($7,155,000)	$9,010,000	9/15/2015	4.23%
Series 2006:							
Building projects	3/30/2006	3,804,219	760,844	(760,844)			
Building projects	3/30/2006	3,804,219	760,843	(760,843)			
Series 2006 B	4/27/2006	2,000,000	400,000	(400,000)			
Series 2007:							
Building projects and equipment purchases	3/26/2007	6,000,000	4,500,000	(4,500,000)			
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	6,705,000	9/15/2022	1.95%
Total		$98,313,438	$53,586,687	($6,871,687)	$46,715,000		

Debt service requirements to maturity are as follows:

Fiscal year ending	Principal	Interest	Total
2014	$7,785,000	$1,927,291	$9,712,291
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
2019-2023	4,705,000	301,762	5,006,762
Total	$46,715,000	$6,184,151	$52,899,151

The Series 2012 revenue bonds in the amount of $6,705,000 issued on December 14, 2012, are secured by a pledge of net slot machine proceeds. The bond funds were used to acquire outstanding agricultural loans totaling $6,618,406. Interest is fixed at 1.95% for the term of the bonds and calculated on the basis of a 360-day year consisting of twelve 30-day months.

Unamortized bond issuance costs associated with the Series 2012 revenue bonds issued on December 14, 2012, include legal and other fees. The original issuance costs were $82,264. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2013, is $78,151. The bond issuance costs amortized in fiscal year 2012-2013 were $4,113.

The Series 2007 (Multi-buildings projects and equipment purchases) revenue bonds in the amount of $31,000,000 issued on October 1, 2007, are secured by revenues from a lease agreement between the authority and the Louisiana Department of Agriculture and Forestry (LDAF). Interest is fixed at 5.25% for the term of the bonds and calculated on the basis of a 360-day year consisting of twelve 30-day months.

Unamortized bond issuance costs associated with the Series 2007 revenue bonds issued on October 1, 2007, include legal and other fees. The original issuance costs were $366,150. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2013, is $158,665. The bond issuance costs amortized in fiscal year 2012-2013 were $36,615.

The Series 2004 Lacassine Syrup Plant revenue bonds totaling $45,000,000 are secured by the net revenues from the operation of the facilities and the avails of the net slot machine proceeds described in R.S. 27:392(B)(4). The bonds may be fixed per annum (term) or fluctuating per annum (weekly) rate bonds bearing interest at a rate not exceeding 12% per annum. Interest at the weekly rate and interest at the term rate for any period of one year or less is computed on the basis of a 365- or 366-day year. Interest at the term rate for any period of more than one year is computed on the basis of a 360-day year with 12 months of 30 days each.

Unamortized bond issuance costs associated with the Series 2004 revenue bonds include legal and other fees. The original issuance costs were $307,326 plus underwriter’s fees totaling $170,000. In fiscal 2010, the bonds were converted to fixed rate bonds, after which the unamortized issuance costs increased to $803,448 ($248,607 - remainder of previous issuance costs plus $554,841 for the issuance costs related to the conversion). These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2013, is $227,644. The bond issuance costs amortized in fiscal year 2012-2013 were $160,688.

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, 2013
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, 2013, under the modified plan, including interest, total $155,170,601 for the LAFA I bonds and $154,872,002 for the LAFA II bonds. These distributions include court-ordered trust administration costs of $4,793,550 for the LAFA I bonds and $4,793,450 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, 2012	$1,896,467
Intergovernmental revenues	(843,961)
Other expenses	24,399
Net position at June 30, 2012, as restated	$1,076,905

9. DUE FROM PRIMARY GOVERNMENT

At June 30, 2013, the authority has amounts due to/from the primary government for the following:

Source	Total
Department of Agriculture and Forestry:	
Lease payment due	$600,000
Indian Creek salaries	(41,865)
Baton Rouge upgrade salaries	(21,703)
Salaries for security guards	(95,500)
Other	(368)
Governor's Office of Homeland Security and Emergency Preparedness	478,691
Total due from primary government	$919,255

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.

On September 26, 2012, the authority ratified a settlement agreement between with Texans Credit Union (Texans) related to ongoing litigation with the LA State Cypress, LLC's default on its loan with Texans. The loan was originally guaranteed by State Market Commission (SMC). The authority paid Texans $1,280,000 ($800,000 and $480,000 were paid from SMC funds and LDAF funds, respectively) in an offer of final settlement under a judgment issued on May 15, 2012, by the 19th Judicial District Court for the Parish of East Baton Rouge.

During the past three years, other than the Texans settlement, there were no claims against the authority that exceeded insurance coverage. During the year ended June 30, 2013, a total of $27,891 was expended for legal services.

11. INTERGOVERNMENTAL REVENUES

During the fiscal year ended June 30, 2013, the authority received intergovernmental revenues from the primary government as follows:

Source	Amount
Department of Agriculture and Forestry:	
Gaming Control Fund	$8,089,712
Licensing and Regulatory Board	6,756,832
Boll Weevil Eradication Fund	362,780
Renovations to LDAF building	350,000
Vehicle purchases	685,000
Early retirement of debt	971,327
Other	5,386
Total	$17,221,037

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 $46,715,000. The approximate remaining amount of the pledge is $52,899,151 at June 30, 2013, representing $46,715,000 in principal and $6,184,151 in interest. The term of the commitment was 23 years beginning in March 2004 and ending in September 2026. The dedicated revenues are pledged 100% annually up to the current amount due for principal and interest. For fiscal year 2013, the pledged revenues recognized totaled $14,188,721. The principal requirement for fiscal year 2013 was $9,376,687, and the interest requirement was $2,184,318.

During the fiscal year ended June 30, 2013, the authority paid the $4,500,000 principal remaining on the Series 2007 revenue bonds (building projects and equipment purchases), which represents $300,000 for the annual required payment and $4,200,000 for early retirement of the debt.

13. RELATED PARTY TRANSACTIONS

As discussed in note 3, during fiscal year 2013, 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, 2013 is $426,477.

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 at June 30, 2013, is $7,466.

14. SUBSEQUENT EVENTS

On August 13, 2013, the authority sold the assets of LA Cypress for $340,000 and received $306,135 net of commissions totaling $33,865 (10%).

On October 31, 2013, the authority sold the assets of the Lacassine Syrup Mill (mill) to Ethanol Company S.A. for $7,000,000. The mill's estimated fair market value at June 30, 2013, was $8,549,581. The authority received $5,250,000 net of commissions totaling $1,750,000 (25%).

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

February 28, 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, 2013, and the related notes to the financial statements, which collectively comprise the authority's basic financial statements, and have issued our report thereon dated February 28, 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 of 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

Daryl G. Purpera, CPA
Legislative Auditor

APD:CGEW:EFS:THC:mk

LAFA 2013