

CAPITAL AREA FINANCE AUTHORITY

**(FORMERLY EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY)**

DECEMBER 31, 2015

BATON ROUGE, LOUISIANA

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2322 Tremont Drive • Baton Rouge, LA 70809
178 Del Orleans Avenue, Suite C • Denham Springs, LA 70726
650 Poydras Street, Suite 1200 • New Orleans, LA 70130
Phone: 225.928.4770 • Fax: 225.926.0945
www.htbcpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities which include each of the individual programs, the unrestricted fund, and the 2015 combined of the Capital Area Finance Authority (the Authority) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Capital Area Finance Authority as of December 31, 2015, and the 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.

Report on Summarized Comparative Information

We have previously audited the Capital Area Finance Authority's December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other - Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2016 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 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 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 Capital Area Finance Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Hannu J. Bourgeois, CPA

Baton Rouge, Louisiana
June 14, 2016

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, 2015 as well as commentary of general market trends, market conditions and the Authority’s mortgage loan origination and mortgage loan payoff history. This document focuses on the year ended December 31, 2015 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, 2015 presented beginning on page 14.

The Authority’s basic financial statements include the totals of the similar accounts of each of the Authority’s various bond programs 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 only 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 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, 2015, CURRENT ECONOMIC FACTORS, THE AUTHORITY’S 2015 BUDGET AND THE AUTHORITY’S MORTGAGE LENDING PROGRAMS ARE PRESENTED OVER THE FOLLOWING PAGES.

- Beginning in mid-September 2007 the Federal Reserve Bank (the “Fed”), in response to the turmoil in the “residential sub-prime” mortgage market, reduced the Fed funds target rate with a cut in its Fed funds target rate from 5.00% to 4.75% followed with two (2) more cuts at its subsequent meetings in 2007 and eight (8) more cuts in 2008 to a level of only 0.25%, (an all-time historical low) on December 16, 2008, which historical low rate has continued for approximately the last 6 ½ years, an unprecedented length of time without a change to the Fed funds target rate. The Fed increased the Fed funds rate by .25% to .50% on December 16, 2015.
- The financial markets faced several crises beginning in early March, 2008 when the fifth (5th) largest investment banking firm of Bear Stearns & Co. was bailed out from insolvency and almost certain bankruptcy through a Fed assisted buyout by JP Morgan Chase & Co.
- Financial markets deteriorated further in 2008 and reached a crisis point the first two (2) weeks of September 2008 with the takeover by the federal government of both the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corp. (“Freddie Mac”) by placing both government sponsored enterprises (“GSE’s”) into conservatorship. Lehman Brothers & Co., then the world’s fourth (4th) largest investment banking firm filed for bankruptcy protection and the Fed led a bailout of American International Group (“AIG”), the world’s largest insurance company. Both Fannie Mae and Freddie Mac currently remain in conservatorship by the United States Government.

- The last quarter of 2008 saw unprecedented declines in the equity markets not experienced since the Great Depression. During which time the Fed pumped billions of dollars in the US banking system in order to provide sufficient liquidity to the financial markets.
- In 2008 the subprime residential mortgage loan crisis turned into a panic as most all mortgage related assets not guaranteed by the GSE's suffered massive mark to market losses. The credit markets locked up and more or less stopped functioning.
- A severe banking crisis ensued. Investment and commercial banks, domestically as well as internationally, suffered very significant unrealized losses during a period where the bid side of the credit markets for all practical purposes disappeared. As a result of mark to market accounting rules, many commercial and investment banks teetered on the verge of insolvency from both substantial realized losses as well as unrealized losses in quarter after quarter earnings reports caused by the required write-off of unrealized losses consistent with generally accepted accounting principles.
- The Fed in October, 2008, made substantial purchases of preferred stock of approximately \$250 billion issued by the nine (9) largest national banks as well as many regional banks in an effort to strengthen the capital position of the entire US commercial banking system.
- The Authority sold a \$20 million bond issue in late December, 2007. The Authority utilized a portion of these bond proceeds to originate approximately \$10 million in mortgage loans during the first six (6) months of 2008. The Authority redeemed approximately \$10 million in bonds in June, 2008 as a result of a federal tax requirement.
- The Authority did not issue any bonds in 2008.
- The Authority issued bonds in October, 2009 to fund a \$20 million mortgage lending program. Approximately \$10 million of the funds made available were used to originate mortgage loans during 2010. The mortgage interest rate of 5.375% offered on this mortgage lending program became non-competitive as conventional mortgage interest rates fell. As a result approximately \$9.68 million of these bonds were redeemed in February 2011.
- The Authority sold \$25 million in bonds on January 12, 2010 with the Government Sponsored Entities (the "GSE's") which bonds were privately placed with the GSE's (pursuant to special congressional legislation authorizing the GSE's to purchase bonds from local and state housing finance agencies such as the Authority). Initially the GSE Bonds were issued at variable short term interest rates convertible at the option of the Authority.
- The Authority converted the GSE Bonds to a fixed interest rate and locked in a fixed interest rate of 2.32% effective on November 22, 2011.
- The Authority did not issue bonds in 2012, 2013 or 2014.
- In 2014, the Authority completed its mortgage lending program (the "GSE Mortgage Lending Program") utilizing the GSE bond proceeds.
- The mortgage loan 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.

FINANCIAL HIGHLIGHTS

2015 Mortgage Loan Principal Paydowns for Mortgage Loans Made with Mortgage Revenue Bond Proceeds

As conventional market mortgage loan interest rates continue to rise the amount of early paydowns declined resulting in \$8.398 million in mortgage loan paydowns in 2015 as compared with \$10.404 million. No new mortgage loans were originated during 2015 using mortgage revenue bond proceeds. (See the chart below for the history of new mortgage loan originations from mortgage revenue bond proceeds for the last fourteen (14) year period.)

<u>Year Ended December 31</u>	<u>Total Mortgage Payoffs^{*2} (million)</u>	<u>Mortgage Loan Originations (million)</u>	<u>Mortgage Related Assets Increase or Decrease (million)</u>
2002	\$ 57.784	\$ 18.878	\$ (38.906)
2003	74.230	12.463	(61.767)
2004	53.985	22.636	(31.349)
2005	40.069	26.826	(13.243)
2006	25.679	38.946	13.267
2007	24.097	45.749	21.652
2008	21.565	15.192	(6.373)
2009	26.783	3.368	(23.415)
2010	28.716	11.140	(17.576)
2011	19.149	19.301	0.152
2012	20.340	23.270	2.930
2013	16.710	19.851	3.141
2014	10.404	3.305	(7.099)
2015	8.398	0.000	(8.398)
Totals	<u>\$ 427.909</u>	<u>\$ 260.925</u>	<u>\$ (166.984)</u>

^{*2} Prepayments of mortgage loans whether from whole mortgage loans or from GNMA, FNMA or FHLMC mortgage backed securities (“MBS”) (which MBS serve as collateral for the Authority’s bonds) are required to be used to retire the same approximate amount of Authority’s bonds prior to their respective stated maturities. This number reflects loans paid in full prior to maturity and regular monthly principal paydowns.

2015 New Mortgage Loan Originations

- **Capital Advantage Program - TBA Program**

In September of 2014, the Authority produced 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 loans are then purchased by US Bank. Down payment assistance is provided by a marginal increase

in the mortgage loan rate. The Authority earns a one-time issuer fee at the time of the pooling of the loans into an MBS. The first pooling was conducted in February of 2015. US Bank, on behalf of the Authority, has pooled approximately \$12.44 million in loans and the Authority earned \$151,808 in one-time issuer fees in 2015.

