

GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)

**FINANCIAL STATEMENTS AND
OTHER INFORMATION**

JUNE 30, 2019 AND 2018

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
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JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Georgia Development Authority

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of Georgia Development Authority (a component unit of the State of Georgia) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which comprise Georgia Development 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Georgia Development Authority as of June 30, 2019 and 2018, and the respective changes in financial positions and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019 on our consideration of the Georgia Development Authority's internal control over financial reporting and on 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 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 Georgia Development Authority's internal control over financial reporting and compliance.

Warren Averett, LLC

Atlanta, Georgia
October 24, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Georgia Development Authority (the "Authority") annual financial report presents management's discussion and analysis of financial position and changes in financial position for the fiscal years ended June 30, 2019 and 2018. The Authority is a self-supporting entity and follows business-type activity reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the Authority's activities. This analysis should be read in conjunction with the Independent Auditors' Report, audited financial statements, and accompanying notes. The Authority has only business-type activities.

The Authority is a proprietary-type entity that administers an agricultural loan program, which was originated in 1952 with a grant of approximately \$1,000,000 from the Federal Rural Rehabilitation Program. The initial grant is included in net position. In November of 2014, the Authority received a \$5,000,000 pass-through grant from the Georgia Department of Community Affairs through OneGeorgia Authority for the purpose of beginning a new loan project called the Georgia START Program. Under this program, the Authority had made loans to eligible beginning farmers, ranchers, and agribusiness operators who meet certain criteria. This program is now suspended as all available funds were committed as of June 30, 2017.

In 2019, the Authority was provided \$95,000,000 from the State to assist farmers suffering losses attributed to Hurricane Michael through a \$75,000,000 loan program and a \$20,000,000 grant program. The loan program was named the SAFETY21 program and all \$75,000,000 was received by the Authority and loaned to the farmers during 2019. The SAFETY21 grant program was enacted in conjunction with the Georgia Forestry Commission's Forestry Debris Management Program (FDMP). The Authority is responsible for disbursing matching grant programs for FDMP. In 2019, \$5,000,000 was received by the Authority and \$1,525,000 was disbursed.

Condensed Comparative Financial Statement Information

Financial Position

The net position of the Authority increased by approximately \$75.8 million during fiscal year 2019 and increased by approximately \$2.1 million during fiscal year 2018. The following table is a condensed statements of net position at June 30, 2019, 2018 and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Current and other assets	\$ 197,114,198	\$ 111,750,252	98,155,440
Capital assets, net	<u>431,019</u>	<u>425,424</u>	<u>447,804</u>
TOTAL ASSETS	<u>197,545,217</u>	<u>112,175,676</u>	<u>98,603,244</u>
LIABILITIES AND NET POSITION			
Current Liabilities	3,915,286	2,601,100	2,472,193
Noncurrent liabilities	<u>50,076,285</u>	<u>41,783,946</u>	<u>30,433,626</u>
TOTAL LIABILITIES	<u>53,991,571</u>	<u>44,385,046</u>	<u>32,905,819</u>
NET POSITION			
Net investment in capital assets	431,019	425,424	447,804
Unrestricted	62,496,111	60,802,509	60,381,530
Restricted-Safety 21	72,674,101	-	-
Restricted	<u>7,952,415</u>	<u>6,562,697</u>	<u>4,868,091</u>
TOTAL NET POSITION	<u>\$ 143,553,646</u>	<u>\$ 67,790,630</u>	<u>\$ 65,697,425</u>

Change in Financial Position

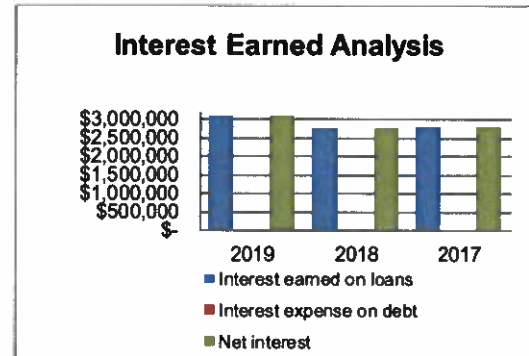
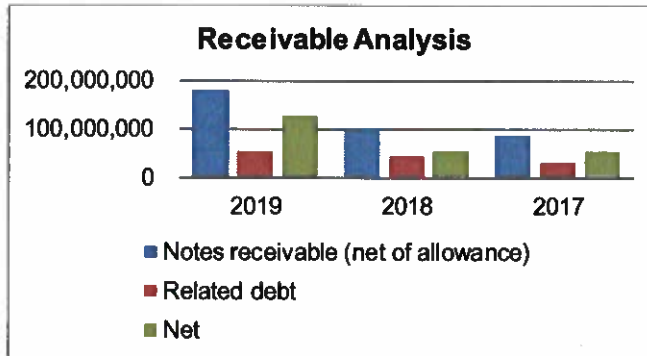
The Authority's net operating income for fiscal year 2019 increased by approximately \$917 thousand when compared to fiscal year 2018 and decreased by approximately \$30 thousand when compared to fiscal 2017. The Authority's net non-operating income increased for fiscal year 2019 by \$72.8 million when compared to fiscal year 2018. The following table is a condensed summary of changes in net position for the years ended June 30, 2019, 2018 and 2017.

