	Sales Tax Receivable	Due from State of Louisiana	Total
Department of Revenue and Taxation	$42,021,259		$42,021,259
Department of Public Safety and Corrections, Public Safety Services, Office of Motor Vehicles	4,320,285		4,320,285
Sales tax collected before July 1, 1996		$4,050,046	4,050,046
Total	$46,341,544	$4,050,046	$50,391,590

4. CHANGES IN LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation transactions for the year ended June 30, 1996:

	Sales and Use Tax Bonds		
	Variable Rate Bonds	Fixed Rate Bonds	Total
Long-term obligations payable at June 30, 1995	$133,200,000	$353,595,000	$486,795,000
Principal reduction		(119,390,000)	(119,390,000)
Long-term obligations payable at June 30, 1996	$133,200,000	$234,205,000	$367,405,000

A. SALES AND USE TAX VARIABLE RATE BONDS

On July 21, 1988, the district issued $200,000,000 of variable rate bonds dated July 1, 1988, which were secured by a one percent statewide sales tax. At June 30, 1996, these bonds have remaining maturities of July 1, 1997, and July 1, 1998, in amounts of $75,000,000 and $58,200,000, respectively. To obtain a more favorable rate of interest and to increase the marketability of the bonds, the bond indenture includes provisions for credit enhancements. These credit enhancements consist of liquidity support provided by a standby bond repurchase agreement with Swiss Bank Corporation and credit support provided by bond repayment insurance issued by Financial Guaranty Insurance Company Municipal Bond Investors Assurance Corporation (1997 maturities) and Municipal Bond Investors Assurance Corporation (1998 maturities).

In addition, the district entered into a remarketing agreement with Merrill Lynch, Pierce, Fenner, and Smith, whereby the remarketing agent upon 7 days' notice by the bondholder will remarket any bonds tendered. The maximum interest rate payable on the variable rate bonds is 12 percent. To limit the district's risks associated with

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 and 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 management of the district. 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

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DLH:LWM:dl

[LARD]

EXHIBIT A

subsequently transferred on July 30, 1992, from the account to the Deficit and Cash Shortfall Fund, established with the Louisiana State Treasury, in accordance with the Series 1992 Senior and Junior Lien Bond resolutions.

In addition, the General Bond resolutions for the Series 1988 and 1992 bonds require the establishment of sinking fund accounts to accumulate amounts to be used for future debt service payments. The balance required to be on deposit in the sinking fund account is defined in the resolution as the sum of the principal and interest payable in the current and two succeeding months. Since the 1992 Senior Lien Bonds are parity bonds with the 1988 series bonds, the 1992 Senior Lien Bonds will use the same account as the 1988 series bonds. This account at June 30, 1996, has $148,180,027 on deposit in the sinking fund account. A separate account was established for the 1992 Junior Lien Bonds. This account at June 30, 1996, has on deposit $15,866,106. The Debt Service Sinking Fund requirements have been met.

6. RESERVED FUND BALANCE

At June 30, 1996, the district has total fund balance reserves of $240,124,904. This balance represents amounts reserved for payment of future debt service principal and interest.

7. LITIGATION AND CLAIMS

There is no litigation pending against the Louisiana Recovery District at June 30, 1996.

8. LOUISIANA RECOVERY DISTRICT SALES AND USE TAX

Act 15 of the First Extraordinary Session of the 1988 Louisiana Legislature authorized the district to levy a statewide one percent sales and use tax and to issue sales and use tax bonds. The board of directors of the district adopted an ordinance dated April 28, 1988, which levied a statewide sales tax effective July 1, 1988. The sales tax proceeds are to be used to pay debt service on those bonds issued by the district and whose proceeds were used to assist the state in reducing and eliminating the state General Fund deficit existing at June 30, 1988, and to remedy additional cash flow shortages of the state General Fund. The district entered into a collection agreement with the state dated July 13, 1988, whereby the district sales tax is collected by the Louisiana Department of Revenue and Taxation and the Department of Public Safety and Corrections, Public Safety Services, and remitted to the district on a daily basis. The district, in the General Bond Resolution dated April 28, 1988, authorized the issuance of up to $1,300,000,000 in sales and use tax bonds and pledged and dedicated the proceeds of the sales tax to secure the bonds.

