

CAPITAL AREA FINANCE AUTHORITY

DECEMBER 31, 2022

BATON ROUGE, LOUISIANA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Capital Area Finance Authority
Baton Rouge, Louisiana

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities which include each of the individual programs, FutureVision, LLC, the unrestricted fund, and the 2022 combined financial statements of the Capital Area Finance Authority (the Authority) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Capital Area Finance Authority as of December 31, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 1 to the financial statement, in 2022 the Authority adopted a new accounting standard, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibility of Management for the Audit of the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Capital Area Finance Authority's December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 15, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 15 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2023, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of 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,

Hannis T. Bourgeois, LLP

Denham Springs, Louisiana
June 14, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Management's Discussion and Analysis ("MD&A") of the Capital Area Finance Authority's (the "Authority") (formerly known as the East Baton Rouge Mortgage Finance Authority) financial performance presents a narrative overview and analysis of the Authority's financial activities for the year ended December 31, 2022, as well as commentary of general market trends, market conditions and the Authority's mortgage loan origination. This document focuses on the year ended December 31, 2022, activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this MD&A in conjunction with the Authority's audited financial statements for the year ended December 31, 2022, presented beginning on page 16.

The Authority's basic financial statements include the totals of the similar accounts of each of the Authority's various bond programs and FutureVision, LLC, as well as the Authority's Unrestricted Fund. Since the assets of each individual bond series are only pledged by the respective bond resolution and trust indenture to the respective individual bond series, the totaling of the accounts, including the assets therein, is for convenience purposes only and does not indicate that the combined assets are available in any manner other than what is provided for in the respective resolutions and indentures relating to each separate bond series. However, for the purpose of this analysis, we will refer to the combined totals in order to assist the reader in understanding the overall financial condition of the Authority.

A commentary of general economic trends, interest rate market conditions, as well as an overview of financial statements, an analysis of the Authority's activities for the year ended December 31, 2022, current economic factors, the Authority's 2023 budget and the Authority's mortgage lending programs are presented over the following pages.

- Mortgage loan interest rates had begun to rise prompted in part as a reaction to the rise in the Federal Reserve Interest Rates. That, in connection with a tight inventory of homes in our borrower's price range have created a tight housing market causing new loan production to fall.
- There may be sufficient improvement in the bond market for the Authority to consider issuing tax-exempt mortgage revenue bonds for first mortgages during 2023.
- The Authority has not issued any tax-exempt Mortgage Revenue Bonds for new first mortgages since 2011.
- In 2014, the Authority completed its mortgage lending program (the "GSE Mortgage Lending Program") utilizing the GSE bond proceeds. The bonds were issued in early 2010 and converted to a permanent rate late in 2011.
- The mortgage loan interest rates on the GSE Mortgage Lending Program ranged from 3.75% to 4.75% available to first-time homebuyers and included down payment and closing cost assistance. This assistance was in the form of a soft second mortgage forgivable over a five (5) year period which second mortgage loan has no monthly principal or interest payments required. The GSE bond issue was the first lending program in which the Authority offered soft second mortgages.
- In 2015 and 2016 the Authority issued taxable bonds to refund several prior bond issues. The purpose of the refundings was to lower the bond interest expense and to release surplus assets to the Unrestricted Fund. In each refunding the majority of the Mortgage-Backed Securities which had been the collateral for the prior issues were transferred to the new taxable bond issues as collateral for the new bonds. Excess Mortgage-Backed Securities and cash from the prior issues were transferred to the Authority's Unrestricted Fund.

- In 2020 the Authority issued \$5 million in taxable bonds to refund the 2009A1-A4 bonds and to provide funds for reimbursing the Authority’s Unrestricted Fund for soft second mortgage loans made in connection with the CAFA Gold Lending Program.
- In 2021 the Authority issued \$5 million in taxable bonds to reimburse the Authority for soft second mortgage loans and to provide additional funds for continuing the soft second mortgage program in connection with the CAFA Gold Lending Program.
- In 2022 the Authority issued \$6.5 million in taxable bonds to reimburse the Authority for soft second mortgage loans and to provide additional funds for continuing the soft second mortgage program in connection with the CAFA Gold Lending Program.

FINANCIAL HIGHLIGHTS

2022 Mortgage Loan Principal Paydowns for Mortgage Loans Made with Mortgage Revenue Bond Proceeds

Conventional market mortgage loan interest rates have sharply increased due to rapid increases of the short-term rates by the Federal Reserve. High mortgage loan rates generally slow the pace of prepayments caused by refinancing the first mortgages. However, with interest rates still low during the first part of 2022 the amount of paydowns increased resulting in \$6.647 million in total mortgage loan paydowns as compared with \$5.756 million in 2021. Paydowns are expected to decline during 2023. No new first mortgage loans were originated during 2022 using mortgage revenue bond proceeds.

2022 New Mortgage Loan Originations

- **Capital Advantage Program – To Be Announced (“TBA”) Program**

In September of 2014, the Authority initiated the Capital Advantage Program (“CAP”) a TBA Turnkey Mortgage Loan Program with Raymond James as Hedging Agent and US Bank as the Master Servicer. Loans are originated and funded by approved banks and mortgage companies and the loans are then purchased by US Bank. Down payment assistance is provided as a grant by a marginal increase in the first mortgage loan rate. The Authority earns a one-time fee at the time of the pooling of the loans into an MBS. The first pooling was conducted in February of 2015.

In 2022, US Bank, on behalf of the Authority, pooled approximately \$1.208 million in loans and the Authority earned approximately \$3,216 in one-time fees of which \$624 was earned in Parishes with which the Authority has Cooperative Endeavor Agreements (“CEA’s”) as compared to \$13.689 million in loans and \$56,236 in one-time fees in 2021, of which \$3,216 were earned in CEA Parishes. Half of the fees earned in CEA Parishes are shared with the Parish or with the local Home Mortgage Authority, if any. CAFA lowered its fees charged on each loan in order to lower the mortgage loan interest rate to the home buyer.

Mortgage rates were increasing during the second half of 2022 which made selling the Mortgage-Backed Securities (“MBS”) very difficult as MBS with higher interest rates have more early prepayment risk.

- **Purchase Advantage Powered by CAFA (PAC) Program - TBA Program**

In August of 2015, the Authority initiated the LA CAFA TBA Mortgage Loan Program in cooperation with GMFS Lending. During 2017 the name was changed at the request of GMFS to “Purchase Advantage Powered by CAFA (“PAC”). This program utilizes licensed financial institutions comprised of community banks, credit unions and mortgage brokers who choose to broker conventional and government mortgage loans. GMFS Lending serves as underwriter, funder, and Master Servicer for this program. Stifel Nicolaus & Company acquired George K. Baum during 2019 and now acts as hedging agent and Program Administrator for this program. Down payment assistance is provided as a grant by a marginal increase in the first mortgage loan rate. The Authority earns a one-time fee at the time of the closing of the loans.

During 2022, no loans were closed and the Authority earned zero in one-time fees as in 2021. Half of the fees earned in CEA Parishes are shared with the Parish or with the local Home Mortgage Authority, if any.

GMFS suspended offering the PAC Program in June 2020 due to Covid-19 restrictions and has yet to re-initialize the Program. GMFS is considering offering the program in 2023.

- **CAFA Gold Program - TBA Program**

In April 2017 CAFA initiated the CAFA Gold Program as a pilot program in cooperation with Freddie Mac. This program is a market rate program with down payment and closing cost assistance in the form of a soft second mortgage (a second lien on the property that has no interest and no payments which is forgiven over a period of 7 or 10 years). Freddie Mac Seller/Serviceers in this program are allowed to originate and service their own loans. For 2018 Assurance Financial was the only Seller/Serviceer originating loans in this program.

Gateway Mortgage Group was added as a Seller/Serviceer in 2019. Eustis Mortgage Co. was added in 2021. CAFA earns a one-time fee for these loans at the closing of the first mortgage. See the chart below for a year-over-year comparison of new loans and fees. The Authority also earns on the Assurance, Gateway and Eustis loans an ongoing fee from Freddie Mac on the Conventional loans and an ongoing fee from Assurance and Gateway on the Government loans, both of which fees are calculated on the outstanding balance of the first mortgage loans. These ongoing fees are used to pay debt service on the 2020B, 2021 and 2022 Bond Issues. When the bonds are completely retired those ongoing fees will be paid into the Authority’s Unrestricted Fund.

**Originations and Fees for all of CAFA's TBA Programs
2022 as Compared to 2021**

| | 2,022 | 2021 | Increase (Decrease) |
|------------------------------------|---------------|---------------|------------------------|
| Assurance: | | | |
| First Mortgages | \$ 786,394 | \$ 1,045,910 | \$ (259,516) |
| Total Fees (including CEA Fees) | \$ 5,898 | \$ 7,844 | \$ (1,946) |
| Fees from CEA parishes | \$ 4,550 | \$ 1,688 | \$ 2,862 |
| Gateway: | | | |
| First Mortgages | \$112,884,659 | \$178,527,386 | \$ (65,642,727) |
| Total Fees (including CEA Fees) | \$ 564,425 | \$ 892,644 | \$ (328,219) |
| Fees from CEA parishes | \$ 279,375 | \$ 399,313 | \$ (119,938) |
| Eustis: | | | |
| First Mortgages | \$ 565,850 | \$ 877,301 | \$ (311,451) |
| Total Fees (including CEA Fees) | \$ 2,829 | \$ 4,387 | \$ (1,558) |
| Fees from CEA parishes | \$ 2,829 | \$ 1,295 | \$ 1,534 |
| US Bank: | | | |
| First Mortgages | \$ 1,207,811 | \$ 13,689,000 | \$ (12,481,189) |
| Total Fees (including CEA Fees) | \$ 3,582 | \$ 56,236 | \$ (52,654) |
| Fees from CEA parishes | \$ 624 | \$ 3,216 | \$ (2,592) |

Cooperative Endeavor Agreement Parishes (CEA Parishes)

In addition, the Authority has CEAs with 53 Parishes outside the nine parish Capital Area which allows mortgage loan originations utilizing the Authority's TBA programs. In exchange for the approval of each parish to allow the Authority to originate loans therein, CAFA shares 50% of the one-time fee generated from loans made in each particular CEA Parish.

2015 Taxable Single Family Mortgage Revenue Refunding Bonds Series 2015

In September 2015, the Authority conducted a Taxable Refunding of Single-Family Mortgage Revenue Bonds in the amount of \$20.02 million in Bonds. The Authority collapsed multiple prior single-family bond issues. The proceeds of the 2015 Taxable Refunding Bonds were used to call the bonds of the prior single-family issues. The majority of the MBS collateral from the prior issues was transferred to the 2015 Taxable issue as collateral for the 2015 Bonds. The remaining MBS and residual cash from the refunded prior issues was transferred to the Unrestricted Fund. The 2015 Taxable Refunding released approximately \$1.6 million in residual cash and approximately \$2.816 million in MBS from the restricted refunded bond issues to the Unrestricted Fund. The average bond interest rate was reduced from approximately 5.90% on the refunded bonds to approximately 2.90% for the new bonds.

The \$26,000 of “Deferred Inflow of Resources” represents legacy bond premiums from certain refunded prior single-family bond issues which were refunded using the 2015 taxable bond issues proceeds.