Analysis of Overall Financial Position and Results of Operations

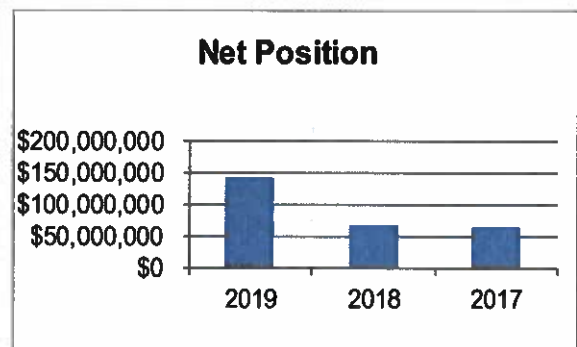
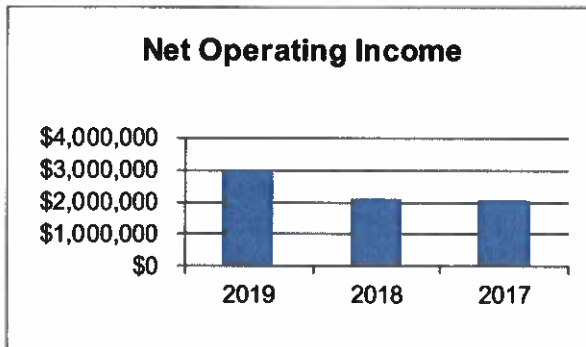
Principal collections on farm loans in the total amount of approximately \$10.8 million during 2019, \$11.4 million during 2018 and \$15.1 million during 2017. The collections were utilized for additional loans to farmers under the farm loan program. At June 30, 2019, 2018 and 2017 the Authority had notes receivable net of an allowance and related debt of approximately \$128.8 million and \$55.8 million, respectively, which is an increase of approximately \$73 million. The increase in notes receivable is related to the Safety21 loan program, which had a receivable balance of approximately \$75 million at June 30, 2019. Additionally, the allowance for loan losses increased approximately \$2.2 million in 2019. The increase is related to the Safety21 loan program. Mortgage loans under repurchase agreements increased \$9.2 million in 2019 and \$11.2 million in 2018 due to more loans being transferred and assigned to lending institutions under repurchase agreements.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
OPERATING REVENUES			
Interest income on loans receivable	\$ 3,095,643	\$ 2,742,803	2,778,536
Other	1,012,634	298,620	340,979
TOTAL OPERATING REVENUES	<u>4,108,277</u>	<u>3,041,423</u>	<u>3,119,515</u>
OPERATING EXPENSES			
Personal services	766,957	699,129	707,039
Loan allowance and acquisition related expenses	28,235	14,339	134,704
General, administrative and other	302,416	234,750	215,412
TOTAL OPERATING EXPENSES	<u>1,097,608</u>	<u>948,218</u>	<u>1,057,155</u>
NET OPERATING INCOME	3,010,669	2,093,205	2,062,360
NON-OPERATING REVENUES			
Safety 21 program funds	75,000,000	-	-
NON-OPERATING EXPENSES			
Safety 21 loan allowance adjustment net of acquisition related expenses	2,247,653	-	-
NET OPERATING INCOME	72,752,347	-	-
NET POSITION AT BEGINNING OF YEAR	67,790,630	65,697,425	63,635,065
NET POSITION AT END OF YEAR	<u>\$ 143,553,646</u>	<u>\$ 67,790,630</u>	<u>\$ 65,697,425</u>

The Authority earned in fiscal years 2019, 2018 and 2017 approximately \$3.1 million and \$2.7 million, respectively, in interest net of interest paid.