- In August of 2015, the Authority initiated the LA CAFA TBA Mortgage Loan Program in cooperation with GMFS Lending. 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. Down payment assistance is provided by a marginal increase in the mortgage loan rate. The Authority earns a one-time issuer fee at the time of the closing of the loans. During 2015, \$3.38 million in loans were closed and the Authority earned \$30,370 in one-time issuer fees.

2015 Taxable Refunding 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 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 \$40,000 of “Deferred Inflow of Resources” represents legacy bond premiums from certain refunded prior single family bond issues which were funded using the 2015 taxable bond issues proceeds.

2015 Adjusted Net Position

- The Authority’s assets exceeded its liabilities at the close of 2015 by \$37.549 million, which represents a \$2.903 million decrease from the 2014 amount of \$40.452 million. This is primarily due to the Net Decrease in Fair Value of Investments of \$3.443 million.
- For the year ended December 31, 2015, the Authority had \$1.689 million in unrealized losses in the Net Increase (Decrease) in the Fair Market Value of Investments. The net unrealized loss of \$1.689 million for 2015 combined with the net unrealized gain in 2014 of \$1.754 million represents a \$3.443 million net decrease in the fair market value of investments from 2014 to 2015.
- Without giving effect to the adjustment for the cumulative unrealized gains in the Net Increase (Decrease) in the Fair Value of Investments, the Authority’s assets exceeded its liabilities by \$39.238 million in 2015 which represents an increase of \$540,000 from the 2014 adjusted amount of \$38.698 million.

2015 Adjusted Operating Revenues

- The Authority's adjusted revenues of \$4.491 million in 2015 (exclusive of the \$1.689 million Net Decrease in the Fair Value of Investments) decreased by \$546,000 as compared to adjusted revenues of \$5.037 million generated in 2014 (exclusive of the Net Increase in the Fair Value of Investments of \$1.754 million.)
- The Authority generated income earned on mortgage loans receivable/mortgage backed securities of \$3.603 million in 2015 as compared with \$4.252 million - a decrease of \$649,000.
- The Authority realized a \$122,000 decrease in income earned on other investments from \$565,000 in 2014 to \$443,000 in 2015. This is primarily due to maturity of higher yielding investments being reinvested at current lower rates.
- The Authority's Fee Income in 2015 increased by \$61,000 from \$189,000 in 2014 to \$250,000 in 2015. This is primarily due to receiving a full year of Authority fees from the 2009GSE program in 2015 as compared to a partial year of receipts in 2014.
- There is a new source of income for 2015 from fees earned on the two Market Rate Loan Programs which combined total \$185,000.
- The Authority had a decrease in Other Income of \$21,000 from \$31,000 in 2014 to \$10,000 in 2015.

2015 Operating Expenses

- The Authority's 2015 Total Operating Expenses of \$5.705 million decreased by \$574,000 from 2014 operating expenses of \$6.279 million.
- There was a decrease in the amortization of DAP/MLAP of \$39,000 in 2015 as compared to 2014.
- There was an increase of \$370,000 in Operating Expenses in 2015 as compared to 2014, almost entirely attributable to the hiring of two (2) of the employees of the former Program Administrator as direct employees in addition to the Executive Director and the Lending Program Manager. This was substantially offset by a reduction in the 2013 amended Program Administration Agreement fees from \$470,000 in 2014 to \$70,000 in 2015.

2015 Adjusted Net Operating Income

- Excluding the realized and unrealized gains or losses in the Net Increase/Decrease in the Fair Value of Investments for 2015 and 2014 and adjusting for the non-cash expense item category of the amortization of down-payment assistance program and the Authority assistance program costs, the Authority experienced a similar net operating loss of \$303,000 in 2015 compared with a \$292,000 net operating loss in 2014 primarily as a result of the increase of \$370,000 in operating expense in 2015 as compared to 2014. After adjusting for the final payment of \$450,000 for the multiyear grant agreement provided to the Baton Rouge Area Chamber, the Authority is positive in 2015 with \$147,000 net operating income.

2015 Unrestricted Fund Net Position

- As of December 31, 2015, the Authority had an unrestricted net position of \$28.867 million (after adjusting for the unrealized loss of \$370,000) as compared with unrestricted net position of \$24.311 million as of December 31, 2014 (after adjusting of for an unrealized gain of \$312,000) representing an increase of \$4.556 million due primarily to the transfer of residual cash and MBS assets from the refunded prior single family issues as a result of the 2015 Economic Refunding.

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 with the exception of Series 2007B, 2009A-1, A-2 and A-3 Bonds which are rated Aa1 on the Series and 2007B Bonds (reaffirmed October 17, 2014) and Baa1 on the 2009A-1, A-2 and A-3 Bonds. These series of Bonds listed above are all rated lower than Aaa due solely to the downgrade of the Moody’s ratings of various financial institutions respective guaranteed investment agreement providers with which the Authority invests its monthly receipts of mortgage loan principal and interest payments from its mortgage backed securities which serve as collateral for the Authority’s Bonds.
- The 2009 GSE Bonds are rated Aa+ by Standard and Poor’s Corporation.
- In addition in May 2002, the Authority 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. The Authority issued a series of subordinate bonds in the principal amount of \$2 million as a part of the Series 2009A Bonds on October 27, 2009 secured by the Authority’s general obligation pledge of the Authority’s unrestricted assets.
- 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 in its rating report.
- Moody’s issued a Aaa rating to the Taxable Single Family Mortgage Revenue Refunding Bonds Series 2015.

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 (pages 14 & 15) 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 (pages 16 & 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 - 21) 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, 2015 AND 2014
(In Thousands)**

	2015	2014	Change from Prior year
Mortgage backed securities & mortgage loan receivable	\$ 77,637	\$ 91,130	\$ (13,493)
Guaranteed investment contracts and investments including cash & cash equivalents	16,036	18,709	(2,673)
U.S. Government and Agency Securities	5,915	2,887	3,028
Capital Assets, Net of Accumulated Depreciation	1,524	1,568	(44)
Other non-cash assets	1,104	1,648	(544)
Total Assets	<u>\$102,216</u>	<u>\$115,942</u>	<u>\$ (13,726)</u>
Other liabilities	\$ 726	\$ 755	\$ (29)
Long-term debt outstanding	63,901	74,735	(10,834)
Total Liabilities	<u>64,627</u>	<u>75,490</u>	<u>(10,863)</u>
Deferred Inflow of Resources			
Deferred Inflows - Related to Refunding of Bonds	40	-	40
Net Position:			
Net Investment in Capital Assets	1,524	1,568	(44)
Restricted *1	8,989	15,829	(6,840)
Unrestricted *2	27,036	23,055	3,981
Total Net position	<u>37,549</u>	<u>40,452</u>	<u>(2,903)</u>
TOTAL LIABILITES AND NET POSITION	<u><u>\$102,216</u></u>	<u><u>\$115,942</u></u>	<u><u>\$ (13,726)</u></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 \$63.901 million in mortgage revenue bonds on December 31, 2015 as compared to \$74.735 million in mortgage revenue bonds as of December 31, 2014, as shown in the table below:

OUTSTANDING AUTHORITY DEBT AS OF DECEMBER 31, 2015 AND 2014

	2015 <u>(millions)</u>	2014 <u>(millions)</u>	Change from Prior Year <u>(millions)</u>
Mortgage Revenue Bonds	\$63.901	\$74.735	\$(10.834)
Line of Credit (FHLB of Dallas)	<u>-</u>	<u>-</u>	<u>-</u>
Outstanding Debt (as of December 31)	<u>\$63.901</u>	<u>\$74.735</u>	<u>\$(10.834)</u>

- Mortgage Revenue Bonded Debt outstanding decreased by \$10.834 million as of December 31, 2015 as compared with December 31, 2014.

