

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Tax Free Shopping Commission  
State of Louisiana  
Baton Rouge, Louisiana

December 19, 1997



***Financial and Compliance Audit Division***

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

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**LEGISLATIVE AUDITOR**

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

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**LOUISIANA TAX FREE SHOPPING COMMISSION**  
**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 19, 1997

**LOUISIANA TAX FREE SHOPPING COMMISSION  
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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OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

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LEGISLATIVE AUDITOR

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December 8, 1997

Independent Auditor's Report on  
the Financial Statements

**LOUISIANA TAX FREE SHOPPING COMMISSION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the accompanying general purpose financial statements of the Louisiana Tax Free Shopping Commission, 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 general purpose financial statements are the responsibility of management of the Louisiana Tax Free Shopping Commission. Our responsibility is to express an opinion on these general purpose 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 Tax Free Shopping Commission as of June 30, 1997, and the results of its operations and 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 8, 1997, on our consideration of the Louisiana Tax Free Shopping Commission's internal control over financial reporting and our test of its compliance with laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

KDC:LWM:sds

[TAXFREE]

LOUISIANA TAX FREE SHOPPING COMMISSION  
 STATE OF LOUISIANA  
 PROPRIETARY FUND - ENTERPRISE FUND

Balance Sheet, June 30, 1997

**ASSETS**

Cash, including restricted cash (note 2)	\$267,837
Receivables (note 4)	273,970
Pre-paid expenses	2,968
Property and equipment (note 5)	<u>66,144</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$610,919</u></u></b>

**LIABILITIES AND FUND EQUITY**

Liabilities:	
Accounts payable	\$2,711
Salaries payable	3,323
Payroll deductions and withholdings payable	228
Due to State of Louisiana (note 9)	180,000
Deferred revenue	54,221
Accrued compensated absences (note 7)	<u>15,021</u>
Total Liabilities	<u>255,504</u>
Fund Equity - retained earnings	<u>355,415</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u><u>\$610,919</u></u></b>

The accompanying notes are an integral part of this statement.

LOUISIANA TAX FREE SHOPPING COMMISSION  
 STATE OF LOUISIANA  
 PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses,  
 and Changes in Retained Earnings  
 For the Year Ended June 30, 1997

<b>OPERATING REVENUES</b>	
Visitor handling fees	\$527,615
Membership fees	110,840
Voucher sales	70,976
Advertising revenue	15,504
Total operating revenues	<u>724,935</u>
<b>OPERATING EXPENSES</b>	
Personal services and related benefits	374,406
Supplies	10,175
Travel	20,956
Operating services	185,728
Professional services	29,185
Other	270
Depreciation	13,915
Total operating expenses	<u>634,635</u>
<b>OPERATING INCOME</b>	90,300
<b>NONOPERATING REVENUES</b>	
Interest earnings	4,615
<b>NET INCOME</b>	94,915
<b>RETAINED EARNINGS AT BEGINNING OF YEAR</b>	<u>260,500</u>
<b>RETAINED EARNINGS AT END OF YEAR</b>	<u><u>\$355,415</u></u>

The accompanying notes are an integral part of this statement.

**LOUISIANA TAX FREE SHOPPING COMMISSION  
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	\$90,300	
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,915	
Changes in assets and liabilities:		
(Increase) in sales tax refund reimbursements receivable	(29,257)	
Decrease in receivables from voucher sales	1,929	
Decrease in other receivables	4,944	
(Increase) in pre-paid expenses	(2,442)	
(Decrease) in accounts payable	(3,091)	
(Decrease) in payroll deductions and withholdings payable	(4,385)	
(Decrease) in due the State of Louisiana	(12,988)	
Increase in deferred revenue	3,643	
Increase in accrued compensated absences	4,428	
Net cash provided by operating activities	<u>4,428</u>	\$66,996
Cash flows from capital and related activities - acquisition of capital assets		(55,526)
Cash flows from investing activities - receipt of interest earnings		<u>4,615</u>
Net increase in cash		16,085
Cash at beginning of year		<u>251,752</u>
Cash at end of year		<u><u>\$267,837</u></u>

The accompanying notes are an integral part of this statement.



