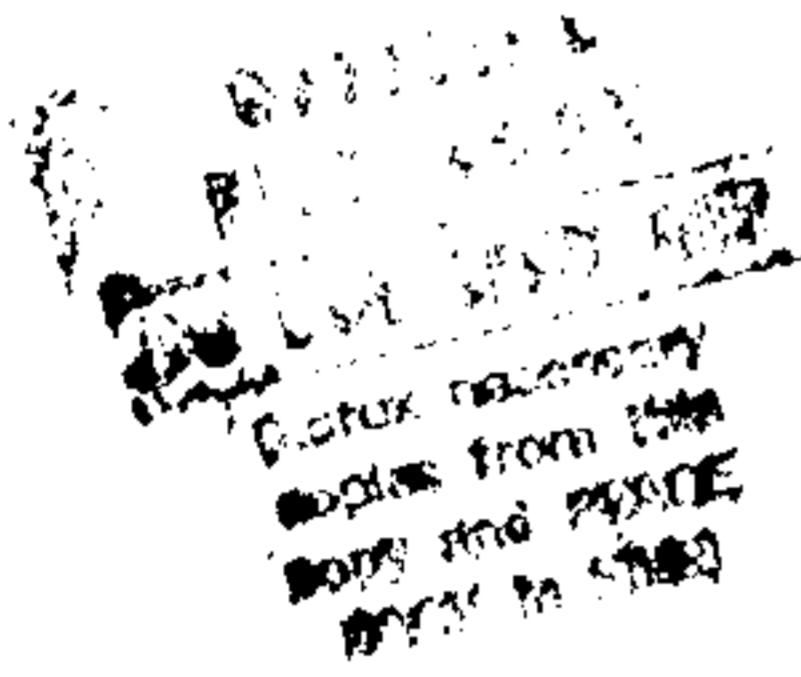


STATE OF LOUISIANA LEGISLATIVE AUDITOR



Department of Agriculture and Forestry
State of Louisiana
Baton Rouge, Louisiana

September 18, 1996



Financial and Compliance Audit Division

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

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DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

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

**Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1995
With Supplemental Information Schedules**

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.

September 18, 1996

**DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1995
With Supplemental Information Schedules

CONTENTS

	Statement	Page No.
Independent Auditor's Report on the Financial Statements		3
Special Purpose Financial Statements:		
Balance Sheet (Legal Basis) - All Appropriated and Non-Appropriated Funds	A	5
General Appropriation Fund:		
Statement of Revenues, Expenditures, and Changes in Fund Balance (Legal Basis)	B	7
Statement of Revenues, Expenditures, and Unexpended Appropriation - Budget Comparison of Current-Year Appropriation - Budget (Legal Basis) and Actual	C	9
Notes to the Financial Statements		10
	Schedule	Page No.
Supplemental Information Schedules:		
Non-Appropriated Funds:		
Schedule of Non-Appropriated Revenues - Major State Revenues and Income Not Available	1	38
Schedule of Changes in Balances - Non-Appropriated - Soil and Water Conservation Districts Clearing and Payroll Clearing Funds	2	39
Schedule of Changes in Balances - Other Agency Funds	3	40

DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 Contents, June 30, 1995

CONTENTS (CONT.)

	Schedule	Page No.
Supplemental Information Schedules: (Cont.)		
Schedule of Adjustments to Original Approved Budgets - Appropriated Funds	4	42
Schedule of Per Diem Paid Commission Members	5	44
Schedule of Other Charges Expenditures - Appropriated Funds	6	47
Schedule of Loan Guarantees for the Louisiana State Market Commission	7	49
Schedule of Auxiliary Account Balances - Ancillary Appropriation Funds	8	51
	Exhibit	
Other Reports Required by <i>Government Auditing Standards</i> :		
Report on Internal Control Structure Based Solely on an Audit of the Special Purpose Financial Statements	A	
Report on Compliance With Laws and Regulations	B	



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

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June 3, 1996

Independent Auditor's Report
on the Financial Statements

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Louisiana Department of Agriculture and Forestry, a department within Louisiana state government, as of and for the year ended June 30, 1995, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Louisiana Department of Agriculture and Forestry. 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 our 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.

As described in note 1-A to the financial statements, the accompanying special purpose financial statements present only the funds of the Louisiana Department of Agriculture and Forestry. As such, they present the appropriated and non-appropriated activity of the department that are part of the accounts and fund structure of the State of Louisiana. The General Appropriation Fund reflects appropriated activities of the department that is part of the General Fund of the State of Louisiana. The non-appropriated funds are individual funds of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated funds. These procedures differ from generally accepted accounting principles as described in the notes to the financial statements. Accordingly, the accompanying special purpose financial statements are not intended to and do not present financial position and results of operations in conformity with generally accepted accounting principles.

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Audit Report, June 30, 1995

As discussed in note 1, certain boards and commissions that have been placed within the Louisiana Department of Agriculture and Forestry by the Executive Reorganization Act continue to maintain their own accounting records and are not included in the accompanying financial statements. Transactions of these boards and commissions are reported separately.

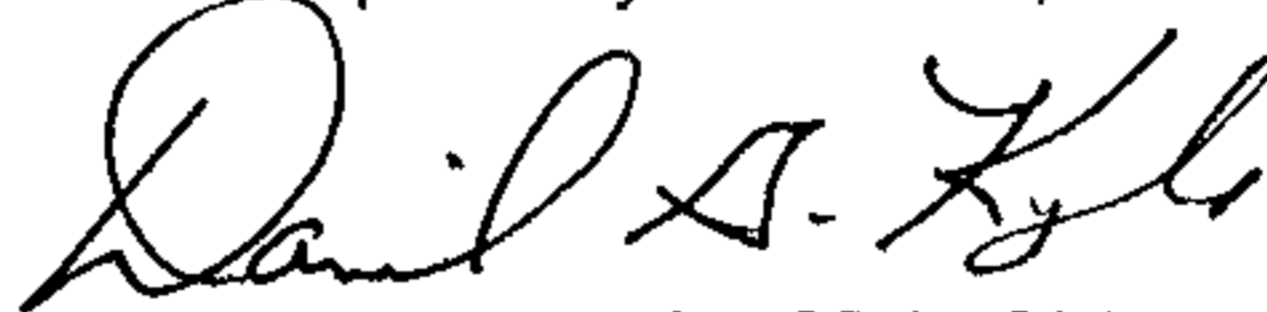
In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Louisiana Department of Agriculture and Forestry at June 30, 1995, and the transactions of the General Appropriation Fund for the year then ended, on the basis of accounting described in note 1-B.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 3, 1996, on our consideration of the Department of Agriculture and Forestry's internal control structure and a report dated June 3, 1996, on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the accompanying special purpose financial statements of the Louisiana Department of Agriculture and Forestry. The accompanying supplemental information schedules are presented for the purpose of additional analysis and have been subjected to the procedures applied in the audit of the financial statements and, in our opinion, are stated fairly in all material respects in relation to the financial statements taken as a whole, except for the omission of the National Association of State Departments of Agriculture - National Convention account (see Exhibit B) from the Schedule of Changes in Balances - Other Agency Funds.

In accordance with Louisiana Revised Statute 24:516, our report is intended for the information and use of the department and its management and should be used solely as intended by the foregoing statute. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

MCF:MWB:dl

[AG]

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 1995

	GENERAL APPROPRIATION FUND	MAJOR STATE REVENUES AND INCOME NOT AVAILABLE	NON- SOIL AND WATER CONSERVATION DISTRICTS CLEARING
ASSETS			
Cash and cash equivalents (note 1-C)	\$2,321,724		\$14,712
Investments (note 1-D)	2,200,763		
Receivables - fees and self-generated revenues	907,299		
Due from others (note 3)	2,191,631	\$98	
Loans receivable (note 2)	4,922,399		
Capital lease receivable (note 21)	3,092,369		
Inventory of materials and supplies (note 1-E)	484,753		
Collateral acquired through foreclosure (note 2)	89,830		
TOTAL ASSETS	\$16,210,768	\$98	\$14,712
LIABILITIES AND FUND EQUITY			
Liabilities:			
Payables (note 4)	\$3,398,915		\$14,712
Advances due to state treasury (note 10)	1,248,017		
Major state revenues and income not available due to state treasury	71,579	\$98	
Due to others (note 3)	343,490		
Mortgage payable (note 21)	707,733		
Total Liabilities	5,769,734	98	14,712
Fund Equity:			
Fund balances - reserved for:			
Inventory of materials and supplies	484,753		
Continuing operations (note 11)	9,954,209		
Debt service (note 12)	688,227		
Unreserved - undesignated (deficit) (note 13)	(686,155)		
Total Fund Equity	10,441,034	NONE	NONE
TOTAL LIABILITIES AND FUND EQUITY	\$16,210,768	\$98	\$14,712

The accompanying notes are an integral part of this statement.

<u>APPROPRIATED FUNDS</u>		
<u>PAYROLL CLEARING</u>	<u>OTHER AGENCY FUNDS</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
\$530,842	\$116,624	\$2,983,902
		2,200,763
		907,299
		2,191,729
		4,922,399
		3,092,369
		484,753
		89,830
<u>\$530,842</u>	<u>\$116,624</u>	<u>\$16,873,044</u>
\$530,842		\$3,944,469
		1,248,017
		71,677
	\$116,624	460,114
		707,733
<u>530,842</u>	<u>116,624</u>	<u>6,432,010</u>
		484,753
		9,954,209
		688,227
		(686,155)
<u>NONE</u>	<u>NONE</u>	<u>10,441,034</u>
<u>\$530,842</u>	<u>\$116,624</u>	<u>\$16,873,044</u>

**DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND**

**Statement of Revenues, Expenditures, and
Changes in Fund Balance (Legal Basis)
For the Year Ended June 30, 1995**

REVENUES

Appropriated by legislature:	
State General Fund	\$28,709,153
State General Fund by fees and self-generated revenues	7,443,479
State General Fund by interagency transfers	297,474
Federal funds	7,508,741
Auxiliary funds	1,790,448
Other fund sources:	
Pesticide Fund	1,330,000
Feed Commission	50,000
Structural Pest Control Commission	597,173
Agricultural Commission Self-Insurance Fund	86,460
Total revenues	<u>47,812,928</u>

EXPENDITURES

Appropriated expenditures:	
Personal services	27,087,977
Travel	316,488
Operating services	9,017,411
Supplies	1,996,555
Professional services	192,036
Other charges (note 15)	5,893,270
Capital outlay	741,826
Interagency transfers	215,743
Debt service	883
Auxiliary funds	1,592,217
Total expenditures	<u>47,054,406</u>

EXCESS OF REVENUES OVER EXPENDITURES 758,522

OTHER APPROPRIATED FINANCING SOURCES (Uses)

Transfers in	3,588,880
Transfers out	<u>1,693,273</u>

**EXCESS OF REVENUES OVER EXPENDITURES
AND OTHER SOURCES (Uses)** 2,654,129

(Continued)

The accompanying notes are an integral part of this statement.