Accounts Payable and Accrued Interest Payable

The Authority had Accounts Payable and Accrued Liabilities and Accrued Interest Payable of \$726,000 outstanding on December 31, 2015 (of which \$533,000 is accrued interest payable on the bonds) compared with \$755,000 for December 31, 2014 - a decrease of \$29,000.

Subsequent Events

In 2015, the Board of Trustees approved a Capital Investment of \$999,600 in The Palms at Juban Lakes a multi-family development project. In April of 2016, the Board accepted the cancellation of a Subscription Agreement of the Palms at Juban Lakes at the request of the developer, CST Land Developers, LLC. The Palms at Juban Lakes was an equity investment in a multifamily, workforce development project to be located in Denham Springs, LA. The developers final cost estimate was returned in excess of budgeted amount. The developer cancelled the project and refunded the principal investment with interest. The returned principal with interest was received by the Authority in April of 2016. The interest rate paid by the developer to the Authority was .50% on an annual basis. The principal was previously invested in a Money Market Account at .01% annually.

In May of 2016, the Board received approval by the East Baton Rouge Parish Metro Council to revise and update the By Laws of the Authority.

ECONOMIC FACTORS AND THE AUTHORITY'S 2016 BUDGET

The Authority's Board of Trustees considered the following factors and indicators when the Authority adopted its 2016 Operating Budget. These factors and indicators include:

- The potential for the continuation of relatively low but rising conventional mortgage loan interest rates in 2016 will cause the velocity of early mortgage loans payoffs to decrease.

- The Authority launched a 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.
- 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.
- The Authority's Board of Trustees adopted the Strategic Plan in October 2013 that called for an amendment to the original Trust Indenture. The Authority received approval from the Parish Council in 2011 and unanimous approval from the Louisiana State Bond Commission in September 2014 to amend the original Trust Indenture. The amended Trust Indenture authorized the name change to the Capital Area Finance Authority, authorized financing of all public purposes in the Public Trust Act of 1974 and expanded the geographical region to include East Baton Rouge, West Baton Rouge, Pointe Coupee, West Feliciana, East Feliciana, St. Helena, Livingston, Ascension and Iberville Parishes.

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:

Michael Airhart
Executive Director
mike@thecafa.org

Cheri Ausberry
Chairperson, Board of Trustees

Victoria M. Theriot
Executive Vice President
vickie@thecafa.org

Jake Netterville
Chairperson, Audit Committee

Capital Area Finance Authority
601 St. Ferdinand Street
Baton Rouge, LA 70802
www.thecafa.org

225-771-8567
225-771-8573 (fax)

CAPITAL AREA FINANCE AUTHORITY

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND BALANCE SHEETS

AS OF DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2014)

(In Thousands)

	<u>1997 D</u>	<u>1998 B</u>	<u>1998 D</u>	<u>2002 A</u>
	Program	Program	Program	Program
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 17	\$ 1	\$ 26	\$ 3
Guaranteed Investment Agreements	-	-	-	-
State, U.S. Government and Agency Securities	-	-	-	-
Mortgage-Backed Securities	-	-	-	-
Investment - The Palms at Juban Lakes	-	-	-	-
Mortgage Loans Receivable - Net	-	-	-	-
Accrued Interest Receivable	-	-	-	-
Downpayment and Authority Assistance Programs	-	-	-	-
Note Receivable	-	-	-	-
Inter-Program Receivable (Payable)	-	-	-	-
Prepaid Insurance and Other Assets	-	-	-	-
Capital Assets (Net of Accumulated Depreciation)	-	-	-	-
Total Assets	<u>\$ 17</u>	<u>\$ 1</u>	<u>\$ 26</u>	<u>\$ 3</u>
<u>LIABILITIES, DEFERRED INFLOW</u>				
<u>OF RESOURCES, AND NET POSITION</u>				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ -	\$ -
Accrued Interest Payable	-	-	-	-
Bonds and Lines of Credit Payable - Net	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflow of Resources:				
Deferred Inflows -				
Related to refunding of bonds	-	-	-	-
Net Position:				
Net Investment in Capital Assets	-	-	-	-
Restricted	-	-	-	-
Unrestricted	17	1	26	3
Total Net Position	<u>17</u>	<u>1</u>	<u>26</u>	<u>3</u>
Total Liabilities, Deferred Inflow of Resources, and Net Position	<u>\$ 17</u>	<u>\$ 1</u>	<u>\$ 26</u>	<u>\$ 3</u>

(CONTINUED)

2003 A Program	2004 A Program	2005 A Program	2006 A Program
\$ 3	\$ 149	\$ 10	\$ 306
-	-	-	-
-	-	-	-
-	-	-	4,513
-	-	-	-
-	-	-	-
-	-	-	18
-	-	-	95
-	-	-	-
-	-	-	(3)
-	-	-	-
-	-	-	-
<u>\$ 3</u>	<u>\$ 149</u>	<u>\$ 10</u>	<u>\$ 4,929</u>

\$ -	\$ 146	\$ -	\$ -
-	-	-	52
-	-	-	4,319
<u>-</u>	<u>146</u>	<u>-</u>	<u>4,371</u>

-	-	-	-
-	-	-	-
-	-	-	558
3	3	10	-
<u>3</u>	<u>3</u>	<u>10</u>	<u>558</u>
<u>\$ 3</u>	<u>\$ 149</u>	<u>\$ 10</u>	<u>\$ 4,929</u>

CAPITAL AREA FINANCE AUTHORITY

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2014)

(In Thousands)

	<u>2007 A</u>	<u>2007 B</u>	<u>2009 A</u>	<u>2009 GSE</u>
	Program	Program	Program	Program
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 223	\$ 719	\$ 222	\$ 474
Guaranteed Investment Agreements	228	39	556	-
State, U.S. Government and Agency Securities	-	-	-	-
Mortgage-Backed Securities	8,535	1,949	8,161	24,656
Investment - The Palms at Juban Lakes	-	-	-	-
Mortgage Loans Receivable - Net	-	-	209	470
Accrued Interest Receivable	44	9	37	68
Downpayment and Authority Assistance Programs	317	123	-	-
Note Receivable	-	-	-	-
Inter-Program Receivable (Payable)	(7)	(2)	5	(39)
Prepaid Insurance and Other Assets	-	-	-	-
Capital Assets (Net of Accumulated Depreciation)	-	-	-	-
Total Assets	<u>\$ 9,340</u>	<u>\$ 2,837</u>	<u>\$ 9,190</u>	<u>\$ 25,629</u>
<u>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION</u>				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ -	\$ -
Accrued Interest Payable	83	23	109	128
Bonds and Lines of Credit Payable - Net	<u>7,350</u>	<u>1,750</u>	<u>8,697</u>	<u>22,735</u>
Total Liabilities	<u>7,433</u>	<u>1,773</u>	<u>8,806</u>	<u>22,863</u>
Deferred Inflow of Resources:				
Deferred Inflows -				
Related to Refunding of Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position:				
Net Investment in Capital Assets	-	-	-	-
Restricted	1,907	1,064	384	2,766
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Position	<u>1,907</u>	<u>1,064</u>	<u>384</u>	<u>2,766</u>
Total Liabilities, Deferred Inflow of Resources, and Net Position	<u>\$ 9,340</u>	<u>\$ 2,837</u>	<u>\$ 9,190</u>	<u>\$ 25,629</u>