Net position increased by approximately \$79 million during 2019 and increased by approximately \$2.1 million during 2018, as shown in the following charts.



Other Real Estate Owned

During the year ended June 30, 2018, the Authority sold the Folsom property valued at \$165,000 for \$199,472, resulting in a gain of \$34,472. Further, the Meinhardt property was foreclosed on and booked at net realizable value of \$577,987. During the year ended June 30, 2017, the Authority sold a portion of the Screven property valued at \$1,021,704 for \$950,000 resulting in a loss of \$71,704 and additional expense incurred of \$63,000.

Budgetary Highlights

The Authority is mandated, by state law, to adopt its next year's budget before the end of the current year. The Authority's Board adopts the original budget using known and best available information. During the fiscal year the Board adopts revisions to incorporate changes.

In fiscal 2019, significant variances existed due to the amounts received for the SAFETY21 loan and grant program.

Other Currently Known Facts, Decisions, or Conditions

After Hurricane Michael struck the southwest corner of the state moving on up through the state in mid- October of 2018, the Governor and State Legislature assigned the Authority the responsibility of distributing a total of \$95M in state funds to farmers suffering losses attributed to Hurricane Michael through a \$75M loan program and a \$20M grant program. The loan program was named the SAFETY 21 Loan program. SAFETY 21 stands for Securing Agriculture, Food, the Environment and Timber for you in the 21st Century. This name was coined by GDA Board Chairman Gary Black. The SAFETY 21 Grant Program was enacted in conjunction with the

Georgia Forestry Commission's Forest Debris Management Program (FDMP). GDA is responsible for disbursing matching grant programs for the FDMP. The SAFETY 21 Loan Program enabled 276 farmers to cope with the effects of Hurricane Michael. Without this program, many of the borrowers would not have been able to obtain an operating loan for the 2019 crop year and would have faced the alternative of bankruptcy or liquidation.

The Authority plans to continue funding conventional farm loans. The conventional farm loan program continues to be capitalized with the Authority building on its relationships with local Georgia banks. The Authority will also fund more START loans for beginning farmers as funds are available from repayment of existing START loans. The Authority continues to believe it is important and beneficial to Georgia agriculture to support beginning farmers through means such as its START loan program.

Georgia row croppers are composed primarily of cotton and peanut producers. Cotton and peanuts are the largest crops in Georgia comprising over 60% of the row crops grown in Georgia. Peanuts were not impacted greatly from the hurricane, but some peanut buying points were badly damaged. Cotton and pecans were the crops that were damaged most by the hurricane. Many producers lost their cotton crop which would have been the best in many years. The loss to pecans goes beyond the 2018 crop year as it will take 10 years to recover from losses incurred from the storm. To add insult to injury, trade negotiations with China have affected commodity prices due to tariff pressure. Livestock and dairy prices continue to be low. Fuel prices and fertilizer prices are stable and these production inputs do not add to the problem of lower commodity prices. With a Farm Gate Value of over \$1 Billion, vegetable production by Georgia farmers continues to be a significant source of income for many Georgia farmers. Vegetable producers in the path of the hurricane were hurt badly and at this point it is uncertain what aid can come from the federal government since vegetable producers cannot participate in the USDA Wildfire Hurricane Indemnity Program (WHIP). Opening up vegetable and fruit producers to participate in WHIP in the future is a possibility. WHIP should be a positive factor for row crop operations in the state and should provide relief in the coming year.

Interest rates have declined over the past year and the interest rate market available to farmers and agribusinesses continues to be historically low. Locking in rates remains a priority for many borrowers. The fixed interest rate program continues to help borrowers by allowing them to lock in a reasonable interest rate for a long term. This program continues to provide interest stability to borrowers and has helped the Authority retain good borrowers and develop relationships with new ones.

Providing USDA WHIP payments and other programs become available to farmers affected by the hurricane and trade issues, then recovery from the adversities of 2018 should be realized. If payments come too late or too little, agriculture and all allied industries in the state will be adversely affected. At this point in time it is uncertain how things will play out. We are still in an environment of favorable general economic conditions and land values. These factors help offset the uncertainties of the agricultural environment. The 2019 economic outlook for Georgia leans more to the positive side than the negative. We are expecting a favorable year in 2019 for Georgia farmers barring unforeseen circumstances. The Authority should be positioned to provide recovery assistance and service to Georgia farmers and agribusinesses.