Statement B

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND
Statement of Revenues, Expenditures, and
Changes in Fund Balance (Legal Basis), 1995

FUND BALANCE AT BEGINNING OF YEAR	\$8,057,155
INCREASE IN RESERVE FOR INVENTORY	45,093
ADJUSTMENTS (note 14)	<u>(315,343)</u>
FUND BALANCE AT END OF YEAR	<u><u>\$10,441,034</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND

Statement of Revenues, Expenditures, and
Unexpended Appropriation - Budget
Comparison of Current-Year Appropriation -
Budget (Legal Basis) and Actual
For the Year Ended June 30, 1995

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Appropriated by legislature:			
State General Fund	\$28,710,250	\$28,709,153	(\$1,097)
State General Fund by fees and self-generated revenues	7,167,847	7,443,479	275,632
State General Fund by interagency transfers	417,195	297,474	(119,721)
Federal funds	8,227,497	7,687,314	(540,183)
Auxiliary funds	8,506,323	4,069,777	(4,436,546)
Other fund sources:			
Feed Commission	120,609	24,078	(96,531)
Fertilizer Commission	1,000,000		(1,000,000)
Louisiana Agricultural Finance Authority	154,344	103,816	(50,528)
Pesticide Fund	1,585,647	1,183,885	(401,762)
Forest Protection	800,000	770,504	(29,496)
Structural Pest Control Commission	540,000	532,904	(7,096)
Casino Gaming Proceeds Fund	583,066	583,066	
Total appropriated revenues	<u>57,812,778</u>	<u>51,405,450</u>	<u>(6,407,328)</u>
EXPENDITURES			
Appropriated for:			
Office of Management and Finance	14,448,306	13,084,125	1,364,181
Office of Marketing	1,689,032	1,593,895	95,137
Office of Agro-Consumer Services	2,465,513	2,079,533	385,980
Office of Animal Health Services	9,372,622	8,797,325	575,297
Office of Agricultural and Environmental Services	6,221,218	5,462,764	758,454
Office of Forestry	12,952,122	12,362,774	589,348
Office of Soil and Water Conservation	2,157,642	1,949,741	207,901
Auxiliary	8,506,323	3,215,941	5,290,382
Total appropriated expenditures	<u>57,812,778</u>	<u>48,546,098</u>	<u>9,266,680</u>
UNEXPENDED APPROPRIATION - CURRENT YEAR			
	<u>NONE</u>	<u>\$2,859,352</u>	<u>\$2,859,352</u>

The accompanying notes are an integral part of this statement.

**DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 1995

INTRODUCTION

The Louisiana Department of Agriculture and Forestry is a department within Louisiana state government. The department was created in accordance with Title 36, Chapter 14 of the Louisiana Revised Statutes of 1950, as a part of the executive branch of government. The department is charged with all functions relating to promotion, protection, and advancement of agriculture and forestry, except research and educational functions expressly allocated by the constitution or by law to other state agencies within the State of Louisiana.

The Louisiana Department of Agriculture and Forestry consists of the Office of Management and Finance, the Office of Marketing, the Office of Agro-Consumer Services, the Office of Animal Health Services, the Office of Agricultural and Environmental Sciences, the Office of Forestry, and the Office of Soil and Water Conservation. The offices of the department are funded by one general appropriation and six auxiliary appropriations. The department has approximately 880 full-time employees with work locations throughout the state. In addition to providing various state-funded agricultural and forestry related programs, the department also administers various agricultural related programs for the United States Department of Agriculture, the United States Department of Commerce, and the Tennessee Valley Authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) promulgates generally accepted accounting principles and reporting standards for state and local government. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. However, the accompanying financial statements have been prepared on a legal basis, which differs from generally accepted accounting principles as explained in the following notes.

The State of Louisiana has been determined to be the reporting entity under generally accepted accounting principles. The accompanying financial statements represent activity of a department of state government and, therefore, are a part of the fund and account group structure of the State of Louisiana and its general purpose financial statements.

Certain boards and commissions that were included in the Reorganization Act under the Department of Agriculture and Forestry are not appropriated and are not included in the accompanying financial statements. These boards and commissions, subject to separate reporting and audit, are as follows:

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

	<u>Louisiana Revised Statute</u>
Louisiana Egg Commission	3:551.2
Louisiana Strawberry Marketing Board	3:473
Louisiana Sweet Potato Advertising and Development Commission	3:453
Dairy Industry Promotion Board	3:557.4

The department collects and remits fees for certain boards and commissions less the actual cost of administering the collections up to a specified percentage established by statute. These boards and commissions are reported as an agency fund within the department's financial statements; however, the actual operations of these boards and commissions are subject to separate reporting and audit as follows:

	<u>Louisiana Revised Statute</u>
Louisiana Crawfish Promotion and Research Program	3:556.3
Federal Grain Inspection Service	NONE
Louisiana Soybean and Grain Research and Promotion Board	3:551.32
Louisiana Rice Promotion Board	3:551.63
Louisiana Rice Research Board	3:551.73
Louisiana Catfish Promotion and Research Board	3:558.3

A. FUND ACCOUNTING

The department uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position and results of operations of its non-appropriated funds. This differs from the fund accounting of generally accepted accounting principles where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of generally accepted accounting principles.

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

Generally, noncurrent assets, general fixed assets, and long-term liabilities are reflected only in the State of Louisiana's general purpose financial statements. However, the following funds of the department also reflect long-term assets and/or liabilities:

General Appropriation Fund - Auxiliary Appropriation:
Junior Livestock Loan and Farm Youth Fund
Market Commission
Alligator Market Development Authority

The funds presented in the special purpose financial statements are described as follows:

APPROPRIATED FUNDS

General Appropriation Fund

The General Appropriation Fund is a single legislative appropriation comprised of seven separate budget units as follows:

1. The Office of Management and Finance provides accounting, budget preparation and control, procurement, contract management, management and program analysis, data processing, and personnel management.
2. The Office of Marketing provides programs for the development and growth of markets for Louisiana agricultural products.
3. The Office of Agro-Consumer Services performs the functions of the state relating to the inspection of poultry and dairy products, the regulation of weights and measures, the classification of perishable commodities, the licensing and inspection of statewide bonded warehouses, and such other functions that ensure quality agricultural products for the consumer.
4. The Office of Animal Health Services is responsible for the inspection and grading of meat, the control and eradication of infectious diseases that infect the livestock and poultry industries of the state, and the control of livestock theft in Louisiana.
5. The Office of Agricultural and Environmental Sciences performs technical services and laboratory functions for the farmers of the state and performs functions designed to improve seed certification; increases production of rice and nursery stock; protects Louisiana from the introduction and spread of injurious

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

insect pests and plant diseases; samples pesticides, feeds, and fertilizer and agricultural minerals to assure that they meet all requirements of law and regulations; regulates the treatment and storage or disposal of pesticide wastes; trains and certifies pesticide applicators; and performs other related functions.

6. The Office of Forestry provides for the protection, management, preservation, and replenishment of forest lands of the State of Louisiana.
7. The Office of Soil and Water Conservation provides assistance in the organization of Soil and Water Conservation Districts, assistance in the management of small watersheds, management assistance to coastal wetlands owners, preventative flood control and sediment damage measures, and an estuaries and groundwater pollution protection plan for the state. In addition, the office is responsible for providing direct cooperation with the United States Department of Agriculture (USDA) Soil Conservation Service.

Included within the General Appropriation Fund are the auxiliary appropriation funds. The auxiliary appropriation funds provide goods or services to the public or to other state agencies for a fee as authorized by the Louisiana Legislature through the ancillary appropriation act. The measurement focus is not on income determination but on the reduction of state General Fund subsidization. The auxiliary appropriation funds are as follows:

1. The Junior Livestock Loan and Farm Youth Fund is administered by the State Market Commission to provide youth loan and loan guarantee programs to individuals ages 10 to 20 who are members of any 4-H, Future Farmers of America, or other farm youth organization that is functioning within the state school system. The program provides for direct loans or for loan guarantees of up to 75 percent of any loan made by a bank, financial institution, or federal department to any person eligible for direct loan. The parent is required to co-sign the application making the parent equally responsible. The maximum amount of a direct loan or a loan guarantee is \$3,000, and the repayment period must not exceed five years.
2. The Market Commission administers loans and loan guarantee programs for constructing, purchasing, or improving any agricultural plant that processes or stores Louisiana farm

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

products. The Market Commission Loan Fund accounts for such loans or loan guarantees.

As described in note 21, the department acquired a catfish processing plant on December 18, 1990, and began operating it as an enterprise fund. The plant is now being leased and is no longer being operated as an enterprise fund by the department. The department accounts for loans made to the plant, assumption of the mortgage on the plant, and the subsequent lease of the plant within the Market Commission Loan Fund.

3. The Indian Creek Reservoir and Recreation Area Fund accounts for the activities of the Indian Creek Reservoir and Recreation Area. Monies derived from fees and services are restricted for recreation related expenditures.
4. The Nurseries Fund accounts for the activities relating to the harvesting, processing, storage, and sale of tree seeds and seedlings. The nursery program is committed to producing high quality genetically improved loblolly, slash, and other various species of pine trees.
5. The Agricultural Commodities Commission Self-Insurance Fund is used to provide a means to self-insure the Agricultural Commodities Commission and the department for any loss that may be incurred relating to the operations of the commission. The commission is responsible for grain grading and inspections, grain warehousing, and grain dealers and cotton buyers licensing. The commission has acknowledged exposure in the area of warehousing and has established this fund as a means to cover this exposure.
6. The Alligator Market Development Authority is authorized to provide financial assistance for the acquisition, improvement, and operation of wholesale alligator hide tanning, and meat processing, packaging, warehousing, distribution, and marketing facilities in Louisiana. The Alligator Market Development Fund accounts for such assistance. The Authority shall terminate on June 30, 1996, at which time its responsibilities and outstanding obligations, if any, shall be transferred to the Market Commission.

NON-APPROPRIATED FUNDS

Major State Revenues and Income Not Available

The department collects major state revenues that are remitted to the state treasury for deposit to statutorily dedicated funds. In addition, the department collects funds specifically identified by the Division of Administration, State Budget Office, as *income not available that are remitted to the state treasury*. These amounts are not available to the department for expenditure and, therefore, are not included on Statement B but are detailed on Schedule 1.

Soil and Water Conservation District Clearing Fund

The Soil and Water Conservation District Clearing Fund is used by the department to account for the net payroll and related payroll deductions for the *individual soil and water conservation districts*.

Payroll Clearing Fund

The Payroll Clearing Fund accounts for payroll deductions and accrued benefits.

Agency Funds

The department collects and distributes certain fees and assessments for various boards and organizations. These collections are not available to the department and are not shown on Statement B.

The non-appropriated funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the department. This differs from generally accepted accounting principles in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration,

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

Office of Statewide Reporting and Accounting Policy. These legal requirements differ from generally accepted accounting principles as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.
2. Expenditures are recognized to the extent that appropriation authority has been extended to the department and not necessarily when the fund liability has been incurred.

Under the foregoing legal provisions, the department uses the following practices in recognizing revenues and expenditures.

Revenues

State General Fund appropriations are recognized in the amounts appropriated, to the extent withdrawn from the state treasury. Fees and self-generated revenues, interagency transfers, statutory dedications, other fund sources, and non-appropriated revenues are recognized in the amounts earned, to the extent that they will be collected within 45 days of the close of the fiscal year. Federal funds are recognized as revenue in the period in which they become susceptible to accrual or when the related expenditure is incurred, in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section G60.109.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recognized as expenditures when paid. Furthermore, any expenditures of a long-term nature for which funds have not been appropriated during the current year are not recognized in the accompanying financial statements.

Other Financing Sources (Uses)

Other appropriated financing sources are recognized under the modified accrual basis of accounting, to the extent that they are both measurable and available. Other financing uses are recognized under the modified accrual basis of accounting when the related fund liability is incurred.

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

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following:

Under control of the department:	
Petty cash (on hand and in banks)	\$58,067
Cash in demand accounts	233,220
Cash on deposit with the state treasury	<u>2,692,615</u>
Total	<u><u>\$2,983,902</u></u>

Cash and 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. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank in the form of safekeeping receipts held by the state treasurer. The department has deposit balances (collected bank balances) of \$598,685 at June 30, 1995, for which the department has control. These deposits are secured from risk by \$321,246 of federal deposit insurance (GASB Risk Category 1) and \$277,439 of pledged securities held in the name of the pledging fiscal agent bank in a holding bank (GASB Risk Category 3). On June 30, 1995, deposits held at Hancock Bank were undersecured by \$24,635; however, in accordance with Louisiana Revised Statute (LSA-R.S.) 49:321(D)(1), the deposits were fully secured within five days from the date of deposit.

