

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Agricultural Finance Authority
Department of Agriculture and Forestry
State of Louisiana
Baton Rouge, Louisiana

December 22, 1997



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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

**General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1997**

Under the provisions of State law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by State law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

December 22, 1997

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

General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1997

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LEGISLATIVE AUDITOR

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December 15, 1997

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying general purpose financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 1997, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Louisiana Agricultural Finance Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Agricultural Finance Authority as of June 30, 1997, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 15, 1997, on our consideration of the Louisiana Agricultural Finance Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, and contracts.

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

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LOUISIANA AGRICULTURAL FINANCE AUTHORITY
 DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND

Balance Sheet, June 30, 1997

ASSETS

Current assets:

Cash in bank (note 2)	\$50,908
Receivables (note 3)	356,213
Total current assets	<u>407,121</u>

Restricted assets - cash equivalents held by trustee (note 2)

443

Other assets:

Unamortized bond issuance costs (note 2)	45,405
Capital lease receivable (note 10)	4,370,200
Property, plant, and equipment (net of accumulated depreciation) (note 4)	19,824,838
Total other assets	<u>19,940,443</u>

TOTAL ASSETS

\$15,751,904

LIABILITIES AND FUND EQUITY

Liabilities:

Current liabilities:

Accounts payable	\$111,159
Accrued interest on bonds payable	73,516
Bonds payable - current portion (note 6)	625,900
Total current liabilities	<u>1,009,571</u>

Deferred revenue

2,338,892

Bonds payable - long-term (note 5)

3,589,230

 Total Liabilities

6,938,355

Fund Equity:

Contributed capital (note 6)	9,778,269
Retained earnings - unreserved (deficit) (note 8)	<u>(267,621)</u>
Total Fund Equity	<u>9,510,648</u>

TOTAL LIABILITIES AND FUND EQUITY

\$15,751,904

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
 DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and
 Changes in Retained Earnings
 For the Year Ended June 30, 1987

OPERATING REVENUES	
Rental income	<u>500,880</u>
OPERATING EXPENSES	
Professional services	75,620
Materials and supplies	400,220
Maintenance	208,581
Warehousing expense	12,360
Depreciation	497,535
Tuition fees	968
Total operating expenses	<u>1,282,385</u>
OPERATING INCOME (Deficit)	<u>(1,189,472)</u>
NONOPERATING REVENUES (Expenses)	
Capital outlay and maintenance expense for Department of Agriculture and Forestry	(1,634,261)
Capital outlay and maintenance reimbursements from Department of Agriculture and Forestry	1,633,600
Capital outlay expense for State Employees Group Benefits Program	(30,408)
Capital outlay reimbursement for State Employees Group Benefits Program	44,902
Loss on disposal of equipment	14,893
Amortization of bond issuance costs (note 5)	18,531
Interest income	8,410
Amortization of interest from capital leases	283,483
Interest expense	(263,483)
Other expenses	(3,153)
Total nonoperating revenues (expenses)	<u>(1,254)</u>
NET INCOME (Deficit)	<u>(1,191,028)</u>
OTHER FINANCING SOURCES	
Lease principal payments	290,000
RETAINED EARNINGS AT BEGINNING OF YEAR (Restated) (note 7)	<u>639,405</u>
RETAINED EARNINGS (Deficit) AT END OF YEAR	<u>(521,521)</u>

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
 DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND

Statement of Cash Flows
 For the Year Ended June 30, 1997

Cash flows from operating activities -		
operating income (deficit)		(\$1,189,473)
Adjustments to reconcile operating income to net		
cash provided by operating activities - depreciation	\$497,535	
Decrease in accounts payable	<u>(28,342)</u>	<u>471,290</u>
Net cash provided by operating activities		(710,178)
Cash flows from noncapital financing activities:		
Maintenance payments on behalf of		
Department of Agriculture and Forestry	(1,814,190)	
Maintenance reimbursements from		
Department of Agriculture and Forestry	1,850,028	
State Employees Group Benefits Program		
capital outlay expense	(64,573)	
State Employees Group Benefits Program		
capital outlay reimbursement	53,157	
Capital outlay expense	(898,782)	
Miscellaneous expense	<u>(3,153)</u>	
Net cash provided by noncapital financing activities		(1,184,808)
Cash flows from capital and related financing activities:		
Transfers from Department of Agriculture and Forestry	1,814,158	
Capital lease receivable payments	1,311,288	
Principal paid on bond maturities	(1,375,000)	
Interest paid on bonds	<u>(302,734)</u>	
Net cash provided by capital and related		
financing activities		1,647,812
Cash flows from investing activities - interest		
on investments		<u>93,428</u>
Net increase in cash and cash equivalents		(214,236)
Cash and cash equivalents at beginning of year		<u>288,291</u>
Cash and cash equivalents at end of year		<u>\$81,357</u>

The accompanying notes are an integral part of this statement.

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

Notes to the Financial Statements
As of and for the Year Ended June 30, 1997

INTRODUCTION

The Louisiana Agricultural Finance Authority (authority) was created under the provisions of Louisiana Revised Statute (R.S.) 3:261-264, within the Department of Agriculture and Forestry, State of Louisiana, and is domiciled in East Baton Rouge Parish. The authority consists of five members, one of whom is the Commissioner of the Department of Agriculture and Forestry and four members appointed by the governor. The members may receive a per diem not to exceed \$40 per meeting, plus mileage expenses. The authority has no employees. The administrative and accounting functions for the authority are performed by employees of the Department of Agriculture and Forestry.

The authority was established to issue bonds to provide financing for agricultural loans, through the purchase or guarantee of existing loans or negotiation of new loans, and the establishment of reserves for bond issues. The bonds are limited special obligations of the Louisiana Agricultural Finance Authority and do not constitute a general, special, or moral obligation of the State of Louisiana. In addition, the authority can issue revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building for use by the Department of Agriculture and Forestry and for the purpose of completing construction of an agricultural chemistry laboratory building on the campus of Louisiana State University and A&M College. The revenue bonds are limited obligations of the Louisiana Agricultural Finance Authority and do not constitute a debt of the State of Louisiana. Upon termination of the authority by law, R.S. 3:263 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The authority is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters because the board of directors is appointed by the governor and upon dissolution of the authority, title to all property owned by the authority shall vest in the State of Louisiana. The accompanying financial statements present information only as to the transactions of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana.

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

Notes to the Financial Statements (Continued)

B. BASIS OF PRESENTATION

The authority uses a proprietary fund (enterprise fund) to report on its financial position and results of its operations. The enterprise fund accounts for the activities relating to acquiring and constructing facilities to be used for the Department of Agriculture and Forestry, including, but not limited to, incurring and paying debt and administering lease agreements. The fund is operated in a manner similar to a private business enterprise where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

C. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred.

D. CASH AND CASH EQUIVALENTS

Cash represents demand deposits held by the authority and the trustee. Cash equivalents held by the trustee represent funds in various trust accounts that have been invested in shares of a short-term money market fund. Under the terms of the trust agreements, monies held by the trustee shall be invested in permitted investments. Permitted investments include government obligations or tax-exempt bonds and time deposits that meet the specific security requirements of the trust agreements.