FINANCIAL STATEMENTS

GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

ASSETS		
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,208,768	\$ 8,748,006
Accrued interest receivable	2,548,309	1,914,077
Mortgage loans receivable	6,933,745	4,059,784
Less allowance for possible loan losses	<u>(970,724)</u>	<u>(556,903)</u>
Mortgage loans receivable, net	<u>5,963,021</u>	<u>3,502,881</u>
Total current assets	<u>19,720,098</u>	<u>14,164,964</u>
NONCURRENT ASSETS		
Mortgage loans receivable	178,981,390	97,338,746
Less allowance for possible loan losses	<u>(3,133,273)</u>	<u>(1,299,441)</u>
Mortgage loans receivable, net	175,848,117	96,039,305
Other real estate owned	1,545,983	1,545,983
Capital assets		
Land	50,000	50,000
Office buildings	470,957	470,957
Vehicles	131,463	95,551
Less accumulated depreciation	<u>(221,401)</u>	<u>(191,084)</u>
Capital assets, net	<u>431,019</u>	<u>425,424</u>
Total noncurrent assets	<u>177,825,119</u>	<u>98,010,712</u>
TOTAL ASSETS	<u>\$ 197,545,217</u>	<u>\$ 112,175,676</u>

See notes to the financial statements.

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018**

LIABILITIES		
	2019	2018
CURRENT LIABILITIES		
Accounts payable, accrued expenses, and other liabilities	975,469	\$ 633,730
Mortgage loans under repurchase agreements	2,939,817	1,967,370
Total current liabilities	3,915,286	2,601,100
NONCURRENT LIABILITIES		
Mortgage loans under repurchase agreements	50,076,285	41,783,946
TOTAL LIABILITIES	53,991,571	44,385,046
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net investment in capital assets	431,019	425,424
Unrestricted	62,496,111	60,802,509
Restricted – SAFETY21 program	72,674,101	-
Restricted	7,952,415	6,562,697
TOTAL NET POSITION	143,553,646	67,790,630
TOTAL LIABILITIES AND NET POSITION	\$ 197,545,217	\$ 112,175,676

See notes to the financial statements.

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Interest income on loans receivable	\$ 3,095,643	\$ 2,742,803
Interest income on investments and other income	<u>1,012,634</u>	<u>298,620</u>
Total operating revenues	<u>4,108,277</u>	<u>3,041,423</u>
OPERATING EXPENSES		
Personal services	766,957	699,129
Scholarships and other contributions	44,164	46,676
Loan and land losses, net of acquisition related expenses	28,235	14,339
General, administrative and other	227,936	165,693
Depreciation expense	<u>30,316</u>	<u>22,381</u>
Total operating expenses	<u>1,097,608</u>	<u>948,218</u>
NET OPERATING INCOME	3,010,669	2,093,205
NON-OPERATING REVENUES		
SAFETY21 program funds	<u>75,000,000</u>	<u>-</u>
NON-OPERATING EXPENSES		
SAFETY21 loan allowance adjustment net of acquisition related expenses	<u>2,247,653</u>	<u>-</u>
NET NON-OPERATING INCOME	72,752,347	-
NET POSITION AT BEGINNING OF YEAR	<u>67,790,630</u>	<u>65,697,425</u>
NET POSITION AT END OF YEAR	<u><u>\$ 143,553,646</u></u>	<u><u>\$ 67,790,630</u></u>

See notes to the financial statements.

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
INCREASE DECREASE IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest on loan collections	\$ 2,461,411	\$ 2,454,888
Cash received from loan fees and other income	528,254	254,148
Cash collected for principal repayments on mortgage loans receivable	10,884,884	11,464,358
Cash disbursed for mortgage loan originations	(19,681,850)	(23,031,910)
Cash payments made to employees	(766,957)	(725,445)
Cash payments made for scholarships and other contributions	(44,164)	(46,676)
Cash payments made to vendors	(227,936)	(212,999)
Net cash used in operating activities	<u>(6,846,358)</u>	<u>(9,843,636)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of other real estate owned	-	199,472
Cash disbursed for purchase of vehicle	(35,912)	-
Net cash (used in) provided by investing activities	<u>(35,912)</u>	<u>199,472</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of SAFETY21 program funds	75,000,000	-
Cash disbursed for SAFETY21 loan originations	(74,921,754)	-
Change in assignment of mortgage loans under repurchase agreements	9,264,786	11,297,377
Net cash provided by financing activities	<u>9,343,032</u>	<u>11,297,377</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,460,762	1,653,213
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,748,006	7,094,793
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 11,208,768</u>	<u>\$ 8,748,006</u>

See notes to the financial statements.