2016 Taxable Single Family Mortgage Revenue Refunding Bonds Series 2016

In November 2016, the Authority conducted a Taxable Refunding of Single-Family Mortgage Revenue Bonds in the amount of \$9.725 million in Bonds. The Authority collapsed two prior single-family issues. The proceeds of the 2016 Taxable Refunding Bonds were used to call the bonds of the prior single-family issues. The majority of the MBS collateral from the prior issues was transferred to the 2016 Taxable issue as collateral for the 2016 Bonds. The remaining MBS and residual cash from the refunded prior issues were transferred to the Unrestricted Fund. The 2016 Taxable Refunding released approximately \$301,125 in residual cash and approximately \$191,316 in MBS from the restricted refunded bond issues to the Unrestricted Fund. The average bond interest rate was reduced from approximately 4.674% on the refunded bonds to approximately 2.375% for the new bonds.

The \$46,000 of “Deferred Inflow of Resources” represents legacy bond premiums from certain refunded prior single-family bond issues which were refunded using the 2016 taxable bond issues proceeds.

2020 Taxable Single Family Mortgage Revenue Refunding Bonds Series 2020AB

In September 2020, the 2020AB Series Bonds were issued in the amount of \$5,000,000. The issuance had a dual purpose: (1) refund the 2009A1-A4 Series Bonds, and (2) provide funds to reimburse the Authority for Unrestricted funds used to make soft second mortgage loans under the CAFA Gold Lending program.

The 2009A Bonds had several series of bonds, 2009 A-1, 2009 A-2, 2009 A-3 and 2009 A-4. Series A-1 through A-3 are senior bonds which are collateralized by the first mortgages in the MBS. The Series A-4 bonds were subordinate bonds for which the Authority used its general obligation bond rating to issue. The A-4 bond proceeds were used to make the second mortgages associated with this bond issue. This was the first bond issue in which the Authority began to make second mortgages rather than outright grants to provide the down payment and/or closing cost assistance to the first-time homebuyers. The initial second mortgages to be made with the 2009 A-4 bond proceeds were hard second mortgages which had a 10-year term and a 6% interest rate. The purpose of these hard seconds was to "monetize" an available federal tax credit for first-time home buyers. A total of \$2 million was issued for the Series A-4 bonds, however only approximately \$450,000 was made in hard second mortgage loans. A legal opinion was given, and bond holder approval was obtained, to use the remaining A-4 proceeds to also make soft second mortgages once the time period for the tax credits had expired. The soft second mortgages have no interest and no payments. A portion of the principal amount was forgiven each month

over the five-year term. Since the Series A-4 bonds were subordinate and secured not only by the proceeds of the hard second mortgage payments but also secured by the Authority's Capital and Operating Account unrestricted fund balance, the remaining available proceeds from the Series A-4 bonds were used to also make a portion of the soft second mortgages that were provided to first time home buyers making first mortgage loans under the 2009GSE issue.

The MBS which had been collateral for the 2009A1-A4 Series Bonds were transferred to the 2020AB Series Bonds. Income from the former 2009A1-A4 Series MBS covers the debt service of the 2020A Series Bonds and a portion of the debt service for the 2020B Series Bonds. Additional funds for the debt service of the 2020B Series Bonds are provided by early payoffs of the soft second mortgages and the ongoing income stream from Freddie Mac and Gateway, as described above. The Authority's Unrestricted Fund is also pledged to cover shortfalls, if any occur.

Taxable Single Family Mortgage Revenue Refunding Bonds Series 2021A

In February 2021 the 2021A Series Bonds were issued in the amount of \$5,000,000. The issuance had a dual purpose: (1) provide funds to reimburse the Authority for Unrestricted funds used to make soft second mortgage loans under the CAFA Gold Lending program, and (2) provide funds to continue making soft second mortgage loans in connection with the CAFA Gold Lending Program. By December 2021 all bond proceeds had been utilized and plans were underway for a 2022 issue.

Taxable Single Family Mortgage Revenue Refunding Bonds Series 2022A

In January, 2022 the 2022A Series Bonds were issued in the amount of \$6,500,000. The issuance had a dual purpose: (1) provide funds to reimburse the Authority for Unrestricted funds used to make soft second mortgage loans under the CAFA Gold Lending program, and (2) provide funds to continue making soft second mortgage loans in connection with the CAFA Gold Lending Program. By December 2022 approximately \$3.673 in bond proceeds had been utilized.

2022 Adjusted Net Position

- The Authority's assets exceeded its liabilities and deferred inflow of resources at the close of 2022 by \$35.205 million, which represents a \$2.223 million decrease from the 2021 amount of \$37.428 million.
- For the year ended December 31, 2022, the Authority had \$3.603 million in unrealized losses in the Net Increase (Decrease) in the Fair Market Value of Investments as compared to a net unrealized loss of \$1.046 million in 2021.

2022 Adjusted Operating Revenues

- The Authority's adjusted revenues of \$5.506 million in 2022 (exclusive of the \$3.603 million Net Decrease in the Fair Value of Investments) decreased by \$1.801 million as compared to adjusted revenues of \$7.307 million generated in 2021 (exclusive of the Net Decrease in the Fair Value of Investments of \$1.046 million).
- The Authority generated income earned on mortgage loans receivable/mortgage-backed securities of \$1.014 million in 2022 as compared with \$1.234 million in 2021 - a decrease of \$220,000. This decrease is due in part to the early payoff of aging loans.

- The Authority realized a \$123,000 increase in income earned on other investments from \$321,000 in 2021 to \$444,000 in 2022. This increase is due in part to higher interest rates on new investments which replaced matured investments in the Unrestricted Fund.
- The Authority Fee Income in 2022 decreased by \$66,000 from \$387,000 in 2021 to \$321,000 in 2022. This is primarily due to a decrease in the Mortgage Loan Receivable / MBS from regular and early principal payments. Authority Fees are calculated on the outstanding loan balances for those first mortgage loans made utilizing mortgage revenue bond proceeds.
- The income for 2022 from net fees earned on the three Market Rate TBA Loan Programs which combined total \$1.535 million as compared to \$1.368 million for 2021, an increase of \$167,000 due to an increase in first mortgage loan production on the TBA program loans the first half of 2022. Mortgage Loan rates were rising during the second half of 2022 and home sales slowed.
- The PILOT Program fees increased by \$209,000 from \$32,000 in 2021 to \$241,000 in 2022. Many projects that were approved in 2021 have begun to produce income.
- The Authority had a decrease in Miscellaneous Income of \$4,000 from \$5,000 in 2021 to \$1,000 in 2022.

2022 Operating Expenses

- Interest Expense increased by \$158,000 from \$842,000 in 2021 to \$1.0 million in 2022 due to a net increase on the amount of bonds outstanding.
- The Market Rate TBA Program Expense decreased by \$48,000 from \$193,000 in 2021 to \$145,000 in 2022 due to a decrease in fee sharing for loans made outside the Authority's nine (9) Parish footprint.
- There was a decrease of \$107,000 for Forgiveness of Soft Second Mortgage Loan Receivable from \$241,000 in 2021 to \$134,000 in 2022. The decrease is due primarily to the early soft second mortgage loans being completely forgiven in 2021.
- There was a decrease in Bad Debt Expense from \$136,000 in 2021 to Zero in 2022. There were no bad debts in 2022.
- There was a decrease in the Reserve for Loan Losses of \$203,000 from \$203,000 in 2021 to Zero in 2022. Recently the Authority has begun several programs for providing interim and permanent financing for local development and re-development projects. The Reserve for Loan Losses may be adjusted from time to time.
- There was an increase of \$357,000 in Operating Expenses from \$1.950 million in 2021 as compared to \$2.307 million in 2022.
- The Authority's 2022 Total Operating Expenses of \$4.126 million decreased by \$12,000 from 2021 operating expenses of \$4.138 million due primarily to the decrease of the Bad Debt and the Reserve for Loan Losses line items.

2022 Adjusted Net Operating Income

- Excluding the realized and unrealized gains or losses in the Net Increase/Decrease in the Fair Value of Investments for 2022 and 2021 the Authority experienced a net operating loss of \$1.789 million in 2022 compared with a \$3.169 million net operating gain in 2021 due primarily to the decrease of Premiums on Gold Program mortgage loans.

2022 Unrestricted Fund Net Position

- As of December 31, 2022, the Authority had an Unrestricted net position of \$27.924 million (after adjusting for the unrealized loss of \$1.546 million) as compared with unrestricted net position of \$29.194 million as of December 31, 2021 (after adjusting of for an unrealized loss of \$364,000) representing a decrease of \$1.270 million.

Authority's Bond Credit Ratings

- The Authority has a “Aaa” rating from Moody’s Investor Service (“Moody’s”) on substantially all of its separately secured series of bonds.
- The 2009 GSE Bonds are rated Aa+ by Standard and Poor’s Corporation.
- In May 2002, the Authority had applied for an issuer rating from Moody’s Investor Services (“Moody’s”). Moody’s awarded the Authority an ‘A3’ issuer general obligation rating which is the current rating.
Moody’s reaffirmed the Authority’s ‘A3’ issuer general obligation rating on November 13, 2014. The “A3” rating remains the current credit rating. Moody’s included as a part of its rating report certain operating and debt ratios.
- Moody’s issued an Aaa rating to the Taxable Single Family Mortgage Revenue Refunding Bonds Series 2015.
- Moody’s issued an Aaa rating to the Taxable Single Family Mortgage Revenue Refunding Bonds Series 2016.
- Moody’s issued an Aaa rating to the Taxable Single Family Mortgage Revenue Refunding Bonds Series 2020A Bonds and an A3 rating on the 2020B Subordinate Bonds based on the Authority’s General Obligation rating.
- Moody’s issued an A3 rating of the Taxable Single Family Mortgage Revenue Bonds Series 2021A bonds based on the Authority’s General Obligation rating.
- Moody’s issued an A3 rating of the Taxable Single Family Mortgage Revenue Bonds Series 2022A bonds based on the Authority’s General Obligation rating.

OVERVIEW OF THE FINANCIAL STATEMENTS

These basic financial statements consist of three sections - Management’s Discussion and Analysis (this section), the basic financial statements (including the notes to the financial statements) and the supplemental information.

Basic Financial Statements

The basic financial statements include information on a combined basis for the Authority as a whole, in a format designed to make the statements easier for the reader to understand. The statements include the balance sheets; the statements of revenues, expenses, and changes in net position; and the statements of cash flows.

The balance sheets (page 16) present the assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the Authority is improving or deteriorating on an adjusted basis.

The statements of revenues, expenses, and changes in net position (page 17) present information showing how the Authority's net position changed as a result of the current year's operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The statements of cash flows (pages 18 - 19) present information showing how the Authority's cash changed as a result of the current year's operations. The combining cash flow statements are prepared using the direct method and include the reconciliation of net income (loss) to net cash provided by (used in) operating activities (indirect method) as required by Statement 34 of the Governmental Accounting Standards Board.

