

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

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

March 19, 1997



***Financial and Compliance Audit Division***

---

---

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

**LEGISLATIVE AUDIT ADVISORY COUNCIL**

**MEMBERS**

**Representative Francis C. Thompson, Chairman**  
**Senator Ronald C. Bean, Vice Chairman**

**Senator Robert J. Barham**  
**Senator Wilson E. Fields**  
**Senator Thomas A. Greene**  
**Senator Craig F. Romero**  
**Representative F. Charles McMains, Jr.**  
**Representative Edwin R. Murray**  
**Representative Warren J. Triche, Jr.**  
**Representative David Vitter**

**LEGISLATIVE AUDITOR**

**Daniel G. Kyle, Ph.D., CPA, CFE**

**DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT**

**Albert J. Robinson, Jr., CPA**

**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, 1996  
With Supplemental Information Schedule**

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.

March 19, 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, 1996  
With Supplemental Information Schedule**

**CONTENTS**

	<b>Statement</b>	<b>Page No.</b>
Independent Auditor's Report on the Financial Statements		2
General Purpose Financial Statements - Proprietary Fund - Enterprise Fund:		
Balance Sheet (All Fund Types and Account Groups)	A	4
Statement of Revenues, Expenses, and Changes in Retained Earnings	B	5
Statement of Cash Flows	C	6
Notes to the Financial Statements		7
	<b>Schedule</b>	<b>Page No.</b>
Supplemental Information Schedule - Schedule of Per Diem Paid Board Members	1	18
	<b>Exhibit</b>	
Other Reports Required by <i>Government Auditing Standards</i> :		
Report on Internal Control Structure Based Solely on an Audit of the General Purpose Financial Statements	A	
Report on Compliance With Laws and Regulations	B	



DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (504) 339-3800  
FACSIMILE: (504) 339-3870

January 16, 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, 1996, 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 *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 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, 1996, 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 January 16, 1997, on our consideration of the Louisiana Agricultural Finance Authority's internal control structure and a report dated January 16, 1997, on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the

LEGISLATIVE AUDITOR

LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
Audit Report, June 30, 1996

general purpose financial statements of the Louisiana Agricultural Finance Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

MMG:MWB:dl

[LAFA]

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

Balance Sheet, June 30, 1996

**ASSETS**

Current assets:

Cash in bank (note 2)	\$7,844
Cash held by trustee (note 2)	257
Receivables (note 3)	764,533
Total current assets	<u>772,634</u>

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

258,190

Other assets:

Unamortized bond issuance costs (note 8)	58,086
Capital lease receivable (note 9)	6,132,050
Property, plant, and equipment (net of accumulated depreciation) (note 4)	<u>10,732,486</u>
Total other assets	<u>16,922,622</u>

TOTAL ASSETS

\$17,953,446

**LIABILITIES AND FUND EQUITY**

Liabilities:

Current liabilities:

Accounts payable	\$624,467
Accrued interest on bonds payable	92,828
Due to others (note 5)	49,896
Bonds payable - current portion (note 6)	775,000
Total current liabilities	<u>1,542,191</u>

Deferred revenue

3,149,472

Bonds payable - long-term (note 6)

4,215,000

Total Liabilities

8,906,663

Fund Equity:

Contributed capital, net of accumulated depreciation (note 7)	7,405,665
Retained earnings - unreserved	1,641,118
Total Fund Equity	<u>9,046,783</u>

TOTAL LIABILITIES AND FUND EQUITY

\$17,953,446

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, 1996**

**OPERATING REVENUES**

Rental income	<u>\$70,700</u>
---------------	-----------------

**OPERATING EXPENSES**

Professional services	132,542
Materials and supplies	29,548
Amortization of bond issuance costs	9,681
Depreciation	432,123
Trustee fees	1,239
Total operating expenses	<u>605,133</u>

<b>OPERATING INCOME (Deficit)</b>	<u>(534,433)</u>
-----------------------------------	------------------

**NONOPERATING REVENUES (Expenses)**

Capital outlay and maintenance expense for Louisiana Department of Agriculture and Forestry	(814,169)
Capital outlay and maintenance reimbursement from Louisiana Department of Agriculture and Forestry	820,615
Incidental post-construction expenses	(96,098)
Reimbursement for incidental post-construction expenses	96,098
Capital outlay expense for State Group Benefits	(188,460)
Capital outlay reimbursement from State Group Benefits	188,460
Interest income	13,873
Amortization of interest from capital leases	377,727
Interest expense	(377,727)
Total nonoperating revenues (expenses)	<u>20,319</u>

<b>NET INCOME (Deficit)</b>	<u>(514,114)</u>
-----------------------------	------------------

**OTHER FINANCING SOURCES**

Lease principal payments	275,000
Sale of timber	1,503
Total other financing sources	<u>276,503</u>