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,010,669	\$ 2,093,205
OPERATING INCOME		
Adjustment to reconcile operating income to net		
cash used in operating activities:		
Depreciation expense	30,317	22,381
Increase in real estate owned	-	(578,000)
(Gain) loss on other real estate owned	-	(34,472)
Change in loans receivable	(11,842,504)	(11,240,687)
Increase in provision for loan allowance	2,247,653	-
Change in accrued interest receivable	(634,232)	(287,915)
Change in accounts payable, accrued expenses,		
other liabilities	<u>341,739</u>	<u>181,852</u>
Total Adjustment	<u>(9,857,027)</u>	<u>(11,936,841)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (6,846,358)</u></u>	<u><u>\$ (9,843,636)</u></u>

See notes to the financial statements.

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>July 1, 2019</u>
ASSETS				
Cash and Cash equivalents	\$ -	\$ 5,000,000	\$ 1,525,383	\$ 3,474,617
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 5,000,000</u>	<u>\$ 1,525,383</u>	<u>\$ 3,474,617</u>
LIABILITIES				
Due to others	\$ -	\$ 5,000,000	\$ 1,525,383	\$ 3,474,617
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 5,000,000</u>	<u>\$ 1,525,383</u>	<u>\$ 3,474,617</u>

See notes to the financial statements.

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
DESCRIPTION OF ORGANIZATION**

Description of Organization

The Georgia Development Authority (the Authority) administers an agricultural loan program which originated in 1952 with a grant of approximately \$1,000,000 from the Federal Rural Rehabilitation Program. The major purpose of the program has been to service and insure farm real estate loans issued by the Authority and private banks. The Authority was created as a component unit of the State of Georgia (State) for reporting purposes.

In November of 2014, the Authority received a \$5,000,000 pass-through grant from the Georgia Department of Community Affairs through OneGeorgia Authority for the purpose of beginning a new loan project called the Georgia START Program. Under this program, the Authority has made loans to eligible beginning farmers, ranchers, and agribusiness operators who meet certain criteria.

In 2019, the Authority was provided \$95,000,000 from the State to assist farmers suffering losses attributed to Hurricane Michael through a \$75,000,000 loan program and a \$20,000,000 grant program. The loan program was named the SAFETY21 program and all \$75,000,000 was received by the Authority and loaned to the farmers during 2019. The SAFETY21 grant program was enacted in conjunction with the Georgia Forestry Commission's Forestry Debris Management Program (FDMP). The Authority is responsible for disbursing matching grant programs for FDMP. In 2019, \$5,000,000 was received by the Authority and \$1,525,000 was disbursed.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Presentation and Basis of Accounting

For financial reporting purposes, the Authority is considered a special-purpose government engaged in business-type activities. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are primarily interest income on loans receivable.

Operating expenses for the Authority include interest expense, personal services, general and administrative expenses and other expense, including losses on loans, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
DESCRIPTION OF ORGANIZATION (CONTINUED)**

Additionally, the Authority reports the agency fund to account for the assets held on behalf of the Georgia Forestry Commission in relation to the FDMP. The Authority also accounts for the disbursements made to outside parties in relation to the FDMP as directed by the Georgia Forestry Commission in this fiduciary fund.

All of the Authority's loans are for agricultural purposes throughout the State. These loans are secured primarily through agricultural real estate for varying lengths of time. Accordingly, the ultimate collectability of the Authority's loan portfolio is susceptible to changes in the agricultural real estate market conditions in the State and agricultural economic trends.

In the statements of net position, the difference between the Authority's assets and liabilities is its net position. Net position is reported in the following components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation.

Unrestricted net position represents the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Restricted net position represents the part of net position that is imposed by law through constitutional provisions or legislation.

When both restricted and unrestricted resources are available for use, the Authority's policy is to use unrestricted resources first and then use restricted resources as needed.

Cash and Cash Equivalents

Cash and cash equivalents consist of interest-bearing deposits in banks and deposits with the Georgia Fund I Investment Pool (the Pool). The Pool is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAf rated money market funds. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, and does not operate in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940. The Pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal. Net asset value (NAV) is calculated daily and reported to the rating agency weekly to ensure stability. The Pool distributes earnings (net of management fees) on a monthly basis and values participants' shares sold and redeemed at the Pool's share price, \$1.00 per share. Pooled cash and cash equivalents and investments are reported at cost. The Pool does not issue any legally binding guarantees to support the value of the shares.