**COMBINED STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2022 AND 2021
(in thousands)**

| | <u>2022</u> | <u>2021</u> | <u>Change from Prior Year</u> |
|--|------------------|------------------|-----------------------------------|
| Cash and Cash Equivalents | \$ 12,066 | \$ 12,416 | \$ (350) |
| Brokered Certificates of Deposit | 4,164 | 2,994 | 1,170 |
| State, U.S. Government and Agency Securities | 8,024 | 6,553 | 1,471 |
| Mortgage-Backed Securities | 19,312 | 25,959 | (6,647) |
| Mortgage Loan Receivable - Net | 16,563 | 12,200 | 4,363 |
| Lease Receivable | 209 | 48 | 161 |
| Accrued Interest Receivable | 173 | 165 | 8 |
| Note Receivable - Net | 3,984 | 3,501 | 483 |
| Prepaid Insurance and Other Assets | 48 | 81 | (33) |
| Capital Assets (Net of Accumulated Depreciation) | <u>1,733</u> | <u>1,755</u> | <u>(22)</u> |
| Total Assets | <u>\$ 66,276</u> | <u>\$ 65,672</u> | <u>\$ 604</u> |
| Accounts Payable and Accrued Liabilities | \$ 247 | \$ 218 | \$ 29 |
| Accrued Interest Payable | 80 | 68 | 12 |
| Bonds and Lines of Credit Payable - Net | <u>29,597</u> | <u>27,821</u> | <u>1,776</u> |
| Total Liabilities | <u>29,924</u> | <u>28,107</u> | <u>1,817</u> |
| Deferred Inflows - Related to PILOT Program | 855 | 0 | 855 |
| Deferred Inflows - Related to Building Lease | 209 | 48 | 161 |
| Deferred Inflows - Related to Refunding of Bonds | <u>83</u> | <u>89</u> | <u>(6)</u> |
| Total Deferred Inflow of Resources | <u>1,147</u> | <u>137</u> | <u>1,010</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | 1,733 | 1,755 | (22) |
| Restricted *1 | 8,354 | 8,135 | 219 |
| Unrestricted *2 | <u>25,118</u> | <u>27,538</u> | <u>(2,420)</u> |
| Total Net Position | <u>35,205</u> | <u>37,428</u> | <u>(2,223)</u> |
| Total Liabilities and Net Position | <u>\$ 66,276</u> | <u>\$ 65,672</u> | <u>\$ 604</u> |

*1 ‘Restricted net assets’ represent those net assets that are restricted and as a result are not available for general use due to the terms of the various bond trust indentures under which certain specified assets are held and pledged as security for the individual bonds of the Authority constituting its mortgage lending programs.

*2 ‘Unrestricted net assets’ are those assets for which there is not a specific limitation pledge of any of the unrestricted net assets to a specific bond issue of the Authority.

Authority Debt

- The Authority had \$29.597 million in mortgage revenue bonds on December 31, 2022, as compared to \$27.821 million in mortgage revenue bonds as of December 31, 2021, as shown in the table below:

OUTSTANDING AUTHORITY DEBT AS OF DECEMBER 31, 2022 AND 2021

| | 2022 (millions) | 2021 (millions) | Change from Prior Year (millions) |
|--------------------------------------|--------------------|--------------------|---|
| Mortgage Revenue Bonds | \$29.597 | \$27.821 | \$1.776 |
| Line of Credit (FHLB of Dallas) | <u>-</u> | <u>-</u> | <u>-</u> |
| Outstanding Debt (as of December 31) | <u>\$29.597</u> | <u>\$27.821</u> | <u>\$1.776</u> |

- Mortgage Revenue Bonded Debt outstanding increased by \$1.776 million as of December 31, 2022, as compared with December 31, 2021.
- The Authority had an outstanding line of credit as of December 31, 2022, with the Federal Home Loan Bank of Dallas with a zero balance.

Accounts Payable and Accrued Interest Payable

The Authority had Accounts Payable and Accrued Liabilities and Accrued Interest Payable of \$327,000 outstanding on December 31, 2022 (of which \$80,000 is accrued interest payable on the bonds) compared with \$286,000 for December 31, 2021 – an increase of \$41,000.

Subsequent Events

- In 2018 the Authority began implementation of our Payment in Lieu of Taxes (“PILOT”) program to financially assist developers of multi-family projects that provide quality affordable housing for low- and moderate-income families. The Authority will own the land and improvements and lease it back to the developer. The Authority’s ownership allows the property to be exempt from local property tax increases for a period of time.

Projects on which construction began in 2021, including two (2) multi-family workforce housing developments and a warehouse distribution center, continue. Planning is underway in 2023 for four (4) multi-family workforce housing developments and two solar farms. The Authority receives an upfront fee and will receive an annual Administrative Fee for the 20-year life of the PILOT agreement.

- The Authority is cooperating with the Louisiana Housing Corporation's Neighborhood Landlord Program, which assists landlords who rent to low- and moderate-income families to renovate or build new single-family or small (less than 7 units) multi-family residences that were damaged or destroyed by the devastating floods in 2016. The Authority is providing the interim construction financing for the landlords. The final two projects under this program had been delayed due to COVID and are now nearing completion.
- The Authority approved a Line of Credit for Build Baton Rouge, The Redevelopment Authority of East Baton Rouge Parish. Build Baton Rouge used the Line of Credit to acquire properties along the Plank Road corridor, a disinvested part of the city, for their significant re-development project in that area. The project planned for 2021 was put on hold due to a significant increase in construction cost. The project is in the process of reassessing and restructuring.
- The Board of Trustees of the Authority has given approval to initiate a new tax-exempt mortgage revenue bond issuance for 2023 in an amount not to exceed \$40 million dollars. Bond proceeds will be used to make first mortgage loans to home buyers at a mortgage loan rate below what can currently be generated in the TBA programs.
- In early 2023, the bondholders of the series 2022A approved the use of the remaining bond proceeds for making hard second mortgage loans at a rate of 6% for 20 years.

ECONOMIC FACTORS AND THE AUTHORITY'S 2023 BUDGET

The Authority's Board of Trustees considered the following factors and indicators when the Authority adopted its 2023 Operating Budget. These factors and indicators include, but are not limited to:

- The potential for rising conventional first mortgage loan interest rates in 2023 will cause the early mortgage loans payoffs to slow. Potentially higher first mortgage loan rates may also cause new mortgage loan production in the TBA programs to slow causing less one-time fees for that program.
- The Authority launched a TBA Market Rate mortgage loan program with down payment and closing cost assistance with Raymond James as hedging agent and US Bank as Master Servicer in September 2014. Interest rates are published daily by 9:00am CST. The Authority conducted the first pooling of loans in January 2015. Mortgage loan rates are expected to be rising through 2023 and decreased production is expected. Decreased mortgage loan production results in decreased fees for that production.
- The Authority created a parallel Market Rate mortgage program with down payment and closing cost assistance with GMFS Lending, LLC in August 2015. This program utilizes licensed financial institutions comprised of community banks, credit unions and mortgage brokers who choose to broker conventional and government mortgage loans. GMFS Lending serves as underwriter, funder, hedging agent and Master Servicer for this program. The Authority collects a one-time issue fee when the loans are closed. Due to the restrictions of Covid-19 GMFS suspended loan production in this program. They expected to reinstate the loan program in mid to late 2021. However, that did not occur. GMFS plans to re-initiate the program in early 2023.

- During 2017 CAFA began a mortgage loan program which allows major mortgage loan companies to originate and then service their own loans. This is a pilot program in cooperation with Federal Home Loan Mortgage Corporation (Freddie Mac) and Stifel Nicolaus & Company. Freddie Mac is working with a few select local Housing Finance Agencies (“HFAs”) across the country similar to the Authority to participate in this pilot program. In this program each HFA can select up to five (5) Freddie Mac Seller/Servicers to originate and service first mortgage loans under the Authority’s Gold Program. It is a market rate program, but the structure of the program allows for a lower mortgage rate and increased down payment and closing cost assistance due to the use of soft second mortgage loans (second liens with zero interest and zero payments which are forgiven over a seven (7) or ten (10) year period). CAFA started with one Seller/Servicer in 2017, added one Seller/Servicer during 2018 and added another in 2019. Even with the increase in the number of Seller/Servicers and the increase in the number of Parishes that have allowed the Authority to offer the loan programs, stable to declining new mortgage loan production (based on potentially higher first mortgage rates) is expected.
- The current and future PILOT programs under development will provide the Authority with a continuing stream of income over the life of each PILOT agreement.

CONTACTING THE CAPITAL AREA FINANCE AUTHORITY

This Financial Report, including the MD&A, is designed to provide all citizens of the Capital Area Parishes, as well as the Authority’s customers and creditors (i.e., bondholders) with a general overview of the Capital Area Finance Authority’s finances and to show the Authority’s accountability for the money it receives from its bond issue proceeds and other sources. The sources include income earned on mortgage loan receivables/mortgage-backed securities, income earned on other investments and Authority fee income. If you have any questions about this report or need additional financial information, please contact:

Blaine Grimes
Chairperson, Board of Trustees

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Chairperson, Audit Committee

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CAPITAL AREA FINANCE AUTHORITY
INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND BALANCE SHEETS

AS OF DECEMBER 31, 2022

(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2021)

(In Thousands)

| | 2009 GSE Program | 2015 Program | 2016 Program | Second Mortgage Program | FutureVision, LLC | Unrestricted Fund | 2022 Combined | 2021 Combined |
|---|---------------------|-----------------|-----------------|-------------------------------|----------------------|----------------------|------------------|------------------|
| <u>ASSETS</u> | | | | | | | | |
| Cash and Cash Equivalents | \$ 1,283 | \$ 80 | \$ 32 | \$ 3,059 | \$ 59 | \$ 7,553 | \$ 12,066 | \$ 12,416 |
| Brokered Certificates of Deposit | - | - | - | - | - | 4,164 | 4,164 | 2,994 |
| State, U.S. Government and Agency Securities | - | - | - | - | - | 8,024 | 8,024 | 6,553 |
| Mortgage-Backed Securities | 6,581 | 5,742 | 3,466 | 1,488 | - | 2,035 | 19,312 | 25,959 |
| Mortgage Loans Receivable - Net | - | - | - | 16,327 | - | 236 | 16,563 | 12,200 |
| Lease Receivable | - | - | - | - | 209 | - | 209 | 48 |
| Accrued Interest Receivable | 20 | 26 | 14 | 8 | - | 105 | 173 | 165 |
| Notes Receivable - Net | - | - | - | - | - | 3,984 | 3,984 | 3,501 |
| Inter-Program Receivable (Payable) | (12) | - | - | - | - | 12 | - | - |
| Prepaid Insurance and Other Assets | - | - | - | - | - | 48 | 48 | 81 |
| Capital Assets (Net of Accumulated Depreciation) | - | - | - | - | 414 | 1,319 | 1,733 | 1,755 |
| Total Assets | <u>\$ 7,872</u> | <u>\$ 5,848</u> | <u>\$ 3,512</u> | <u>\$ 20,882</u> | <u>\$ 682</u> | <u>\$ 27,480</u> | <u>\$ 66,276</u> | <u>\$ 65,672</u> |
| <u>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION (DEFICIT)</u> | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts Payable and Accrued Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 247 | \$ 247 | \$ 218 |
| Accrued Interest Payable | 12 | 14 | 7 | 47 | - | - | 80 | 68 |
| Bonds Payable - Net | 6,255 | 5,706 | 3,401 | 14,235 | - | - | 29,597 | 27,821 |
| Total Liabilities | 6,267 | 5,720 | 3,408 | 14,282 | - | 247 | 29,924 | 28,107 |
| Deferred Inflow of Resources: | | | | | | | | |
| Deferred Inflows - | | | | | | | | |
| Related to Pilot Program Fees | - | - | - | - | - | 855 | 855 | - |
| Related to Building Lease | - | - | - | - | 209 | - | 209 | 48 |
| Related to Refunding of Bonds | - | 26 | 46 | 11 | - | - | 83 | 89 |
| Total Deferred Inflow of Resources | - | 26 | 46 | 11 | 209 | 855 | 1,147 | 137 |
| Net Position | | | | | | | | |
| Net Investment in Capital Assets | - | - | - | - | 414 | 1,319 | 1,733 | 1,755 |
| Restricted | 1,605 | 102 | 58 | 6,589 | - | - | 8,354 | 8,135 |
| Unrestricted | - | - | - | - | 59 | 25,059 | 25,118 | 27,538 |
| Total Net Position | <u>1,605</u> | <u>102</u> | <u>58</u> | <u>6,589</u> | <u>473</u> | <u>26,378</u> | <u>35,205</u> | <u>37,428</u> |
| Total Liabilities, Deferred Inflow of Resources, and Net Position | <u>\$ 7,872</u> | <u>\$ 5,848</u> | <u>\$ 3,512</u> | <u>\$ 20,882</u> | <u>\$ 682</u> | <u>\$ 27,480</u> | <u>\$ 66,276</u> | <u>\$ 65,672</u> |

The notes to the financial statements are an integral part of this statement.