<b>ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY CONTRIBUTED CAPITAL (note 7)</b>	432,123
--	---------

<b>RETAINED EARNINGS AT BEGINNING OF YEAR</b>	<u>1,446,606</u>
---	------------------

<b>RETAINED EARNINGS AT END OF YEAR</b>	<u><u>\$1,641,118</u></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, 1996**

Cash flows from operating activities -		
operating income (deficit)		(\$534,433)
Adjustments to reconcile operating income to net		
cash provided by operating activities - depreciation		
and amortization	\$441,804	
Increase in accounts payable	(6,019)	
Decrease in prior year credit	19,100	454,885
Net cash provided by operating activities		<u>(79,548)</u>
Cash flows from noncapital financing activities:		
Repayment of loan - Louisiana Department of Agriculture		
and Forestry	370,810	
Maintenance payments on behalf of Louisiana		
Department of Agriculture and Forestry	(914,296)	
Maintenance reimbursements from Louisiana		
Department of Agriculture and Forestry	772,906	
State Group Benefits capital outlay expense	(180,376)	
State Group Benefits capital outlay reimbursement	179,306	
Capital outlay expense	(119,944)	
Sale of timber	1,503	
Miscellaneous income	2,100	
Net cash provided by noncapital financing activities		<u>112,009</u>
Cash flows from capital and related financing activities:		
Transfers from Louisiana Department		
of Agriculture and Forestry	661,003	
Capital lease receivable payments	1,626,265	
LSU Chemistry lab capital outlay	(93,998)	
Principal paid on bond maturities	(1,230,000)	
Interest paid on bonds	(396,265)	
Construction expense	(595,797)	
Net cash provided by capital and related		<u>(28,792)</u>
financing activities		
Cash flows from investing activities - interest		
on investments		<u>13,975</u>
Net increase in cash and cash equivalents		17,644
Cash and cash equivalents at beginning of year		<u>248,647</u>
Cash and cash equivalents at end of year		<u><u>\$266,291</u></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, 1996

**INTRODUCTION**

The Louisiana Agricultural Finance Authority (authority) was created under the provisions of Louisiana Revised Statute (LSA-R.S.) 3:261-284, within the Department of Agriculture and Forestry, State of Louisiana, and is domiciled in East Baton Rouge Parish. The authority consists of 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 Baton Rouge 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, LSA-R.S. 3:283 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

The Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Louisiana Agricultural Finance 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 Louisiana Agricultural Finance 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 Louisiana Agricultural Finance Authority revenue bonds, as well as certain resources provided annually by the Department of Agriculture and Forestry are set aside for construction of the agricultural chemistry laboratory building and 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 building that was constructed by the authority, and a warehouse constructed by the authority and completed in December 1995. The agricultural chemistry lab 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 and closed into contributed capital at the end of the year. 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, which are received from the Department of Agriculture and Forestry - Pesticide Fund, are restricted for the acquisition or construction of capital assets. Contributed capital is not amortized, but depreciation is recognized on that portion of the assets acquired or constructed from such contributions.

**I. RENTAL INCOME**

Rental income is derived from the lease of the former Forestry Building by the Department of Public Safety, Office of State Fire Marshal. The lease on the building expires in the year 2000, with an option to renew. Rental payments are due to the authority monthly.

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

**2. CASH AND CASH EQUIVALENTS**

As reflected on Statement A, at June 30, 1996, the authority has cash in demand deposits totaling \$7,844 and cash and cash equivalents held by the trustee totaling \$258,447. 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 \$134,955 at June 30, 1996, for which the authority has control. This deposit is secured from risk by \$100,000 of federal deposit insurance (GASB Risk Category 1) and \$34,955 of pledged securities held in the name of the pledging fiscal agent bank in a holding bank (GASB Risk Category 3).

The cash and cash equivalents held by the trustee consist of shares of a Marquis Treasury Fund, a money market mutual fund that invests solely in U.S. government treasuries. The mutual funds are not classified as to category of credit risk because this is not required by GASB Codification Section 150.165. The market value of the fund is the same as the carrying amount of \$258,447.

**3. RECEIVABLES**

The Louisiana Agricultural Finance Authority's receivables are as follows:

Accrued interest income	\$1,019
Department of Agriculture and Forestry rental income	107,184
Repayment of loan for upgrade of equipment	289,606
Maintenance reimbursement	63,357
Due from State Employees Group Benefits Program	9,155
Due from State Treasury	<u>294,212</u>
<i>Total</i>	<u><u>\$764,533</u></u>

**4. FIXED ASSETS**

A summary of the authority's fixed assets at June 30, 1996, is presented as follows:

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

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost	\$71,167	\$9,672,190	\$1,715,607	\$11,458,964
Less - accumulated depreciation	NONE	(430,143)	(296,335)	(726,478)
Total	<u>\$71,167</u>	<u>\$9,242,047</u>	<u>\$1,419,272</u>	<u>\$10,732,486</u>

**5. DUE TO OTHERS**

At June 30, 1996, the authority has liabilities titled "due to others" totaling \$49,896. This liability represents a payable to the Department of Agriculture and Forestry - Pesticide Fund for monies used to upgrade bulldozers for the Office of Forestry. These monies are payable to the Pesticide Fund upon reimbursement to the authority by the Office of Forestry from the proceeds of a timber protection fee assessed on property.

