

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

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

December 20, 2000



***Financial and Compliance Audit Division***

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

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

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**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
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, 2000  
With Supplemental Information Schedule**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

December 20, 2000

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
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, 2000

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December 5, 2000

Independent Auditor's Report  
on the Financial Statements

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

We have audited the accompanying special purpose (legal basis) financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 2000, as listed in the table of contents. These financial statements are the responsibility of management of the Louisiana Agricultural Finance Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in note A to the financial statements, the accompanying special purpose financial statements present only the funds of the Louisiana Agricultural Finance Authority. As such, they present the Proprietary Fund Type - Enterprise Fund that is part of the accounts and fund structure of the State of Louisiana. Furthermore, the special purpose financial statements, including the accompanying notes to the financial statements, have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with state laws and regulations. These purposes 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.

In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the financial position of the Louisiana Agricultural Finance Authority at June 30, 2000, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in note A.

LEGISLATIVE AUDITOR

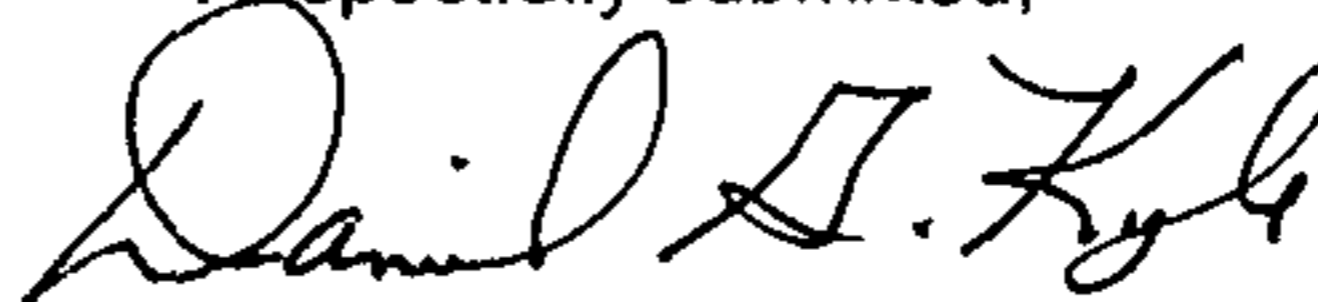
LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
Audit Report, June 30, 2000

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2000, on our consideration of the Louisiana Agricultural Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the accompanying special purpose financial statements of the Louisiana Agricultural Finance Authority taken as a whole. The accompanying supplemental information schedule is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is stated fairly in all material respects in relation to the special purpose financial statements taken as a whole.

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

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

CCB:DLH:DSP:dl

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

Balance Sheet (Legal Basis), June 30, 2000

**ASSETS**

Cash (note C)	\$1,510,371
Receivables (net) (note D)	255,294
Due from primary government (note Y)	14,310,641
Inventories	74,725
Other assets	3,696,784
Property, plant, and equipment (net where applicable) (note F)	<u>34,170,825</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$54,018,640</u></u></b>

**LIABILITIES AND EQUITY**

Liabilities:	
Accounts payable and accruals (note I)	\$779,972
Due to primary government (note Y)	4,009,083
Deferred revenues	3,677,730
Notes payable (note N)	10,000,000
Bonds payable (note N)	3,360,000
Other liabilities - obligations under capital leases	630,728
Total Liabilities	<u>22,457,513</u>
Equity:	
Contributed capital (note U)	<u>24,478,573</u>
Retained earnings:	
Reserved (note V)	1,269,630
Unreserved	5,812,924
Total retained earnings	<u>7,082,554</u>
Total Equity	<u>31,561,127</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u><u>\$54,018,640</u></u></b>

The accompanying notes are an integral part of this financial statement.