CAPITAL AREA FINANCE AUTHORITY

**INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

(In Thousands)

| | 2009 GSE Program | 2015 Program | 2016 Program | Second Mortgage Program | FutureVision, LLC | Unrestricted Fund | 2022 Combined | 2021 Combined |
|---|---------------------|-----------------|-----------------|-------------------------------|----------------------|----------------------|------------------|------------------|
| REVENUES: | | | | | | | | |
| Income Earned on Mortgage Loans | | | | | | | | |
| Receivable/ Mortgage Backed Securities | \$ 263 | \$ 331 | \$ 208 | \$ 96 | \$ - | \$ 116 | \$ 1,014 | \$ 1,234 |
| Income Earned on Other Investments | - | - | - | 4 | - | 440 | 444 | 321 |
| Net Decrease in the Fair Value | | | | | | | | |
| of Investments | (968) | (583) | (363) | (143) | - | (1,546) | (3,603) | (1,046) |
| Market Rate Loan Program Fees | - | - | - | 895 | - | 640 | 1,535 | 1,368 |
| Premiums on Gold Program Mortgages | - | - | - | 1,820 | - | - | 1,820 | 3,859 |
| Interest Income - Notes and Lease Receivabl | - | - | - | - | 2 | 84 | 86 | 67 |
| Authority Fee Income | - | - | - | - | - | 321 | 321 | 387 |
| PILOT Program Fees | - | - | - | - | - | 241 | 241 | 32 |
| Rental Income | - | - | - | - | 44 | - | 44 | 34 |
| Miscellaneous Income | - | - | - | - | - | 1 | 1 | 5 |
| Total | (705) | (252) | (155) | 2,672 | 46 | 297 | 1,903 | 6,261 |
| EXPENSES: | | | | | | | | |
| Interest | 154 | 177 | 90 | 579 | - | - | 1,000 | 842 |
| Market Rate Loan Program Expenses | - | - | - | - | - | 145 | 145 | 193 |
| Forgiveness Amortization of Second Mortgage Loans | - | - | - | 107 | - | 27 | 134 | 241 |
| Bond Issuance Costs | - | - | - | 185 | - | - | 185 | 166 |
| Authority Fees | 49 | 154 | 118 | - | - | - | 321 | 387 |
| Insurance Costs | - | - | - | - | - | 33 | 33 | 20 |
| Bad Debt | - | - | - | - | - | - | - | 136 |
| Reserve for Loan Losses | - | - | - | - | - | - | - | 203 |
| Loss on Sale of Asset | - | - | - | - | - | 1 | 1 | - |
| Operating Expenses | 5 | 5 | 5 | 3 | 36 | 2,253 | 2,307 | 1,950 |
| Total | 208 | 336 | 213 | 874 | 36 | 2,459 | 4,126 | 4,138 |
| Net Income (Loss) | (913) | (588) | (368) | 1,798 | 10 | (2,162) | (2,223) | 2,123 |
| Transfers Among Programs | - | - | - | 290 | - | (290) | - | - |
| Net Position - Beginning of Year | 2,518 | 690 | 426 | 4,501 | 463 | 28,830 | 37,428 | 35,305 |
| Net Position - End of Year | \$ 1,605 | \$ 102 | \$ 58 | \$ 6,589 | \$ 473 | \$ 26,378 | \$ 35,205 | \$ 37,428 |

The notes to the financial statements are an integral part of this statement.

CAPITAL AREA FINANCE AUTHORITY

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

(In Thousands)

| | 2009 GSE Program | 2015 Program | 2016 Program | Second Mortgage Program | FutureVision, LLC | Unrestricted Fund | 2022 Combined | 2021 Combined |
|--|---------------------|-----------------|-----------------|-------------------------------|----------------------|----------------------|------------------|------------------|
| Cash Flows From Operating Activities: | | | | | | | | |
| Cash Receipts for: | | | | | | | | |
| Mortgage Loans and Mortgage-Backed Securities Income | \$ 267 | \$ 335 | \$ 213 | \$ 98 | \$ - | \$ 117 | \$ 1,030 | \$ 1,242 |
| Notes Receivable | - | - | - | - | - | 389 | 389 | 125 |
| Collections of Second Mortgage Loans | - | - | - | - | - | 27 | 27 | - |
| Collections of Mortgage-Backed Securities | 1,413 | 1,053 | 988 | 485 | - | 454 | 4,393 | 4,992 |
| Income on Other Investments | - | - | - | 4 | - | 416 | 420 | 327 |
| Rental Income | - | - | - | - | 46 | - | 46 | 34 |
| Cash Payments for: | | | | | | | | |
| Funding of Notes Receivable | - | - | - | - | - | (788) | (788) | (2,220) |
| Funding of Second Mortgage Loans - Net | - | - | - | (2,704) | - | - | (2,704) | (4,840) |
| Interest Paid | (157) | (179) | (92) | (560) | - | - | (988) | (837) |
| Other Items | (56) | (161) | (125) | 706 | (35) | (266) | 63 | (887) |
| Net Cash Provided by (Used in) Operating Activities | 1,467 | 1,048 | 984 | (1,971) | 11 | 349 | 1,888 | (2,064) |
| Cash Flows From Capital and Related Financing Activities: | | | | | | | | |
| Acquisition of Capital Assets | - | - | - | - | - | (24) | (24) | (2) |
| Net Cash Used in Capital and Related Financing Activities | - | - | - | - | - | (24) | (24) | (2) |
| Cash Flows From Investing Activities: | | | | | | | | |
| Investment Purchases, Sales, and Maturities - Net | - | - | - | - | - | (3,990) | (3,990) | 2,107 |
| Net Cash Provided by (Used in) Investing Activities | - | - | - | - | - | (3,990) | (3,990) | 2,107 |
| Cash Flows From Noncapital Financing Activities: | | | | | | | | |
| Proceeds from Bond Issues | - | - | - | 6,500 | - | - | 6,500 | 5,000 |
| Retirement of Notes and Bonds Payable | (1,485) | (1,050) | (989) | (1,200) | - | - | (4,724) | (5,138) |
| Interfund Activities | - | - | - | (994) | - | 994 | - | - |
| Net Cash Provided by (Used in) Noncapital Financing Activities | (1,485) | (1,050) | (989) | 4,306 | - | 994 | 1,776 | (138) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (18) | (2) | (5) | 2,335 | 11 | (2,671) | (350) | (97) |
| Cash and Cash Equivalents at Beginning of Year | 1,301 | 82 | 37 | 724 | 48 | 10,224 | 12,416 | 12,513 |
| Cash and Cash Equivalents at End of Year | \$ 1,283 | \$ 80 | \$ 32 | \$ 3,059 | \$ 59 | \$ 7,553 | \$ 12,066 | \$ 12,416 |

(CONTINUED)

CAPITAL AREA FINANCE AUTHORITY

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

(In Thousands)

| | <u>2009 GSE</u> | <u>2015</u> | <u>2016</u> | <u>Second</u> | <u>FutureVision,</u> | <u>Unrestricted</u> | <u>2022</u> | <u>2021</u> |
|--|-----------------|-----------------|----------------|-------------------|----------------------|---------------------|-----------------|-------------------|
| | <u>Program</u> | <u>Program</u> | <u>Program</u> | <u>Mortgage</u> | <u>LLC</u> | <u>Fund</u> | <u>Combined</u> | <u>Combined</u> |
| Reconciliation of Net Income (Loss) to Net Cash Provided by Operating Activities: | | | | | | | | |
| Net Income (Loss) | \$ (913) | \$ (588) | \$ (368) | \$ 1,798 | \$ 10 | \$ (2,162) | \$ (2,223) | \$ 2,123 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities: | | | | | | | | |
| Depreciation | - | - | - | - | 1 | 44 | 45 | 45 |
| Bad Debt | - | - | - | - | - | - | - | 136 |
| Reserve for Loan Losses | - | - | - | - | - | - | - | 203 |
| Loss on Sale of Asset | - | - | - | - | - | 1 | 1 | - |
| Unrealized and Realized Losses on Investments | 968 | 583 | 363 | 143 | - | 1,546 | 3,603 | 1,046 |
| Forgiveness of Second Mortgage Loans Receivable | - | - | - | 107 | - | 27 | 134 | 241 |
| CAFA Gold Program Mortgages Sold at Premium | - | - | - | (1,820) | - | - | (1,820) | (3,859) |
| Changes in Assets and Liabilities: | | | | | | | | |
| Collection (Funding) of Second Mortgage Loans - Net | - | - | - | (2,704) | - | 27 | (2,677) | (4,840) |
| Collections of Mortgage-Backed Securities | 1,413 | 1,053 | 988 | 485 | - | 454 | 4,393 | 4,992 |
| Funding of Notes Receivable | - | - | - | - | - | (483) | (483) | (2,162) |
| Other - Net | (1) | - | 1 | 20 | - | 895 | 915 | 11 |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ 1,467</u> | <u>\$ 1,048</u> | <u>\$ 984</u> | <u>\$ (1,971)</u> | <u>\$ 11</u> | <u>\$ 349</u> | <u>\$ 1,888</u> | <u>\$ (2,064)</u> |

The notes to the financial statements are an integral part of this statement.

CAPITAL AREA FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

(1) Summary of Significant Accounting Policies -

(A) Organization of Authority

The Capital Area Finance Authority was created through a Trust Indenture dated August 14, 1974, pursuant to provisions of the Louisiana Revised Statutes of 1950, as amended. The initial legislation and subsequent amendments grant the Authority the power to obtain funds and to use the proceeds to promote the financing and development of any essential program conducted in the public interest within the boundaries of East Baton Rouge Parish, Louisiana.