**6. LONG-TERM OBLIGATIONS**

On August 30, 1988, the Louisiana Agricultural Finance Authority sold \$6,000,000 of Revenue Bonds, Series 1988, 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, 1992, with an interest rate of 6.5 percent payable semi-annually due April 30 and October 30. The revenue bonds are secured by a pledge of Feed and Fertilizer funds' 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 Feed and Fertilizer funds' revenues.

On July 1, 1992, the authority sold \$3,100,000 of Revenue Bonds, Series 1992, 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 6.5 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.

On February 1, 1996, the authority exercised its right to redeem \$500,000 of the \$5,100,000 Revenue Bonds, Series 1988, prior to 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

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

bonds. The authority's payment on February 1, 1996, totaled \$508,215, which included \$8,215 in accrued interest. This advance redemption of bonds results in interest savings of \$181,585.

The annual requirements to amortize \$4,990,000 of revenue bonds outstanding at June 30, 1996, including interest of \$1,142,050 are as follows:

Fiscal year:	
1997	\$1,099,350
1998	1,098,975
1999	1,100,350
2000	1,103,150
2001-2002	<u>1,730,225</u>
Total	<u><u>\$6,132,050</u></u>

**7. CONTRIBUTED CAPITAL**

The following is a summary of contributed capital as of June 30, 1996:

Contributed capital at June 30, 1995	\$6,862,970
Prior period adjustment for depreciation	<u>4,979</u>
Contributed capital at June 30, 1995 - restated	6,867,949
Additions:	
Capital outlay program	933,173
Deferred revenue	50,000
Reductions:	
Equipment deletions	(13,334)
Accumulated depreciation	<u>(432,123)</u>
Contributed capital at June 30, 1996	<u><u>\$7,405,665</u></u>

In accordance with GASB Codification G60.116, contributed capital has been reduced for the depreciation on the former forestry building, the agricultural chemistry lab, and equipment.

**8. UNAMORTIZED BOND ISSUANCE COSTS**

Unamortized bond issuance costs include legal fees and remarketing fees associated with the original \$6,000,000 revenue bonds. These costs will be amortized over the life of the bonds using the straight-line method. The original issuance costs of \$130,044 is reflected on

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

Statement A at \$58,086, net of accumulated amortization totaling \$71,958. The bond issuance costs amortized in 1996 were \$9,681.

**9. 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 29, 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 monies 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 the 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 feed, 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 20, 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, 1992, 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 base 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 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.

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

Capital lease receivable at June 30, 1995	\$7,939,900
Reduction to capital lease receivable by payments received in 1996	(1,626,265)
Reduction to capital lease receivable by interest savings realized by early lease payment	<u>(181,585)</u>
Total	<u><u>\$6,132,050</u></u>

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

**10. LITIGATION**

During fiscal year 1995, 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 13, 1995, 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 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 \$653,100. 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 confirmation date has been assigned. The contractor filed an appeal to the arbitration decision and a court hearing

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

has not been scheduled as of January 16, 1997. The companion suit filed against the general contractor's bonding company is currently being continued pending opposing motions filed by each party.

Two lawsuits were previously filed against the authority alleging that the disclosure in the official statement for \$300,000,000 in bonds contained material misrepresentations concerning the intended use of the bond proceeds. The bonds included "LAFA I," \$150,000,000 Louisiana Agricultural Finance Authority 8.25 percent Revenue Bonds, Series 1986A, and "LAFA II," \$150,000,000 Louisiana Agricultural Finance Authority 8.80 percent Securitized Agricultural Revenue Bonds, Series 1986A. In a letter dated February 8, 1996, counsel to the State of Louisiana, Division of Administration, Office of Risk Management, stated that a Judgment of Dismissal has been entered by the District Court terminating the litigation. All contributions toward settlement have been satisfied, and the authority has no continuing financial exposure with regard to these cases.