Act 569 of the 1993 Regular Session of the Louisiana Legislature authorized the district to adopt an ordinance to suspend certain sales tax exemptions provided in Chapter 2 of Subtitle II possible upward fluctuations of the interest rates on each respective maturity of the variable rate bonds, the district entered into two interest rate ceiling agreements (Swap Agreements) with Merrill Lynch Capital Services, Incorporated.

Under the terms of these agreements, an interest rate ceiling was determined that limits the district's interest payments to 6.9 percent on the 1997 maturities and 7 percent on the 1998 maturities. If actual interest rates payable on short-term tax-exempt bonds, as determined monthly by the Kenny Information Systems Index, exceed the agreed upon ceiling rates, the excess is paid to bondholders by Merrill Lynch Capital Services, Incorporated. If actual interest rates are less than the ceiling rate, the difference is payable by the district to Merrill Lynch Capital Services, Incorporated. The district is exposed to credit risk of nonperformance by Merrill Lynch Capital Services, Incorporated. This risk could result in the district not receiving the agreed upon payments if the variable interest rate exceeds 6.9 percent (1997 maturities) or 7 percent (1998 maturities). However, the district does not anticipate nonperformance. There is a provision in the bond indenture allowing conversion of the variable rate bonds to fixed rate bonds at the discretion of the district.

In March 1989, the district reacquired $66,800,000 of the 1998 maturity with excess bond proceeds, as determined by the district's board of directors in a resolution dated January 31, 1989. The interest to maturity on the remaining outstanding variable rate bonds calculated at maximum rates of 6.9 percent and 7 percent for the 1997 and remaining 1998 maturities, respectively, is $17,947,500.

B. SALES AND USE TAX FIXED RATE BONDS

On July 21, 1988, the district issued $779,125,000 of fixed rate serial and term bonds dated July 1, 1988, which were secured by a one percent statewide sales tax. This issue consisted of $710,370,000 in serial bonds with maturities between July 1, 1989, and July 1, 1996, and $68,755,000 of term bonds due July 1, 1998. Credit support was provided for $588,695,000 of the serial bonds in the form of either bank letters of credit or municipal bond repayment insurance policies. The remaining serial bonds of $121,675,000 and the term bonds were not supported by any form of credit enhancement. The interest rates for the serial bonds range from 7.375 percent to 7.625 percent.

As described in note 4-C, on June 25, 1992, $68,755,000 of the non-credit supported term bonds and $90,245,000 of credit supported serial bonds were defeased with refunding bonds.

At June 30, 1996, the total remaining Series 1988 fixed rate bonds outstanding of $111,675,000 consist of $50,000,000 of serial bonds with credit support and

$61,675,000 of serial bonds. The interest to maturity on these fixed rate bonds amounts to $4,195,109.

C. SERIES 1992 FIXED RATE BONDS

On June 25, 1992, the district issued $167,050,000 in fixed rate bonds, Series 1992, of which $80,920,000 are Sales Tax Refunding Bonds (Senior Lien Bonds) and $86,130,000 are Sales Tax Junior Lien Refunding Bonds (Junior Lien Bonds).

The Senior Lien Bonds were issued with interest rates of 3.8 percent to 5.7 percent to advance refund $73,755,000 of the district's Sales Tax Bonds, Series 1988, dated July 1, 1988, which were due on July 1, 1998. On July 1, 1992, these bonds were considered defeased.

The Junior Lien Bonds were issued with interest rates of 3.4 percent to 5.5 percent to advance refund $85,245,000 of the district's Sales Tax Bonds, Series 1988, dated July 1, 1988, which were due on July 1, 1992. On July 1, 1992, these bonds were considered defeased.

The Senior Lien Bonds are issued on a parity with the 1988 Series bonds pursuant to a General Bond Resolution adopted April 28, 1988, by the governing authority of the district, as amended and supplemented by a First Supplemental Resolution adopted July 13, 1988, and Second and Third Supplemental Resolutions adopted by the governing authority on June 11, 1992. A portion of the proceeds of the parity (Senior Lien) bonds were applied to the advance refunding of the Series 1988 bonds in the aggregate principal amount of $73,755,000 maturing July 1, 1998.

The bond proceeds were deposited into an escrow account held by First National Bank of Commerce, New Orleans, Louisiana, as Escrow Trustee pursuant to the terms of an escrow deposit agreement dated as of June 1, 1992, between the district and the Escrow Trustee. Proceeds of the Senior Lien Bonds were used to pay costs of issuance of both the Senior Lien and Junior Lien Bonds. The Senior Lien Bonds are not credit enhanced. At June 30, 1996, the Senior Lien Bonds have remaining maturities of $76,470,000 and the interest to maturity amounts to $7,963,975.