At the September 18, 2014 meeting of the Louisiana State Bond Commission, the Amended and Restated Capital Area Finance Authority Trust Indenture was approved. The Amended and Restated Trust Indenture changed the name of the Authority from the East Baton Rouge Mortgage Finance Authority to the Capital Area Finance Authority and changed the geographic area in which the Authority can issue bonds for public purpose projects allowed in the Public Trust Act from East Baton Rouge Parish to the nine (9) Parish Capital Region consisting of the Parishes of East Baton Rouge, Ascension, East Feliciana, Iberville, Livingston, Pointe Coupee, St. Helena, West Baton Rouge and West Feliciana.

The Authority's operations consist primarily of single-family mortgage revenue or refunding bond programs under which the Authority promotes residential home ownership through the acquisition of mortgage loans secured by first mortgage liens on single family residential housing and funding down payment and closing cost assistance for first-time home buyers. Under the 2009 GSE, 2015, 2016 and Second Mortgage Programs, the first mortgage loans are pooled and sold to the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) in exchange for mortgage-backed securities (MBS) on which GNMA, FNMA, or FHLMC guarantees payment of principal and interest when due. These securities are collateralized by the related loans. The Authority also issues short-term convertible program notes, which are securitized by government agency securities during the interim in preparation of long-term issues. The funds for the Authority's current programs were obtained through the issuance of bonds in the following face value amounts (in thousands):

| | |
|--|-----------|
| 2009 GSE Program, dated November 22, 2011 | \$ 25,000 |
| 2015 Program, dated September 24, 2015 | \$ 20,000 |
| 2016 Program, dated November 3, 2016 | \$ 9,725 |
| Second Mortgage Program, dated September 30, 2020 (Series 2020A and Series 2020B) | \$ 5,000 |
| Second Mortgage Program, dated February 11, 2021 (Series 2021A) | \$ 5,000 |
| Second Mortgage Program, dated January 20, 2022 (Series 2022A) | \$ 6,500 |

The bonds issued by the Authority are general obligations of the Authority and are not obligations of the State of Louisiana or any other political subdivision thereof.

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

The Authority's Board of Trustees is empowered under the bond trust indentures and the bond program agreements to contract with outside parties to conduct the day-to-day operations of the Authority and the programs it initiates. Under each of its single-family mortgage revenue or refunding bond programs, the Authority utilizes area financial institutions to originate and service the mortgage loans acquired. In addition, a bank has been designated as the Trustee of the separate bond programs and has the fiduciary responsibility for the custody and investment of funds. The President & CEO is responsible for the development of each new bond issue and loan program. Once the bond issue is closed, the President & CEO supervises the origination of the mortgage loans, underwrites (reviews and approves) the new mortgage loans for purchase under each program, maintains computerized current records on all loans, and supervises the servicing and trustee functions for each program.

Blended Component Unit - Blended component units, although legally separate entities, are, in substance, part of an entity's operations. FutureVision, LLC was created on October 11, 2001 to serve only the Authority and is governed by management of the Authority. Its purpose is to acquire and hold capital assets. The creation of FutureVision, LLC created a financial benefit/burden relationship between the Authority and FutureVision, LLC. Management has determined that FutureVision, LLC is to be reported as a blended component unit as a proprietary fund within these financial statements.

- (B) Basis of Presentation - Fund Accounting** - The proprietary funds are used to account for the Authority's ongoing operations and activities which are similar to those in the private sector. Proprietary funds are accounted for using a flow of economic resource measurement focus under which all assets and all liabilities associated with the operation of these funds are included in the balance sheet. The operating statements present increases (revenues) and decreases (expenses) in total net position. The Authority follows the guidance included in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*, contained in pre-November 1989 FASB and AICPA pronouncements.

Basis of Accounting - The Authority prepares financial statements in accordance with accounting principles generally accepted in the United States of America. Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Reporting - The Authority follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and the required portions of GASB Statements No. 37 and 38, which modified the disclosure requirements of GASB No. 34. GASB No. 34 establishes standards for external financial reporting for all state and local governmental entities. It requires the classification of net position in three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

CAPITAL AREA FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

- *Net Investment in Capital Assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- *Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

The net position of FutureVision, LLC and the Unrestricted Fund are net investment in capital assets or unrestricted. The net positions of all other programs are substantially restricted under the terms of the various bond indentures.

Combined Totals - The combined financial statements include the totals of the similar accounts of each of the Authority’s bond programs, FutureVision, LLC, and the Authority’s Unrestricted Fund. Because the assets of the bond programs are restricted by the related bond resolutions and indentures, the totaling of the accounts, including the assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the resolutions and indentures relating to the separate programs.

GASB Statement No. 31 - The Governmental Accounting Standards Board (GASB) issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement requires that most investments be recorded at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties and has generally been based upon quoted values. This method of accounting causes fluctuations in reported investment values based on fluctuations in the investment market.

Fluctuations in the fair value of investments are recorded as income or expense in the statements of revenues, expenses, and changes in net position, and the amount is disclosed in the statements of cash flows as unrealized gain or losses on investments. The Authority applies the provisions of the Statement to brokered certificates of deposit, U.S. Government securities and mortgage-backed securities. The sale of these investments by the Authority is generally subject to certain restrictions as described in the individual bond indentures.

Cash and Investments - GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Additional disclosures are included in Note 2.

CAPITAL AREA FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

Change in Accounting Principle – During the current year, the Authority implemented GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). Disclosures relating to FutureVision, LLC's lessor agreement are included in Note 11.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences may be material.

Reclassification of Prior Year Amounts - Certain prior year balances may have been reclassified to conform to the current year presentation.

Statement of Cash Flows - For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Summary Financial Information for 2021 - The financial statements include certain prior year summarized information in total. Such information does not include sufficient details to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2021 from which the summarized information was derived.

(2) **Cash and Investments** -

The Authority recognizes all purchases of investments with a maturity of three months or less, except for short term repurchase agreements, as cash equivalents.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it.

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

To mitigate this risk, state law requires for these deposits (of the resulting bank balances) to be secured by federal deposit insurance or the pledge of securities by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. The pledged securities are deemed by Louisiana State Law to be under the control and possession and in the name of the Authority regardless of its designation by the financial institution in which it is deposited. As of December 31, 2022, none of the Authority's bank balance of \$12.237 million was exposed to custodial credit risk.

Statutes authorize the Authority to invest in the following types of investment securities;

- (1) Fully collateralized certificates of deposit issued by qualified commercial banks, federal credit unions and savings and loan associations located within the State of Louisiana.
- (2) Direct obligations of the U.S. Government, including such instruments as treasury bills, treasury notes and treasury bonds and obligations of U.S. Government agencies that are deliverable on the Federal Reserve Systems.
- (3) Repurchase agreements in government securities in (2) above made with the 25 primary dealers that report to and are regulated by the Federal Reserve Bank of New York.
- (4) Guaranteed Investment Contracts with companies with good credit ratings.

The Authority has no investment policy that would further limit its investment choices beyond the restrictions imposed by the State of Louisiana. At December 31, 2022, the Authority's investments in MBS with GNMA, FNMA, and FHLMC are rated AAA by taking the average of the Moody's Investors Services, Standard and Poor, and Fitch ratings. The Authority has no limit on the amount it may invest in any one issuer so long as the State of Louisiana's restrictions are followed.

The Authority has a portion of its assets as of December 31, 2022, invested in GNMA, FNMA, and FHLMC obligations, including MBS, totaling approximately \$19.312 million. GNMA is an instrumentality of the Federal government. Its obligations carry the full faith and credit of the United States of America. Neither FNMA nor FHLMC are instrumentalities of the federal government and as such do not carry the full faith and credit of the United States of America. FNMA is a federally chartered and stockholder-owned corporation. FNMA was originally established in 1938 as a United States government agency and was transformed into a stockholder-owned and privately managed corporation in 1968. FHLMC is a stockholder-owned government sponsored corporation created in 1970. The Authority's total investment in FNMA and FHLMC obligations (including MBS) as of December 31, 2022, was approximately \$4.441 million. Any potential downgrade in the credit rating of either FNMA and/or FHLMC could have an adverse impact on the market value of the obligations of FNMA and/or FHLMC (including MBS) owned by the Authority. In connection with the approximately \$4.441 million of FNMA and FHLMC MBS, which the Authority has pledged to bondholders pursuant to separate trust indentures authorizing various bond issues, the asset portion of these various balance sheets could be adversely affected while the liabilities are not since the liabilities are not marked to market. However, any financial risk to the Authority is entirely mitigated since the bond indentures authorizing the Authority's bonds do not provide any acceleration of the Authority's bonded debt as a result of potential downgrade of either FNMA and/or FHLMC credit rating.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

Interest Rate Risk

As a means of limiting its exposure to fair value losses from rising interest rates, the Authority's Interest Rate Risk Program generally restricts investments to those whose terms are no longer than the terms of the related bonds.

The Authority's programs have investments in mortgage-backed securities which have maturities that approximate the terms of the related debt. Therefore, the Authority balances its interest rate risk against the related debt. By using this method, the Authority believes that it will mitigate its interest rate risk.

Custodial Credit Risk - Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2022, the Authority is not exposed to custodial credit risk with respect to its investments because all investments are either insured by federal depository insurance, registered in the name of the Authority, or collateralized by other investments pledged in the name of the Authority.

Fair Value of Financial Instruments

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements (in thousands) as of December 31, 2022:

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------------|------------------|-------------|------------------|
| Brokered Certificates of Deposit | \$ 4,164 | \$ - | \$ - | \$ 4,164 |
| State, U.S. Government and Agency Securities | - | 8,024 | - | 8,024 |
| Mortgage-Backed Securities | - | 19,312 | - | 19,312 |
| Total Investments at Fair Value | <u>\$ 4,164</u> | <u>\$ 27,336</u> | <u>\$ -</u> | <u>\$ 31,500</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

(3) Mortgage Loans Receivable and Mortgage-Backed Securities -

During 2017, the Authority began the Gold Program as a pilot program in cooperation with Freddie Mac. The program is a market rate mortgage loan program with down payment and closing cost assistance in the form of a soft second mortgage (a second lien on the property that has no interest and no payments and is forgiven over a period of 5 to 10 years). The use of soft second mortgages allow for a lower mortgage rate for the homeowner. The Authority earns a one-time fee for these loans at the closing of the first mortgage, while the participating Freddie Mac mortgage loan companies originate and then service the loans. The Authority also earns excess servicing fees throughout the life of the respective first mortgage. Fees from this program are included in Market Rate Loan Program Fees in the accompanying statements of revenues, expenses, and changes in net position.

After the closing of the first mortgages in the CAFA Gold Program, the loans are sold on the secondary market for a premium, which funds a portion of the down payment and closing cost assistance to the borrowers. Premiums from this program are included in Premium on Gold Program Mortgages in the accompanying statements of revenues, expenses, and changes in net position.

Costs related to this program are capitalized and are being forgiven based upon the average lives of the underlying assets. The majority of underlying assets have “lock out” periods ranging from 2 to 5 years, during which loan forgiveness is not permitted. The remaining unamortized balance totaling \$16.55 million is classified as mortgage loans receivable on the accompanying balance sheets. During the year ended December 31, 2022, forgiveness amortization totaling \$134,284 was recorded in the accompanying statements of revenues, expenses, and changes in net position.