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by generally accepted accounting principles are included within the state's general purpose financial statements. The following is a summary of cash in the state treasury:

Means of finance	\$2,595,858
FACS operating	(434,084)
Payroll clearing	<u>530,841</u>
Total	<u><u>\$2,692,615</u></u>

The department also maintains a permanent Travel and Petty Cash Imprest Fund in the amount of \$48,017, as authorized by the Commissioner of Administration and advanced by the State Treasurer's Office, in accordance with Title 39 of the Louisiana Revised Statutes. The fund is permanently established and periodically replenished from appropriated funds.

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

D. INVESTMENTS

LSA-R.S. 49:327(C) provides the department with the authority to make investments. At June 30, 1995, the department has investments in mutual fund investments (Automated Government Money Trust) totaling \$2,200,763 consisting of United States Treasury obligations. The investments are not classified as to category of credit risk because this is not required by GASB Codification Section 150.165.

**E. INVENTORY OF MATERIALS
AND SUPPLIES**

The Department of Agriculture and Forestry maintains two categories of inventories: (1) inventories of materials and supplies, which are comprised of office supplies valued at \$61,236 and (2) tree seed inventory, which is valued at \$423,517 at June 30, 1995, for a total of \$484,753 as reported on Statement A.

Inventories of materials and supplies are valued at cost, which approximates market, and are recorded as expenditures at the time individual inventory items are purchased. The department uses a perpetual inventory system and values its inventory using the first-in, first-out (FIFO) valuation method.

Inventories of tree seed are valued at the lower of cost or market and are recorded as expenditures at the time seed are purchased. Only one type of tree seed is purchased, Virginia Pine. All other tree seed are harvested by department employees from state-owned forest. The department uses a periodic inventory system for tree seed. Inventory levels are adjusted and reported to management in the spring when seed are removed for planting and in the fall when the seed are harvested and stored. Reported inventories are equally offset by fund balance reserves that indicate they do not constitute available spendable resources even though they are components of net current assets.

F. FIXED ASSETS

At June 30, 1995, the department has stewardship responsibility for \$19,522,080 in governmental movable property, valued at historical cost at the time of acquisition. The movable property is not reflected within the accompanying special purpose financial statements. A summary of changes in movable property follows:

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

Balance July 1, 1994	Adjustments	Additions	Deletions	Balance June 30, 1995
\$18,689,715	(\$4,074)	\$1,311,820	\$475,381	\$19,522,080

The \$4,074 adjustment is a reduction of the beginning balance for movable property costing less than \$250.

In accordance with LSA-R.S. 39:321-332, the department has complied with movable property statutes of the State of Louisiana.

G. LONG-TERM OBLIGATIONS

The department is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the department arising from lease commitments, judgments, compensated absences, or from any other source are not recognized in the accompanying special purpose financial statements, except for the mortgage related to the catfish plant discussed in note 21.

H. ENCUMBRANCE ACCOUNTING

Encumbrances represent commitments relating to unperformed contracts for goods or services. The department employs encumbrance accounting during the year to assure compliance with the annual appropriation act. Encumbrances are not included in the accompanying financial statements because LSA-R.S. 39:82 and the annual appropriation act do not allow the department to charge encumbrances at year-end against its current-year appropriation, the basis upon which the accompanying financial statements have been prepared. These encumbrances are included in the general purpose financial statements of the State of Louisiana and total \$33,010 at June 30, 1995.

I. BUDGET PRACTICES

The appropriations made for the general operations of the department are annual lapsing appropriations and are recorded in the General Appropriation Fund. The auxiliary funds are authorized and controlled through the annual ancillary appropriation act.

1. The budget process for general appropriations and auxiliary appropriations is an annual appropriation valid for one year. Revenues and expenditures for budget purposes are recognized on the same basis of accounting as described in note 1-B, except that funds carried forward

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

from the prior year are recognized as revenues on Statement C, while federal receivables attributable to the payroll accrual at fiscal year-end are not recognized as revenues on Statement C. In addition, salaries and related benefits are recognized when paid on Statement C. The transfers and loan payments/receipts are non-revenue and non-expenditure transactions of the auxiliary appropriations (State Market Commission, Alligator Market Development Fund, and Junior Livestock Loan and Farm Youth Program) that are not budgeted within the General Appropriation Fund. The revenues and expenditures shown on Statement B are reconciled with the respective amounts shown on Statement C as follows:

Statement B revenues	\$47,812,928
Add:	
Prior-year federal funds carryover	184,549
Transfers in	2,221,079
Payments received on loans	1,006,868
Prior-year self-generated funds carryover	552,018
Less:	
Prior-year auxiliary carryover	(366,016)
Federal payroll receivable (net)	<u>(5,976)</u>
Statement C revenues	<u><u>\$51,405,450</u></u>
Statement B expenditures	\$47,054,406
Add:	
Louisiana State Market Commission loans	500,000
Junior Livestock Loan and Farm Youth loans	123,723
Alligator Market Development Fund	1,000,000
Less - payroll payable (net)	<u>(132,031)</u>
Statement C expenditures	<u><u>\$48,546,098</u></u>

- The department is prohibited by statute from over expending the categories established in the general and ancillary appropriation acts. The ancillary appropriation act restricts the total expenditures of the auxiliary fund without restricting individual line-item expenditures.

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

3. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation plus subsequent amendments as shown on Schedule 4.
4. The auxiliary appropriation funds are allowed to retain year-end balances to finance future expenditures as provided by Act 30 of 1994. The non-appropriated funds are not subject to budgetary control.

J. LEAVE BENEFITS

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. The liability for unused annual leave payable at June 30, 1995, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be \$2,824,914. The leave payable is not recorded in the accompanying special purpose financial statements.

Certain employees of the department are eligible to earn compensatory time, as defined by the Department of Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hours for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another; however, under federal regulations, certain employees are compensated for unused compensatory leave six months after the end of the quarter in which the leave was earned. The liability for accrued compensatory leave at June 30, 1995, computed in accordance with GASB Codification Section C60.105, is estimated to be \$187,734. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

K. 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. Neither is such data comparable to a consolidation.

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

2. LOANS RECEIVABLE

The department is responsible for certain loan programs that are established by state law. All loan balances on Statement A are reported at gross, since the department has made no provision for reporting uncollectible amounts. Loans are written off when the department determines them to be uncollectible. A summary of loan activity for the year ended June 30, 1995, follows:

	Junior Livestock Loan and Farm Youth Fund	Market Commission Loan Fund	Alligator Market Development Fund	Total
Balances at June 30, 1994	\$204,801	\$3,928,242		\$4,133,043
Principal collections	(43,386)	(790,982)		(834,368)
Reestablish receivable previously determined to be uncollectible	524			524
Amounts disbursed or approved for loans	123,200	500,000	\$1,000,000	1,623,200
Balances at June 30, 1995	<u>\$285,139</u>	<u>\$3,637,260</u>	<u>\$1,000,000</u>	<u>\$4,922,399</u>

The Market Commission Loan Fund loans are collateralized with property, buildings, or equipment. When a loan goes into default, the department takes appropriate action to take possession of the collateral. This collateral is accounted for in the collateral acquired through foreclosure account. The collateral is recorded at the remaining loan balance at the time of foreclosure and amounts to \$89,830 as reported on Statement A.

3. DUE FROM/TO OTHERS

The following is a summary of amounts due from/to others at June 30, 1995:

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

	General Appropriation Fund	Non- Appropriated- Major State Revenues and Income not Available
Due from others:		
Federal government	\$853,496	
Other agencies - interagency transfers	13	
Louisiana Agricultural Finance Authority	7,608	
Casino Gaming Proceeds Fund	583,066	
License and Regulatory Board	747,448	
Other		\$98
	<u> </u>	<u> </u>
Total	<u>\$2,191,631</u>	<u>\$98</u>

	General Appropriation Fund	Non- Appropriated Agency Funds
Due to others:		
Crawfish Promotion Board		\$500
Federal Gain Inspection Service		1,977
Soybean Promotion Board		84,436
Rice Promotion Board		100
Rice Research Board		100
Catfish Promotion Board		500
Association of Official Seed Certifying Agencies		157
Southern Community Forestry Summit		943
National Association of State Foresters Meeting		7,987

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

	General Appropriation Fund	Non- Appropriated Agency Funds
	<u> </u>	<u> </u>
Due to others: (Cont.)		
Association of Southern Feed, Fertilizer, and Pest Control Officials		\$12,303
Best of Louisiana		7,621
Louisiana Agricultural Finance Authority	\$107,184	
Feed Commission	25,922	
Advisory Commission on Pesticides	146,115	
Structural Pest Control Commission	64,269	
	<u> </u>	<u> </u>
Total	<u>\$343,490</u>	<u>\$116,624</u>

4. PAYABLES

The following is a summary of payables at June 30, 1995:

	Accounts Payable	Payroll Payable	Payroll Deductions Payable	Accrued Employees Benefits Payables	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
General appropriation	\$1,460,217	\$1,938,698			\$3,398,915
Soil and Water Conservation Districts Clearing Fund				\$14,712	14,712
Payroll Clearing Fund			\$246,179	284,663	530,842
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$1,460,217</u>	<u>\$1,938,698</u>	<u>\$246,179</u>	<u>\$299,375</u>	<u>\$3,944,469</u>

5. PENSION PLANS

Substantially all classified/unclassified state employees of the department are members of the Louisiana State Employees Retirement System (LASERS), a public employee retirement system, single-employer, defined benefit pension plan. Certain unclassified employees of the department are members of the Louisiana Teachers Retirement System (TRS), a public employee retirement system, multiple-employer, defined benefit pension plan. Generally, all

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

full-time employees are eligible to participate in the systems, with employee benefits vesting after 10 years of service.

Contributions to the systems are funded through employee contributions and an employer contribution. The employer contributions to LASERS and TRS for the year ended June 30, 1995, were \$2,492,643 and \$9,941, respectively. The total current-year payroll of the department was \$23,309,395, and current-year payroll covered by the retirement systems was \$21,007,942. Aggregate pension cost for the year was \$4,079,225.

The employee contribution rate is established by state statute. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution, as set forth in LSA-R.S. 11:102. Employees contribute 7.5 percent (LASERS) and 8.0 percent (TRS) of covered salaries, and the state is required to contribute 11.9 percent (LASERS) and 16.2 percent (TRS) of covered salaries to the systems. The department's employer contribution is funded by the State of Louisiana through the annual appropriation to the department. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974.

**6. POSTRETIREMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The department provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the department's employees become eligible for these benefits if they reach normal retirement age while working for the department. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and the department. The department's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 1995, the costs of retiree benefits totaled \$1,356,232 for 557 retirees.

7. LOAN GUARANTEES

As provided by LSA-R.S. 3:446.1-3:446.7, the Louisiana State Market Commission is authorized to provide loan guarantees to facilitate the processing, storing, and marketing of farm products in Louisiana. The Louisiana State Market Commission has three loan guarantees totaling \$717,000 on loans of \$1,050,000 at June 30, 1995. The principal balance of these loans was \$811,220 and an accrued interest balance of \$3,052.

A schedule of these loan guarantees is provided on Schedule 7. These loan guarantees are not included in the department's financial statements.

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

**8. JUDGMENTS, CLAIMS, AND
SIMILAR CONTINGENCIES**

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program. The department also operates the Agricultural Commodities Self-Insurance Fund as described in note 1-A.