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

<u>2015 Program</u>	<u>Unrestricted Fund</u>	<u>2015 Combined</u>	<u>2014 Combined</u>
\$ 315	\$ 11,745	\$ 14,213	\$ 15,362
-	-	823	3,347
-	5,915	5,915	2,887
21,137	7,761	76,712	89,608
-	1,000	1,000	-
-	246	925	1,522
86	76	338	375
-	-	535	948
-	200	200	300
-	46	-	-
-	31	31	25
-	1,524	1,524	1,568
<u>\$ 21,538</u>	<u>\$ 28,544</u>	<u>\$ 102,216</u>	<u>\$ 115,942</u>

\$ -	\$ 47	\$ 193	\$ 70
138	-	533	685
19,050	-	63,901	74,735
<u>19,188</u>	<u>47</u>	<u>64,627</u>	<u>75,490</u>

<u>40</u>	<u>-</u>	<u>40</u>	<u>-</u>
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-	1,524	1,524	1,568
2,310	-	8,989	15,829
-	26,973	27,036	23,055
<u>2,310</u>	<u>28,497</u>	<u>37,549</u>	<u>40,452</u>
<u>\$ 21,538</u>	<u>\$ 28,544</u>	<u>\$ 102,216</u>	<u>\$ 115,942</u>

CAPITAL AREA FINANCE AUTHORITY

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

FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

(In Thousands)

	<u>1997 D</u>	<u>1998 B</u>	<u>1998 D</u>	<u>2002 A</u>
	Program	Program	Program	Program
<u>REVENUES:</u>				
Income Earned on Mortgage Loans				
Receivable/ Mortgage Backed Securities	\$ 60	\$ 93	\$ 121	\$ 113
Income Earned on Other Investments	10	10	28	6
Net Increase (Decrease) in the Fair Value of				
Investments	(19)	(30)	(36)	(29)
Market Rate Loan Program Fees	-	-	-	-
Other Income (Loss)	-	-	-	1
Authority Fee Income	-	-	-	-
Total	<u>51</u>	<u>73</u>	<u>113</u>	<u>91</u>
<u>EXPENSES:</u>				
Interest	27	23	96	111
Amortization of DAP & MLAP	-	-	-	-
Bond Issuance Costs	-	-	-	-
Authority Fees	1	-	1	1
Insurance Costs	-	-	-	-
Administrative Fees	-	-	-	-
Operating Expenses	<u>16</u>	<u>6</u>	<u>2</u>	<u>3</u>
Total	<u>44</u>	<u>29</u>	<u>99</u>	<u>115</u>
Net Income (Loss)	7	44	14	(24)
Transfers Among Programs	(1,046)	(2,270)	(2,138)	(406)
Net Position - Beginning of Year	<u>1,056</u>	<u>2,227</u>	<u>2,150</u>	<u>433</u>
Net Position - End of Year	<u>\$ 17</u>	<u>\$ 1</u>	<u>\$ 26</u>	<u>\$ 3</u>

(CONTINUED)

<u>2003 A</u> <u>Program</u>	<u>2004 A</u> <u>Program</u>	<u>2005A</u> <u>Program</u>	<u>2006 A</u> <u>Program</u>
\$ 142	\$ 155	\$ 196	\$ 240
-	-	-	-
(44)	7	(87)	(128)
-	-	-	-
-	-	-	-
-	-	-	-
<u>98</u>	<u>162</u>	<u>109</u>	<u>112</u>
129	178	232	214
-	-	118	95
-	-	-	-
10	3	-	12
-	-	-	-
-	1	-	-
<u>2</u>	<u>2</u>	<u>3</u>	<u>4</u>
<u>141</u>	<u>184</u>	<u>353</u>	<u>325</u>
(43)	(22)	(244)	(213)
(513)	(512)	(651)	-
<u>559</u>	<u>537</u>	<u>905</u>	<u>771</u>
<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 10</u>	<u>\$ 558</u>

CAPITAL AREA FINANCE AUTHORITY

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

(In Thousands)

	<u>2007 A</u> <u>Program</u>	<u>2007 B</u> <u>Program</u>	<u>2009 A</u> <u>Program</u>	<u>2009 GSE</u> <u>Program</u>
<u>REVENUES:</u>				
Income Earned on Mortgage Loans				
Receivable/ Mortgage Backed Securities	\$ 449	\$ 111	\$ 456	\$ 838
Income Earned on Other Investments	30	6	15	-
Net Increase (Decrease) in the Fair Value of Investments	(241)	(66)	(216)	(269)
Market Rate Loan Program Fees	-	-	-	-
Other Income (Loss)	-	-	-	4
Authority Fee Income	-	-	-	-
Total	<u>238</u>	<u>51</u>	<u>255</u>	<u>573</u>
<u>EXPENSES:</u>				
Interest	328	103	440	544
Amortization of DAP & MLAP	158	41	118	207
Bond Issuance Costs	-	-	-	-
Authority Fees	30	11	11	170
Insurance Costs	-	-	-	-
Administrative Fees	-	-	-	-
Operating Expenses	5	4	11	5
Total	<u>521</u>	<u>159</u>	<u>580</u>	<u>926</u>
Net Income (Loss)	(283)	(108)	(325)	(353)
Transfers Among Programs	-	-	(1)	-
Net Position - Beginning of Year	<u>2,190</u>	<u>1,172</u>	<u>710</u>	<u>3,119</u>
Net Position - End of Year	<u>\$ 1,907</u>	<u>\$ 1,064</u>	<u>\$ 384</u>	<u>\$ 2,766</u>

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

<u>2015</u> <u>Program</u>	<u>Unrestricted</u> <u>Fund</u>	<u>2015</u> <u>Combined</u>	<u>2014</u> <u>Combined</u>
\$ 351	\$ 278	\$ 3,603	\$ 4,252
-	338	443	565
(161)	(370)	(1,689)	1,754
-	185	185	-
-	5	10	31
-	250	250	189
<u>190</u>	<u>686</u>	<u>2,802</u>	<u>6,791</u>
244	-	2,669	3,422
-	174	911	950
284	-	284	-
-	-	250	189
-	27	27	37
-	70	71	558
-	1,430	1,493	1,123
<u>528</u>	<u>1,701</u>	<u>5,705</u>	<u>6,279</u>
(338)	(1,015)	(2,903)	512
2,648	4,889	-	-
-	24,623	40,452	39,940
<u>\$ 2,310</u>	<u>\$ 28,497</u>	<u>\$ 37,549</u>	<u>\$ 40,452</u>

CAPITAL AREA FINANCE AUTHORITY

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

(In Thousands)

	<u>1997 D</u>	<u>1998 B</u>	<u>1998 D</u>
	<u>Program</u>	<u>Program</u>	<u>Program</u>
Cash Flows From Operating Activities:			
Cash Receipts for:			
Mortgage Loans and Mortgage-Backed Securities Income	\$ 60	\$ 93	\$ 121
Collection of Mortgage Loans and Mortgage-Backed Securities	1,702	2,788	3,898
Income (Loss) on Other Investments	21	24	53
Cash Payments for:			
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-
Interest Paid	(40)	(37)	(130)
Other Items	(17)	(6)	(2)
Net Cash Provided by (Used in) Operating Activities	<u>1,726</u>	<u>2,862</u>	<u>3,940</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of Capital Assets	-	-	-
Net Cash Used in Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows From Investing Activities:			
Investment Purchases, Sales, and Maturities - Net	<u>232</u>	<u>381</u>	<u>788</u>
Net Cash Provided by (Used in) Investing Activities	<u>232</u>	<u>381</u>	<u>788</u>
Cash Flows From Noncapital Financing Activities:			
Proceeds from Bond Issues / Line of Credit	-	-	-
Payments on Bond Issues / Line of Credit	-	-	-
Retirement of Notes and Bonds Payable	(935)	(979)	(2,590)
Interfund Activities	(1,046)	(2,270)	(2,138)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(1,981)</u>	<u>(3,249)</u>	<u>(4,728)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(23)</u>	<u>(6)</u>	<u>-</u>
Cash and Cash Equivalents at Beginning of Year	<u>40</u>	<u>7</u>	<u>26</u>
Cash and Cash Equivalents at End of Year	<u>\$ 17</u>	<u>\$ 1</u>	<u>\$ 26</u>

