

STATE OF LOUISIANA LEGISLATIVE AUDITOR

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

November 10, 1999



Financial and Compliance Audit Division

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

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**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, 1999**

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.

November 10, 1999

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, 1999

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September 1, 1999

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, 1999, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Louisiana Agricultural Finance Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Agricultural Finance Authority as of June 30, 1999, 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 September 1, 1999, on our consideration of the Louisiana Agricultural Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Respectfully submitted,

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

Daniel G. Kyle, CPA, CFE
Legislative Auditor

CCB:DLH:PEP:dl
[LAFA]

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

Balance Sheet, June 30, 1999

ASSETS

Current assets:

Cash (note 2)	\$179,430
Receivables (note 3)	206,292
Inventory	16,565
Total current assets	<u>402,287</u>

Restricted assets - cash and cash equivalents (note 2)

2,074,922

Other assets:

Unamortized bond issuance costs (note 9)	32,616
Capital lease receivable (note 10)	4,567,584
Property, plant, and equipment (net of accumulated depreciation) (note 5)	19,985,095
Total other assets	<u>24,585,295</u>

TOTAL ASSETS

\$27,062,504

LIABILITIES AND FUND EQUITY

Liabilities:

Current liabilities:

Accounts payable (note 4)	\$440,255
Accrued interest on bonds payable	82,684
Due to Boll Weevil Eradication Fund	30,000
Bonds payable - current portion (note 6)	640,000
Total current liabilities	<u>1,192,939</u>

Deferred revenue

4,484,900

Bonds payable - long-term (note 6)

3,360,000

Total Liabilities

9,037,839

Fund Equity:

Contributed capital (note 7)	13,609,070
Retained earnings - unreserved	4,415,595
Total Fund Equity	<u>18,024,665</u>

TOTAL LIABILITIES AND FUND EQUITY

\$27,062,504

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, 1999**

OPERATING REVENUES

Rental income	<u>\$1,887,640</u>
---------------	--------------------

OPERATING EXPENSES

Operating services	27,701
Maintenance and supplies	942,203
Professional services	214,810
Depreciation	758,477
Trustee fees	8
Other purchased services (note 12)	287,687
Total operating expenses	<u>2,230,886</u>

OPERATING INCOME

	<u>(343,246)</u>
--	------------------

NONOPERATING REVENUES (Expenses)

Capital outlay and maintenance expense for Department of Agriculture and Forestry	(465,460)
Capital outlay and maintenance reimbursements from Department of Agriculture and Forestry	465,460
Maintenance expense for State Employees Group Benefits Program	(66,633)
Maintenance reimbursement for State Employees Group Benefits Program	66,633
Capital outlay for Caddo Parish Commission	(523)
Capital outlay reimbursements from Caddo Parish Commission	523
Loss on disposal of equipment	(18,255)
Amortization of bond issuance costs (note 9)	(39,928)
Interest income	351,425
Amortization of interest from capital leases	140,385
Interest expense	(141,809)
Other receipts	5,651
Other expenses	(293)
Total nonoperating revenues (expenses)	<u>297,176</u>

NET INCOME

	<u>(46,070)</u>
--	-----------------

(Continued)

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, 1999

OTHER FINANCING SOURCES

Lease principal receipts	\$200,000
Transfers in:	
Department of Agriculture and Forestry	8,300,000
Department of Transportation and Development	3,000,000
Transfers out - Department of Agriculture and Forestry, Boll Weevil Eradication Fund	(8,199,340)
Total other financing sources	<u>3,300,660</u>

**RETAINED EARNINGS AT BEGINNING
OF YEAR (Restated) (note 8)**

1,161,005

RETAINED EARNINGS AT END OF YEAR

\$4,415,595

(Concluded)