**11. AGRICULTURAL LOAN PROGRAM**

The authority, as authorized by LSA-R.S. 3:266, began issuing bonds in December 1983, to provide financing for agricultural loans, through the purchase or guarantee of existing loans, or negotiation on new loans, and the establishment of reserves for the bond issues. At June 30, 1996, the authority has issued a total of \$341,023,550 in bonds, including two 1986 bond issues totaling \$300,000,000 that are currently in default, and the outstanding balance on all bond issues at June 30, 1996, is \$301,184,444. 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 1986 bond issues were payable solely from the proceeds of two Guaranteed Investment Contracts with Executive Life Insurance Company and from certain agricultural loans permitted under the financing program. 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 1986 series bonds have defaulted.

Trustees of the two 1986 series defaulted bonds, referred to as LAFA I and LAFA II, have received distributions on behalf of bondholders under a modified plan of rehabilitation for Executive Life Insurance Company. During the period of April 11, 1991, through March 29, 1996, trustees have received interim payments, including interest, totaling \$131,519,498 and \$131,264,665 for the LAFA I and LAFA II bonds, respectively. As a result of this modified plan, distributions totaling \$253,731,163 were made to bondholders on January 20, 1994; May 25, 1994; April 12, 1995; November 30, 1995; and April 24, 1996. This amount represents principal of \$96,342,940 and interest of \$30,650,058 for LAFA I bondholders and principal of \$94,490,816 and interest of \$32,247,349 for LAFA II bondholders.

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

Although distributions representing principal and interest have been distributed to the bondholders, the trustees will continue to reflect an outstanding balance totaling \$300,000,000 until such time that the bond issues have been officially declared retired. 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 or the modified plan has expired.

**12. SUBSEQUENT EVENT**

On September 1, 1996, the authority exercised its right to redeem \$500,000 of the \$5,100,000 Revenue Bonds, Series 1988, prior to 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 September 1, 1996, totaled \$510,924, which included \$10,924 accrued interest. This advance redemption of bonds results in interest savings of approximately \$195,000.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
SUPPLEMENTAL INFORMATION SCHEDULE  
For the Year Ended June 30, 1996**

**PER DIEM PAID BOARD MEMBERS**

The per diem paid board members is presented on Schedule 1. In accordance with Louisiana Revised Statute 3:264(G), each member is paid \$40 for attendance at meetings of the authority or subcommittees. Per diems were paid by the Department of Agriculture and Forestry and are not included within the accompanying financial statements.

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

Schedule of Per Diem Paid Board Members  
For the Year Ended June 30, 1996

	<u>NUMBER</u>	<u>AMOUNT</u>
J. Wade O'Neal, III	1	\$40
Shelby Robert	1	40
		<hr/>
Total		\$80
		<hr/> <hr/>

**OTHER REPORTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

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



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (504) 339-3800  
FACSIMILE: (504) 339-3870

January 16, 1997

Independent Auditor's Report on Internal Control Structure Based  
Solely on an Audit of the General Purpose Financial Statements

**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, 1996, and have issued our report thereon dated January 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Management of the Louisiana Agricultural Finance Authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of the Louisiana Agricultural Finance Authority for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

**EXHIBIT A**

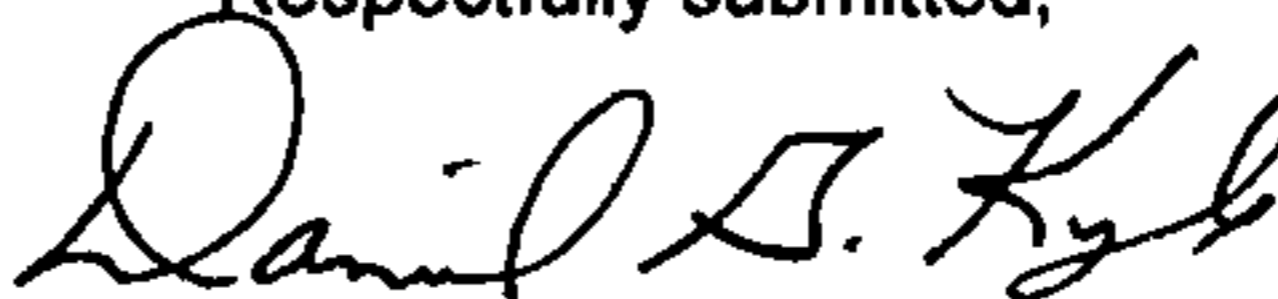
LEGISLATIVE AUDITOR

LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
Internal Control Report  
January 16, 1997  
Page 2

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

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

MMG:MWB:dl

(LAFA)

EXHIBIT A





OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (504) 339-3800  
FACSIMILE: (504) 339-3870

January 16, 1997

Independent Auditor's Report on Compliance With Laws  
and Regulations Material to the General Purpose Financial Statements

**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, 1996, and have issued our report thereon dated January 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, and contracts applicable to the Louisiana Agricultural Finance Authority is the responsibility of the authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the authority's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

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,

A handwritten signature in cursive script, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

MMG:MWB:dl

[LAFA]

**EXHIBIT B**