All of the single-family first mortgage loans are originated by participating mortgage lenders through conventional, FHA or VA programs sponsored by the mortgage lenders and are sold to the Authority without recourse. The participating mortgage lenders service the mortgage loans for the Authority and receive monthly compensation based upon the unpaid principal balance of the mortgage loans serviced.

In addition to the customary insurance required of the mortgagors, the mortgage loans are insured under special hazard policies, and supplemental mortgage trust policies for mortgagor defaults. Premiums for these policies are paid through the applicable Program's funds.

Mortgage-Backed Securities - As discussed in Note 1, the mortgage loans originated under certain Authority programs are pooled and sold to GNMA, FNMA, or FHLMC in exchange for mortgage-backed securities on which GNMA, FNMA, or FHLMC guarantees payment of principal and interest when due. These securities bear the following terms and interest rates:

| | <u>Term</u> | <u>Pass Through Interest Rate</u> |
|-------------------------|-------------|---------------------------------------|
| 2009 GSE Program | 30 years | 3.250% - 4.125% |
| 2015 Program | 30 years | 4.250% - 6.625% |
| 2016 Program | 30 years | 5.125% - 5.475% |
| Second Mortgage Program | 30 years | 4.875% - 7.100% |
| Unrestricted Fund | 30 years | 3.000% - 7.000% |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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The change to the mortgage-backed securities type of program was prompted by various factors including the unavailability of mortgage pool and related insurance coverage required for conventional mortgage loan programs. The guarantees by GNMA, FNMA, and/or FHLMC, which the Authority receives under this type of program, replaces the pool and related insurance coverage of the previous programs. Development of the new programs, origination of the mortgage loans and supervision of the servicing of the mortgage loans for compliance with federal mortgage bond tax laws by the Authority remain essentially the same.

(4) Changes in Capital Assets -

Capital asset activity for the year ended December 31, 2022 (in thousands):

| Governmental Activities | Balance 12/31/21 | Additions | Deletions | Balance 12/31/22 |
|--|---------------------|----------------|-------------|---------------------|
| Capital Assets not being Depreciated: | | | | |
| Land | \$ 1,006 | \$ - | \$ - | \$ 1,006 |
| Construction in Progress | - | 5 | - | 5 |
| Total | 1,006 | 5 | - | 1,011 |
| Capital Assets being Depreciated: | | | | |
| Furniture and Fixtures | 192 | 19 | 7 | 204 |
| Building and Improvements | 937 | - | - | 937 |
| Total | 1,129 | 19 | 7 | 1,141 |
| Less Accumulated Depreciation for: | | | | |
| Furniture and Fixtures | 159 | 20 | 6 | 173 |
| Building and Improvements | 221 | 25 | - | 246 |
| Total Accumulated Depreciation | 380 | 45 | 6 | 419 |
| Total Capital Assets being Depreciated, Net | 749 | (26) | 1 | 722 |
| Capital Assets, Net | <u>\$ 1,755</u> | <u>\$ (21)</u> | <u>\$ 1</u> | <u>\$ 1,733</u> |

Depreciation is being calculated using the straight-line method over the estimated useful life of capital assets. Depreciation expense was \$45,181 for the year ended December 31, 2022.

(5) Notes Receivable -

On April 27, 2016, the Authority entered into an \$84,000 mortgage note receivable agreement with McGlynn Corp., LLC, which is secured by land, building and improvements located in East Baton Rouge Parish. The note is payable in 360 monthly installments beginning on June 1, 2016. The interest rate is fixed at 5% for each year set forth in the Schedule of Payments. The balance at December 31, 2022, is \$74,581.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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During 2018, the Authority entered into an agreement with Louisiana Housing Corporation (LHC) in which the Authority is the secondary lender to various contractors working to repair and rebuild flooded homes in the area. The contractors work under the terms of a grant issued to LHC. There are no formal defined terms between the Authority and LHC; however, payments to the Authority are generally due upon completion of construction and following occupancy of the property. As of December 31, 2022, outstanding amounts due to the Authority from two contractors totaled \$1,785,335 and are included as due in the year ended December 31, 2023 in the Schedule of Payments.

On April 1, 2018, the Authority entered into a \$403,652 permanent loan agreement with Urban Restoration Enhancement Corporation, which is secured by a mortgage and assignment of leases and rents on land, building and improvements located in East Baton Rouge Parish. The note is payable in monthly installments commencing the month following completion of construction of the project and pay-off of the related construction loan using funds disbursed by the Authority. The loan was funded in February 2019 and matures on April 24, 2038. The interest rate is fixed at 4.25% for each year set forth in the Schedule of Payments. The balance at December 31, 2022 is \$351,555.

On May 23, 2019, the Board of Trustees authorized a line of credit to the East Baton Rouge Redevelopment Association (Build Baton Rouge) for property acquisition and redevelopment totaling \$300,000. The line of credit was later increased to \$865,000 effective October 7, 2019. Each draw on the line of credit is secured by a separate promissory note and mortgage. Each note is payable in 36 monthly interest-only installments, with one final installment of all unpaid principal and interest due at the maturity. As of December 31, 2022, outstanding amounts due to the Authority under the line of credit totaled \$865,000 and mature on various dates ranging from January of 2023 to September of 2023. The interest rate is fixed at 4% for each year set forth in the Schedule of Payments. There are no undisbursed amounts under this line of credit agreement as of December 31, 2022, and the balance at December 31, 2022 is \$865,000.

On June 2, 2020, the Authority entered into a note agreement with the Arts Council of Greater Baton Rouge (the "Arts Council") in order to finance construction of a new arts center. The original amount available was \$2,400,000 and was based on estimated cost of construction. The note is payable in monthly installments of principal and interest and is secured by a continuing security interest in any and all monies deposited into the Art Council's Capital Campaign Deposit Account. Each principal payment shall be equal to 90% of all contributions made to the Capital Campaign of the Arts Council. Funding began in January 2021 and the note matures on December 31, 2025. The interest rate is fixed at 3% for each year set forth in the Schedule of Payments. There are no undisbursed amounts under this agreement as of December 31, 2022, and the balance at December 31, 2022 is \$1,110,029.

Allowances for uncollectible notes receivable are based upon historical trends and the periodic aging and write-off of notes receivable. As of December 31, 2022 the allowance for uncollectible notes receivable is \$203,000.

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2022

The Schedule of Payments is as follows (in thousands):

| Year Ended | Amount |
|---|----------|
| December 31, 2023 | \$ 2,664 |
| December 31, 2024 | 18 |
| December 31, 2025 | 1,128 |
| December 31, 2026 | 19 |
| December 31, 2027 | 20 |
| Thereafter | 338 |
| | 4,187 |
| Less Allowance for Uncollectible Notes Receivable | (203) |
| | \$ 3,984 |

(6) Bonds Payable -

The net proceeds obtained from the bond issues are used to establish funds authorized by the Bond Trust Indentures to purchase or fund eligible mortgage loans, secured by first and second mortgage liens on single family owner-occupied residences, or to purchase GNMA, FNMA, and/or FHLMC mortgage-backed securities from qualified mortgage lenders accepted for participation in the programs by the Authority.

The Bond Trust Indentures provide that bond principal and interest are secured by pledges of all mortgage loans and mortgage-backed securities acquired, all revenues and collections with respect to such loans and securities and all funds established by the Indenture, together with all of the proceeds generated therefrom. Additionally, the Second Mortgage Program Bonds are secured by and payable from an irrevocable pledge of the Authority's money and securities or other investments in the Unrestricted Fund and also from interest-only revenue streams received by the Authority from Freddie Mac or the Servicer in connection with First Mortgage Loans and certain principal payments on forgivable Second Mortgage Loans when the borrowers failed to satisfy the conditions of forgiveness.

On January 20, 2022, the Authority issued \$6,500,000 of additional bonds (Series 2022A) relating to the Second Mortgage Program for the purpose of continued financing for forgivable soft second mortgage loans in connection with its CAFA Gold Program.

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

Outstanding bonds and lines of credit payable consist of the following at December 31, 2022 (in thousands):

| | |
|---|-------------------------|
| 2009 GSE Program (Escrow bond), due 2042, bearing interest at 2.32% payable monthly | \$ 6,255 |
| 2015 Program, due 2038, bearing interest at 2.90% payable monthly | 5,706 |
| 2016 Program, due 2038, bearing interest at 2.38% payable monthly | 3,401 |
| Second Mortgage Program, due serially and term from 2040 through 2043, bearing interest at 2.25% to 4.50% payable monthly | <u>14,235</u> |
| Total Bonds - at December 31, 2022 | <u><u>\$ 29,597</u></u> |

The bonds are subject to early redemption provisions as described in the Bond Trust Indentures at redemption prices equal to the principal amounts of the bonds redeemed plus accrued interest to the applicable call dates.

A summary of changes in debt during the year ended December 31, 2022 (in thousands), is as follows:

| | |
|---------------------------------|-------------------------|
| Balance - January 1 | \$ 27,821 |
| Repayments and Maturities | (4,724) |
| Proceeds from Issuance of Bonds | <u>6,500</u> |
| Balance - December 31 | <u><u>\$ 29,597</u></u> |

Following is a schedule of the future principal and interest payments of the Authority's debt based on the stated maturity dates of the debt. Actual repayment dates will likely occur earlier since substantially all of the debt is subject to early redemption provisions. These early redemption provisions relate to payments received on the mortgage-backed securities and mortgage loans receivable and certain other factors. These early redemptions will also reduce future interest payments.

Scheduled principal payments for the years subsequent to December 31, 2022, are as follows (in thousands):

| | <u>2023</u> | <u>2024</u> | <u>2025</u> | <u>2026</u> | <u>2027</u> | <u>Thereafter</u> | <u>Total</u> |
|-------------------------|---------------|---------------|---------------|---------------|---------------|-------------------|-------------------------|
| 2009 GSE Program \$ | - | \$ - | \$ - | \$ - | \$ - | \$ 6,255 | \$ 6,255 |
| 2015 Program | - | - | - | - | - | 5,706 | 5,706 |
| 2016 Program | - | - | - | - | - | 3,401 | 3,401 |
| Second Mortgage Program | 405 | 480 | 480 | 495 | 540 | 11,835 | 14,235 |
| | <u>\$ 405</u> | <u>\$ 480</u> | <u>\$ 480</u> | <u>\$ 495</u> | <u>\$ 540</u> | <u>\$ 27,197</u> | <u><u>\$ 29,597</u></u> |

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2022

Scheduled interest payments for the years subsequent to December 31, 2022, are as follows (in thousands):

| | <u>2023</u> | <u>2024</u> | <u>2025</u> | <u>2026</u> | <u>2027</u> | <u>Thereafter</u> | <u>Total</u> |
|----------------------------|---------------|---------------|---------------|---------------|---------------|-------------------|------------------|
| 2009 GSE Program | \$ 145 | \$ 145 | \$ 145 | \$ 145 | \$ 145 | \$ 2,142 | \$ 2,867 |
| 2015 Program | 165 | 165 | 165 | 165 | 165 | 1,697 | 2,522 |
| 2016 Program | 81 | 81 | 81 | 81 | 81 | 871 | 1,276 |
| Second Mortgage Program | 596 | 569 | 542 | 528 | 499 | 8,172 | 10,906 |
| | <u>\$ 987</u> | <u>\$ 960</u> | <u>\$ 933</u> | <u>\$ 919</u> | <u>\$ 890</u> | <u>\$ 12,882</u> | <u>\$ 17,571</u> |

The Authority has an outstanding line of credit as of December 31, 2022, with the Federal Home Loan Bank of Dallas with a zero balance.