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, 1999

Cash flows from operating activities - operating income		(\$343,246)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	\$758,477	
Increase in receivables	(66,294)	
Increase in inventories	(16,565)	
Increase in accounts payable	100,570	776,188
Net cash provided by operating activities		<u>432,942</u>
Cash flows from noncommittal financing activities:		
Capital outlay payments on behalf of Department of Agriculture and Forestry	(465,394)	
Capital outlay reimbursements from Department of Agriculture and Forestry	486,191	
Maintenance payments on behalf of State Employees Group Benefits Program	(66,513)	
Maintenance reimbursements from State Employees Group Benefits Program	82,404	
Capital outlay payments on behalf of Caddo Parish Commission	(523)	
Interest paid on bank loan	(1,425)	
Other receipts	5,651	
Other expenses	(317)	
Transfers to Boll Weevil Eradication Fund	(8,199,340)	
Net cash used by noncommittal financing activities		<u>(8,159,266)</u>
Cash flows from capital and related financing activities:		
Proceeds from new bond issue	4,000,000	
Bond issuance costs	(36,240)	
Transfers from Department of Agriculture and Forestry	8,976,842	
Transfers from Department of Transportation and Development	3,000,000	
Capital lease receivable receipts	1,715,499	
Capital outlay	(6,470,785)	

(Continued)

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, 1999

Cash flows from capital and related financing activities: (Cont.)		
Principal paid on bond maturities	(\$1,640,000)	
Interest paid on bonds	<u>(75,660)</u>	
Net cash provided by capital and related financing activities		\$9,469,656
Cash flows from investing activities - interest on investments		<u>351,426</u>
Net increase in cash and cash equivalents		2,094,758
Cash and cash equivalents at beginning of year		<u>159,594</u>
Cash and cash equivalents at end of year		<u><u>\$2,254,352</u></u>

(Concluded)

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, 1999

INTRODUCTION

The Louisiana Agricultural Finance Authority (authority) was created under the provisions of Louisiana Revised Statute (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 of 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 to supervise and utilize public employees, equipment and material in carrying out public work. 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 and connected related facilities for use by the Department of Agriculture and Forestry in connection with the promotion and assistance of agriculture and forestry within the state. The revenue bonds are limited obligations of the Louisiana Agricultural Finance Authority and do not constitute a debt of the State of Louisiana. Upon termination of the authority by law, R.S. 3:283 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 authority is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters because the board of directors is appointed by the governor and upon dissolution of the authority, title to all property owned by the authority shall vest in the State of Louisiana. The accompanying financial statements present information only as to the transactions of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana.

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

B. BASIS OF PRESENTATION

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

C. BASIS OF ACCOUNTING

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

D. CASH AND CASH EQUIVALENTS

Cash represents demand deposits held by the authority and a utility deposit. Cash equivalents represent a certificate of deposit held by the authority and funds held by the trustee 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. INVENTORY

Inventory of janitorial supplies is valued at cost, which approximates market. The Department of Agriculture and Forestry maintains the inventory and uses a perpetual inventory system and values the inventory using the first-in, first-out (FIFO) valuation method.

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

F. RESTRICTED ASSETS

Certain proceeds of the authority revenue bonds, as well as certain resources provided annually by the Department of Agriculture and Forestry, are set aside for the repayment of the revenue bonds.

Proceeds and interest income on the proceeds from the Revenue Bonds (Department of Agriculture Office Buildings Project) Series 1998 are set aside to construct, furnish, and equip certain facilities leased to the Department of Agriculture and Forestry.

Certain resources and interest income on the resources provided by the Department of Transportation and Development are set aside for infrastructure purchases, acquisitions, and construction of a rail intermodal system to expedite the hauling of sugar cane by rail in Louisiana.

Certain resources and interest income on the resources provided by the Department of Agriculture and Forestry are set aside to match equal funding to be provided by the American Sugar Cane League Foundation for a Louisiana sugar industry study to investigate infrastructure needs, planning, design, and construction needs of the industry.

These assets are classified as restricted assets on the balance sheet because their use is limited.