The Junior Lien Bonds are issued on a junior and subordinate basis to the Senior Lien Bonds pursuant to a Junior Lien General Bond Resolution adopted May 20, 1992, by the governing authority of the district, as amended and supplemented by a Junior Lien First Supplemental Resolution adopted by the governing authority on June 11, 1992. A portion of the proceeds of the Junior Lien Bonds was applied to the current refunding of all the Series 1988 Bonds in the aggregate principal amount of $85,245,000 maturing July 1, 1992. Proceeds of the Junior Lien Bonds were used to pay the premiums for the purchase of a financial guaranty insurance policy and a reserve fund insurance policy.

At June 30, 1996, the Junior Lien Bonds have remaining maturities of $46,060,000 and interest to maturity amounts to $3,810,030.

The annual requirements to amortize all bonds outstanding at June 30, 1996, including total interest of $33,916,614 [variable rate interest computed at 6.9 percent (1997) and 7 percent (1998), and fixed rate interest computed at rates between 5.1 percent and 7.625 percent] are as follows:

Fiscal Year	Variable Rate Bonds	Fixed Rate Bonds	Total
1997	$9,249,000	$138,204,749	$147,453,749
1998	81,661,500	65,620,725	147,282,225
1999	60,237,000	46,348,640	106,585,640
Total	$151,147,500	$250,174,114	$401,321,614

D. PRIOR YEAR DEFEASEMENT OF DEBT

On June 25, 1992, the Louisiana Recovery District defeased certain non-credit supported term bonds and other credit supported serial bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the recovery district's financial statements. On June 30, 1996, $159,000,000 of bonds outstanding are considered defeased.

5. REQUIRED RESERVES

The General Bond Resolution adopted by the district on April 28, 1988, in respect to the Series 1988 bonds requires the establishment of a reserve bank account to be used solely for the purpose of paying the principal and interest on the bonds. The amount required to be deposited in the reserve account is specified in the General Bond Resolution as an amount equal to the lesser of 10 percent of the bond proceeds or the maximum amount of principal installments and interest maturing and becoming due in the fiscal year in which such calculation is made or in any single succeeding fiscal year on the outstanding bonds.

On June 11, 1992, the district authorized and approved a Third Supplemental Resolution amending and supplementing the General Bond Resolution that provides for the replacement of the Reserve Fund with a Municipal Bond Insurance Policy from Municipal Bond Investors Assurance Corporation (MBIA) in an amount equal to 43 percent of the Reserve Fund requirement and a Municipal Bond Issuance Policy from Financial Guaranty Insurance Company (FGIC) in an amount equal to 57 percent of the Reserve Fund requirement. The amount of $96,565,371 remaining in the Reserve Fund account at July 30, 1992, was

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.

I. TOTAL COLUMN ON BALANCE SHEET

The total column on the balance sheet is captioned Memorandum Only (overview) to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

2. INVESTMENTS

At June 30, 1996, the recovery district has investments totaling $166,176,959 as follows:

	Carrying Value (Book Value)	Market Value
United States Treasury notes	$21,193,457	$21,447,600
Money Market Fund	183,502	183,502
Repurchase agreements	144,800,000	146,705,269
Total	$166,176,959	$168,336,371

The United States Treasury notes and the repurchase agreements are in the name of the district and are held in the safekeeping account of the trustee at the Federal Reserve. Because these investments are in the name of the district and are held by the trustee, these investments are considered Category 1, in applying the credit risk of GASB Codification Section I50.164. The Money Market Fund investments are held in the counterparty's name and by the counterparty's agent. Therefore, these investments are considered Category 3, in applying the credit risk of GASB Codification Section I50.164.