A claim against the department, which is not insured under the programs described above, has been made under the loan guarantee program discussed in note 7. The department was notified on December 12, 1992, that Bernard Millworks, Inc., whose loan the department had guaranteed up to \$382,500, was in default on its loan to Premier Bank. However, the department disputes its liability for this guarantee because the procedures outlined in the guarantee agreement were not followed by the lending bank. The department is unable to estimate the amount of its liability, if any, under this agreement.

9. LEASE OBLIGATIONS

Capital leases, which under generally accepted accounting principles would be an asset and liability of the department, are not reflected in the accompanying special purpose financial statements. The department has capital leases under which it is acquiring equipment.

The following is a schedule of future minimum lease payments under capital leases (including LEAF), together with the present value of the net minimum lease payments, as of June 30, 1995:

Fiscal year:	
1995-96	\$683,989
1996-97	380
Total minimum lease payments	<u>684,369</u>
Less - amount representing interest	<u>(19,096)</u>
Present value of net minimum lease payments	<u><u>\$665,273</u></u>

In addition to capital leases, the department has noncancelable operating leases. The annual operating lease payments for the next five fiscal years are presented as follows:

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

<u>Fiscal Year</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Land</u>	<u>Other</u>	<u>Total</u>
1995-96	\$94,451	\$135,720	\$1,784	\$65,249	\$297,204
1996-97	19,893	22,800	519		43,212
1997-98	14,866	1,900	398		17,164
1998-99	101		258		359
1999-2000	100		200		300
Thereafter	400		2,689		3,089
Total	\$129,811	\$160,420	\$5,848	\$65,249	\$361,328

All lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Total operating lease expenditures for fiscal year 1994-95 amounted to \$328,643.

10. ADVANCES FROM STATE TREASURY

The department has received advances from the state treasury for imprest fund operations and working capital totaling \$48,017 and \$1,200,000, respectively. The advances, as reflected in the accompanying statements, represent a liability to the department and must be repaid if not authorized annually.

11. RESERVED FOR CONTINUING OPERATIONS

As shown on Statement A, at June 30, 1995, the department has reserves for continuing operations totaling \$9,954,209, which may be retained for future expenditures as follows:

<u>Fund</u>	<u>Louisiana Law or Revised Statute</u>	<u>Restricted Balance</u>
Fertilizer Fund	3:1317(1)(C)	\$833,923
Feed Commission Fund	3:1907(A)(3)	717,047
Agricultural Commodity Commission Self-Insurance Fund	3:3410.1(D)(2)	543,478
Alligator Market Development Authority	3:559.10(B)	1,000,000
Junior Livestock Loan and Farm Youth Fund	Act 30 of 1994	385,669
Market Commission Loan Fund	Act 30 of 1994	5,617,769

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

<u>Fund</u>	<u>Louisiana Law or Revised Statute</u>	<u>Restricted Balance</u>
Indian Creek Reservoir and Recreation Fund	Act 30 of 1994	\$6,620
Nursery Fund	Act 30 of 1994	508,287
Small Business Administration - Tree Planting Program	39:82(C)	202,705
Food Distribution Grant	39:82(C)	46,571
Office of Animal Health	39:82(B)	<u>92,140</u>
Total		<u><u>\$9,954,209</u></u>

These reserves relate to programs that are not subject to an annual appropriation and the lapsing provisions of the annual appropriation act or to appropriations in which the legislature has authorized the department to retain the fund balance of the program for future operations of the program.

12. RESERVED FOR DEBT SERVICE

As shown on Statement A, at June 30, 1995, the department has reserves for debt service within the Pesticide Registration Fund totaling \$688,227 in accordance with LSA-R.S. 3:3210(C).

13. FUND DEFICIT

The General Appropriation Fund had a deficit of \$686,155 for the year ended June 30, 1995. The deficit was the result of the recognition of accrued salaries and related benefits. The deficit will be resolved by paying for salaries and related benefits from fiscal year 1996 funds.

**14. ADJUSTMENTS TO FUND BALANCE
AT BEGINNING OF YEAR**

Adjustments to the beginning fund balance of the General Appropriation Fund, as shown on Statement B, are detailed as follows:

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

Surplus remitted to General Fund	\$823
Expenditure adjustment	47,772
Revaluation of assets seized in foreclosures	<u>266,748</u>
Total	<u><u>\$315,343</u></u>

15. OTHER CHARGES

In accordance with the instructions of the Division of Administration, State Budget Office, certain expenditures of the department are designated as other charges. The other charges expenditures of \$5,893,270, as shown on Statement B, are detailed on Schedule 6.

The State Budget Office has designated these funds in this manner to maintain control of certain expenditures for specific programs and pass-through funds to subrecipients. Under generally accepted accounting principles, these expenditures would have been recognized within their proper expenditure categories and objects.

16. OTHER APPROPRIATED FINANCING SOURCES (USES)

As shown on Statement B, the department had other appropriated financing sources (uses). These amounts represent transfers in and out as follows:

<u>Other Appropriated Financing Sources and Uses</u>	<u>General Appropriation</u>
Transfers in:	
Louisiana Agricultural Finance Authority	\$103,816
Feed Commission	545,284
Fertilizer Commission	586,210
Forest Protection Fund	770,504
Casino Gaming Proceeds Fund	583,066
Alligator Market Development Fund	<u>1,000,000</u>
Total other appropriated financing sources	<u><u>\$3,588,880</u></u>

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

<u>Other Appropriated Financing Sources and Uses</u>	<u>General Appropriation</u>
Transfers out:	
Louisiana Agricultural Finance Authority:	
Building debt	\$1,131,242
Construction expenditure	310,535
Miscellaneous	15,190
Pesticide Fund	146,115
Feed Commission	25,922
Structural Pest Control Commission	<u>64,269</u>
Total other appropriated financing uses	<u><u>\$1,693,273</u></u>

17. NON-MONETARY FEDERAL PROGRAMS

The accompanying financial statements do not include food commodities distributed by the department under the Temporary Emergency Food Assistance and Food Distribution Programs, Catalog of Federal Domestic Assistance Nos. 10.569 and 10.550, respectively. During the year ended June 30, 1995, the department recorded food distributions totaling \$23,209,581 for these programs.

**18. FINANCIAL AGREEMENTS WITH LOUISIANA
AGRICULTURAL FINANCE AUTHORITY**

The department has a lease-purchase agreement with the Louisiana Agricultural Finance Authority (LAFA). LAFA was organized to provide affordable interest rates for investment in agricultural products, commodities, and services by providing capital and credit at interest rates within the financial means of persons and businesses engaged in agriculture and agricultural exports. LAFA is a component unit of the State of Louisiana and is audited separately from the department.

LAFA issued \$6 million in revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building (5825 Florida Boulevard in Baton Rouge) and related facilities for use by the Department of Agriculture and Forestry in connection with the promotion and assistance of agriculture and forestry within this state. On August 29, 1988, the department took possession of the facilities under the terms of the agreement. The term of the lease agreement is from August 29, 1988, to October 1, 2003, 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 agreed to pay additional taxes, assessments, and insurance

**DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

premiums. The department has assumed all costs of maintaining and operating the facility during the term of the agreement. The rental payments are to be made from monies appropriated to the department from the Feed and Fertilizer Fund for that purpose. In accordance with the lease-purchase agreement, rental payments are due ten business days before any interest payment date for the bonds or any other date that any payment of interest, premium, if any, or principal is required to be made in respect of the bond issue pursuant to the indenture.

On March 20, 1992, LAFA approved the conversion of variable interest rate bonds to a fixed rate and accepted a commitment from previous bondholder to purchase the fixed rate bonds and assign them to the new trustee. The amount of conversion was \$5,100,000 with an interest rate of 6.5 percent. The bonds are secured by "Department Documents" - Assignment of Feed and Fertilizer Revenues dated August 1, 1988; Assignments of Leases and Rents dated August 1, 1988; Collateral Pledge Agreement dated August 1, 1988; and a Collateral Mortgage and Collateral Chattel Mortgage dated as of August 1, 1988.

On May 7, 1992, the department elected to exercise its option to convert the interest rate on the bonds to a fixed rate pursuant to Section 201 of the 1988 indenture and LAFA has approved said conversion pursuant to a resolution of LAFA on March 20, 1992, as noted above. The department and LAFA have entered into a First Supplemental Lease Agreement to properly record the resignation of the original trustee and appointment of successor trustee and transfer of trust estate. The agreement also acknowledged the conversion to a fixed rate on the bonds and changed the interest payment dates to April 30 and October 30 of each year, commencing October 30, 1992, and expiring October 30, 2002. The lease payments are to be made at least three business days before January 30, April 30, July 30, and October 30 of each year, commencing at least three business days before July 30, 1992. At June 30, 1995, the outstanding balance of the bonds is \$3,900,000 with interest of \$1,079,325.

On April 30, 1990, the Board of Supervisors of Louisiana State University and Agriculture and Mechanical College (University), the Louisiana Department of Agriculture and Forestry (Department), and the Louisiana Agricultural Finance Authority (LAFA) entered into a cooperative agreement for the purpose of constructing, equipping, and maintaining a building on the Agriculture Center campus of the University to house the feed, fertilizer, and pesticide testing laboratories, administrative offices, and related support facilities for the benefit of the University, the Department, and the public of the State of Louisiana. On July 1, 1992, LAFA issued \$3,100,000 in Agriculture Revenue Bonds (Ag Chemistry Laboratory Project), Series 1992, which are secured by pesticide fees collected by the Department. These bonds were issued to defray the cost for constructing and equipping the building described above. The bonds mature on March 1, 2002, and bear interest at the compound rate of 6.5 percent on January 15 and July 15 of each year beginning January 15, 1993. At June 30, 1995, the outstanding balance of the bonds is \$2,320,000 with interest of \$640,575. On July 1, 1992, LAFA and the Department entered into a Sublease Agreement to provide a source of payment for the bonds.

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

The following is a schedule of principal and interest payments on the financial agreements with LAFA:

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding July 1, 1994</u>
Agriculture Building - Florida Boulevard	May 7, 1992	\$5,100,000	\$4,325,000
Agriculture Chemistry Building - LSU	July 1, 1992	<u>3,100,000</u>	<u>2,575,000</u>
Total		<u>\$8,200,000</u>	<u>\$6,900,000</u>

The annual requirements for the financial agreements outstanding at June 30, 1995, are as follows:

<u>Fiscal Year</u>	<u>Agriculture Building - Florida Boulevard</u>	<u>Agriculture Chemistry Building - LSU in Baton Rouge</u>	<u>Total</u>
1996	\$708,500	\$425,800	\$1,134,300
1997	708,925	422,925	1,131,850
1998	712,400	419,075	1,131,475
1999	708,600	424,250	1,132,850
2000	712,850	422,800	1,135,650
Subsequent years	<u>1,428,050</u>	<u>845,725</u>	<u>2,273,775</u>
Total	<u>\$4,979,325</u>	<u>\$2,960,575</u>	<u>\$7,939,900</u>

19. ANCILLARY APPROPRIATIONS

Included in the General Appropriation Fund in the accompanying financial statements are ancillary appropriations, which are generally made to fund minor enterprise activities, made to the department in accordance with Act 30 of 1994. Accounting records are maintained by the department to identify activity in the auxiliary funds. At June 30, 1995, the accounts of the auxiliary funds reflect the balances shown on Schedule 8.

<u>Redeemed</u>	<u>Outstanding June 30, 1995</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Interest Outstanding June 30, 1995</u>
\$425,000	\$3,900,000	1996-2002	6.50%	\$1,079,325
<u>255,000</u>	<u>2,320,000</u>	1996-2002	6.50%	<u>640,575</u>
<u><u>\$680,000</u></u>	<u><u>\$6,220,000</u></u>			<u><u>\$1,719,900</u></u>

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

20. DEFERRED COMPENSATION PLAN

Certain employees of the Department of Agriculture and Forestry participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to this statewide plan are available in the financial statements of the State of Louisiana.