G. 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 following:

- Former Forestry Building
- Agricultural Chemistry Laboratory
- Warehouse
- Boll weevil offices located in Jonesville, Oak Grove, and Winnsboro
- Hanger in Woodworth

The Department of Agriculture and Forestry donated the former Forestry Building to the authority. The authority constructed the agricultural chemistry laboratory, the warehouse, the three boll weevil offices, and the hanger. The agricultural chemistry laboratory is located on the Baton Rouge campus of Louisiana State University and

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

A&M College and is used jointly by the university and the Department of Agriculture and Forestry.

Construction in progress consists of the following:

- New district complexes for the Department of Agriculture and Forestry in Hammond, Monroe, and Woodworth
- Railroad spurs in Laccasine and Lake Charles
- Bridge in Oak Grove
- Warehouse renovation in St. Martinville

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method based on the estimated useful lives as follows:

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

Long-term obligations are recognized within the enterprise fund.

H. DEFERRED REVENUE

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

I. FUND EQUITY - CONTRIBUTED CAPITAL

Capital grants received from the Department of Agriculture and Forestry are restricted for the acquisition or construction of capital assets. The revenues of the Feed Fund, the Fertilizer Fund, and the Pesticide Fund are assigned to the 1998 Bond Issue for the construction of various Department of Agriculture and Forestry office buildings throughout the state.

J. RENTAL INCOME

The authority is the lessor for the former Forestry Building valued at \$465,117, less accumulated depreciation of \$97,023; the Department of Agriculture and Forestry Headquarters Building Complex; the authority's warehouse valued at \$710,161, less accumulated depreciation of \$62,139; and the authority's aircraft valued at \$455,225,

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

less accumulated depreciation of \$45,367. The leases may be cancelled with a 30-day notice from the lessee.

The Department of Public Safety, Office of State Fire Marshal, leases the former Forestry Building for \$8,590 per month. The lease commenced on February 1, 1990, and expires on January 31, 2000, with an option to renew for another ten years.

The Department of Agriculture and Forestry leased office space in the Department of Agriculture and Forestry Headquarters Building until December 1, 1998. The agreement was that the department paid the principal and interest payment to the trustee for the revenue bonds in lieu of a monthly rental payment. On December 1, 1998, the department paid the balance of the outstanding revenue bonds. However, the department has not paid the \$100 to exercise the bargain purchase option to transfer the title of the building from the authority to the department. The department continues to pay \$66,480 per month to the authority to cover maintenance and repairs. The department also leases storage space in the authority's warehouse for \$24,250 per month. That lease commenced on July 1, 1997, and expires on June 30, 2002.

The Boll Weevil Eradication Program leases storage space in the authority's warehouse for \$32,000 per year on an annual basis.

The State Employees Group Benefits Program leases office space in the Department of Agriculture and Forestry Headquarters Building for \$52,000 per month. The lease commenced on January 1, 1989, and expires on December 31, 2003. The program also leases storage space in the authority's warehouse for \$21,069 per quarter of year. That lease commenced on August 1, 1996, and expired on July 31, 1999.

The Department of State Civil Service leases office space in the Department of Agriculture and Forestry Headquarters Building for \$21,000 per year. The lease commenced on July 1, 1994, and expired on June 30, 1999.

The U.S. Department of Agriculture leased office space in the Department of Agriculture and Forestry Headquarters Building for \$1,610 per month. The lease commenced on December 1, 1993, and expired on November 30, 1998. The department now leases the same office space in the Department of Agriculture and Forestry Headquarters Building for \$1,840 per month. The lease commenced on December 1, 1998, and expires on November 30, 2003.

The Department of Revenue leases storage space in the authority's warehouse for \$6,900 per quarter of year. The lease commenced on July 1, 1997, and expires on June 30, 2000.

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

The Board of Trustees for the University of Louisiana System on behalf of the University of Louisiana at Monroe leases the authority's aircraft. The university created the Turbine Agriculture Aircraft Fund. The university paid into the fund all monies received for the use of the airplane and paid out of the fund all necessary expenses associated with the operation of the aircraft. Annually, the university remits the net proceeds of the fund to the authority. During fiscal year 1999, the authority received \$80,000.