(CONTINUED)

<u>2002 A</u> <u>Program</u>	<u>2003 A</u> <u>Program</u>	<u>2004 A</u> <u>Program</u>	<u>2005A</u> <u>Program</u>	<u>2006 A</u> <u>Program</u>
\$ 113	\$ 142	\$ 155	\$ 196	\$ 240
3,368	4,439	5,040	6,965	771
19	16	20	24	3
-	-	-	-	-
(150)	(146)	(197)	(306)	(239)
(4)	(12)	139	(3)	(17)
<u>3,346</u>	<u>4,439</u>	<u>5,157</u>	<u>6,876</u>	<u>758</u>
-	-	-	-	-
-	-	-	-	-
141	-	-	1	-
<u>141</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
(3,080)	(4,149)	(4,598)	(6,360)	(900)
(406)	(513)	(512)	(651)	-
<u>(3,486)</u>	<u>(4,662)</u>	<u>(5,110)</u>	<u>(7,011)</u>	<u>(900)</u>
1	(223)	47	(134)	(142)
2	226	102	144	448
<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 149</u>	<u>\$ 10</u>	<u>\$ 306</u>

CAPITAL AREA FINANCE AUTHORITY

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

(In Thousands)

	<u>2007 A</u>	<u>2007 B</u>	<u>2009 A</u>
	<u>Program</u>	<u>Program</u>	<u>Program</u>
Cash Flows From Operating Activities:			
Cash Receipts for:			
Mortgage Loans and Mortgage-Backed Securities Income	\$ 449	\$ 111	\$ 456
Collection of Mortgage Loans and Mortgage-Backed Securities	1,432	416	1,753
Income (Loss) on Other Investments	43	8	23
Cash Payments for:			
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-
Interest Paid	(411)	(110)	(489)
Other Items	(36)	(13)	(33)
Net Cash Provided by (Used in) Operating Activities	<u>1,477</u>	<u>412</u>	<u>1,710</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of Capital Assets	-	-	-
Net Cash Used in Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows From Investing Activities:			
Investment Purchases, Sales, and Maturities - Net	<u>734</u>	<u>17</u>	<u>14</u>
Net Cash Provided by (Used in) Investing Activities	<u>734</u>	<u>17</u>	<u>14</u>
Cash Flows From Noncapital Financing Activities:			
Proceeds from Bond Issues / Line of Credit	-	-	-
Payments on Bond Issues / Line of Credit	-	-	-
Retirement of Notes and Bonds Payable	(2,205)	(560)	(1,705)
Interfund Activities	-	-	(1)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(2,205)</u>	<u>(560)</u>	<u>(1,706)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>6</u>	<u>(131)</u>	<u>18</u>
Cash and Cash Equivalents at Beginning of Year	<u>217</u>	<u>850</u>	<u>204</u>
Cash and Cash Equivalents at End of Year	<u>\$ 223</u>	<u>\$ 719</u>	<u>\$ 222</u>

(CONTINUED)

<u>2009 GSE Program</u>	<u>2015 Program</u>	<u>Unrestricted Fund</u>	<u>2015 Combined</u>	<u>2014 Combined</u>
\$ 838	\$ 265	\$ 278	\$ 3,517	\$ 4,183
1,600	-	-	34,172	32,843
4	-	304	562	675
-	(21,298)	(1,569)	(22,867)	(25,339)
(558)	(106)	-	(2,919)	(3,514)
(171)	(244)	(947)	(1,366)	(1,571)
<u>1,713</u>	<u>(21,383)</u>	<u>(1,934)</u>	<u>11,099</u>	<u>7,277</u>
<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>	<u>(40)</u>
<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>	<u>(40)</u>
<u>-</u>	<u>-</u>	<u>(3,818)</u>	<u>(1,510)</u>	<u>11,537</u>
<u>-</u>	<u>-</u>	<u>(3,818)</u>	<u>(1,510)</u>	<u>11,537</u>
-	20,000	-	20,000	21,175
-	-	-	-	(39,130)
(1,725)	(950)	-	(30,736)	(16,470)
<u>-</u>	<u>2,648</u>	<u>4,889</u>	<u>-</u>	<u>-</u>
<u>(1,725)</u>	<u>21,698</u>	<u>4,889</u>	<u>(10,736)</u>	<u>(34,425)</u>
(12)	315	(865)	(1,149)	(15,651)
486	-	12,610	15,362	31,013
<u>\$ 474</u>	<u>\$ 315</u>	<u>\$ 11,745</u>	<u>\$ 14,213</u>	<u>\$ 15,362</u>

CAPITAL AREA FINANCE AUTHORITY

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

FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

(In Thousands)

	1997 D Program	1998 B Program	1998 D Program
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Net Income (Loss)	\$ 7	\$ 44	\$ 14
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation	-	-	-
Amortization of Bond Premiums	-	-	-
Accretion of Interest Expense	-	-	-
Unrealized and Realized (Gains) Losses on Investments	19	30	36
Amortization of Downpayment and Authority Assistance Programs	-	-	-
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-
Collections of Loans and Mortgage-Backed Securities	1,702	2,788	3,898
Collections of Notes Receivable	-	-	-
Other - Net	(2)	-	(8)
Net Cash Provided by (Used in) Operating Activities	\$ 1,726	\$ 2,862	\$ 3,940

(CONTINUED)

<u>2002 A</u> <u>Program</u>	<u>2003 A</u> <u>Program</u>	<u>2004 A</u> <u>Program</u>	<u>2005A</u> <u>Program</u>	<u>2006 A</u> <u>Program</u>
\$ (24)	\$ (43)	\$ (22)	\$ (244)	\$ (213)
-	-	-	-	-
-	-	(42)	-	(16)
-	-	-	-	-
29	44	(7)	87	128
-	-	-	118	95
-	-	-	-	-
3,368	4,439	5,040	6,965	771
-	-	-	-	-
(27)	(1)	188	(50)	(7)
<u>\$ 3,346</u>	<u>\$ 4,439</u>	<u>\$ 5,157</u>	<u>\$ 6,876</u>	<u>\$ 758</u>

CAPITAL AREA FINANCE AUTHORITY

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

FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

(In Thousands)

	2007 A Program	2007 B Program	2009 A Program
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Net Income (Loss)	\$ (283)	\$ (108)	\$ (325)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation	-	-	-
Amortization of Bond Premiums	(55)	-	(29)
Accretion of Interest Expense	-	-	-
Unrealized and Realized (Gains) Losses on Investments	241	66	216
Amortization of Downpayment and Authority Assistance Programs	158	41	118
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-
Collections of Loans and Mortgage-Backed Securities	1,432	416	1,753
Collections of Notes Receivable	-	-	-
Other - Net	(16)	(3)	(23)
Net Cash Provided by (Used in) Operating Activities	\$ 1,477	\$ 412	\$ 1,710

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

<u>2009 GSE Program</u>	<u>2015 Program</u>	<u>Unrestricted Fund</u>	<u>2015 Combined</u>	<u>2014 Combined</u>
\$ (353)	\$ (338)	\$ (1,015)	\$ (2,903)	\$ 512
-	-	46	46	46
-	-	-	(142)	(153)
-	-	-	-	210
269	161	370	1,689	(1,754)
207	-	174	911	950
-	(21,298)	(1,569)	(22,867)	(25,339)
1,600	-		34,172	32,843
-	-	100	100	100
(10)	92	(40)	93	(138)
<u>\$ 1,713</u>	<u>\$ (21,383)</u>	<u>\$ (1,934)</u>	<u>\$ 11,099</u>	<u>\$ 7,277</u>

CAPITAL AREA FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(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.