For purposes of the Statement of Cash Flows, the authority considers all highly liquid investments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

E. RESTRICTED ASSETS

Certain proceeds of the authority revenue bonds, as well as certain resources provided annually by the Department of Agriculture and Forestry, are set aside for the repayment of the revenue bonds. These assets are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

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

Notes to the Financial Statements (Continued)

F. FIXED ASSETS AND LONG-TERM OBLIGATIONS

Fixed assets of the authority are reported on the balance sheet net of accumulated depreciation. All fixed assets are valued at their historical cost except for donated fixed assets, which are recorded at their estimated value at the time of donation. Buildings consist of the former Forestry Building that was donated to the authority by the Department of Agriculture and Forestry, an agricultural chemistry laboratory constructed by the authority, and a warehouse constructed by the authority. The agricultural chemistry laboratory is located on the Baton Rouge campus of Louisiana State University and A&M College and is used jointly by the university and the Department of Agriculture and Forestry. Long-term obligations are recognized within the enterprise fund.

Depreciation of all exhaustible fixed assets acquired or constructed through resources externally restricted for capital acquisitions is charged as an expense against operations. Depreciation is computed using the straight-line method based on the estimated useful lives as follows:

	<u>Years</u>
Buildings	40
Equipment	5 - 10

G. DEFERRED REVENUE

The authority records that portion of capital lease receivables attributable to future years as deferred revenues.

H. FUND EQUITY - CONTRIBUTED CAPITAL

Capital grants received from the Department of Agriculture and Forestry are restricted for the acquisition or construction of capital assets. The Feed Fund revenues and the Fertilizer Fund revenues are assigned to the 1990 Bond issue for the Department of Agriculture and Forestry office building project. The Pesticide Fund registration fees and revenues are assigned to the 1992 Bond issue for the LSU Agricultural Chemistry Laboratory Project.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

1. RENTAL INCOME

Rental income is derived from the lease of the former Forestry Building, the Department of Agriculture and Forestry Headquarters building complex, and the authority's warehouse. All rental payments are due to the authority monthly.

The Department of Public Safety, Office of State Fire Marshal, leases the former Forestry Building. The lease expires in the year 2000, with an option to renew.

The Department of Civil Service leases office space in the Department of Agriculture and Forestry Headquarters building. The lease expires in the year 1999.

The United States Department of Agriculture leases office space in the Department of Agriculture and Forestry Headquarters building. The lease expires in the year 1998.

The Department of Justice, Office of the Attorney General, leased storage space in the authority's warehouse for three and a half months during the year.

Leases with the Louisiana Department of Agriculture and Forestry and the State Employees Group Benefits Program for office space in the Department of Agriculture and Forestry Headquarters building went into effect after June 30, 1997.

2. CASH AND CASH EQUIVALENTS

As reflected on Statement A, at June 30, 1997, the authority has cash in demand deposits totaling \$50,909 and cash equivalents held by the trustee totaling \$443. Cash equivalents are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned 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. The authority has a deposit balance (collected bank balance) of \$77,479 at June 30, 1997, for which the authority has control. This deposit is secured from risk by \$77,479 of federal deposit insurance (GAISS Risk Category 1).

3. RECEIVABLES

The authority's receivables are as follows:

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

Notes to the Financial Statements (Continued)

Repayment of equipment loan - Department of Agriculture and Forestry	\$266,606
Maintenance reimbursement	54,767
Accrued interest income	3
Due from State Treasury	<u>11,647</u>
Balance at June 30, 1987	<u>\$358,213</u>

4. FIXED ASSETS

A summary of the authority's fixed assets at June 30, 1987, is presented as follows:

	Land	Buildings	Equipment	Construction in Progress	Total
Cost	\$485,808	\$8,720,120	\$1,830,804	\$405	\$12,236,947
Less - accumulated depreciation	<u> </u>	<u>(371,980)</u>	<u>(248,388)</u>	<u> </u>	<u>(618,368)</u>
Total	<u>\$485,808</u>	<u>\$8,348,140</u>	<u>\$1,582,416</u>	<u>\$405</u>	<u>\$11,416,810</u>

5. LONG-TERM OBLIGATIONS

On August 30, 1985, the authority sold \$5,000,000 of Revenue Bonds, Series 1985, to acquire, construct, renovate, and equip an office building for use by the Department of Agriculture and Forestry. The authority converted the remaining balance of \$5,100,000 of the variable rate bonds to fixed rate bonds dated May 7, 1986, with an interest rate of 8.5 percent payable semiannually due April 30 and October 30. The revenue bonds are secured by a pledge of the Feed Fund and the Fertilizer Fund revenues, by the property acquired or constructed from the bond proceeds, and by future lease rental payments from the State of Louisiana as lessee of the aforementioned property. There are no bond reserve requirements per the supplemental trust indenture because of the pledge of the Feed Fund and the Fertilizer Fund revenues.