21. LEASE OF THE CATFISH PROCESSING PLANT

The Louisiana Department of Agriculture and Forestry, through the State Market Commission, became a loan guarantor as allowed by LSA-R.S. 3:446.3(F)(6) for Louisiana Catfish, Incorporated, on April 22, 1987. Louisiana Catfish, Incorporated, a catfish processing plant, was placed under a receiver by a state judge on September 14, 1990. The receiver placed the company in federal bankruptcy on September 17, 1990.

To protect itself as a loan guarantor, the State Market Commission purchased the catfish plant on December 18, 1990, for \$1,650,000 by an act of sale with an assumption of mortgage owed to Concordia Bank and Trust of \$1,350,916. On February 4, 1991, the State Market Commission entered into a lease-purchase agreement with Cargill, Incorporated, for 10 years. On December 15, 1993, Cargill, Incorporated, canceled its lease of the catfish plant. On this same date, Southern Farm Fish Processors, Incorporated, an Arkansas corporation, entered into a lease on the catfish plant that resulted in no break in the plant's operations. The lease is for a term of three years with the option to renew the lease for three separate successive one-year periods with the same terms and conditions. Monthly rental payments are \$23,882. The balance of the capital lease receivable to the State Market Commission at June 30, 1995, is \$3,092,369. Of the monthly payments, \$8,882 will be paid directly to Concordia Bank and Trust and the balance of the payments mailed to the State Market Commission. The change in the mortgage payable to Concordia Bank and Trust Company follows:

Balance at July 1, 1994	\$770,679
Less mortgage principal payments made by Southern Farm	<u>(62,946)</u>
Balance at June 30, 1995	<u><u>\$707,733</u></u>

The lease payments received and the reduction of the mortgage are reported in the Market Commission Loan Fund.

22. ASSET PURCHASE AGREEMENT

The Market Commission paid \$1,057,500 in loan guarantees (\$337,500 to Acadia State Bank and \$720,000 to Evangeline Bank & Trust) on July 10, 1992, and acquired through foreclosure a vegetable processing plant. On August 31, 1992, the Market Commission entered into an

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

asset purchase agreement with the Northland Acquisition Corporation for the sale of the plant for \$650,000. The Market Commission received \$30,000 and accepted a \$620,000 promissory note, at zero percent interest, for the balance of the \$650,000 sale price.

The payment terms of the promissory note provide Northland Acquisition Corporation to make payments as follows: for the quarters ending July 31, 1993, and October 31, 1993, an amount equal to two percent (2%) of buyer's net sales; for the quarters ending January 31, 1994, April 30, 1994, July 31, 1994, and October 31, 1994, an amount equal to two and one-half percent (2½%) of buyer's net sales; for the quarters ending January 31, 1995, April 30, 1995, July 31, 1995, and October 31, 1995, an amount equal to three percent (3%) of buyer's net sales; for the quarters ending January 31, 1996, April 30, 1996, July 31, 1996, and October 31, 1996, an amount equal to three and one-quarter percent (3¼%) of buyer's net sales; for the quarters ending January 31, 1997, April 30, 1997, July 31, 1997, and October 31, 1997, an amount equal to three and one-half percent (3½%) of buyer's net sales; and, commencing on the last day of January 1994, until and including the last day of September 1997, buyer shall make monthly payments to seller in the amount of \$3,000. On November 30, 1997, buyer shall pay to seller an amount equal to the difference, if any, between the sum of the quarterly and monthly payments and the \$620,000.

On July 1, 1993, the commission subordinated its first mortgage rights on the collateral mortgage offered as security for the promissory note to Rapides Bank & Trust Company at which time Northland Acquisition Corporation obtained additional funding from the bank. The balance of the asset purchase agreement due to the Market Commission at June 30, 1995, is \$619,362.

23. SUBSEQUENT EVENTS

On November 17, 1995, Rapides Bank & Trust Company placed Northland Acquisition Corporation, discussed in note 22, in default on the outstanding bank loan balance of \$322,894.

**DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
For the Year Ended June 30, 1995**

**SCHEDULE OF NON-APPROPRIATED REVENUES - MAJOR
STATE REVENUES AND INCOME NOT AVAILABLE**

Schedule 1 reflects major state revenues and income not available collected by the department during the year that were not available to the department for expenditures.

**SCHEDULE OF CHANGES IN BALANCES - NON-APPROPRIATED -
SOIL AND WATER CONSERVATION DISTRICTS CLEARING
AND PAYROLL CLEARING FUNDS**

Schedule 2 presents the changes in balances resulting from the activities of the Non-Appropriated - Soil and Water Conservation Districts Clearing and Payroll Clearing Funds that are under the control of the department.

**SCHEDULE OF CHANGES IN BALANCES -
OTHER AGENCY FUNDS**

Schedule 3 presents the changes in balances resulting from the activities of other agency funds that are under the control of the department.

**SCHEDULE OF ADJUSTMENTS TO ORIGINAL
APPROVED BUDGETS - APPROPRIATED FUNDS**

Adjustments to the original approved budgets, as shown on Schedule 4, are presented to describe the amendments to the amounts originally appropriated by the Louisiana Legislature by Act 15 of 1994.

SCHEDULE OF PER DIEM PAID COMMISSION MEMBERS

The per diem paid commission members is presented on Schedule 5, as required by House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

**SCHEDULE OF OTHER CHARGES EXPENDITURES -
APPROPRIATED FUNDS**

In accordance with instructions of the Division of Administration, State Budget Office, certain expenditures of the department are budgeted as other charges. Schedule 6 provides the details of this category of expenditures shown on Statement B.

**SCHEDULE OF LOAN GUARANTEES FOR THE
LOUISIANA STATE MARKET COMMISSION**

Louisiana Revised Statutes 3:407 and 3:446.1-3:446.7 authorize the Louisiana State Market Commission to make loan guarantees. Schedule 7 provides the details for the various loan guarantees extended by this commission.

**SCHEDULE OF AUXILIARY ACCOUNT BALANCES -
ANCILLARY APPROPRIATION FUNDS**

Schedule 8 presents the account balances of the various auxiliary funds at June 30, 1995.

DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 MAJOR STATE REVENUES AND
 INCOME NOT AVAILABLE

Schedule of Non-Appropriated Revenues
 For the Year Ended June 30, 1995

<u>NON-APPROPRIATED REVENUE FUND SOURCE</u>	<u>CASH RECEIPTS THROUGH JUNE 30, 1995</u>	<u>ACCOUNTS RECEIVABLE AT JUNE 30, 1995</u>	<u>TOTAL</u>
Income not available - miscellaneous	\$11,940	\$18	\$11,958
Major state revenues:			
Licenses, permits, and fees	15,705	80	15,785
Agriculture Finance Authority - interest income	9,543		9,543
Alligator Market Development - interest income	12,894		12,894
Fertilizer Commission - interest income	12		12
Miscellaneous	15,789		15,789
Subtotal - major state revenues	<u>53,943</u>	<u>80</u>	<u>54,023</u>
Total non-appropriated revenues	<u>\$65,883</u>	<u>\$98</u>	<u>\$65,981</u>

DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 NON-APPROPRIATED - SOIL AND WATER
 CONSERVATION DISTRICTS CLEARING
 AND PAYROLL CLEARING FUNDS

Schedule of Changes in Balances
 For the Year Ended June 30, 1995

	SOIL AND WATER CONSERVATION DISTRICTS CLEARING	PAYROLL CLEARING
	<u> </u>	<u> </u>
BALANCES AT BEGINNING OF YEAR	\$6,062	\$518,446
ADDITIONS		
Transfers from soil and water districts	1,280,180	
Transfers from general appropriation		12,112,036
Total	<u>1,286,242</u>	<u>12,630,482</u>
DEDUCTIONS		
Payroll, deductions, and employee benefits	<u>1,271,530</u>	<u>12,099,640</u>
BALANCES AT END OF YEAR	<u><u>\$14,712</u></u>	<u><u>\$530,842</u></u>

DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 NON-APPROPRIATED - OTHER AGENCY FUNDS

Schedule of Changes in Balances
 For the Year Ended June 30, 1995

	CRAWFISH PROMOTION BOARD	FEDERAL GRAIN INSPECTION SERVICE	SOYBEAN PROMOTION BOARD	RICE PROMOTION BOARD	RICE RESEARCH BOARD
BALANCES AT BEGINNING OF YEAR	\$500	\$2,261	\$5,203	\$100	\$100
ADDITIONS					
Assessments and fees	87,064	2,874	1,020,344	858,205	859,028
Registration fees					
Interest			1,665		
Total additions	87,064	2,874	1,022,009	858,205	859,028
Total	87,564	5,135	1,027,212	858,305	859,128
DEDUCTIONS					
Remittances to boards	84,452		912,802	846,205	847,028
Refunds			17,974		
Collection fees	2,612		12,000	12,000	12,000
Remittances to federal government		3,158			
Conference fees					
Miscellaneous					
Total deductions	87,064	3,158	942,776	858,205	859,028
BALANCES AT END OF YEAR	\$500	\$1,977	\$84,436	\$100	\$100

CATFISH PROMOTION BOARD	ASSOCIATION OF OFFICIAL SEED CERTIFYING AGENCIES	SOUTHERN COMMUNITY FORESTRY SUMMIT	A SALUTE TO SMOKEY BEAR	NATIONAL ASSOCIATION OF STATE FORESTERS	ASSOCIATION OF SOUTHERN FEED, FERTILIZER AND PEST CONTROL OFFICIALS	BEST OF LOUISIANA	TOTAL
\$500	\$5,562	\$1,423	\$620	NONE	NONE	NONE	\$16,269
72,892	757		4,490	\$10,800	\$21,100	\$11,796	2,900,407
						45	48,943
72,892	757	NONE	4,490	10,800	21,100	11,841	1,710
							2,951,060
73,392	6,319	1,423	5,110	10,800	21,100	11,841	2,967,329
53,499							2,743,986
17,206							35,180
2,187							40,799
	6,162		5,110	2,813	8,797	4,220	3,158
		480					27,102
72,892	6,162	480	5,110	2,813	8,797	4,220	480
							2,850,705
\$500	\$157	\$943	NONE	\$7,987	\$12,303	\$7,621	\$116,624

DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 APPROPRIATED FUNDS

Schedule of Adjustments to Original
 Approved Budgets
 For the Year Ended June 30, 1995

	GENERAL APPROPRIATION	JUNIOR LIVESTOCK LOAN AND FARM YOUTH FUND	AUXILIARY MARKET COMMISSION LOAN FUND
Original approved budget	\$45,343,039	\$620,000	\$5,001,000
Increases for:			
Self-generated revenues:			
Poultry program	199,694		
Equine identification program	276,500		
Egg inspection fees	265,000		
Agriculture commodities division	259,958		
Federal funds for the Office of Forestry	2,343,318		
To allow for the purchase of equipment for the ISIS Budget Development System	35,880		
To allow for the payment of the one time salary supplement	583,066		
 Total Budget Amounts	 \$49,306,455	 \$620,000	 \$5,001,000

APPROPRIATIONS

INDIAN CREEK RESERVOIR AND RECREATION AREA FUND	NURSERIES FUND	AGRICULTURAL COMMODITIES COMMISSION SELF- INSURANCE FUND	ALLIGATOR MARKET DEVELOPMENT AUTHORITY FUND	TOTAL
\$290,000	\$1,445,323	\$150,000	\$1,000,000	\$53,849,362
				199,694
				276,500
				265,000
				259,958
				2,343,318
				35,880
				583,066
<u>\$290,000</u>	<u>\$1,445,323</u>	<u>\$150,000</u>	<u>\$1,000,000</u>	<u>\$57,812,778</u>