Participation in the Pool is voluntary and deposits consist of funds from local governments, operating and trust funds of state agencies, colleges and universities and current operating funds of the State's general fund. Investments in the Pool are directed toward short-term instruments such as U.S. Treasury obligations, securities issued or guaranteed as to principal and interest by the U.S. Government or any of its agencies or instrumentalities, bankers' acceptances and repurchase agreements.

**GEORGIA DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF GEORGIA)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
DESCRIPTION OF ORGANIZATION (CONTINUED)**

Georgia Fund I is a AAf rated fund by Standard & Poor's (S&P). The S&P criteria require Georgia Fund I to maintain a weighted average maturity (WAM) of 60 days or less. The current year WAM for the Pool on June 30, 2019 was 29 days. The Authority does not have any risk exposure related to investments in derivatives or similar investments in the Pool, as the investment policy of the Office of the State Treasurer (OST) does not provide for investments in derivatives or similar investments through the Pool.

At June 30, 2019 and 2018, the Authority's balance in the Georgia Fund I Investment Pool was \$11,919,568 and \$5,413,762, respectively. AT June 30, 2019 and 2018, \$3,436,797 and \$0 of the balance in the Investment Pool relates to cash held on behalf of the Georgia Forestry Commission in relation to the FDMP.

In addition to balances maintained in the Pool, the Authority maintains a cash balance with a commercial bank. The Federal Deposit Insurance Corporation (FDIC) insures up to \$250,000 of the balances at this financial institution. Total uncollateralized cash balances in excess of the FDIC coverage at June 30, 2019 and 2018 were approximately \$3,125,000 and \$3,364,000, respectively.

Mortgage Loans Receivable

Mortgage loans receivable are stated at their unpaid principal balance less allowance for possible loan losses. During 2017, the Authority changed its policy to recording the estimated collections generated from its accounting software system. The allowance for losses on loans is provided by charges to operations based on various factors that, in management's judgment, deserve current recognition in estimating possible losses. Such factors include the market value of the underlying collateral, growth and composition of the loan portfolio, delinquency trends, and economic conditions. Taking these factors into consideration, the Authority uses a combination of specific identification of delinquent loans and a percentage of total outstanding loans in determining the allowance for loans. Additionally, accrual of interest on potential problem loans is suspended when, in the opinion of management, such suspension of income recognition is warranted.

Mortgage Loans under Repurchase Agreements

Periodically, the Authority makes loans which are transferred and assigned to lending institutions under repurchase agreements. These are reported as liabilities due to the inability to make a reasonable estimate of the Authority's obligations under the recourse provisions with regard to the requirement to repurchase transferred receivables. Related accrued interest payable, interest expense and the corresponding accrued interest receivable and interest income are not recognized as the amounts are essentially offset. The Authority charges a .50% fee per annum for guaranteeing principal and interest payments on loans. These fees are recognized as income when earned and are included in interest income as a yield adjustment.

**GEORGIA DEVELOPMENT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
DESCRIPTION OF ORGANIZATION (CONTINUED)**

Other Real Estate Owned

Real estate owned or acquired through foreclosure of loans, if any, is recorded at the lower of cost (principal balance of the former mortgage loan plus costs of obtaining title and possession) or fair value at the date of acquisition. Valuation allowances for real estate previously acquired in foreclosure are charged to income when the estimated net realizable value is more than the carrying value and charged to expense when the estimated net realizable value is less than the carrying value.

Capital Assets

Expenditures for furniture, equipment and leasehold improvements under \$5,000 are expensed as incurred to conform to the State's accounting practices. The office building located in Walton County, Georgia, is capitalized and has a depreciable life of 40 years. Building improvements, if any, are subject to the above capitalization policy and will be depreciated over their estimated useful lives as determined by management. Vehicles are capitalized and depreciated over a three year life until they reach their estimated salvage value.

Loan Interest Income

Loan interest income is recognized by using the simple interest method on the daily balance of the principal amount outstanding. Interest is payable by the borrower as specified in the loan agreement with payment terms ranging from a monthly due date to an annual due date.

The Authority provides an allowance for uncollectible interest on accrued interest related to problem loans where the delinquent interest is considered uncollectible. The allowance for uncollected interest is presented as a reduction of accrued interest receivable for financial statement reporting purposes.