(7) Deferred Inflows of Resources -

The Individual Programs and Unrestricted Fund Balance Sheets report a separate section for deferred inflows of financial resources. Deferred inflows of resources represent an acquisition of a net position that applies to future periods and so will not be recognized in an inflow of resources until that time.

The Authority has deferred inflows of resources that are a result of the refunding of the 2004A, 2006A and 2009A programs. The net carrying amount exceeded the reacquisition price of the old debt by a total of \$118,386. This amount is reported as a deferred inflow of resources and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. At December 31, 2022, the unamortized balance is \$83,380.

The Authority has deferred inflows of resources that are a result of FutureVision, LLC’s lease agreement with a tenant. In accordance with GASB Statement No. 87, a lease receivable is recorded at the present value of lease payments expected to be received during the lease term. This amount is also reported as a deferred inflow of resources and amortized over the lease term. At December 31, 2022, the unamortized balance is \$208,794.

The Authority has deferred inflows of resources that are a result of the receipt of up-front payment in lieu of taxes (“PILOT”) fees. Refer to Note 10 for further discussion on the Authority’s revenue from PILOT agreement fees. During the year ended December 31, 2022, the Authority received a \$900,000 fee relating to the Howell Place agreement which covers PILOT assistance and consulting over the life of the agreement. This amount is reported as a deferred inflow of resources and amortized over the remaining term of the PILOT agreement. At December 31, 2022, the unamortized balance is \$855,000.

(8) Operating Expenses -

The members of the Authority's Board of Trustees receive a per diem fee for all committee and board meetings attended. For the year ended December 31, 2022, payments to the Authority's Board members were as follows:

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2022

| | |
|---------------------|------------------|
| <u>Board Member</u> | |
| Cheri Ausberry | \$ 3,200 |
| Dennis Blunt | 3,000 |
| Helena Cunningham | 4,000 |
| Justin Gaudet | 4,800 |
| Blaine Grimes | 4,600 |
| Russell Mosely | 3,000 |
| Sharon Perez | 5,400 |
| Valerie Shexnayder | 5,400 |
| Lauren Crump | 2,200 |
| Jason Thrower | 2,600 |
| Total | <u>\$ 38,200</u> |

These amounts are paid through the Unrestricted Fund and included in operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

(9) Authority Fees -

Beginning with the 1992 Programs and continuing until the 2016 Program, the Authority instituted an authority fee which is paid to the Unrestricted Fund by the individual programs. The Unrestricted Fund recognizes authority fee income related to the fees paid by the individual programs. The fee income received by the Unrestricted Fund is currently being used to provide the upfront funds required of the Authority's annual programs in order to finance such things as costs of issuance of bonds, subsidizing lower income mortgagors with waivers of discount points and providing down payment assistance to mortgagors. The actual fees paid by each program vary in accordance with the provisions of the respective program's indenture agreement. Authority fee income recognized by the Unrestricted Fund and Authority fee expense recognized by the individual programs are disclosed separately in the accompanying statements of revenues, expenses, and changes in net position.

(10) PILOT Programs -

The Authority has entered into multiple payment in lieu of taxes ("PILOT") agreements with various companies and local taxing authorities. Each arrangement includes an act of transfer of property and improvements agreement and a ground and building lease agreement. Each company transfers all rights, title, and interest in the associated property to the Authority in order to take advantage of the Authority's tax-exempt status. As part of these agreements, the companies receive several benefits, including 100% ad valorem tax exemptions on future property improvements and a freeze on current ad valorem taxes. Also, the companies may receive sales taxes exemptions on purchases of construction materials purchased during the construction of their project. Under the lease agreements, the Authority leases the land and buildings back to the companies. The companies agree to make certain lease payments and payments in lieu (PILOT) of taxes to the appropriate taxing authorities. At all times during the term of the leases, the companies shall be entitled to all of the tax attributes of ownership, including the right to claim depreciation or cost recovery deductions, the right to claim the low-income housing tax credit, and the right to amortize capital cost and to claim any other federal or state tax benefits. Pursuant to the terms of the leases, the companies pay an upfront fee of \$20,000 to the Authority and an annual administrative fee to the authority on or before January 31 of each year.

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

The terms of each PILOT agreement in place at December 31, 2022 are as follows:

| Project | Annual PILOT Payment (Ad Valorem) | Annual Rent Payment | Lease Termination Date | Annual CAFA Administrative Fee | Early Termination Payment |
|---|--|------------------------|------------------------------|--------------------------------------|---------------------------------|
| La Playa | \$50,400 | \$0 | 12/31/2039 | \$5,000 + 3% Annual Increase | \$1,000 |
| Valencia Park: | | | 6/30/2071 | | \$1,000 |
| 10/16/2020 to 12/31/2043 | \$583 | \$1 | | \$5,000 + 3% Annual Increase | |
| 1/1/2044 to 6/30/2071 | 100% of Ad Valorem Tax Due | \$20,000 | | \$5,000 | |
| Sales Tax PILOT - One time payment of 25% of the sales tax due on materials due the year following substantial completion of the project. | | | | | |
| GCHP-Elysian III: | \$1,685 | \$0 | 12/31/2035 | \$ 7,106 + 3% Annual Increase | \$1,000 |
| Sales Tax PILOT - One time payment of 25% of the sales tax due on materials due the year following substantial completion of the project. | | | | | |
| Capstone at Scotlandville: | | | 12/31/2120 | \$10,500 + 3% Annual Increase | \$1,000 |
| 12/1/2021 to 12/31/2041 | \$6,768 | \$1 | | | |
| 1/1/2042 to 12/31/2120 | 100% of Ad Valorem Tax Due | \$25,000 | | | |
| Sales Tax PILOT - One time payment of 25% of the sales tax due on materials due the year following substantial completion of the project. | | | | | |
| The Reserve at Howell Place: | | | 12/31/2044 | \$5,000 + 3% Annual Increase | \$1,000 |
| 12/31/2024 to 12/31/2044 | \$1,791 | \$0 | | | |
| Consulting fee - One time payment of \$900,000 upon executive of the lease, for consulting services and Ad Valorem PILOT assistance. | | | | | |
| Sales Tax PILOT - One time payment of \$555,309 of sales tax rebate on construction materials, due 30 days following substantial completion of the project. | | | | | |
| Drakes Landing Apartments: | | | 12/31/2043 | \$25,000 + 3% Annual Increase | \$1,000 |
| 1/1/2023 to 1/1/2038 | \$1,328 | \$1 | | | |
| 1/1/2039 | An amount equal to the Millage rate multiplied by 0.200 and by the fair market value of the project | | | | \$1 |
| 1/1/2040 | An amount equal to the Millage rate multiplied by 0.400 and by the fair market value of the project | | | | \$1 |
| 1/1/2041 | An amount equal to the Millage rate multiplied by 0.600 and by the fair market value of the project | | | | \$1 |
| 1/1/2042 | An amount equal to the Millage rate multiplied by 0.800 and by the fair market value of the project | | | | \$1 |
| 1/1/2043 and thereafter | An amount equal to the Millage rate multiplied by 1.000 and by the fair market value of the project. | | | | \$25,000 |
| Sales Tax PILOT - One time payment of 25% of the sales tax due on materials due the year following substantial completion of the project. | | | | | |

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2022

During the year ended December 31, 2022, one-time upfront fees and recurring administrative fees associated with the PILOT programs totaling \$241,235 were recorded in the accompanying statements of revenues, expenses, and changes in net position.

There are no fixed assets recorded on the books of the Authority in relation to these agreements because the purpose of these agreements is for the ad valorem tax savings to the participating companies.

(11) Leases -

The Authority follows GASB Statement No. 87, *Leases*, for recording leases. The statement requires a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. The lease receivable and deferred inflow of resources are measured at the present value of the lease payments expected to be received during the lease term. March 1, 2020, FutureVision, LLC began leasing a land and building to a tenant under an operating lease for a term of 3 years. The lease was subsequently extended for 5 years through February of 2028. At December 31, 2022, the cost of the land and building on lease was \$425,070, with accumulated depreciation of \$11,486 recorded for a carrying cost of \$413,584.

Future payments included in the measurement of the lease receivable and deferred inflows of resources are as follows (in thousands):

| | <u>Principal</u> | <u>Interest</u> | <u>Total Payment</u> |
|------------|------------------|-----------------|--------------------------|
| 2023 | \$ 40 | \$ 5 | \$ 45 |
| 2024 | 40 | 5 | 45 |
| 2025 | 40 | 5 | 45 |
| 2026 | 40 | 5 | 45 |
| 2027 | 40 | 5 | 45 |
| Thereafter | 9 | 1 | 10 |
| | \$ 209 | \$ 26 | \$ 235 |

(12) Commitments -

The Capital Area Finance Authority promotes economic development in the parish through its community grants program for non-profit organizations. The program provides grant funds and capital funds to be used for projects by non-profit organizations that advance the Authority's mission in increasing home ownership. Grants are awarded to organizations and agencies within East Baton Rouge Parish for use in East Baton Rouge Parish. At December 31, 2022, the Authority had no outstanding grants for the 2022 fiscal year.

(13) Transfers Among Programs -

Transfers among programs generally consist of nonrecurring transfers associated with (1) the initial issuance of bonds, (2) transfers to the unrestricted fund of remaining fund assets of closed funds once bonds are redeemed, (3) balances in the cost of issuance accounts, and (4) transfers of unrestricted

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

assets for the purchase of capital assets or to supplement operating expenses.

(14) Schedule of Compensation, Benefits and Other Payments to President & CEO -

In accordance with Louisiana Revised Statute 24:513A, the following is a Schedule of Compensation and Benefits received by Mark Drennen, President & CEO, for the year ended December 31, 2022:

| | |
|-----------------------------------|------------|
| Salary | \$ 453,862 |
| Benefits - Health Insurance | 21,889 |
| Benefits - Retirement | 13,616 |
| Mileage and Parking Reimbursement | 6 |
| Meals Reimbursement | 1,453 |
| | \$ 490,826 |
| | \$ 490,826 |

(15) Employee Benefits - Health Insurance and Simple IRA -

The Authority has a health insurance plan, administered by Blue Cross Blue Shield of Louisiana, which pays 100% of the premium for all employees and their families. In addition to the health insurance, the Authority has a Simple IRA plan for all employees which provides matching of employee contributions of up to 3% of the employee's annual salary and maximum employee contribution of \$13,500 per employee with an additional \$3,000 catch-up contribution for employees 50 and older, per IRS limits. The Authority contributed \$30,268 to the plan in 2022.