**Statement B****LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND****Statement of Revenues, Expenses, and  
Changes in Retained Earnings (Legal Basis)  
For the Year Ended June 30, 2000**

Revenues - use of money and property	<u>\$1,998,071</u>
Operating expenses:	
Contractual services	2,673,062
Operating services	436,259
Supplies	659,889
Professional services	435,681
Depreciation expense	1,285,136
Total operating expenses	<u>5,490,027</u>
Operating income (loss)	<u>(3,491,956)</u>
Nonoperating revenues (expenses):	
Loss on disposal of equipment	(11,750)
Amortization of bond issuance costs (note N)	(7,248)
Interest income	228,821
Amortization of interest from capital leases	167,171
Interest expense	(358,079)
Total nonoperating revenues (expenses)	<u>18,915</u>
Income (loss) before operating transfers	<u>(3,473,041)</u>
Operating transfers in - primary government (note X)	20,144,483
Operating transfers out - primary government (note X)	<u>(14,004,483)</u>
Net income (loss)	2,666,959
<b>RETAINED EARNINGS AT BEGINNING OF YEAR</b>	<u>4,415,595</u>
<b>RETAINED EARNINGS AT END OF YEAR</b>	<u><u>\$7,082,554</u></u>

The accompanying notes are an integral part of this financial statement.

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

**Statement of Cash Flows (Legal Basis)  
For the Year Ended June 30, 2000**

Cash flows from operating activities:		
Cash received from customers	\$1,900,221	
Cash payments to suppliers for goods and services	<u>(3,898,041)</u>	
Net cash provided (used) for operating activities		(\$1,997,820)
Cash flows noncapital financing activities:		
Proceeds from issuance of notes payable	18,000,000	
Repayment of notes payable	(8,000,000)	
Payments on-behalf of others	(43,898)	
Reimbursements of payments on-behalf of others	84,685	
Miscellaneous receipts/disbursements - loan to primary government	<u>(10,000,000)</u>	
Operating transfers in - primary government	2,300,000	
Net cash provided for noncapital financing activities		2,340,787
Cash flows from capital and related financing activities:		
Principal paid on bonds	(640,000)	
Interest paid on bond maturities	(180,400)	
Proceeds from capital leases receivable	730,200	
Transfers in	3,075,768	
Acquisition/construction of capital assets	(8,017,401)	
Proceeds from sale of capital assets	3,571	
Capital contributions	<u>3,712,493</u>	
Net cash provided (used) for capital and related financing activities		(1,315,769)
Cash flows from investing activities -		
interest and dividends earned on investment securities		<u>228,821</u>
Net increase (decrease) in cash and cash equivalents		(743,981)
Cash and cash equivalents at beginning of year		<u>2,254,352</u>
Cash and cash equivalents at end of year		<u><u>\$1,510,371</u></u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND  
Statement of Cash Flows, June 30, 2000

Reconciliation of Operating Income (loss) to	
Net Cash Provided (Used) for Operating Activities:	
Operating income (loss)	(\$3,491,956)
Adjustments to reconcile operating loss to	
net cash provided by operating activities:	
Depreciation	\$1,285,136
Changes in assets and liabilities:	
(Increase) in accounts receivable	(80,293)
(Increase) in due from primary government	(2,371)
Decrease in inventories	(58,160)
Decrease in accounts payable	146,591
Increase in due to primary government	4,600
Increase in other liabilities	198,633
	<u>1,494,136</u>
Net cash provided (used) for operating activities	<u><u>(\$1,997,820)</u></u>
Schedule of Noncash Investing, Capital and Financing Activities:	
Borrowing under capital lease	\$812,542
Contributions of fixed assets	7,157,010
Purchase of equipment on account	613,909
Disposal of fixed assets	69,806

(Concluded)

The accompanying notes are an integral part of this financial statement.

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

Notes to the Financial Statements  
As of and for the Year Ended June 30, 2000

**INTRODUCTION**

The Louisiana Agricultural Finance Authority (authority) is a component unit of the State of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 3:261-284, within the Department of Agriculture and Forestry, State of Louisiana, and is domiciled in East Baton Rouge Parish. The authority consists of five members, one of whom is the commissioner of the Department of Agriculture and Forestry and four members appointed by the governor. The members may receive a per diem not to exceed \$40 per meeting, plus mileage expenses. The authority has no employees. Employees of the Department of Agriculture and Forestry perform the administrative and accounting functions of the authority.

The authority was established to issue bonds to provide financing for agricultural loans, through the purchase or guarantee of existing loans or negotiation of new loans, and to supervise and use public employees, equipment and material in carrying out public work. The bonds are limited special obligations of the Louisiana Agricultural Finance Authority and do not constitute a general, special, or moral obligation of the State of Louisiana. In addition, the authority can issue revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building and connected related facilities for use by the Department of Agriculture and Forestry in connection with the promotion and assistance of agriculture and forestry within the state. The revenue bonds are limited obligations of the Louisiana Agricultural Finance Authority and do not constitute a debt of the State of Louisiana. Upon termination of the authority by law, R.S. 3:283 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Basis of Presentation**

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local government entities. The GASB issued a *Codification of Governmental Accounting and Financial Reporting Standards* in November 1984, with a subsequent update in June 1999. The codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. However, the accompanying financial statements have been prepared on a legal basis, which differs from generally accepted accounting principles in that note disclosures are not presented in the format and detail required by GASB Sections 2200.10 and 2300.106. This reporting format is required by the Division of Administration, Office of Statewide Reporting and Accounting Policy.