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Schedule of Per Diem Paid Commission Members
For the Year Ended June 30, 1995

	<u>NUMBER</u>	<u>AMOUNT</u>
LOUISIANA ADVISORY COMMISSION ON PESTICIDES		
Virgil J. Bourque, Jr.	3	\$120
Bonnie Broussard	2	80
Grady Coburn	3	120
Doug Duty	3	120
Max Edwards	3	120
Randy Lanctot	1	40
Zoren O'Brien	2	80
Cary N. Pope (Ph.D.)	2	80
Todd Robert	2	80
Gary Ross	2	80
Ray Thornton	1	40
Mike Vasco	1	40
		<hr/>
Total		<u>\$1,000</u>
STATE MARKET COMMISSION		
Joseph Accardo, Sr.	1	\$40
Elvadus Fields	1	40
James Noel	1	40
Bartol Taliancich	1	40
Owen Vineyard	1	40
		<hr/>
Total		<u>\$200</u>
LOUISIANA COMMISSION OF WEIGHTS AND MEASURES		
Roy Amadee	3	\$120
Dave Cattar	1	40
Louis Dupuy	3	120
G. L. Michelli	2	80
Joseph Moreaux	3	120
John O'Neill	3	120
Ronnie Stratton	1	40
Morris Weinstein	2	80
		<hr/>
Total		<u>\$720</u>

(Continued)

DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 Schedule of Per Diem Paid Commission Members, 1995

	<u>NUMBER</u>	<u>AMOUNT</u>
DAIRY STABILIZATION BOARD		
H. H. Lacobee	2	\$60
George McKenzie	2	60
Hillar Moore	2	60
Vernon Toups	2	60
		<hr/>
Total		<u>\$240</u>
LOUISIANA AGRICULTURAL COMMODITIES COMMISSION		
J. B. Broussard	4	\$160
Floyd Carter	4	160
Ted Glaser	2	80
James Hoppe	3	120
Joe Jackson	2	80
Rodney Kendrick	4	160
Walter Morales	2	80
Morris Weinstein	1	40
		<hr/>
Total		<u>\$880</u>
STATE SOIL AND WATER CONSERVATION COMMITTEE		
A. Lee Allee	9	\$315
Pedro Angelle	10	350
Harry R. Henderson	1	35
Stirling Melancon	9	315
Richard Netterville	9	315
Terry J. Smith, Chairman	9	315
Thad Spurlock	10	350
		<hr/>
Total		<u>\$1,995</u>
HORTICULTURE COMMISSION OF LOUISIANA		
Mark A. Bergeron	2	\$80
William L. Hines, Jr.	1	40
Fred Hoogland	1	40
Roger D. Mayes	1	40
Dennis McCloskey	1	40
		<hr/>
Total		<u>\$240</u>

(Continued)

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Schedule of Per Diem Paid Commission Members, 1995

	<u>NUMBER</u>	<u>AMOUNT</u>
ALLIGATOR MARKET DEVELOPMENT AUTHORITY		
John Donahue	1	<u>\$40</u>

(Concluded)

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
APPROPRIATED FUNDS

Schedule of Other Charges Expenditures
For the Year Ended June 30, 1995

Management and Finance:	
Aid to needy families	\$454,241
Information Search, Incorporated, Workforce	15,939
U.S. Department of Agriculture - Southwest Regional Office - Commodity	4,120
Audit Fee	116,150
Marketing:	
Future Farmers of America Cooperative Agreement	9,966
Southern University Agreement	12,759
Product Promotion	94,850
Rodeo	24,999
Administrative Fees	1,485
Soil and Water Project	114,098
Egg Incentive	80,911
Audit Fee	12,240
Animal Health:	
Alligator Promotion	49,847
LSU Diagnostic Laboratory	608,088
Veterinarians	132,076
U.S. Department of Agriculture - Fruit and Vegetable	8,087
Federal Cooperative Agreements:	
Meat & Poultry Inspection	85,813
Poultry and Egg Grading Program	125,929
Forestry:	
Forestry Federal Excess Property	100,805
Urban Forestry Assistance/Hurricane Andrew Recovery	1,141,668
Stewardship Program	126,144
Urban & Community Forestry Assistance	158,893
Cooperative Forest Health Program	25,178
Urban Forestry Assistance/Natural Resource Conservation Education	4,260
Small Business Administration	171,004
Seed Orchard	195,188
Department of Environmental Quality/Best Management Practices	5,000
Soil and Water Districts Operating Funds	1,391,649
Soil and Water Contract Funds	222,064
Pesticide Program:	
Health and Hospitals	25,000
Formosan Termite	30,000
Pesticide Certification (LSU)	7,770

(Continued)

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
APPROPRIATED FUNDS
Schedule of Other Charges Expenditures, 1995

Pesticide Program: (Cont.)	
Seed Field Inspection	\$4,545
Fish (Veterinary School)	31,120
Miscellaneous other charges	17,642
Personal services	203,496
Related benefits	27,654
Travel	15,528
Operating services	20,113
Supplies	14,192
Acquisitions	2,759
	<hr/>
Total	\$5,893,270
	<hr/> <hr/>

(Concluded)

DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
LOAN GUARANTEES

Schedule of Loan Guarantees for the Louisiana
State Market Commission
For the Year Ended June 30, 1995

	<u>LOAN AMOUNT</u>	<u>GUARANTEED AMOUNT</u>
Loan guarantees authorized by LSA-R.S. 3:446.6:		
Bernard Millworks, Incorporated	\$600,000	\$382,500
Eppinette Distributing Company, Incorporated	100,000	72,000
Food Innovisions, Incorporated	350,000	262,500
	<u> </u>	<u> </u>
Total	<u>\$1,050,000</u>	<u>\$717,000</u>

BANK	OUTSTANDING BALANCE JUNE 30, 1995	
	PRINCIPAL	INTEREST
Premier Bank	\$600,000	
Louisiana Bank of Ouachita Parish	76,133	\$133
Orleans Bank and Trust	135,087	2,919
	<u>\$811,220</u>	<u>\$3,052</u>

DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 ANCILLARY APPROPRIATION FUNDS

Schedule of Auxiliary Account Balances
 For the Year Ended June 30, 1995

	JUNIOR LIVESTOCK LOAN AND FARM YOUTH FUND	MARKET COMMISSION LOAN FUND
Cash and cash equivalents	\$98,529	\$706,043
Lease receivables		3,092,369
Loans receivable	287,140	3,637,260
Inventory of materials and supplies		
Collateral acquired through foreclosure		89,830
Accounts payable		
Mortgage payable		707,733
Advances due to state treasury		1,200,000
Reserved for continuing operations	385,669	5,617,769
Reserved for inventory of materials and supplies		
Revenues	12,516	176,413
Expenditures		294,113

INDIAN CREEK RESERVOIR AND RECREATION AREA FUND	NURSERIES FUND	AGRICULTURAL COMMODITIES COMMISSION SELF-INSURANCE FUND	ALLIGATOR MARKET DEVELOPMENT FUND
\$12,137 9,728	\$489,187 46,504	\$543,478	\$1,000,000
	423,517		
15,245	27,404		
6,620	508,287 423,517	543,478	1,000,000
260,871	1,340,646	86,460	
254,251	1,140,256	95,000	

**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.



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

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June 3, 1996

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

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose financial statements of the Louisiana Department of Agriculture and Forestry as of and for the year ended June 30, 1995, and have issued our report thereon dated June 3, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Management of the Louisiana Department of Agriculture and Forestry 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 the special purpose financial statements in accordance with legally prescribed procedures. 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 special purpose financial statements of the Louisiana Department of Agriculture and Forestry for the year ended June 30, 1995, we obtained an understanding of the internal control structure, exclusive of certain controls relating to the statewide computer system that were subjected to separate consideration. 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

EXHIBIT A

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Internal Control Report

June 3, 1996

Page 2

in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special purpose financial statements.

Controls Over Computer Equipment

The Department of Agriculture and Forestry (department) has not established adequate internal control procedures over its computer equipment. A good internal control structure requires that adequate controls be in place to ensure that the acquisition, valuation, and disposition of movable property is accurately reflected in the accounting records and that the location of all movable items is monitored and updated frequently. In addition, a proper segregation of duties is necessary to safeguard assets and ensure that errors and/or irregularities are detected within a timely period. In our test of 15 transactions, the following weaknesses were noted:

- The department did not maintain the documentation used to support the value of certain equipment reflected on the property control listing. The department routinely adds computer enhancements to existing equipment. However, the department could not provide the computations to support the adjusted values of the equipment.
- The department has not enforced established procedures to ensure that the property control manager is notified when the equipment changes locations. In one instance, computer personnel could not locate a laptop computer because the location noted on the property control listing was obsolete. After an extensive search, the computer was located in Shreveport.
- The department has not established adequate segregation of duties in that the individual who initiates the computer purchases is also responsible for tracking the location of computer equipment.

EXHIBIT A

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Internal Control Report

June 3, 1996

Page 3

Management has not placed sufficient emphasis on controls. These weaknesses in controls increase the risk that errors and/or irregularities could occur and remain undetected.

The Department of Agriculture and Forestry should develop procedures to ensure that the valuation of computer equipment is adequately supported and the location is monitored and updated frequently. In addition, duties should be segregated to ensure that computer equipment is safeguarded and errors and/or irregularities are detected in a timely manner. In a letter dated May 28, 1996, Mr. Richard Allen, Assistant Commissioner, stated:

The Department disagrees with this finding as it relates to internal control procedures over computer equipment.

The Department maintains documents to support the value of equipment as reflected on the property control list. At one time, the Department added enhancements to existing equipment to accurately reflect the value of the equipment. The value of those enhancements were obtained from the invoices that are stored in the Department's vendor files. A copy of those invoices may not be attached to the inventory listing in all cases simply as an effort to reduce duplication of paper work. Those invoices could be provided if necessary.

The Department currently has in excess of 1200 pieces of computer equipment. It is common that certain pieces are moved to different locations to be used while repairs are made, or to be exchanged by the divisions, based on the needs of a particular office. We utilize a system whereby the computer section notifies the property control manager when pieces of equipment are relocated or loaned between divisions, etc. The paper work involved may lag behind the actual movement of equipment; however, as was indicated in the auditor's example, the equipment was located. To my knowledge, the Department has only one piece of computer equipment that cannot be located, and we believe it was stolen, which is reported on our property control listing. We are confident that we have a good track record for managing all property under our control.

As mentioned above, the Department utilizes a system whereby computer personnel report to the property control manager regarding the

EXHIBIT A

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Internal Control Report

June 3, 1996

Page 4

location of computer equipment. Our property control manager has ultimate responsibility for inventorying these items at least annually, therefore, I do not understand the portion of the finding relating to segregation of duties. There are no weaknesses in this area that we can identify.

Our Department has always placed emphasis on employees' responsibility for all types of equipment assigned to them. We will continue to review Department procedure to ensure that state assets are safeguarded.

Additional Comments: Although the department maintains that invoices could have been provided to support the value of computer equipment and enhancements, the department was unable to do so at the time of our audit nor has any subsequent documentation been offered.

In a good internal control system, the paper work documenting a change in location of equipment would not lag between the actual change in location but would occur simultaneously with the change. When paper work is not initiated at the same time that property locations are changed, there is increased risk that property will become lost or misappropriated. This risk is even greater because the department does not have proper segregation of duties between the purchasing and custodial responsibilities for computers. As stated by the department, its system of controls does charge the property control manager with the ultimate responsibility of performing an annual property inventory. However, in practice, the property manager relies upon computer personnel to perform this function.

The department should ensure that the valuation of computers is supported, that locations are updated timely, and that duties be segregated such that errors and/or irregularities would be detected in a timely manner in the normal course of an employee's assignments.