**LOUISIANA TAX FREE SHOPPING COMMISSION  
STATE OF LOUISIANA**

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

**INTRODUCTION**

The Louisiana Tax Free Shopping Commission, established within the Department of Revenue and Taxation, was created under the provisions of Louisiana Revised Statutes (R.S.) 51:1301-1316. The commission is composed of five members who serve without compensation or reimbursement from the state and is charged with operating the Louisiana Tax Free Shopping Program, a sales tax refund program for the purchases of tangible personal property from participating retailers by international travelers. The legislature finds that Louisiana, with its many attractions, has an extraordinary opportunity to generate additional revenue in the form of international tourism. Foreign visitors to the United States represent a more lucrative market than domestic travelers because they use tourism services to a much greater degree than their domestic counterparts. While the Louisiana Tax Free Shopping Program had an initial opportunity cost to state and local governments equal to the amount of sales tax refunded, this loss was offset by additional revenues generated from an increase in foreign tourists, who continue to pay tax on expenditures such as hotels, restaurants, entertainment, rental cars, riverboat rides, and other attractions. The commission, domiciled in Baton Rouge, employed 16 people at June 30, 1997. The accounting records are maintained by Department of Revenue and Taxation employees.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

**B. REPORTING ENTITY**

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Louisiana Tax Free Shopping Commission is considered a component unit of the State of Louisiana because the state exercises oversight responsibility as follows: (1) commission members are designated by state law; (2) the commission is established in the Louisiana Department of Revenue and Taxation; (3) commission action for sales tax refunds is governed by the Louisiana Tax Free Shopping Program law; (4) sales tax refunds are provided within the boundaries of the state; and (5) additional revenues generated from an increase in foreign tourists benefit the state and its political subdivisions. The accompanying statements present

**LOUISIANA TAX FREE SHOPPING COMMISSION**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

information only as to the transactions of the Louisiana Tax Free Shopping Commission, a component unit of the State of Louisiana. Annually, the State of Louisiana issues general purpose financial statements, which include the activity contained in the accompanying financial statements.

**C. FUND ACCOUNTING**

The commission uses a proprietary fund type - enterprise fund 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. The enterprise fund is used to account for operations that are financed and operated similarly to private business enterprises - the intent of the governing body is that costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise 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, the assets and liabilities associated with the operation of the fund are included on the balance sheet. The commission uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred. Revenues and expenses are recorded as follows:

**Revenues**

Annual membership fees are recognized as revenue uniformly over the membership year. A portion of each sales tax refund is withheld from the visitor as a handling fee. These fees are recognized as revenue in the month the related visitor refund is processed. Interest earnings are recorded when the income is earned. Other revenues are recognized when they become measurable and available as current assets.

**Expenses**

Expenses are generally recognized under the accrual basis of accounting when the related fund liability is incurred.

**LOUISIANA TAX FREE SHOPPING COMMISSION**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

**E. CASH**

Cash includes cash on hand and demand deposits. Under state law, the commission may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the commission may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

**F. PROPERTY AND EQUIPMENT**

Furniture and equipment and leasehold improvements are stated at cost at the date of acquisition, estimated cost if actual cost is not known, or fair market value at date of donation in the case of gifts. Depreciation is computed using the straight-line method.

**G. DEFERRED REVENUE**

These are amounts collected in the current accounting period for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. These are comprised of prepaid membership fees.

**H. COMPENSATED ABSENCES**

Commission employees earn and accumulate annual and sick leave at various rates, depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. The cost of leave privileges, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105, is recognized as a current-year expense in the enterprise fund.