The Authority's operations consist primarily of single family mortgage purchase 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. Under the 1997 D, 1998 B, 1998 D, 2002 A, 2003 A, 2004 A, 2005 A, 2006 A, 2007 A, 2007 B, 2009 A and 2015 Programs, these 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 programs were obtained through the issuance of bonds in the following face value amounts (in thousands):

1987 Program, dated July 1, 1987	Closed	\$ 15,450
1988 C&D Program, dated August 1, 1988	Closed	26,975
1988 E&F Program, dated June 22, 1989	Closed	40,000
Municipal Refunding Collateralized Mortgage Obligations (MRCMO) Program, dated January 25, 1989	Closed	67,905
1990 Program, dated August 1, 1990	Closed	56,000
1992 A&B Program, dated April 1, 1992	Closed	25,000
1992 C Program, dated April 1, 1992	Closed	38,310
1992 D Program, dated April 1, 1992	Closed	8,975
1993 A&B Program, dated October 27, 1993	Closed	36,720
1993 C Program, dated October 27, 1993	Closed	15,270
1994 A&B Program, dated August 15, 1994	Closed	31,210
1994 C Program, dated December 29, 1994 (remarketed)	Closed	13,250
1995 A Program, dated February 23, 1995 (remarketed)	Closed	8,840
1995 B Program, dated October 5, 1995	Closed	12,500

CAPITAL AREA FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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1995 C Program, dated September 28, 1995 (remarketed)	Closed	5,820
1996 A Program, dated February 29, 1996 (remarketed)	Closed	9,765
1996 B program, dated October 24, 1996	Closed	12,500
1996 C Program, dated September 27, 1996 (remarketed)	Closed	6,390
1997 B Program, dated March 27, 1997 (remarketed)	Closed	10,755
1997 C1-C3 Program, dated December 31, 1997	Closed	101,400
1997 D Program, dated June 1, 1997	Closed	18,600
1997 F Program, dated September 25, 1997 (remarketed)	Closed	5,135
1998 A Program, dated June 1, 1998	Closed	12,920
1998 B Program, dated June 1, 1998	Closed	23,595
1998 C Program, dated December 1, 1998	Closed	41,180
1998 D Program, dated December 1, 1998	Closed	6,000
1999 A Program, dated July 15, 1999	Closed	12,000
1999 B Program, dated July 15, 1999	Closed	16,485
2000 A&B Program, dated May 31, 2000	Closed	57,208
2000 C Program, dated November 9, 2000 (remarketed from 2000 A&B Program)	Closed	10,000
2000 D Program, dated November 9, 2000 (remarketed from 2000 A&B Program)	Closed	6,294
2000 E Program, dated November 9, 2000	Closed	14,787
2000 CR Program, dated August 14, 2001 (remarketed from 2000 C Program)	Closed	5,200
2000 DR Program, dated August 14, 2001 (remarketed from 2000 D Program)	Closed	3,330
2000 ER Program, dated August 14, 2001 (remarketed from 2000 E Program)	Closed	7,710
2002 A Program, dated June 18, 2002	Closed	30,925
2003 A Program, dated September 16, 2003	Closed	21,940
2004 A Program, dated October 5, 2004	Closed	24,451
2005 A Program, dated December 20, 2005	Closed	30,000
2006 A Program, dated July 25, 2006		20,000
2007 A Program, dated February 23, 2007		40,000
2007 B Program, dated December 28, 2007		20,000
2009 A Program, dated October 22, 2009		29,360
2009 GSE Program, dated November 22, 2011		25,000
2015 Program, dated September 24, 2015		20,000

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.

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 purchase 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.

CAPITAL AREA FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

The Executive Director is responsible for the development of each new bond issue and loan program. Once the bond issue is closed, the Executive Director 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.

- (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:

- *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.”

CAPITAL AREA FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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The net position of the Unrestricted Fund are net investment in capital assets or unrestricted. The net position 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 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 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 (loss) on investments. The Authority applies the provisions of the Statement to 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.

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.

Reclassification of Prior Year Amounts - Certain prior year balances 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 2014 - 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, 2014 from which the summarized information was derived.

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

(2) Cash and Investments -

In compliance with State laws, those deposits not covered by depository insurance are secured by bank owned securities specifically pledged to the Authority and held in joint custody by an independent custodian bank. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As a result of the pledging of additional securities by custodial banks in the Authority's name, the Authority does not have any custodial credit risk at December 31, 2015.

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

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 36 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, 2015, 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, 2015, invested in GNMA, FNMA, and FHLMC obligations including MBS totaling approximately \$76.712 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, 2015, was approximately \$16.412 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

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

approximately \$16.412 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.

For the year ended December 31, 2015, the Authority recognized \$1.689 million in net unrealized losses in the Net Increase (Decrease) in the Fair Value of Investments.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising 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.

Authority's programs have investments in guaranteed investment contracts, mortgage backed securities and other investments which have maturities which 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.

The Authority's unrestricted fund has investments in U.S. Government and agency securities with a weighted average maturity of 5 years and in MBS with a weighted average maturity of approximately 15 years.

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, 2015, 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.

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.

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, 2015, none of the Authorities bank balance of \$14,213,000 was exposed to custodial credit risk.

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

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

Mortgage Loans Receivable - Mortgage notes acquired by the Authority from participating mortgage lenders and held by the following bond programs have original scheduled maturities of thirty years and are secured by first mortgages on the related real property. The mortgages have stated interest rates as follows:

2009 A Program	6.00%
Unrestricted Fund	8.40% - 10.95%

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.

All of the single family 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.

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>
2006 A Program	30 years	5.375%
2007 A Program	30 years	3.60% - 5.40%
2007 B Program	30 years	3.30% - 5.45%
2009 A Program	30 years	4.875% - 7.10%
2009 GSE Program	30 years	3.75% - 4.75%
2015 Program	30 years	4.25% - 8.35%
Unrestricted Fund	30 years	5.625% - 7.755%

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.

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

(4) Changes in Capital Assets

Capital asset activity for the year ended December 31, 2015 (in thousands):

<u>Governmental Activities</u>	<u>Balance 12/31/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2015</u>
Capital Assets not being Depreciated:				
Land	\$ 631	\$ -	\$ -	\$ 631
Total	631	-	-	631
Capital Assets being Depreciated:				
Furniture & Fixtures	154	2	-	156
Building & Improvements	881	-	-	881
Total	1,035	2	-	1,037
Less Accumulated Depreciation for:				
Furniture & Fixtures	52	23	-	75
Building & Improvements	46	23	-	69
Total Accumulated Depreciation:	98	46	-	144
Total Capital Assets being Depreciated, Net	937	(44)	-	893
Capital Assets, Net	<u>\$ 1,568</u>	<u>\$ (44)</u>	<u>\$ -</u>	<u>\$ 1,524</u>

Depreciation is being calculated using the straight-line method over the estimated useful life of capital assets. Depreciation expense was \$46,376 for the year ended December 31, 2015.