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

**2. Reporting Entity**

The authority prepares its financial statements in accordance with standards established by the GASB. Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements present only transactions of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana. Annually the State of Louisiana, through the Louisiana Division of Administration, Office of Statewide Reporting and Accounting Policy, issues both comprehensive and general purpose financial statements, which include the activity contained in the accompanying financial statement as an enterprise fund. The comprehensive annual financial report is audited by the Louisiana Legislative Auditor.

**3. Fund Accounting**

The accounts of the authority are organized and operated on a fund basis, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses.

**4. Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statement. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accounts of the authority are maintained on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period in which they are incurred. Amounts received from the primary government for capital outlay projects are recognized as transfers in the period received; transfers from the primary government for other purposes are recognized as earned when the related expenses are incurred.

**5. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**B. BUDGETARY PRACTICES**

The Louisiana Agricultural Finance Authority does not have a budget.

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

**C. DEPOSITS WITH FINANCIAL INSTITUTIONS  
AND INVESTMENTS**

**1. Deposits With Financial Institutions**

For reporting purposes, deposits with financial institutions include savings, demand deposits, time deposits, and certificates of deposit. Under state law, the authority may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Furthermore, the authority may invest in time certificates of deposit of state banks organized under the laws of Louisiana, national banks having their principal offices in the State of Louisiana, in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts of federally or state chartered credit unions.

For the purpose of the Statement of Cash Flows, all highly liquid investments are considered to be cash equivalents.

Deposits in bank accounts 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 by the authority's agent in the authority's name. The deposits at June 30, 2000, were secured as follows:

	<u>Deposits in Bank Accounts</u>			<u>Total</u>
	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Other</u>	
Deposits in Bank Accounts per Balance Sheet	<u>\$1,510,121</u>	<u>NONE</u>	<u>NONE</u>	<u>\$1,510,121</u>
Bank Balances -				
a. Insured (FDIC) or collateralized with securities held by the entity or its agent in the entity's name	<u>\$1,542,889</u>	<u>NONE</u>	<u>NONE</u>	<u>\$1,542,889</u>

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

The following is a breakdown by banking institution, program, and amount of the balances shown above:

<u>Banking Institution</u>	<u>Program</u>	<u>Amount</u>
Hibernia National Bank	All programs	<u>\$1,542,889</u>

During the fiscal year there were four instances in which collected bank balances exceeded the pledged securities. Uncollateralized amounts ranged from \$223,900 to \$9,336,653. However, in each instance, these amounts were uncollateralized for less than five days.

There was no cash in the State Treasury or petty cash at June 30, 2000. However, there is a deposit of \$250 held by a utility company at June 30, 2000, that is considered a cash equivalent.

**2. Investments**

There are no investments at June 30, 2000.

**D. RECEIVABLES**

At June 30, 2000, the authority has net receivable balances totaling \$255,294 as follows:

<u>Class of Receivable</u>	<u>Total Receivables</u>
Rental income	\$221,148
Refunds and reimbursements	<u>34,146</u>
Total Receivables, Net	<u>\$255,294</u>

**E. NOT USED**

**F. FIXED ASSETS**

- The fixed assets are included on the balance sheet of the authority and are valued at \$34,170,825. Depreciation of all exhaustible fixed assets of the authority is charged as an expense against operations. Depreciation for financial reporting purposes is computed by the straight-line method. All fixed assets are valued at historical cost except for donated fixed assets, which are recorded at their estimated value at the time of donation.