**2. CASH**

At June 30, 1997, the commission has cash (book balances) totaling \$267,837 as follows:

**LOUISIANA TAX FREE SHOPPING COMMISSION**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

Demand deposits (including restricted cash of \$86,087) (note 9)	\$235,989
Cash on hand, restricted for sales tax refunds to international shoppers	31,248
Petty cash	<u>600</u>
Total	<u><u>\$267,837</u></u>

Under state law, these deposits (or the resulting bank balances) 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. At June 30, 1997, the commission has \$396,333 in deposits (collected bank balances). These deposits are secured from risk by \$200,000 of federal deposit insurance (GASB Risk Category 1) and \$196,233 of pledged securities held in joint custody by the Federal Reserve Bank (GASB Risk Category 2).

**3. SALES TAX REFUNDS PROCESSED**

For the year ended June 30, 1997, sales tax refunds to foreign visitors (before a handling fee deduction) totaling \$2,862,393 were processed under the Louisiana Tax Free Shopping Program. This amount related to sales taxes of the following taxing authorities processed through the commission's imprest account:

State of Louisiana	\$1,296,651
City of New Orleans	1,023,178
Jefferson Parish	459,939
St. Tammany Parish	10,694
City of Baton Rouge	23,360
Lafayette Parish	14,979
Other	<u>33,592</u>
Total	<u><u>\$2,862,393</u></u>

**4. RECEIVABLES**

The following is a summary of receivables at June 30, 1997:



**LOUISIANA TAX FREE SHOPPING COMMISSION**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

Sales tax refund reimbursements receivable	\$263,913
Voucher sales	5,854
Advertising fees	<u>4,203</u>
Total	<u><u>\$273,970</u></u>

**5. PROPERTY AND EQUIPMENT**

A summary of property and equipment and accumulated depreciation follows:

Furniture and equipment	\$107,900
Leasehold improvements	<u>19,261</u>
Total property and equipment	127,161
Less accumulated depreciation	<u>(61,017)</u>
Property and equipment net of accumulated depreciation	<u><u>\$66,144</u></u>

Furniture and equipment and leasehold improvements are depreciated over 5-10 years and 10 years, respectively. In accordance with R.S. 39:321-332, the commission has complied with the Louisiana movable property statutes.

**6. RETIREMENT SYSTEM**

*Plan Description.* Substantially, all employees of the commission are members of the Louisiana State Employees Retirement System (System), a cost-sharing, multiple-employer, defined benefit pension plan. The System is a statewide public employee retirement system for the benefit of state employees, which is administered and controlled by a separate board of trustees.

All full-time commission employees are eligible to participate in the System. Benefits vest with 10 years of service. At retirement age, employees are entitled to annual benefits equal to \$300 plus 2.5 percent of their highest consecutive 36 months' average salary multiplied by their years of credited service. Vested employees are entitled to a retirement benefit, payable monthly for life at (a) any age with 30 years of service, (b) age 55 with 25 years of service, or (c) age 60 with 10 years of service. In addition, vested employees have the option of reduced benefits at any age with 20 years of service. The System also provides death and disability benefits. Benefits are established or amended by state statute. The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (504) 922-0608 or (800) 256-3000.

**LOUISIANA TAX FREE SHOPPING COMMISSION**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

*Funding Policy.* Members are required by state statute to contribute 7.5 percent of gross salary, and the commission is required to contribute at an actuarially determined rate as required by R.S. 11:102. The employer's contribution rate for the years ending June 30, 1997, 1996, and 1995 were 12.4 percent, 12.0 percent, and 11.9 percent, respectively. The commission's contributions to the System for the years ending June 30, 1997, 1996, and 1995 were \$28,050, \$27,697, and \$27,003, respectively, equal to the required contributions for each year.

**7. COMPENSATED ABSENCES**

At June 30, 1997, employees of the commission have accumulated and vested \$15,021 of employee leave benefits, which was computed in accordance with GASB Codification Section C60. This amount is recorded within the enterprise fund.

**8. LEASES**

The commission rents space at the World Trade Center in New Orleans and at the New Orleans International Airport for the operation of its tax free shopping program. The existing leases, which require annual rents of \$19,456 and \$8,426, respectively, expire on April 30, 1998, and on May 31, 1998.