Travel and Petty Cash Imprest Fund

For the third consecutive year, the Department of Agriculture and Forestry did not reconcile its travel and petty cash imprest fund to the authorized amount of \$45,067. Good internal controls require reconciliation of the account to the authorized amount to ensure proper accounting for the funds. At June 30, 1995, the imprest fund bank

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Internal Control Report

June 3, 1996

Page 5

balance is \$55,117, or \$10,050 in excess of the amount authorized by the State Treasurer. The excess was identified to include the following:

- Interest earnings of \$116 that was remitted to the treasury on September 11, 1995.
- Retiree portion of insurance premiums totaling \$2,942 that was remitted to the insurance vendors after June 30.
- The remaining \$6,992 is unauthorized. \$3,083 of that amount represents a reduction by the State Treasurer of the authorized total for the imprest fund and \$3,909 is unidentified.

As a result of not reconciling the account to the authorized amount, the department did not maintain the account at the appropriate level. Department management believes that the \$3,083 reduction of the authorized amount was an error by the State Treasurer. Until that amount is officially restored, the excess of \$6,992 should be treated as income not available and be remitted to the State Treasurer. In a letter dated March 5, 1996, Mr. Richard Allen, Assistant Commissioner, stated:

This finding apparently refers to the authorized amount of the imprest fund as approved by the State Treasurer. The department reconciles the account with the bank statement each month. We will continue to reconcile this account monthly with the bank, and will attempt to reconcile with the authorized amount per the Treasurer's Office. It should be noted that the Treasurer's Office made an error in handling the remittance from the prior fiscal year which resulted in a reduction of the department's authorized amount. The auditor agrees with this, but did not mention it in the findings; therefore, the difference indicated is misstated by approximately \$3,000. The department will certainly return to the Treasurer's Office any funds that exceed the authorized amount.

Additional Comments: Our finding does acknowledge that the department believed \$3,083 of the excess was attributable to an erroneous reduction in the amount authorized by the State Treasurer. Reconciliations were not made to the authorized total for the imprest fund; therefore, we continue to recommend that this be done to avoid building up excesses in the future. The entire \$6,992 should be remitted to the State Treasurer.

EXHIBIT A

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Internal Control Report

June 3, 1996

Page 6

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the special 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 duties.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of the Department of Agriculture and Forestry as of June 30, 1995, and for the year then ended.

Internal Audit Function

Although the Department of Agriculture and Forestry has an auditing section, the department has no internal audit function directed at the internal transactions of the department. The audit section of the department directs its audit efforts to external audits of various boards and commissions associated with the department, such as the Soil and Water Conservation Committees, the Fertilizer Commission, et cetera. Considering the size of the department, assets totaling \$19,257,680 and revenues totaling \$51,901,808 for the year ended June 30, 1995, an effective internal audit function is needed to ensure that the department's assets are safeguarded and that the department's policies and procedures are applied uniformly. This is the fifth consecutive audit we have cited the department for not establishing an internal audit function.

The Department of Agriculture and Forestry should establish a viable internal audit function that will provide management with an independent appraisal of its operations. In a letter dated December 19, 1995, Mr. Richard Allen, Assistant Commissioner, concurred in part with the finding. Mr. Allen stated that the department does not have sufficient funds and personnel to create an internal audit section but believes that the department has sufficient controls to safeguard the department's assets and to ensure compliance with policies and procedures. Mr. Allen further stated that the department will institute an internal audit section if the positions and funding are ever provided.

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Internal Control Report
June 3, 1996
Page 7

Internal Control Over Disbursements

For the third consecutive year, the Department of Agriculture and Forestry has not provided adequate controls over its disbursement function. Good internal controls require (1) proper review of transactions and activities involving the Financial Accountability and Control System (FACS), (2) adequate segregation of duties, and (3) independent checks on performance of the disbursement function. In our consideration of the internal control structure of the department, we noted the following weaknesses:

- . The FACS Input-Validation Reports are not reviewed and compared to the supporting documentation input into the system.
- . The same employee that inputs a document into FACS for payment is also responsible for inputting new vendors on the system.
- . Checks printed and signed automatically by FACS are returned for distribution to the same employee that initiates the FACS payment request.
- . Two of the 43 documents examined in our test were not marked "canceled" to prevent duplicate payment.

These weaknesses exist because of inadequate review of documentation and supervision over the disbursement function. Without adequate internal controls over disbursements, the risk exists that state assets could be impaired and that errors and/or irregularities could occur and not be detected in a timely manner.

The Department of Agriculture and Forestry should establish and maintain good internal controls through (1) proper review of transactions and activities involving the FACS, (2) adequate segregation of duties, and (3) independent checks on performance of the disbursement function. In a letter dated March 5, 1996, Mr. Richard Allen, Assistant Commissioner, stated:

For the third consecutive year, the department does not agree with the general statement that we have not provided adequate controls over disbursement functions. We believe that certain internal controls provided are not given adequate consideration by the auditors. Although some of these controls are not those we would choose if we had



LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Internal Control Report

June 3, 1996

Page 9

duplicate payment using a previously paid invoice as support for the duplicated transaction. Finally, the two invoices that were not properly reviewed were invoices containing a great deal of detail. The totals of the invoices were broken down by object code. However, the department was unable to demonstrate how the totals assigned to each code were determined. Absent this documentation, which would demonstrate adequate review of the transaction, there is increased risk that the assignment by object code was arbitrary and inaccurate. The department should strengthen its controls over disbursements.

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

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

MCF:MWB:dl

[AG]

EXHIBIT A



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

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June 3, 1996

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

**HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the special purpose financial statements of the Louisiana Department of Agriculture and Forestry as of and for the year ended June 30, 1995, and have issued our report thereon dated June 3, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

The results of our tests of compliance disclosed the following instances of noncompliance that, although not material to the financial statements, are required to be reported herein under *Government Auditing Standards*.

Compliance With Louisiana Procurement Code

The Department of Agriculture and Forestry purchased land and equipment totaling at least \$479,117 without complying with the Louisiana Procurement Code. Louisiana Revised Statute (LSA-R.S.) 39:1551-1755, commonly referred to as the Louisiana Procurement Code, provides the framework for purchasing by state agencies. LSA-R.S. 39:1561 charges the Commissioner of Administration with the authority and responsibility to promulgate regulations, consistent with the Louisiana Procurement

EXHIBIT B

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Compliance Report

June 3, 1996

Page 2

Code, governing the procurement, management, and control of goods and services procured by the state. The regulations promulgated by the Commissioner are contained in Title 34, Part 1 of the Louisiana Administrative Code and specify various rules regarding when a purchase must be advertised and purchased from the lowest responsible bidder.

The department acquired three used tractor trucks costing \$98,000, a computerized scanner/imager costing \$91,843, computer equipment and software costing \$269,240, and land located in St. Tammany Parish costing \$20,034 and did not receive bids on any of these items. These items were obtained by using the Louisiana Agriculture Finance Authority (LAFA), which is exempt from the requirements of the Procurement Code, to procure the property items in its own name. Subsequently, the department reimbursed LAFA for the cost of the items purchased on its behalf. This practice circumvents the provisions of the Louisiana Procurement Code. The department admits that it regularly uses LAFA to purchase property because LAFA is exempt from the provisions of the Procurement Code. Management believes this is acceptable because LAFA has the authority to promote agriculture and forestry within the state. Because the department failed to follow the provisions of the Procurement Code, there is not only a violation of state law, but there is increased risk that the items were not obtained at the best possible price.

The Department of Agriculture and Forestry should discontinue the practice of allowing the Louisiana Agricultural Finance Authority to purchase property for the department without taking the necessary competitive bids. In a letter dated May 28, 1996, Mr. Richard Allen, Assistant Commissioner stated:

The Louisiana Department of Agriculture and Forestry (Department) concurs in part with the finding.

The audit report correctly noted that Louisiana Agricultural Finance Authority (LAFA) is exempt from the requirements of the Procurement code [LSA-R.S. 3:266(14); R.S. 3:274]. LAFA is authorized to acquire, construct, renovate and equip the offices and related facilities of the Department [LSA-R.S. 3:266(14),(20)]. LAFA acquired the land and equipment noted in the report for the Department and is fully authorized to do so. However, it is erroneous to conclude that because LAFA acquired land and equipment for the Department, the Department "purchased" the land and equipment.

EXHIBIT B

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Compliance Report

June 3, 1996

Page 3

The need for LAFA's exemption from the Procurement Code is demonstrated in the land acquisition noted in the report. The land acquisition noted in the report arose out of the Department's need to acquire leased land upon which the Department's fire tower was located. Following the expiration of the lease, the landowner elected not to renew the lease of the land to the Department. The acquisition of this land was clearly within LAFA's authorization; and a bid process to acquire a specific parcel of property is simply not achievable, and in this instance, not required.

It should be noted that even though LAFA is exempted from the Procurement Code, LAFA customarily employs a competitive proposal or bid process for acquiring supplies.

The Department has concluded that the procurement procedures are in compliance with law and that no corrective action is required.

Additional Comments: The funds to pay for the land and equipment in question ultimately came from the General Fund appropriation for the Department of Agriculture and Forestry. Therefore, we reaffirm our position that the department purchased the equipment in question and did so in a manner that circumvented the requirements of the Procurement Code. The procedures followed or not followed by LAFA in obtaining supplies and/or equipment do not alleviate the requirements placed on the department by the Procurement Code and the Administrative Code. The department should discontinue the practice of purchasing equipment through LAFA without taking competitive bids.

Bank Accounts and Public Records

For the second consecutive year, the Department of Agriculture and Forestry operated bank accounts that have not been approved by the State Cash Management Review Board or reported to the Commissioner of Administration and has not preserved the records related to one of the accounts. Louisiana Revised Statute (LSA-R.S.) 39:372(A)(1) requires written approval from the State Cash Management Review Board for all bank accounts opened or to be opened by state agencies. LSA-R.S. 39:79 requires all state agencies to furnish to the Commissioner of Administration, within 45 days of the fiscal year-end, a sworn statement of all monies received and the sources, all monies expended and the purposes, all revenue due and not collected, and all

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
 COMMISSIONER OF AGRICULTURE
 DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 Compliance Report
 June 3, 1996
 Page 4

obligations incurred and not paid. In addition, LSA-R.S. 44:36 requires that public records be preserved for a period of at least six years from the date on which the public record was made.

Our procedures disclosed that the department operated eight checking or savings accounts that were not authorized or reported as required by the above cited statutes. The yearly activity and balances for the unauthorized and unreported accounts are as follows:

	Balance June 30, 1994	Receipts	Disbursements	Balance June 30, 1995
Southern Community Forestry Summit	\$1,423		\$480	\$973
A Salute to Smokey Bear	620	\$4,490	5,110	
Association of Seed Certifying Agencies	5,562	762	6,324	
National Association of State Department of Agriculture - National Conservation	55,025		55,025	
National Association of State Foresters Meeting		10,800	2,813	7,987
Association of Southern Feed, Fertilizer, and Pest Control Officials		21,100	8,797	12,303
Best of Louisiana:				
Checking	2	9,450	4,220	5,232
Savings	2,344	45		2,389
Total	\$64,976	\$46,647	\$82,769	\$28,854

According to Mr. Bryce Malone, Assistant Commissioner of Marketing, the records for the National Association of State Departments of Agriculture - National Convention account were destroyed, which prevented an audit of the records. The department agreed to an audit adjustment to report the remaining accounts.