2. CASH AND CASH EQUIVALENTS

As reflected on Statement A, at June 30, 1999, the authority has cash and cash equivalents totaling \$2,254,352 consisting of the following:

Cash in demand deposits	\$2,163,833
Utility deposit	250
Certificate of deposit	90,200
Cash equivalents held by trustee	<u>69</u>
Balance at June 30, 1999	<u><u>\$2,254,352</u></u>

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 \$2,338,072 at June 30, 1999, for which the authority has control. This deposit is secured from risk by \$100,000 of federal deposit insurance (GASB Risk Category 1) and \$2,238,072 of pledged securities held by the authority's agent in the authority's name (GASB Risk Category 1).

Restricted cash and cash equivalents are set aside for the following:

Repayment of revenue bonds	\$69
Certain leased facilities	1,012,048
Rail intermodal system	756,203
Louisiana Sugar Cane Industry Study	<u>306,602</u>
Balance at June 30, 1999	<u><u>\$2,074,922</u></u>

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

3. RECEIVABLES

The authority's receivables are as follows:

Rental income	\$119,054
Capital outlay and maintenance reimbursements from Department of Agriculture and Forestry	40,777
Maintenance reimbursements from State Employees Group Benefits Program	45,938
Capital outlay reimbursements from Caddo Parish Commission	<u>523</u>
Balance at June 30, 1999	<u><u>\$206,292</u></u>

4. PAYABLES

The authority's payables are as follows:

Operating services	\$4,807
Supplies	4,913
Professional services	5,150
Other purchased services	148,407
Maintenance expense	189
Capital outlay	<u>276,789</u>
Balance at June 30, 1999	<u><u>\$440,255</u></u>

5. FIXED ASSETS

A summary of the authority's fixed assets at June 30, 1999, is presented as follows:

	<u>Land and Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost	\$3,946,670	\$10,977,183	\$5,372,280	\$2,097,516	\$22,393,649
Less - accumulated depreciation		<u>(1,163,862)</u>	<u>(1,244,692)</u>		<u>(2,408,554)</u>
Total	<u><u>\$3,946,670</u></u>	<u><u>\$9,813,321</u></u>	<u><u>\$4,127,588</u></u>	<u><u>\$2,097,516</u></u>	<u><u>\$19,985,095</u></u>

Construction in progress consists of several projects for the Department of Agriculture and Forestry throughout the state as follows:

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

	<u>Project Authorization</u>	<u>Expended to Date</u>
Hammond	\$286,992	\$94,192
Laccasine	3,500,000	4,371
Lake Charles	2,500,000	380,045
Monroe	1,434,556	1,210,891
Oak Grove	15,033	7,464
St. Martinville	50,000	39,836
Woodworth	563,261	360,717
	<u>\$8,349,842</u>	<u>\$2,097,516</u>
Total		

The balance of the projects are expected to be completed by December 31, 1999, and will be funded with existing bond proceeds and future bond sales.

6. LONG-TERM OBLIGATIONS

On August 30, 1988, the 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% payable semiannually due April 30 and October 30. The revenue bonds are secured by a pledge of the feed and the fertilizer revenues, by the property acquired or constructed from the bond proceeds, and by future lease rental payments from the State of Louisiana as lessee of the aforementioned property. There are no bond reserve requirements per the supplemental trust indenture because of the pledge of the feed and the fertilizer revenues. On May 1, 1998, the authority converted the remaining balance of \$1,440,000 of the bonds to an interest rate of 5.0%.

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% 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, before maturity. On September 1, 1996, the authority redeemed another \$500,000 of the \$5,100,000 Revenue Bonds, Series 1988, before maturity. On May 1,

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

1998, the authority redeemed \$1,250,000 of the \$3,100,000 Revenue Bonds, Series 1992, before maturity. On December 1, 1998, the authority redeemed the balance of the outstanding bonds of \$1,640,000. According to the bonds' trust indentures, the bonds are subject to optional redemption, in whole or in part, at any time at a redemption price of 100% of the principal amount plus accrued interest to the redemption date. The Department of Agriculture and Forestry provided the funds for the authority to redeem the bonds. The authority's payment on February 1, 1996, totaled \$508,215, which included \$8,215 in accrued interest, and resulted in interest savings of \$181,585. The authority's payment on September 1, 1996, totaled \$510,924, which included \$10,924 in accrued interest, and resulted in interest savings of \$184,076. The authority's payment on May 1, 1998, totaled \$1,273,472, which included \$23,472 in accrued interest, and resulted in interest savings of \$167,303. The authority's payment on December 1, 1998, totaled \$1,651,111, which included \$11,111 in accrued interest, and resulted in interest savings of \$129,889.