Compensated Absences

Employees of the Authority are entitled to paid vacation and paid sick days depending primarily on length of service. At June 30, 2019, the Authority had eight employees who were all salaried. During the year ended June 30, 2019, approximately 89 hours, or \$21,757, of compensated absences were used.

At June 30, 2019 and 2018, the Authority had outstanding compensated absences of \$49,357 and \$39,835, respectively. Due to the fact that the current and noncurrent portions of these balances cannot be reasonably estimated, the entire balances are presented in the financial statements as accrued expenses.

Income Taxes

The Authority is exempt from income taxes under Section 115 of the United States Internal Revenue Code. Accordingly, a provision for income taxes has not been recorded in the accompanying financial statements.

**GEORGIA DEVELOPMENT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND
DESCRIPTION OF ORGANIZATION (CONTINUED)**

Use of Estimates

In preparing the financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statements of net position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for possible loan losses and accrued compensated leave. In connection with the determination of the allowance for possible loan losses, management evaluates the payment histories and economic conditions and considers the value of the underlying collateral.

2. MORTGAGE LOANS RECEIVABLE

	<u>2019</u>	<u>2018</u>
Mortgage loans receivable – SAFETY21	\$ 74,921,754	\$ -
Less allowance for doubtful accounts	<u>(2,247,653)</u>	<u>-</u>
	<u>72,674,101</u>	<u>-</u>
Mortgage loans receivable-other	110,993,381	101,398,530
Less allowance for doubtful accounts	<u>(1,856,344)</u>	<u>(1,856,344)</u>
	<u>109,137,037</u>	<u>99,542,186</u>
Mortgage loans receivable, net	<u><u>\$ 181,811,138</u></u>	<u><u>\$ 99,542,186</u></u>

During the year ended June 30, 2019 and 2018, the Authority recognized loan interest income of \$225,337 and \$0 related to the SAFETY21 loans and \$2,870,306 and \$2,742,803 for all other mortgage loans. As of June 30, 2019 and 2018, accrued interest related to SAFETY21 was \$225,337 and \$0 and accrued interest was \$2,322,972 and \$1,914,077 for all other mortgage loans.

GEORGIA DEVELOPMENT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

3. CAPITAL ASSETS

Changes in capital assets during the years ended June 30, 2019 and 2018 were as follows:

	2019			Ending Balance
	Beginning Balance	Additions	Dispositions	
CAPITAL ASSETS				
Land (nondepreciable)	\$ 50,000	\$ -	\$ -	\$ 50,000
Office building	470,957	-	-	470,957
Vehicles	95,551	35,912	-	131,463
Total capital assets	616,508	35,912	-	652,420
LESS ACCUMULATED DEPRECIATION				
Office building	100,075	11,775	-	111,850
Vehicles	91,009	18,542	-	109,551
Total accumulated depreciation	191,084	30,317	-	221,401
CAPITAL ASSETS, NET	\$ 425,424	\$ 5,595	\$ -	\$ 431,019

	2018			Ending Balance
	Beginning Balance	Additions	Dispositions	
CAPITAL ASSETS				
Land (nondepreciable)	\$ 50,000	\$ -	\$ -	\$ 50,000
Office building	470,957	-	-	470,957
Vehicles	95,551	-	-	95,551
Total capital assets	616,508	-	-	616,508
LESS ACCUMULATED DEPRECIATION				
Office building	100,075	-	-	100,075
Vehicles	68,629	22,380	-	91,009
Total accumulated depreciation	168,704	22,380	-	191,084
CAPITAL ASSETS, NET	\$ 447,804	\$ (22,380)	\$ -	\$ 425,424

**GEORGIA DEVELOPMENT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

4. MORTGAGE LOANS UNDER REPURCHASE AGREEMENTS

At June 30, 2019 and 2018, mortgage loans receivable totaling \$185,915,135 and \$101,398,530, respectively, were outstanding. At June 30, 2019 and 2018, mortgage loans totaling \$53,016,102 and \$43,751,316, respectively, had been transferred and assigned to lenders under repurchase agreements. This includes \$15,097,679 and \$18,353,116 of new loan assignments and repayments on existing loans of \$6,811,714 and \$7,330,476 during the fiscal year ended June 30, 2019 and 2018, respectively. The agreements give the lenders the option to have the Authority repurchase the mortgage loans for an amount equal to the then outstanding principal balance and interest due during a specified period of time. Current amounts due vary year-to-year based on loan pay downs by the borrower.