3. RECEIVABLES

The district has receivables of $50,391,590 at June 30, 1996. This amount represents adjustments in calculation of sales tax amounts to be remitted to the district and sales tax on transactions occurring before June 30, 1996, which were collected by the Louisiana Department of Revenue and Taxation and the Department of Public Safety and Corrections, Public Safety Services, by August 15, 1996. The following is a summary of accounts receivable at June 30, 1996:

LOUISIANA RECOVERY DISTRICT
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

November 27, 1996

LOUISIANA RECOVERY DISTRICT
STATE OF LOUISIANA

General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1996

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Representative David Vitter

LEGISLATIVE AUDITOR

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

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

OFFICE OF
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November 4, 1996

Independent Auditor's Report
on the Financial Statements

BOARD OF DIRECTORS OF THE
LOUISIANA RECOVERY DISTRICT
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying general purpose financial statements of the Louisiana Recovery District, 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 Recovery District. 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 Recovery District as of June 30, 1996, and the results of operations for the year then ended, in conformity with generally accepted accounting principles.

As described in note 12 to the financial statements, the Louisiana Recovery District adopted a resolution authorizing the defeasance or retirement of the district's outstanding bonds, and the district commenced to set forth the defeasance plan on July 1, 1996. As a result, the Louisiana Recovery District will cease to exist on September 30, 1996, after all funds are transferred to the escrow trustee for the retirement of the bonds.

OFFICE OF
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November 4, 1996

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

BOARD OF DIRECTORS OF THE
LOUISIANA RECOVERY DISTRICT
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the general purpose financial statements of the Louisiana Recovery District, 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 November 4, 1996.

We have 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.

The management of the Louisiana Recovery District 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 Recovery District 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.

On July 31, 1996, the district will authorize the conversion of the interest rate on the Outstanding 1988 Bonds from a variable rate to fixed rates on September 3, 1996, (the "Conversion Date") to more economically defease the Series 1988 Bonds to their maturity dates.

On September 3 and September 30, 1996, the district will enter into Escrow Deposit Agreements with First National Bank of Commerce, New Orleans, Louisiana, as escrow trustee. Special and irrevocable escrow funds designated for each series of bonds will be established to be held in the custody of the Escrow Trustee separate and apart from other funds of the district or of the Escrow Trustee. On those dates, the district will deposit with the Escrow Trustee (1) approximately $132,000,000, which represent monies to be transferred from the segregated sinking fund account created by the Cooperative Endeavor Agreement and (2) approximately $108,000,000 of monies on deposit with the trustee. The monies will be invested in government obligations and shall mature in principal amounts and pay interest in such amounts and at such times so that sufficient monies will be available from such government obligations (together with the starting escrow cash balance in each fund), to pay to and including the maturity date for the 1988 Bonds and the 1992 Bonds, including the principal of and accrued and unpaid interest on the defeased bonds.

Surplus tax revenues for fiscal year 1996-97 will be transferred to the Political Subdivision Deficit Reduction and Cash Flow Shortfall Fund.

LOUISIANA RECOVERY DISTRICT
STATE OF LOUISIANA
ALL FUND TYPES AND ACCOUNT GROUPS

Balance Sheet, June 30, 1996

	GOVERNMENTAL FUND - DEBT SERVICE FUND	ACCOUNT GROUP - GENERAL LONG-TERM OBLIGATIONS	TOTAL (MEMORANDUM ONLY)
ASSETS AND OTHER DEBITS			
Assets:			
Investments (note 2)	$166,176,959		$166,176,959
Receivables (note 3)	50,391,590		50,391,590
Due from state General Fund	74,400,000		74,400,000
Other debits:			
Amount available in Debt Service Fund		$240,124,904	165,724,904
Amount to be provided for retirement of general long-term obligations		127,280,096	201,680,096
TOTAL ASSETS AND OTHER DEBITS	$290,968,549	$367,405,000	$658,373,549
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	$452,055		$452,055
Due to State of Louisiana	50,391,590		50,391,590
Bonds payable (note 4)		$367,405,000	367,405,000
Total Liabilities	50,843,645	367,405,000	418,248,645
Fund Equity - fund balance - reserved for debt service (note 6)	240,124,904	NONE	240,124,904
TOTAL LIABILITIES AND FUND EQUITY	$290,968,549	$367,405,000	$658,373,549

The accompanying notes are an integral part of this statement.

of Title 47 of the Louisiana Revised Statutes. Effective July 1, 1994, the district adopted such an ordinance suspending these exemptions until July 1, 1996.