On July 1, 1982, the authority sold \$3,100,000 of Revenue Bonds, Series 1982, to complete construction of an agricultural chemistry laboratory on the Baton Rouge campus of Louisiana State University and A&M College. The bonds bear interest at 8.5 percent and are payable January 15 and July 15 of each year. The revenue bonds are secured by a pledge of pesticide registration fees and by future lease rental payments from the State of Louisiana as lessee of the aforementioned property. There are no bond reserve requirements per the trust indenture because of the pledge of pesticide registration fees.

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

Notes to the Financial Statements (Continued)

On February 1, 1986, the authority exercised its right to redeem \$500,000 of the \$5,500,000 Revenue Bonds, Series 1985, before maturity. On September 1, 1986, the authority redeemed another \$450,000 of the \$5,500,000 Revenue Bonds, Series 1985, before maturity. According to the bonds' trust indenture, the bonds are subject to optional redemption, in whole or in part, at any time at a redemption price of 100 percent of the principal amount plus accrued interest to the redemption date. The Department of Agriculture and Forestry provided the funds for the authority to redeem the bonds. The authority's payment on February 1, 1986, totaled \$538,215, which included \$8,215 in accrued interest, and resulted in interest savings of \$181,585. The authority's payment on September 1, 1986, totaled \$515,824, which included \$15,824 in accrued interest, and resulted in interest savings of \$184,076.

The following is a summary of changes in bonds payable, current and long-term, for the year ended June 30, 1987:

Bonds payable as of June 30, 1986	\$4,990,000
Additions	NONE
Retirements of principal on debt	<u>(1,275,000)</u>
Bonds payable as of June 30, 1987	<u>\$3,715,000</u>

The annual requirements to amortize \$3,715,000 of revenue bonds outstanding at June 30, 1987, including interest of \$65,200, are as follows:

Fiscal year:	
1988	\$1,098,475
1989	1,057,050
2090	1,070,650
2091	744,000
2092	<u>420,675</u>
Total	<u>\$4,370,750</u>

6. CONTRIBUTED CAPITAL

The following is a summary of changes to contributed capital for the year ended June 30, 1987:

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

Notes to the Financial Statements (Continued)

Contributed capital at June 30, 1996	\$7,405,593
Prior period adjustment for credits	6,448
Prior period adjustment for depreciation	694,315
Prior period adjustment for due to others	48,658
Contributed capital at June 30, 1999 - restated	<u>8,154,914</u>
Additions - capital outlay program	<u>1,019,944</u>
Contributed capital at June 30, 1997	<u>\$9,174,858</u>

7. ADJUSTMENTS TO RETAINED EARNINGS
 AT BEGINNING OF YEAR

Adjustments to the beginning retained earnings, as shown on Statement B, are detailed as follows:

Retained earnings at beginning of year, July 1, 1996	<u>\$1,041,118</u>
Additions:	
Deferred revenue overstatement	48,004
Adjustment to property, plant, and equipment	17,529
Total additions:	<u>65,533</u>
Deductions:	
Receivables overstatement due to old amounts owed from the Fire Marshal	107,184
Capital lease receivable overstatement due to early retirement of debt	268,038
Depreciation of assets acquired by contributed capital	694,315
Total deductions:	<u>1,069,537</u>
Retained earnings at beginning of year as restated	<u>\$638,405</u>

8. FUND DEFICIT

The retained earnings - unreserved deficit of \$201,621 as of June 30, 1997, will be eliminated by total revenue received by the authority.