The Authority had commitments to fund loans totaling approximately \$3,524,000 and \$6,522,700 and at June 30, 2019 and 2018, respectively.

There was an increase of \$3,746,088 in the allowance for possible loan losses for the years ended June 30, 2019 and 2018 considered necessary by management.

5. OPERATING LEASES

The Authority is obligated under certain non-cancelable operating leases for office space and office equipment through June 30, 2019. Future minimum annual lease payments payable under these leases are as follows:

For the Year Ending June 30,

2020	\$ 7,784
2021	2,784
Thereafter	<u>2,552</u>
	<u>\$ 13,120</u>

Total rental expense for the years ended June 30, 2019 and 2018, was approximately \$8,000 for each year.

6. COMMITMENTS AND CONTINGENCIES

The Authority is subject to various legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, based on the advice of legal counsel, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Authority.

**GEORGIA DEVELOPMENT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

7. DEFINED CONTRIBUTION PLAN

The Authority has a 401(k) defined contribution plan (the Plan) administered by the Cherokee Benefits Group, Inc., a Georgia corporation, which covers all qualified employees. The Plan has two components: a money purchase component and an elective deferral component. Employer contributions for the money purchase component of the Plan is calculated based on 10.50% of the employees' annual compensation and was \$42,344 and \$55,758 for the years ended June 30, 2019 and 2018, respectively. Additionally, the Authority matches employee deferrals dollar-for-dollar up to 7.25% of the employees' annual compensation as determined by the Board. The Authority's matching contribution for the years ended June 30, 2019 and 2018 was \$29,237 and \$28,976, respectively. No amounts remain to be paid as June 30, 2019.

Financial statements and required supplementary information for the Plan may be obtained from the Cherokee Benefits Group, Inc. or the plan sponsor.

8. RELATED PARTY TRANSACTIONS

During the normal course of business, the Authority is provided with services by various agencies and departments of the State. The following services were received during the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
The Commissioner of Agriculture is the landlord of the Authority in Cordele, Georgia for the rate of \$325 per month	\$ 3,900	\$ 3,900
The State of Georgia, Department of Community Health provides health benefits for all employees under the State Health Benefit Plan	126,076	133,317
The Georgia Department of Administrative Services provides workers' compensation self insurance for the Authority	9,257	9,114
Georgia Technology Authority provides telephone services to the Authority	10,333	8,905
An employee of the Authority has secured a loan with the Authority with a fixed interest rate of 4.75% for 20 years	121,907	126,485
An employee of the Authority has secured a loan with the Authority with a fixed interest rate of 5% for 10 years (entered into prior to becoming an employee)	111,697	117,935
	<u>\$ 383,171</u>	<u>\$ 399,656</u>

**GEORGIA DEVELOPMENT AUTHORITY
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JUNE 30, 2019 AND 2018**

9. RISK MANAGEMENT

The current economy in Georgia appears to exhibit improvement, but it is still not possible at this time to predict the full impact of the credit markets as it relates to the Authority's loan customers. The real estate market in North Georgia is improving, but some geographic areas exhibit more improvement than others. The stability of the market has improved, but not to the point of stabilization across the board. In addition to the real estate market, commodity market conditions contribute to additional risks associated with certain significant credit facilities maturing during the next year as well as future marketability and collectability of its loans to farmers programs, especially in the poultry and peanut growth segments. Management continues to monitor the status of its maturing loans; currently loan repurchase agreements are good and several banks are willing to purchase new loans of the Authority.

10. RESTRICTED NET POSITION

Since 1972, the Federal Use Agreement with the U.S. Department of Agriculture has required that 15% of the principal balance of outstanding mortgage loans under repurchase agreements shall be designated as an "appropriated fund balance" by the Authority. Under current accounting standards, this appropriated fund balance is classified as restricted net position.

Additionally, the net position of the SAFETY21 program is restricted as the State provided the funds to the Authority to be loaned to farmers affected by Hurricane Michael.

11. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through October 24, 2019, the date of this report, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued, and no other items were noted that require disclosure.

OTHER INFORMATION

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
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To the Board of Directors of
Georgia Development Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Georgia Development Authority (a component unit of the State of Georgia) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which comprise Georgia Development Authority's basic financial statements, and have issued our report thereon dated October 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Georgia Development 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 Georgia Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Georgia Development 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 Georgia Development 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Warren Averett, LLC

Atlanta, Georgia
October 24, 2019