9. ARBITRAGE REBATE REQUIREMENTS

Section 148(f) of the Internal Revenue Code requires that issuers of tax exempt bonds calculate and remit periodically to the federal government an arbitrage rebate payment representing the excess of interest earned on any invested bond proceeds over the amount of interest paid on the outstanding bonds. The duties and obligations of the district necessary to comply with this requirement are detailed in the Arbitrage Rebate Memoranda adopted by the Louisiana Recovery District on July 21, 1988, and June 11, 1992. The district is required to calculate the rebate payment at the end of each bond year and transfer that amount to a special arbitrage rebate account. At the end of five years, amounts on deposit in the arbitrage rebate account would be paid to the federal government as required by the Internal Revenue Code.

The arbitrage rebate payment calculated for the period ended June 30, 1996, revealed that there is no liability to the federal government as of that date.

10. LOUISIANA RECOVERY DISTRICT POLITICAL SUBDIVISION DEFICIT AND SHORTFALL FUND

As shown on Statement B, the Louisiana Recovery District remitted $401,875,629 of excess sales tax collected to the State of Louisiana for deposit in the Louisiana Recovery District Political Subdivision Deficit and Shortfall Fund. This amount represents sales tax collected and determined to be in excess of debt service requirements by the district. In a resolution dated January 31, 1995, the board of directors of the district pledged a maximum of $400,000 to the Louisiana Tax Free Shopping Commission for fiscal year 1995-96, and 100 percent of the remaining excess sales tax revenue to the Deficit and Shortfall Fund. The amount of excess collections remitted to the state is allocated from the Deficit and Shortfall Fund to the state General Fund to reimburse for amounts paid to political subdivisions in accordance with the General Appropriations Act by the Louisiana Legislature.

The Deficit and Shortfall Fund was established in the State Treasury by a resolution of the district's board of directors, dated May 12, 1988, and by Act 19 of the 1988 Regular Session of the Louisiana Legislature. The fund was established in conjunction with a cooperative agreement between the district and the State of Louisiana dated July 1, 1988. The purpose of the fund is to (1) provide for the redemption, retirement, or purchase of the district's sales and use tax bonds in advance of their maturity in amounts determined by the district; (2) apply not less than 50 percent of any remaining surplus tax revenues to assist political subdivisions in reducing their deficits or remedying cash flow shortfalls; and (3) apply any remaining surplus tax revenues to purchase and retire bonds of the state. The annual pledge and dedication of surplus tax revenues is determined by resolution of the district.

LOUISIANA RECOVERY DISTRICT
STATE OF LOUISIANA
GOVERNMENTAL FUND - DEBT SERVICE FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 1996

REVENUES	
Appropriated by legislature - state General Fund	$74,400,000
Sales tax	558,568,961
Use of money and property - interest earnings	4,686,786
Total revenues	637,655,747
EXPENDITURES	
Administrative costs	4,773,340
Debt service:	
Principal retirement (note 4)	119,390,000
Interest	24,154,114
Excess sales tax remitted to:	
State of Louisiana (note 10)	401,875,629
Louisiana Tax Free Shopping Commission (note 11)	291,502
Total expenditures	550,484,585
EXCESS OF REVENUES OVER EXPENDITURES	87,171,162
FUND BALANCE AT BEGINNING OF YEAR	152,953,742
FUND BALANCE AT END OF YEAR	$240,124,904

The accompanying notes are an integral part of this statement.

STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Louisiana Recovery District
State of Louisiana
Baton Rouge, Louisiana

November 27, 1996

Financial and Compliance Audit Division

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

C. FUND ACCOUNTING

The Louisiana Recovery District uses a debt service fund and a general long-term obligations account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the fund because they do not directly affect net expendable available financial resources.

The debt service fund of the Louisiana Recovery District is classified as a governmental fund. The fund accounts for the district's general activities, including the receipt of the district's sales tax, disbursements for certain administrative costs, servicing of the district's long-term debt recorded in the general long-term obligations account group, and remittance of excess sales tax to the State of Louisiana.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The debt service fund is accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The operating statement of this fund presents increases and decreases in net current assets. The modified accrual basis of accounting is used by the debt service fund. The debt service fund uses the following practices in recording revenues and expenditures:

Revenues

The appropriation from the General Fund is recognized in the year for which the appropriation is made. Act 6 of 1996 appropriated $74,400,000 of state General Fund monies to the Louisiana Recovery District for the fiscal year ended June 30, 1996. Sales taxes are collected by the Louisiana Department of Revenue and Taxation and the Department of Public Safety and Corrections, Public Safety Services, deposited in the State Treasury to the credit of the Louisiana Recovery District, and wire transferred by the State Treasury to the district's trustee. Sales taxes are recognized when they become susceptible to accrual, when they become measurable and available to finance expenditures of the current period. Taxes collected by the state within 45 days subsequent to year-end that are related to the prior fiscal year are considered measurable and available and are accrued (recognized) at year-end.