On December 1, 1998, the authority sold \$4,000,000 of Revenue Bonds, Series 1998, to construct, furnish, and equip office buildings in Hammond, Jonesville, Monroe, Oak Grove, Shreveport-Minden, Winnsboro, and Woodworth, Louisiana. The bonds bear interest at 4.51% and are payable January 15 and July 15 of each year. The revenue bonds are secured by a pledge of the pesticide registration fees, the Feed Fund revenues, the Fertilizer Fund revenues, and by future lease rental payments from the State of Louisiana as lessee of the aforementioned properties. There are no bond reserve requirements per the trust indenture because of the pledge of pesticide registration fees, the Feed Fund revenues, and the Fertilizer Fund revenues.

The following is a summary of changes in bonds payable, current and long-term, for the year ended June 30, 1999:

Bonds payable as of June 30, 1998	\$1,640,000
Additions	4,000,000
Retirements of principal on debt	<u>(1,640,000)</u>
Bonds payable as of June 30, 1999	<u><u>\$4,000,000</u></u>

The annual requirements to amortize \$4,000,000 of revenue bonds outstanding at June 30, 1999, including interest of \$567,584, are as follows:

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

Fiscal year:	
2000	\$820,400
2001	936,536
2002	936,133
2003	939,150
2004	935,365
Total	<u>\$4,567,584</u>

7. CONTRIBUTED CAPITAL

The following is a summary of changes to contributed capital for the year ended June 30, 1999:

Contributed capital at June 30, 1998	\$12,916,921
Additions:	
Capital outlay program	676,842
Donations	15,307
Contributed capital at June 30, 1999	<u>\$13,609,070</u>

**8. ADJUSTMENTS TO RETAINED EARNINGS
AT BEGINNING OF YEAR**

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

Retained earnings at beginning of year, July 1, 1998	\$1,256,125
Deductions:	
Capital lease receivable overstatement	(161)
Adjustment to property, plant, and equipment	(94,959)
Retained earnings at beginning of year, as restated	<u>\$1,161,005</u>

9. UNAMORTIZED BOND ISSUANCE COSTS

Unamortized bond issuance costs include legal fees and remarketing fees associated with the original \$6,000,000 revenue bonds and the new \$4,000,000 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 and \$36,240, respectively, are reflected on Statement A at \$32,616, net of accumulated amortization totaling \$133,668. The bond issuance costs amortized in 1999 were \$39,928.

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

10. LEASE AGREEMENTS

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 pays an additional monthly rental to cover maintenance and operation of 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. The balance of the bonds was paid on December 1, 1998; therefore, the base rental payments ceased as of that date.

On April 30, 1990, the authority entered into a cooperative endeavor agreement with Louisiana State University and A&M College and Department of Agriculture and Forestry for the purpose of constructing, furnishing, equipping, and maintaining a building on the Agricultural Center's Baton Rouge campus of Louisiana State University and A&M College to house the 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 free and clear of all encumbrances 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. On December 1, 1998, the authority paid the balance of the bonds.

**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 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 December 1, 1998, the authority entered into a lease agreement with the Department of Agriculture and Forestry for the acquisition, construction, and equipping of office buildings in Hammond, Jonesville, Monroe, Oak Grove, Shreveport-Minden, Winnsboro, and Woodworth 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 will take possession as lessee of the office buildings upon completion. The term of the lease agreement is from December 1, 1998, to January 15, 2004, or such earlier time as the bonds have been paid or provision for their payment has been made in accordance with the agreement.