(16) Change in Accounting Principle Restatement –

During the current year, the Authority implemented GASB Statement No. 87, *Leases*. The Authority implemented GASB Statement No. 87 retroactively to the earliest period presented which is fiscal year 2021. The following balances have been restated from previously issued financial statements (in thousands):

Individual Programs and Unrestricted Fund Balance Sheets - 2021 Combined

| | |
|--|-------|
| Lease Receivable at December 31, 2021, as Previously Reported | \$ - |
| To Record Lease Receivable | 48 |
| Lease Receivable at December 31, 2021, as Restated | \$ 48 |
| Deferred Inflow of Resources - Related to Building Lease at December 31, 2021, as Previously Reported | \$ - |
| To Record Deferred Inflow of Resources - Related to Building Lease | 48 |
| Deferred Inflow of Resources - Related to Building Lease at December 31, 2021, as Restated | \$ 48 |

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

(17) Current Accounting Pronouncements -

In May 2020, the Governmental Accounting Standards Board issued GASB Statement No 96 *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Management is currently evaluating the effects of the new GASB pronouncement.

(18) Subsequent Events -

The Authority evaluated subsequent events and transactions for potential recognition or disclosure in the finance statements through June 14, 2023, the date which the financial statements were available to be issued.

INDEPENDENT AUDITOR'S 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*



Baton Rouge | Denham Springs | New Orleans | Hammond
www.htbcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Capital Area Finance Authority
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 which include each of the individual programs, FutureVision, LLC, the unrestricted fund, and the 2022 combined financial statements of the Capital Area Finance Authority (the Authority) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 14, 2023.

Report on 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) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 a 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.

Report on 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 financial statements. 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose; however, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis T. Bourgeois, LLP

Denham Springs, Louisiana
June 14, 2023

CAPITAL AREA FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES

DECEMBER 31, 2022

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes x No
- Significant deficiencies identified? Yes x None Noted

Noncompliance material to financial statements noted? Yes x No

B. Internal Control Over Financial Reporting

None

C. Compliance and Other Matters

None

CAPITAL AREA FINANCE AUTHORITY

SCHEDULE OF PRIOR YEAR FINDINGS

DECEMBER 31, 2022

A. Internal Control Over Financial Reporting

None

B. Compliance and Other Matters

None

CAPITAL AREA FINANCE AUTHORITY

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

DECEMBER 31, 2022

BATON ROUGE, LOUISIANA

Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Board of Directors
Capital Area Finance Authority
Baton Rouge, Louisiana

To the Louisiana Legislative Auditor

We have performed the procedures enumerated below on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's (LLA) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2022 through December 31, 2022. Capital Area Finance Authority's (the Authority) management is responsible for those C/C areas identified in the SAUPs.

The Authority has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA's SAUPs for the fiscal period January 1, 2022 through December 31, 2022. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe whether they address each of the following categories and subcategories if applicable to public funds and the entity's operations:
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget. – **No exceptions.**
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes. – **No exceptions.**
 - c) **Disbursements**, including processing, reviewing, and approving. – **No exceptions.**

- d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation). – **No exceptions.**
- e) **Payroll/Personnel**, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee(s) rate of pay or approval and maintenance of pay rate schedules. – **No exceptions.**
- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process. – **No exceptions.**
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases). – **No exceptions.**
- h) **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers. – **No exceptions.**
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy. – **No exceptions.**
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements. – **No exceptions.**
- k) **Information Technology Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event. – **No exceptions.**
- l) **Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting. – **No exceptions.**

Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document. – **No exceptions.**
 - b) For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum, on all special revenue funds. *Alternately, for those entities reporting on the nonprofit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.* – **No exceptions.**

- c) For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund. – **No exceptions.**
- d) Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management’s corrective action plan at each meeting until the findings are considered fully resolved. – **No exceptions.**

Bank Reconciliations

- 3. Obtain a listing of entity bank accounts for the fiscal period from management and management’s representation that the listing is complete. Ask management to identify the entity’s main operating account. Select the entity’s main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:
 - a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated or electronically logged); – **No exceptions.**
 - b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and – **No exceptions.**
 - c) Management has documentation reflecting it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable. – **No exceptions.**

Collections (excluding electronic funds transfers)

- 4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management’s representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
- 5. For each deposit site selected, obtain a listing of collection locations and management’s representation that the listing is complete. Randomly select one collection location for each deposit site (i.e., 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
 - a) Employees responsible for cash collections do not share cash drawers/registers. – **No exceptions.**
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g., pre-numbered receipts) to the deposit. – **No exceptions.**
 - c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit. – **No exceptions.**

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, are not responsible for collecting cash, unless another employee/official verifies the reconciliation. – **No exceptions.**
- 6. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe the bond or insurance policy for theft was enforced during the fiscal period. – **No exceptions.**
- 7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under “Bank Reconciliations” above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
 - a) Observe that receipts are sequentially pre-numbered. – **No exceptions.**
 - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip. – **No exceptions.**
 - c) Trace the deposit slip total to the actual deposit per the bank statement. – **No exceptions.**
 - d) Observe the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer). – **No exceptions.**
 - e) Trace the actual deposit per the bank statement to the general ledger. – **No exceptions.**

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

- 8. Obtain a listing of locations that process payments for the fiscal period and management’s representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5). – **No exceptions.**
 - 9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
 - a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase. – **No exceptions.**
 - b) At least two employees are involved in processing and approving payments to vendors. – **No exceptions.**
 - c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files. – **No exceptions.**
 - d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments. – **No exceptions.**
- [Note: Exceptions to controls that constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality) should not be reported.] – **No exceptions.**

- e) Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (EFT), wire transfer, or some other electronic means. – **No exceptions.**
10. For each location selected under #8 above, obtain the entity’s non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management’s representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction, and: – **No exceptions.**
- a) Observe whether the disbursement matched the related original itemized invoice and supporting documentation indicates deliverables included on the invoice were received by the entity. – **No exceptions.**
 - b) Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable. – **No exceptions.**

Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management’s representation that the listing is complete. – **No exceptions.**
12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
- a) Observe whether there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) were reviewed and approved, in writing (or electronically approved), by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.] – **No exceptions.**
 - b) Observe that finance charges and late fees were not assessed on the selected statements. – **No exceptions.**
13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e., each card should have 10 transactions subject to testing). For each transaction, observe it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a “missing receipt statement” that is subject to increased scrutiny. – **No exceptions.**

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management’s representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense

documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

- a) If reimbursed using a per diem, observe the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov). – **No exceptions.**
- b) If reimbursed using actual costs, observe the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased. – **No exceptions.**
- c) Observe each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h). – **No exceptions.**
- d) Observe each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement. – **No exceptions.**

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:
 - a) Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law. – **No exceptions.**
 - b) Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g., Lawrason Act, Home Rule Charter). – **No exceptions.**
 - c) If the contract was amended (e.g., change order), observe the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, was approval documented). – **No exceptions.**
 - d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe the invoice and related payment agreed to the terms and conditions of the contract. – **No exceptions.**

Payroll and Personnel

16. Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees or officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files. – **No exceptions.**
17. Randomly select one pay period during the fiscal period. For the 5 employees or officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:
 - a) Observe all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). – **No exceptions.**
 - b) Observe whether supervisors approved the attendance and leave of the selected employees or officials. – **No exceptions.**

- c) Observe any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records. – **No exceptions.**
 - d) Observe the rate paid to the employees or officials agree to the authorized salary/pay rate found within the personnel file. – **No exceptions.**
18. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee or officials' cumulative leave records, agree the pay rates to the employee or officials' authorized pay rates in the employee or officials' personnel files, and agree the termination payment to entity policy. – **There were no termination payments made during the current year.**
19. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines. – **No exceptions.**

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above obtain ethics documentation from management, and:
- a. Observe whether the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period. – **Exception** – None of the employees tested performed ethics training during 2022.
 - b. Observe whether the entity maintains documentation which demonstrates each employee and official were notified of any changes to the entity's ethics policy during the fiscal period, as applicable. – **No exceptions.**
21. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170. – **No exceptions.**

Debt Service

22. Obtain a listing of bonds/notes and other debt instruments issued during the fiscal period and management's representation that the listing is complete. Select all debt instruments on the listing, obtain supporting documentation, and observe State Bond Commission approval was obtained for each debt instrument issued. – **No exceptions.**
23. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants). – **No exceptions.**

Fraud Notice

24. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the

legislative auditor and the district attorney of the parish in which the entity is domiciled. – **There were no misappropriations of public funds or assets noted during the fiscal period.**

25. Observe the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds. – **No exceptions.**

Information Technology Disaster Recovery/Business Continuity

26. Perform the following procedures, **verbally discuss the results with management, and report “We performed the procedure and discussed the results with management.”**
- a) Obtain and inspect the entity’s most recent documentation that it has backed up its critical data (if there is no written documentation, then inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government’s local server or network, and (c) was encrypted.. – **We performed the procedure and discussed the results with management.**
 - b) Obtain and inspect the entity’s most recent documentation that it has tested/verified that its backups can be restored (if no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months. – **We performed the procedure and discussed the results with management.**
 - c) Obtain a listing of the entity’s computers currently in use and their related locations, and management’s representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor. – **We performed the procedure and discussed the results with management.**
27. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained in procedure #9C. Observe evidence that the selected terminated employees have been removed or disabled from the network. – **No employees were terminated during the year.**

Sexual Harassment

28. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above, obtain sexual harassment training documentation from management, and observe the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year. – **No exceptions.**
29. Observe the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity’s premises if the entity does not have a website).
- Exception** – There was no evidence of the sexual harassment policy being posted on the Authority’s website or premises.
30. Obtain the entity’s annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe it includes the applicable requirements of R.S. 42:344:
- Exception** – The Authority did not complete an annual sexual harassment report for the current fiscal period.

1. Number and percentage of public servants in the agency who have completed the training requirements;
2. Number of sexual harassment complaints received by the agency;
3. Number of complaints which resulted in a finding that sexual harassment occurred;
4. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and
5. Amount of time it took to resolve each complaint.

Management's Response/Corrective Action to Exceptions

The Authority's responses to the exceptions identified in our performance of the SAUPs are attached. The Authority's responses were not subjected to any procedures applied in the SAUPs and, accordingly, we express no opinion or any assurance on them.

We were engaged by the Authority to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Respectfully submitted,

Hannis T. Bourgeois, LLP

Denham Springs, Louisiana
June 14, 2023



June 14, 2023

Hannis T. Bourgeois
2322 Tremont Drive
Baton Rouge, LA. 70809

To Whom it May Concern:

In reference to the Exception to the Ethics section, item 20(a) in the Independent Accountant's Report on Applying Agreed-Upon Procedures for the audit year ended December 31, 2022, please note the following response:

Exception: None of the employees tested performed ethics training during 2022.

Response: Management will make certain that every employee completes the required Ethics training annually.

In reference to the Exceptions to the Sexual Harassment section, items 29 and 30 in the Independent Accountant's Report on Applying Agreed-Upon Procedures for the audit year ended December 31, 2022, please note the following responses:

Exception: There is no evidence of the sexual harassment policy being posted on the Authority's website or premises.

Response: Management will make certain that the sexual harassment policy is posted on the website and posted on the premises.

Exception: The Authority did not complete an annual sexual harassment report for the current fiscal period.

Response: Management will make certain that the annual sexual harassment report is completed.

Mark Drennen, President & CEO