The Department of Agriculture and Forestry should comply with LSA-R.S. 39:372(A)(1), 39:79, and 44:36 by obtaining written approval for all bank accounts, reporting the activities of all bank accounts under its control, and maintaining the records of all bank accounts as required. In a letter dated March 5, 1996, Mr. Richard Allen, Assistant Commissioner, stated:

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Compliance Report

June 3, 1996

Page 5

The department did not seek approval for these accounts because the accounts were for various conventions that were held in Louisiana. There were no State funds associated with these accounts, and department personnel only assisted the organizations in hosting the conventions. The department has handled these activities in this manner for many years, and no one had ever indicated until prior to the last audit that there was any problem with this procedure. A discussion with the State Treasurer's office revealed that there is no written procedure or policy about this issue, and we do not believe that these accounts fall under the guidelines listed in this finding. In all cases where the convention is finalized and all funds disbursed, the records are either turned over to the organization or destroyed, as the department has no reason to store those type records. The department is in the process of establishing one checking account to be used for all conferences and conventions. We will obtain all required approvals, and will maintain all records in the office of management and finance.

License and Regulatory Board

For the second consecutive year, the Department of Agriculture and Forestry loaned monies from the License and Regulatory Boards Fund (Fund) to other sections within the department for unauthorized purposes. The regulatory boards included in the Fund are the Fertilizer Commission, Louisiana Revised Statutes (LSA-R.S.) 3:1317; the Louisiana Feed Commission, LSA-R.S. 3:1907(B); the Louisiana Advisory Commission on Pesticides, LSA-R.S. 3:3210; and the Structural Pest Control Commission, LSA-R.S. 3:3375(A)(2). The statutes in summary state that the monies collected by these boards shall only be expended for authorized purposes, programs, and activities of the regulatory boards.

The department used the Fund to make loans totaling \$1,365,091. These include (1) \$1,000,000 to the Alligator Market Development Fund; (2) \$181,967 for road construction at the Indian Creek Reservoir and Recreation Area; (3) \$91,350 to purchase computer equipment for the department; (4) \$16,274 for Hurricane Andrew costs; (5) \$15,100 to the Nurseries Fund; (6) \$42,684 to the Food Distribution Program; and (7) \$17,716 to the department for other miscellaneous expenditures. Loans to the department totaling \$306,339, which includes \$121,376 of loans made in the prior fiscal year, remain outstanding as of January 30, 1996. The department uses this loan process when a check is needed quickly and management does not want to wait for a

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Compliance Report

June 3, 1996

Page 6

FACS check to be processed. By making these loans, the department has not complied with the revised statutes governing the use of monies of the regulatory boards mentioned above.

The Department of Agriculture and Forestry should comply with the revised statutes and not loan monies to other funds and/or programs within the department. The department should also collect the outstanding loan amount as soon as possible. In a letter dated March 5, 1996, Mr. Richard Allen, Assistant Commissioner, stated:

The department advances funds from this account at times when it is not practical to wait for system checks. We consider this procedure the most efficient way to handle immediate payment request while FACS checks are forthcoming. All funds are returned to the account to be expended for authorized purposes, programs and activities of the regulatory boards. An option is to request manual checks from the Treasurer's Office, which seems to be inefficient for both agencies when we have a method to accomplish the desired goal. However, we will use this option when feasible.

Additional Comments: The department's response indicates that borrowed funds are returned to the License and Regulatory Boards account. However, as previously stated in the finding, \$306,339 was not returned by January 30, 1996, seven months after the fiscal year-end. We determined \$121,376 of this amount has been outstanding for over 1½ years. We believe that failure to promptly repay these loans indicates that the department is unable or unwilling to repay the loans and there is increased risk that the loans will not be repaid. We reaffirm our position that use of License and Regulatory Board funds in this matter, regardless of whether the repayment is prompt or delayed, is a violation of Louisiana law.

Asset Purchase Agreement

For the second consecutive year, the Market Commission, which is within the Louisiana Department of Agriculture and Forestry, has not enforced the payment terms of an asset purchase agreement with the Northland Acquisition Corporation (Northland). During 1992, the Market Commission paid \$1,057,500 in loan guarantees to two banks and acquired, through foreclosure, a vegetable processing plant. On August 31, 1992, the Market Commission sold this plant to Northland. The Market Commission received \$30,000 and accepted a \$620,000 promissory note, at zero percent interest, for the

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Compliance Report

June 3, 1996

Page 7

balance of the \$650,000 sales price. Louisiana Revised Statute (LSA-R.S.) 3:446.5(A)(1) and Louisiana Administrative Code (LAC) 7:1224(C) require that notes associated with loans be secured by a first mortgage on the property acquired. LSA-R.S. 3:446.5(E)(1) and LAC 1224(K) prohibit the commission from subordinating its interest in such property if subordinating its interest will result in any risk to the commission's security position. However, on July 1, 1993, the Market Commission relinquished the first mortgage on this promissory note to Rapides Bank & Trust Company in Alexandria, Louisiana, the provider of operating capital to Northland. The payment terms of the promissory note provided that Northland make payments to the Market Commission as follows:

- For the quarters ending July 31, 1993, and October 31, 1993, an amount equal to two percent (2%) of buyer's net sales;
- For the quarters ending January 31, 1994, April 30, 1994, July 31, 1994, and October 31, 1994, an amount equal to two and one-half percent (2½%) of the buyer's net sales;
- Commencing on the last day of January 1994, until and including the last day of September 1997, buyer shall make monthly payments to seller in the amount of \$3,000.

In accordance with the terms of the asset purchase agreement, Northland should have paid the Market Commission \$18,000 plus a percentage of net sales for the year ended June 30, 1994, and \$36,000 plus a percentage of net sales for the year ended June 30, 1995. During this two year period, the Market Commission received only one payment of \$638. The Market Commission did not enforce the terms of the agreement because Northland, in letters dated March 24, 1994, and January 11, 1995, requested a delay in the payment schedule. In addition, the commission could not have enforced the agreement by foreclosing on the assets of Northland to collect the amounts owed because the commission had relinquished the first mortgage on Northland's property to Rapides Bank and Trust Company in 1993. Accordingly, at the April 5, 1995, meeting of the Market Commission, the commission passed a motion that a one year moratorium on payments be approved. On November 17, 1995, Rapides Bank & Trust Company placed Northland Acquisition Corporation in default of its loan and foreclosed on the property on which the bank held the first mortgage that had been relinquished by the Market Commission.

EXHIBIT B

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

Compliance Report

June 3, 1996

Page 8

The Market Commission should comply with Louisiana statutes and refrain from subordinating its position in secured loans and take all necessary steps to mitigate the effect of the defaulted loan by Northland Acquisition Corporation. In a letter dated March 5, 1996, Mr. Richard Allen, Assistant Commissioner, stated:

The Department of Agriculture and Forestry does not concur with the finding for the following reasons:

Sale of the assets under the cited Asset Purchase Agreement to Northland Foods was a disposal of assets under RS 3:446.5(A)(5) which is clearly authorized, not a loan. The Asset Purchase Agreement is a document that sets terms and conditions of the sale. The Asset Purchase Agreement Section 1.7(b) clearly anticipates subordination of the first mortgage to a lending institution. This subordination was an important condition in bringing Northland to the table. This subordination brought \$500,000 operating funds to Northland which was used in an attempt to make this business successful. Likewise, the Market Commission agreed to delay of the agreed upon payments as long as Northland was injecting funds from other sources to maintain the operation.

The above actions are clearly authorized by RS 3:446.5(A)(5) and were desirable in an attempt to obtain the greatest value from foreclosed property, and accomplished the stated public purpose of the Agricultural Products Processing Development Law as stated in RS 3:446.1.

Additional Comments: While the asset purchase agreement was an agreement to dispose of assets, the acceptance of the promissory note from Northland Acquisition Corporation for \$620,000 constitutes a loan by the Market Commission to the corporation. LSA-R.S. 3:446.5(E)(1) and LAC 1224(K) are the controlling authoritative guidance with respect to the asset purchase agreement, not vice versa. That is, an action which is otherwise prohibited by statute does not become legal simply because the commission agreed to the action in writing. Lastly, if the terms of the agreement with the corporation were unrealistic, action should have been taken to modify the agreement. The department is not safeguarding the state's assets if payments are not received on a regular basis.

EXHIBIT B

LEGISLATIVE AUDITOR

HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Compliance Report
June 3, 1996
Page 9

Annual Appropriation Act

The Department of Agriculture and Forestry expended funds that did not conform to the provisions of Act 15 of the 1994 Regular Session of the Louisiana Legislature (the appropriations act). Section 1 of the appropriations act specifies that revenue shall be payable out of the sources specified and shall be limited only by the provisions of Article VII, Section 10(D) of the Louisiana Constitution of 1974. This section of the constitution specifies that money may be drawn from the state treasury only if an appropriation has been made.

The department deposited \$77,822 into the state treasury that had been collected from employees for commuting mileage. \$61,529 of this amount had been collected in prior fiscal years. Both prior year and current year collections were classified as self-generated revenues when they were deposited. Act 15 of 1994 did appropriate funds derived from commuting mileage as self-generated revenue and estimated the amount to be collected at \$3,000. However, funds collected from prior years were not appropriated and were not eligible to be drawn from the state treasury and expended. The department expended both prior and current year collections.

The Department of Agriculture and Forestry should comply with the appropriation act and Article VII, Section 10(D) of the constitution. Funds collected which are not otherwise appropriated should be remitted to the state treasury as income not available as soon as they are received. In a letter dated March 5, 1996, Mr. Richard Allen, Assistant Commissioner, stated:

The department concurs in part with this finding. All funds expended were used to purchase vehicles for the department. We see no problem with exceeding the \$3,000 amount, as that was only an estimate, and neither the collection nor the expenditure of self-generated revenues exceeded the appropriation level for the department. The department is currently and will continue to be in compliance with the Appropriation Act and Article 7, Section 10.D of the Constitution.

Additional Comments: We did not take exception to the expenditure of collections above \$3,000 up to the maximum amount collected (\$16,293) during the fiscal year ended June 30, 1995. However, the \$61,529 collected in prior years that was still held by the department was not appropriated in prior years and should have been remitted to the state treasury as income not available in the year(s) it was collected. Since the prior

LEGISLATIVE AUDITOR

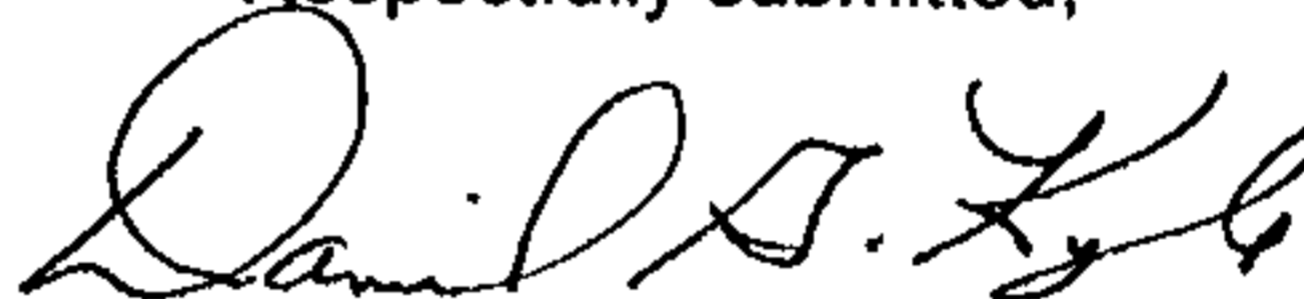
HONORABLE BOB ODOM
COMMISSIONER OF AGRICULTURE
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Compliance Report
June 3, 1996
Page 10

year collections were not specifically included in the appropriation for the 1995 fiscal year it was not authorized for expenditure and the appropriate disposition was to remit this money to the state treasury as income not available.

We considered these instances of noncompliance in forming our opinion on whether the Department of Agriculture and Forestry's special purpose financial statements are presented fairly, in all material respects, in conformity with legally prescribed procedures, and this report does not affect our report dated June 3, 1996, on those special purpose financial statements.

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

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

MCF:MWB:dl

[AG]

EXHIBIT B