(5) Note Receivable -

In accordance with a Cooperative Endeavor Agreement entered into by and between the Authority and a component unit of the City of Baton Rouge – East Baton Rouge Parish dated as of and effective September 1, 2011, and with the passage of a dedicated tax to support the component unit, the \$500 thousand grant awarded in the Cooperative Endeavor Agreement was converted into a loan in 2012.

The specific terms of the loan as generally described in the Cooperative Endeavor Agreement includes five (5) annual payments of \$100 thousand plus accrued interest beginning January 31, 2013. The interest rate is adjustable at WSJ Prime Rate (Current Rate is 3.50%) as of each January 31st for the years set forth in the Schedule of Payments.

Schedule of Payments (in thousands):

<u>Payment Date</u>	<u>Amount</u>
1/31/2016	\$ 100
1/31/2017	<u>100</u>
	<u>\$ 200</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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(6) Bonds and Lines of Credit Payable -

The net proceeds obtained from the bond issues are used to establish funds authorized by the Bond Trust Indentures to purchase eligible mortgage loans, secured by first 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.

On September 24, 2015, the Authority used existing amounts in revenue and reserve funds and \$20,000,000 of bond proceeds from Series 2015 Refunding Bonds for the purpose of refunding \$20,396,485 of the outstanding balance of the 1997 D Program, 1998 B Program, 1998 D Program, 2002 A Program, 2003 A Program, 2004 A Program, and 2005 A Program Bonds and any interest or redemption premiums on these Bonds. This advance refunding was undertaken to reduce total debt service payments over the next 21 years by \$3,510,000 and resulted in an economic gain of \$2,918,000.

The sources and uses of the refunding issues are summarized below (in thousands):

	1997 D Program	1998 B Program	1998 D Program	2002 A Program	2003 A Program	2004 A Program	2005 A Program	Total
<u>Sources:</u>								
Principal Proceeds	\$ 855	\$ 595	\$ 2,240	\$ 2,960	\$ 3,557	\$ 4,103	\$ 5,690	\$20,000
Transfer from Existing Revenue and Reserve Funds	333	366	1,033	371	28	83	430	2,644
Total Sources	<u>\$ 1,188</u>	<u>\$ 961</u>	<u>\$ 3,273</u>	<u>\$ 3,331</u>	<u>\$ 3,585</u>	<u>\$ 4,186</u>	<u>\$ 6,120</u>	<u>\$22,644</u>
<u>Uses:</u>								
Debt Service on Prior Bonds	\$ 879	\$ 610	\$ 2,296	\$ 3,032	\$ 3,532	\$ 4,078	\$ 5,968	\$20,395
Refunding Bond Indenture	17	20	114	84	28	78	28	369
Issuance Cost	14	10	36	48	25	30	101	264
Deposit to Unrestricted Fund	278	321	827	167	-	-	23	1,616
Total Uses	<u>\$ 1,188</u>	<u>\$ 961</u>	<u>\$ 3,273</u>	<u>\$ 3,331</u>	<u>\$ 3,585</u>	<u>\$ 4,186</u>	<u>\$ 6,120</u>	<u>\$22,644</u>
<u>Cash Flow Difference:</u>								
Old Debt Service Cash Flows	\$ 999	\$ 632	\$ 2,752	\$ 4,419	\$ 6,059	\$ 6,619	\$ 9,224	\$30,704
Less: New Debt Service Cash Flows	(940)	(622)	(2,559)	(3,844)	(5,286)	(5,761)	(8,182)	(27,194)
Cash Flow Difference	<u>\$ 59</u>	<u>\$ 10</u>	<u>\$ 193</u>	<u>\$ 575</u>	<u>\$ 773</u>	<u>\$ 858</u>	<u>\$ 1,042</u>	<u>\$ 3,510</u>
<u>Economic Gain on Refunding:</u>								
Present Value of Old Debt Service Cash Flows	\$ 855	\$ 595	\$ 2,240	\$ 2,960	\$ 3,900	\$ 4,261	\$ 6,180	\$20,991
Less: Present Value of New Debt Service Cash Flows	(800)	(585)	(2,062)	(2,480)	(3,263)	(3,554)	(5,329)	(18,073)
Economic Gain	<u>\$ 55</u>	<u>\$ 10</u>	<u>\$ 178</u>	<u>\$ 480</u>	<u>\$ 637</u>	<u>\$ 707</u>	<u>\$ 851</u>	<u>\$ 2,918</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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Outstanding bonds and lines of credit payable consist of the following at December 31, 2015 and 2014 (in thousands):

	2015
2006 A Program, due serially and term of 2038, bearing interest at 4.90% payable semiannually Plus unamortized bond premium	\$ 4,255 64
Total-2006A Program	4,319
2007 A Program, due serially and term 2015 through 2038, bearing interest at 4.00% to 5.40% payable semiannually Plus unamortized bond premium	7,350 -
Total-2007A Program	7,350
2007 B Program, due serially and term from 2015 through 2039, bearing interest at 3.80% to 5.45% payable semiannually	1,750
2009 A Program, due serially and term from 2015 through 2040, bearing interest at 2.95% to 5.25% payable semiannually Plus unamortized bond premium	8,590 107
Total-2009A Program	8,697
2009 GSE Program (Escrow bond), due 2042 bearing interest at 2.32% payable monthly	22,735
2015 Program due 2038 bearing interest at 2.90% payable monthly	19,050
Total Bonds and Lines of Credit Payable - Net at December 31, 2015	\$ 63,901

(CONTINUED)

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

	2014
1997 D Program due serially and term from 2016 through 2030 bearing interest at 5.65% to 5.90% payable semiannually	\$ 935
1998 B Program due serially and term from 2016 through 2030, bearing interest at 5.20% to 5.35% payable semiannually	979
1998 D Program due serially and term from 2018 through 2033, bearing interest at 5.13% to 5.25% payable semiannually	2,590
2002 A Program due serially and term from 2020 through 2033, bearing interest at 3.75% to 5.60% payable semiannually	3,080
2003 A Program due serially and term of 2036, bearing interest at 4.70% to 5.25% payable semiannually	4,149
2004 A Program due serially and term of 2036, bearing interest at 4.90% to 5.20% payable semiannually Plus unamortized bond premium	4,556 42
Total-2004A Program	4,598
2005 A Program, due serially and term from 2015 through 2038, bearing interest at 4.25% to 4.80% payable semiannually	6,360
2006 A Program, due serially and term of 2038, bearing interest at 4.90% payable semiannually Plus unamortized bond premium	5,155 78
Total-2006A Program	5,233
2007 A Program, due serially and term 2015 through 2038, bearing interest at 4.00% to 5.40% payable semiannually Plus unamortized bond premium	9,555 55
Total-2007A Program	9,610
2007 B Program, due serially and term from 2015 through 2039, bearing interest at 3.80% to 5.45% payable semiannually	2,310
2009 A Program, due serially and term from 2015 through 2040, bearing interest at 2.95% to 5.25% payable semiannually Plus unamortized bond premium	10,295 136
Total-2009A Program	10,431
2009 GSE Program (Escrow bond), due 2042 bearing interest at 2.32% payable monthly	24,460
Total Bonds - Net at December 31, 2014	\$ 74,735

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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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 years ended December 31, 2015 and 2014 (in thousands), is as follows:

	<u>2015</u>	<u>2014</u>
Balance - January 1	\$ 74,735	\$ 109,104
Proceeds from issue of 2015 bonds	20,000	-
Proceeds from Line of Credit	-	21,175
Repayments and Maturities	<u>(30,834)</u>	<u>(55,544)</u>
Balance - December 31	<u>\$ 63,901</u>	<u>\$ 74,735</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, 2015, are as follows (in thousands):