9. UNAMORTIZED BOND ISSUANCE COSTS

Unamortized bond issuance costs include legal fees and remarketing fees associated with the original \$9,000,000 revenue bonds. These costs will be amortized over the life of the bonds using the straight-line method. The original issuance costs of \$138,044 is reflected on

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

Notes to the Financial Statements (Continued)

Statement A at \$48,455, net accumulated amortization totaling \$81,839. The bond issuance costs amortized in 1997 were \$9,881.

10. LEASE-PURCHASE AGREEMENT

The authority has entered into a lease-purchase agreement with the Department of Agriculture and Forestry for the acquisition of the office building acquired by the authority as a result of the issuance of its revenue bonds. Under the terms of the agreement, the Department of Agriculture and Forestry took possession of the office building on August 20, 1988. The term of the lease-purchase agreement is from August 29, 1988, to October 30, 2002, or such earlier time as the bonds have been paid or provision for their payment has been made in accordance with the agreement.

In addition to the base rental payments to cover debt service on the bonds and related bond expenses, the Department of Agriculture and Forestry agrees to pay all taxes, assessments, and insurance premiums. The department also assumes all costs of maintaining and operating the office building during the term of the agreement. The rental payments are to be made from moneys appropriated to the department for that purpose. Under the direction of the bond trustee, the Department of Agriculture and Forestry wires the payments to the trustee who pays the bond principal and interest as they become due. The lease-purchase agreement is dependent on the appropriation to the department and shall terminate, at the option of the authority, in the event no funds or insufficient funds are appropriated in any fiscal year.

On April 30, 1990, the authority entered into a cooperative endeavor agreement with Louisiana State University and A&M College and Department of Agriculture and Forestry for the purpose of constructing, furnishing, equipping, and maintaining a building on the Agricultural Center's Baton Rouge campus of Louisiana State University and A&M College to house the food, fertilizer, and pesticide testing laboratories, administrative offices, and related support facilities for the university and the department. According to the agreement, the university will lease the real property to the authority, who will construct, furnish, and equip a laboratory building. The authority will sublease the land and the building to the department for its use. The term of the cooperative endeavor agreement is from April 29, 1990, to April 20, 2015. At the expiration of the agreement, the ownership of the building shall transfer to the university without any compensation or payment to the authority. On July 1, 2002, a sublease agreement was entered into between the authority and the department to provide a source of payment for the \$3,100,000 revenue bonds issued to complete construction of the laboratory building. The term of the sublease agreement is from July 1, 1992, to January 15, 2002, or such earlier time as the bonds have been paid or provision for their payment has been made in accordance with the agreement.

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

Notes to the Financial Statements (Continued)

In addition to the lease rental payments to cover debt service on the bonds and related bond expenses, the Department of Agriculture and Forestry agrees to pay trustee fees and expenses of the authority as they relate to the project. The university shall keep the non-structural portion of the building in good repair and maintenance. The rental payments are to be made from monies appropriated to the department for that purpose. Under the direction of the bond trustee, the department will make payments to the trustee who pays the bond principal and interest as they become due. The lease-purchase agreement is dependent on the appropriation to the department and shall terminate, at the option of the authority, in the event no funds or insufficient funds are appropriated in any fiscal year.

A summary of changes in capital lease receivable is as follows:

Capital lease receivable at June 30, 1989	\$6,132,000
Reduction to capital lease receivable by payments received in 1989	(1,677,774)
Reduction to capital lease receivable by interest savings realized by early lease payments	<u>(164,076)</u>
Capital leases receivable at June 30, 1991	<u>\$4,370,200</u>

The portion of the receivable applicable to future years is included in deferred revenue on Statement A.