Interest income on investments is recognized when received.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term debt, which are not recognized until due.

E. BUDGET PRACTICES

The district does not prepare an annual budget for the debt service fund; therefore, the financial statements do not reflect comparisons of revenues and expenditures to budget. The district does not use encumbrance accounting.

F. INVESTMENTS

Act 15 of the First Extraordinary Session of the 1988 Louisiana Legislature requires the district's investments to comply with LSA-R.S. 33:2955 and 49:341-343, inclusively. These statutes allow the district to invest in United States Treasury bonds, treasury notes, certificates, or any other federally insured investments. The district's investments are stated at cost.

G. FIXED ASSETS AND GENERAL LONG-TERM OBLIGATIONS

The district has no fixed assets. Long-term obligations expected to be financed from the debt service fund are accounted for in the general long-term obligations account group, not in the debt service fund.

The account group is not a fund. It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

H. COMPENSATED ABSENCES, PENSION BENEFITS, AND POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The district has no employees; all transactions are performed either by employees of the State of Louisiana or the trustee. Therefore, there are no compensated absences, pension benefits, or postretirement benefits provided by the district.

11. LOUISIANA TAX FREE SHOPPING PROGRAM

On October 12, 1989, the board of directors of the district adopted a resolution to amend the cooperative endeavor agreement between the district and the State of Louisiana to provide for participation by the district in the Louisiana Tax Free Shopping Program as authorized by Act 16 of the 1988 Second Extraordinary Session of the Louisiana Legislature. Under this program, international tourists are refunded the one percent district sales tax, along with other state and local sales taxes paid on the purchase of tangible personal property. In a resolution dated January 31, 1995, the district pledged and dedicated a maximum of $400,000 of surplus sales tax revenues to the commission for refunds of district sales tax made by the Louisiana Tax Free Shopping Program in fiscal year 1995-96.

Participation by the district in the program is contingent upon the actual sales taxes collected each year exceeding the debt service requirements.

A total of $291,502 of recovery district sales tax was refunded by the Louisiana Tax Free Shopping Commission under the program during the fiscal year ended June 30, 1996.

12. SUBSEQUENT EVENTS

The State Bond Commission approved a plan that will retire the debt for the Louisiana Recovery District, and the district will cease to exist on the date that all bonds issued by the district have been retired, which is anticipated to be on or before September 30, 1996. On June 14, 1996, the district adopted a resolution authorizing the defeasance or retirement of the district's outstanding (1) 1988 Variable Rate Bonds and 1988 Fixed Rate Bonds with remaining maturities of $133,200,000 and $111,675,000 respectively; (2) Sales Tax Refunding Bonds, Series 1992 (the "Senior Lien Bonds") with remaining maturities of $76,470,000; and (3) Sales Tax Junior Lien Refunding Bonds, Series 1992 (the "Junior Lien Bonds") with remaining maturities of $46,060,000.

The district entered into a Cooperative Endeavor Agreement dated June 30, 1996, with the State Bond Commission to set forth the defeasance plan and provide for the earmarking of monies appropriated by the state to the district for the defeasance of the bonds. Act 6 and Act 17 of the 1996 Louisiana Legislature provided for appropriations of $74,400,000 for fiscal year 1996 and $145,000,000 for fiscal year 1997, respectively, for the defeasance and/or amortization requirement of the district as permitted by the Acts. On July 1, 1996, the trustee will apply $84,200,000 to the July 1 payment. The remaining monies appropriated will be invested in a segregated sinking fund account which together with sales tax revenues through June 25, 1996, of $113,917,941 will provide sufficient funds to defease the July 1, 1997, and 1998 maturities of the Series 1988 Bonds, as well as the Senior Lien Bonds and Junior Lien Bonds.

BOARD OF DIRECTORS OF THE
LOUISIANA RECOVERY DISTRICT
STATE OF LOUISIANA
Audit Report, June 30, 1996

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 1996, on our consideration of the Louisiana Recovery District's internal control structure and a report dated November 4, 1996, on its compliance with laws and regulations.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DLH:LWM:dl

[LARD]