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Thereafter</u>	<u>Total</u>
2006 A Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,255	\$ 4,255
2007 A Program	155	165	165	-	-	6,865	7,350
2007 B Program	35	35	35	35	-	1,610	1,750
2009 A Program	90	50	65	65	50	8,270	8,590
2009 GSE Program	-	-	-	-	-	22,735	22,735
2015 Program	-	-	-	-	-	19,050	19,050
	<u>\$ 280</u>	<u>\$ 250</u>	<u>\$ 265</u>	<u>\$ 100</u>	<u>\$ 50</u>	<u>\$ 62,785</u>	<u>63,730</u>
Plus Unamortized Premium							<u>171</u>
Total Outstanding- December 31, 2015							<u>\$ 63,901</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Scheduled interest payments for the years subsequent to December 31, 2015, are as follows: (in thousands)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Therafter</u>	<u>Total</u>
2006 A Program	\$ 208	\$ 208	\$ 208	\$ 208	\$ 208	\$ 3,703	\$ 4,743
2007 A Program	332	326	319	312	312	3,845	5,446
2007 B Program	91	90	89	87	86	1,233	1,676
2009 A Program	435	432	430	427	425	4,692	6,841
2009 GSE Program	527	527	527	527	527	11,480	14,115
2015 Program	552	552	552	552	552	9,535	12,295
	<u>\$ 2,145</u>	<u>\$ 2,135</u>	<u>\$ 2,125</u>	<u>\$ 2,113</u>	<u>\$ 2,110</u>	<u>\$ 34,488</u>	<u>\$ 45,116</u>

(7) Deferred Inflow 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 program. The net carrying amount exceeded the reacquisition price of the old debt by \$41,748. 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, 2015, the unamortized balance is \$39,792.

(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 years ended December 31, 2015 and 2014, payments to the Authority's Board members were as follows:

<u>Board Member</u>	<u>2015</u>	<u>2014</u>
Cheri Ausberry	\$ 5,000	\$ 4,600
Dennis Blunt	3,800	2,400
Norman Chenevert	4,600	4,000
Astrid Clements	5,800	8,400
Helena Cunningham	3,600	3,400
Robert Gaston, III	4,800	3,600
Blaine Grimes	5,000	3,600
Jake Netterville	4,800	4,000
Valerie Shexnayder	5,200	3,800
Total	<u>\$ 42,600</u>	<u>\$ 37,800</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.

CAPITAL AREA FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

(9) Authority Fees -

Beginning with the 1992 Programs, 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 mortgagor's 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) Downpayment Assistance and Authority Assistance Programs -

During fiscal year 1996, the Authority began the Downpayment Assistance Program (DAP) which provides funds to borrowers that meet certain criteria in order to assist borrowers with closing costs or down payments. The amount of funds is based on a percentage of the loan amount (generally 3% to 4%). The interest rate charged on these loans is greater than the interest rate on loans that do not utilize this program. Also during 1996, the Authority initiated the Authority Assistance Program (AAP) which waives the discount points on loans made to households whose income is under \$27,500.

Costs related to these programs are capitalized and are being amortized over the lives of the related assets as yield adjustments based upon the average lives of the underlying assets. The remaining unamortized balances are classified on the accompanying balance sheets in the same caption as the related assets. A summary of the activity with respect to these programs during the years ended December 31, 2015 and 2014, is as follows (in thousands):

2015

	<u>December 31,</u> <u>2014</u>	<u>Paid in</u> <u>2015</u>	<u>2015</u> <u>Amortization</u>	<u>December 31,</u> <u>2015</u>
2005 A Program	\$ 119	\$ -	\$ (119)	\$ -
2006 A Program	190	-	(95)	95
2007 A Program	475	-	(158)	317
2007 B Program	164	-	(41)	123
	<u>\$ 948</u>	<u>\$ -</u>	<u>\$ (413)</u>	<u>\$ 535</u>

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

2014

	December 31, 2013	Paid in 2014	2014 Amortization	December 31, 2014
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2005 A Program	\$ 238	\$ -	\$ (119)	\$ 119
2006 A Program	285	-	(95)	190
2007 A Program	633	-	(158)	475
2007 B Program	205	-	(41)	164
	<u>\$ 1,361</u>	<u>\$ -</u>	<u>\$ (413)</u>	<u>\$ 948</u>

(11) 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, 2015, the Capital Area Finance Authority had no outstanding grant commitments.

(12) 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, and (3) balances in the cost of issuance accounts.

(13) Schedule of Compensation, Benefits and Other Payments to Executive Director -

In accordance with Louisiana Revised Statute 24:513A, the following is a Schedule of Compensation and Benefits received by Michael Airhart, Executive Director, who was the acting agency head from January 1, 2015 through December 31, 2015:

Salary	\$ 193,125
Benefits - Health Insurance	21,811
Benefits - Retirement	9,733
Reimbursements:	
Milage reimbursement	972
Non-Conference Meals and Entertainment	520
Conference Registration Fees	3,000
Conference Travel and Meals	10,432
	<u>\$ 239,593</u>

CAPITAL AREA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

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

On November 20, 2014, the board of directors approved a health insurance plan, administered by Blue Cross Blue Shield of Louisiana, which will pay 100% of the premium for all employees and their families. In addition to the health insurance, the board of directors also approved a Simple IRA plan for all employees which will provide matching of employee contributions of up to 3% of the employee's annual salary and maximum employee contribution of \$12,000 per employee. The Authority contributed \$10,790 in 2015.

(15) Subsequent Event - Investment in the Palms at Juban Lakes, LLC -

On January 30, 2015, the Capital Area Finance Authority entered into an agreement to purchase 23.8 Units of membership interest of The Palms at Juban Lakes, LLC at a purchase price of \$42,000 per unit, with a total investment of \$999,600. The Palms at Juban Lakes, LLC is a multi-family market rate community with a total of 180 units located in Denham Springs, Louisiana. The alternative investment targets Goal 1.1 in the 2014-2019 Strategic Plan, research, evaluate and adopt additional revenue-generating services that fit within the Authority's mission, adopted in November 2013. The investment was approved by the New Initiatives Committee during 2014 and the Board of Trustees in December 2014.

On February 9, 2016, the Capital Area Finance Authority decided to withdraw its investment in The Palms at Juban Lakes due to an overage of expected costs. The withdrawal of the investment was approved by the Board of Trustees in January 2016. The Capital Area Finance Authority received a wire in the original amount of their investment of \$999,600 plus \$1,602.08 in interest on April 8, 2016.

SUPPLEMENTARY INFORMATION

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*

2322 Tremont Drive • Baton Rouge, LA 70809
178 Del Orleans Avenue, Suite C • Denham Springs, LA 70726
650 Poydras Street, Suite 1200 • New Orleans, LA 70130
Phone: 225.928.4770 • Fax: 225.926.0945
www.htbcpa.com

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To the Board and Trustees of
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, the unrestricted fund, and the 2015 combined of the Capital Area Finance Authority (the Authority) as of and for the year ended December 31, 2015, 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, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 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.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Capital Area Finance Authority in a separate letter dated June 14, 2016.

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 entity'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,

Harris J. Bourgeois, CPA

Baton Rouge, Louisiana
June 14, 2016

CAPITAL AREA FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES

DECEMBER 31, 2015

A. Internal Control Over Financial Reporting

None

B. Compliance and Others Matters

None

CAPITAL AREA FINANCE AUTHORITY

SCHEDULE OF PRIOR YEAR FINDINGS

DECEMBER 31, 2015

A. Internal Control Over Financial Reporting

None

B. Compliance and Others Matters

None