11. PER DIEM

Per diem for the authority was paid by the Department of Agriculture and Forestry. Per diem for the fiscal year ended June 30, 1987, is \$200. The schedule of per diem payments is included in the report on the Department of Agriculture and Forestry.

12. LITIGATION

During fiscal year 1985, the authority and the general contractor for the agricultural chemistry building on the Agriculture Center's Baton Rouge campus of Louisiana State University and A&M College entered into arbitration for the final contract payment. The contractor was seeking payment of final contract balances plus extra costs incurred because of an alleged failure by the authority to timely accept the building. The authority did not accept the building because the contractor allegedly failed to comply with the contract documents and allegedly failed to complete the project by the completion date. On May 10, 1985, in a companion suit, the authority and the Department of Agriculture and Forestry sued the general contractor's bonding company as surety due to the contractor's alleged failure to complete the project.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
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Notes to the Financial Statements (Continued)

according to the terms and conditions of the construction contract as well as the contractor's alleged failure to pay certain subcontractors for work performed. The arbitration was conducted in December 1995, and the authority was awarded \$853,100. On April 12, 1996, confirmation of the arbitration award was applied for in the Nineteenth Judicial District Court. Pending a motion to transfer the matter to the judicial division handling the companion suit, no continuation date has been assigned. The contractor filed an appeal to the arbitration decision and a court hearing has not been scheduled as of December 2, 1997. The companion suit filed against the general contractor's bonding company is currently being continued pending opposing motions filed by each party.

11. AGRICULTURAL LOAN PROGRAM

The authority, as authorized by R.S. 3:286, began issuing bonds in December 1980, to provide financing for agricultural loans, through the purchase or guarantee of existing loans, or negotiation of new loans, and the establishment of reserves for the bond issues. At June 30, 1997, the authority has issued a total of \$341,020,668 in bonds, including two bond issues totaling \$300,000,000 that are currently in default, and the outstanding balance on all bond issues at June 30, 1997, is \$67,438,222. The amounts associated with these bond issues are not included within the accompanying financial statements as the amounts are payable solely from the proceeds of the loans pledged. The bonds do not constitute an indebtedness of the authority or of the State of Louisiana.

Both of the 1980 bond issues were payable solely from the proceeds of two Guaranteed Investment Contracts with Executive Life Insurance Company and from certain agricultural loans permitted under the financing program. Executive Life Insurance Company was placed into conservatorship by the Commissioner of Insurance from the State of California on April 11, 1991. As a result, both of the 1980 series bonds have defaulted.

Trustees of the two 1980 series defaulted bonds, referred to as LAFA I and LAFA II, have received distributions, on behalf of bondholders, under a modified plan of rehabilitation for Executive Life Insurance Company. During the period of April 11, 1991, through May 15, 1997, trustees have received interest payments, including interest, totaling \$140,201,798 and \$141,320,509 for the LAFA I and LAFA II bonds, respectively. As a result of this modified plan, court ordered trust administration costs of \$4,528,930 for LAFA I and \$4,528,930 for LAFA II were incurred and distributions totaling \$275,075,507 were made to bondholders on January 20, 1994; May 25, 1994; April 12, 1995; November 30, 1995; April 24, 1996; and May 15, 1997. This amount represents principal of \$102,840,429 and interest of \$24,831,800 for LAFA I bondholders and principal of \$100,775,994 and interest of \$26,624,515 for LAFA II bondholders. Distributions under the modified plan of rehabilitation for Executive Life Insurance Company can continue until the conservator of the distributions declares the distributions are complete if the modified plan has expired.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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



BARBARA A. BYRD, PH.D., CPA, CMA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
Baton Rouge, Louisiana 70804-9001

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December 15, 1997

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

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

We have audited the general purpose financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 1997, and have issued our report thereon dated December 15, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Agricultural Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Agricultural Finance Authority's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

LEGISLATIVE AUDITOR

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

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We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the authority and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

LJA:DLH:dl

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