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

Capital lease receivable at June 30, 1998	\$1,823,500
Increase to capital lease receivable by new bond issued in 1999	4,589,633
Reduction to capital lease receivable by payments received in 1999	(1,715,660)
Reduction to capital lease receivable by interest savings realized by early lease payments	<u>(129,889)</u>
Capital leases receivable at June 30, 1999	<u><u>\$4,567,584</u></u>

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

11. PER DIEM

Per diem for the authority was paid by the Department of Agriculture and Forestry. Per diem for the fiscal year ended June 30, 1999, is \$480. The schedule of per diem payments is included in the audit report on the Department of Agriculture and Forestry.

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

12. OTHER PURCHASED SERVICES

As shown on Statement B, the authority reimbursed the department for a portion of certain employees' salaries amounting to \$287,687. These departmental employees perform administration, accounting, and maintenance duties for the authority.

13. 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 and was permitted to retain the contract balance. On April 12, 1996, confirmation of the arbitration award was applied for in the Nineteenth Judicial District Court. A motion was made to transfer the matter to the judicial division handling the companion suit. The contractor made various efforts to prevent confirmation of the award and to relitigate the issues of the arbitration, appealing to the Court of Appeals various rulings that were adverse to the contractor. On August 31, 1998, the court confirmed the arbitration award. The contractor did not appeal the confirmation of the award. The companion suit filed against the general contractor's bonding company is currently being continued pending opposing motions filed by each party. A bench trial has been scheduled for February 5, 2001.

14. AGRICULTURAL LOAN PROGRAM

The authority, as authorized by 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. At June 30, 1996, the authority had issued a total of \$341,023,550 in bonds, including two bond issues totaling \$300,000,000 that are currently in default, and the outstanding balance on all bond issues at June 30, 1999, is \$97,224,978. 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.

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

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 April 11, 1991, through May 15, 1997, trustees received interim payments, including interest, totaling \$142,201,798 and \$141,926,509 for the LAFA I and LAFA II bonds, respectively. As a result of this modified plan, court ordered trust administration costs of \$4,526,500 for LAFA I and \$4,526,500 for LAFA II were incurred and distributions totaling \$275,075,307 were made to bondholders on January 20, 1994; May 25, 1994; April 12, 1995; November 30, 1995; April 24, 1996; and May 15, 1997. This amount represents principal of \$102,843,429 and interest of \$34,831,869 for LAFA I bondholders and principal of \$100,775,994 and interest of \$36,624,015 for LAFA II bondholders. Distributions under the modified plan of rehabilitation for Executive Life Insurance Company can continue until the conservator of the distributions declares the distributions are complete or the modified plan has expired.

In May 1999, the authority approved the issuance of \$8,690,000 in industry revenue bonds for the benefit of the Louisiana Pacific Corporation. Of these bonds, \$3,080,000 was issued in May 1999. The remaining \$5,610,000 was issued in July 1999. The total issue is backed by a \$11,700,000 mortgage in timber and real estate owned by the Louisiana Pacific Corporation. In addition, bondholders are secured by a letter of credit issued by Hibernia National Bank and Trust. These bonds are payable in semiannual installments over a period of five years. The authority has no obligation for the repayment of this debt in the event of default beyond collections that may be made through the sale of timber and real estate. These amounts are not reflected on the financial statements.

15. YEAR 2000 ISSUE

The authority maintains its financial records on QuickBooks spreadsheets. The authority does not use any computer systems that are dependent upon date-sensitive coding.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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



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

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STATE OF LOUISIANA
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September 1, 1999

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

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

We have audited the general purpose financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 1999, and have issued our report thereon dated September 1, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Agricultural Finance Authority's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

EXHIBIT A

LEGISLATIVE AUDITOR

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

Compliance and Internal Control Report

September 1, 1999

Page 2

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

This report is intended solely for the information and use of the authority and its management and is not intended to be, and should not be, used by anyone other than the authority. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

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

CCB:DLH:PEP:dl

[LAFA]

EXHIBIT A