**9. DUE TO THE STATE OF LOUISIANA**

In fiscal year 1994, the Louisiana Department of Revenue and Taxation advanced \$350,000 to the commission. The commission subsequently repaid \$80,000 of the advance. It was later determined that it would be more appropriate if the State Treasury issued the advance from the Ancillary Fund. In fiscal year 1997, the Division of Administration approved the advance of the remaining \$270,000 from the State Treasury. This advance is noninterest-bearing and has no set repayment schedule. This advance and all sales tax refund transactions are handled through a separate bank account. At June 30, 1997, the following assets were related to the balance of this advance due to the State of Louisiana:

Restricted cash	\$86,087
Sales tax refund reimbursements due from other taxing bodies	263,913
Total advance repayments	<u>(170,000)</u>
Due to State of Louisiana	<u>\$180,000</u>

**LOUISIANA TAX FREE SHOPPING COMMISSION**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Concluded)

**10. RELATED PARTY TRANSACTIONS**

The commission is composed of five members, one of whom is nominated by the World Trade Center. On April 25, 1996, and March 24, 1997, the World Trade Center of New Orleans, Inc., entered into rental agreements with Louisiana Tax Free Shopping for lease of approximately 2,210 square feet on the tenth floor of the World Trade Center Building at No. 2 Canal Street, New Orleans, Louisiana. The lease agreement commencing on May 1, 1996, and expiring on April 30, 1997, was made for and in consideration of \$1,857 per month rent. The lease agreement commencing on March 24, 1997, and expiring on April 30, 1998, was made for and in consideration of \$1,946 per month rent.

**11. LITIGATION AND CLAIMS**

There is no pending litigation against the commission at June 30, 1997.

**OTHER REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal controls 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.





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

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

December 8, 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 TAX FREE SHOPPING COMMISSION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the general purpose financial statements of the Louisiana Tax Free Shopping Commission, a component unit of the State of Louisiana, as of June 30, 1997, and for the year then ended, and have issued our report thereon dated December 8, 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 Tax Free Shopping Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 Tax Free Shopping Commission'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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**EXHIBIT A**

LEGISLATIVE AUDITOR

LOUISIANA TAX FREE SHOPPING COMMISSION

STATE OF LOUISIANA

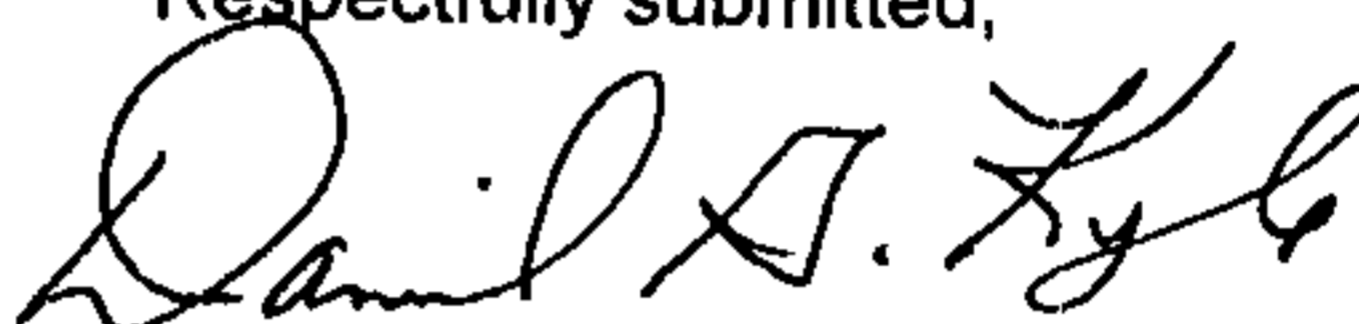
Compliance and Internal Control Report

December 8, 1997

Page 2

This report is intended for the information and use of management of the commission. 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 black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

KDC:LWM:sds

[TAXFREE]

EXHIBIT A