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

2. The authority does not have a policy for capitalization of interest costs in fixed assets.
3. A summary of changes in fixed assets is as follows:

	Useful Life	Beginning Balance July 1, 1999	Additions	Deletions	Ending Balance June 30, 2000
Land		\$3,946,670	\$2,518,911		\$6,465,581
Buildings and improvements	40 years	10,977,183	7,726,452		18,703,635
Equipment	5 or 10 years	5,372,280	1,556,184	(\$241,705)	6,686,759
Construction-in-progress		2,097,516	7,149,165	(1,479,890)	7,766,791
Less - accumulated depreciation		(2,408,554)	(3,097,872)	54,485	(5,451,941)
Total		<u>\$19,985,095</u>	<u>\$15,852,840</u>	<u>(\$1,667,110)</u>	<u>\$34,170,825</u>

4. Information relating to construction-in-progress is as follows:

Project	Costs to Date	Estimated Completion Date	Estimated Cost to Complete
Hammond	\$724,398	01/31/01	\$60,000
Haughton	993,846	01/31/01	81,000
Lacassine	2,183,270	01/31/01	1,000,000
Lake Charles	477,530	08/09/00	
Monroe	2,627,172	01/31/01	149,500
Oakdale	48,964	12/31/00	4,000
Woodworth	711,611	12/31/00	2,000
Total	<u>\$7,766,791</u>		<u>\$1,296,500</u>

**G. INVENTORIES**

Inventories of janitorial supplies and bulk fuel are valued at cost, which approximates market, and are expensed when used. The Louisiana Agricultural Finance Authority uses a periodic inventory system for janitorial supplies and a perpetual inventory system for bulk fuel. Inventory is valued using the first-in, first-out (FIFO) method.

**H. NOT USED**

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

**I. PAYABLES**

At June 30, 2000, the authority has payables totaling \$779,972 as follows:

<u>Class of Payable</u>	<u>Amount</u>
Accounts payable	\$519,610
Accrued interest on bonds payable	69,454
Accrued interest on notes payable	<u>190,908</u>
Total payables	<u><u>\$779,972</u></u>

**J. LEAVE**

The authority has no employees.

**K. RETIREMENT SYSTEM**

The authority has no employees.

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

The authority has no employees.

**M. LEASES**

**1. Capital Leases**

Capital leases are recognized in the accompanying financial statements. The amounts to be accrued for capital leases and the disclosures required for capital and operating leases by the National Council on Governmental Accounting Statement No. 5, as adopted by the Governmental Accounting Standards Board, and FASB 13 are reported on the following schedules:

<u>Nature of Lease</u>	<u>Date of Lease</u>	<u>Last Payment Date</u>	<u>Remaining Interest to End of Lease</u>	<u>Remaining Principal to End of Lease</u>	<u>Fund That Pays the Lease</u>
Equipment	12/16/99	12/16/03	<u>\$96,529</u>	<u>\$630,728</u>	Not Applicable

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

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2000:

<u>Year</u>	
2001	\$181,815
2002	181,814
2003	181,814
2004	181,814
Total minimum lease payments	<u>727,257</u>
Less - amounts representing executory costs	NONE
Net minimum lease payments	<u>727,257</u>
Less - amounts representing interest	<u>(96,529)</u>
Present value of net minimum lease payments	<u><u>\$630,728</u></u>

**2. Operating Leases**

The total payments for operating leases during the fiscal year 1999-2000 amounted to \$600. A schedule of payments for operating leases follows:

<u>Nature of Operating Lease</u>	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>Thereafter</u>
Land	<u>\$1,200</u>	<u>\$1,200</u>	<u>\$1,200</u>	<u>\$1,200</u>	<u>\$1,200</u>	<u>\$4,800</u>

**3. Revenue Leases**

**Lessor - Direct Financing Leases**

A lease is classified as a direct financing lease (1) when any one of the four capitalization criteria used to define a capital lease for the lessee is met and (2) when both the following criteria are satisfied:

- Collectibility of the minimum lease payments is reasonably predictable
- No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease

On December 1, 1998, the authority entered into a lease agreement with the Department of Agriculture and Forestry for the acquisition, construction, and equipping of office buildings in Hammond, Jonesville, Monroe, Oak Grove, Shreveport-Minden, Winnsboro, and Woodworth that were acquired by the authority as a result of the issuance of

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

revenue bonds. Under the terms of the agreement, the Department of Agriculture and Forestry will take possession as lessee of the office buildings upon completion. The term of the lease agreement is from December 1, 1998, to January 15, 2004, or such earlier time as the bonds have been paid or provision for their payment has been made in accordance with the agreement. The authority records that portion of capital lease receivables attributable to future years as deferred revenues.

<u>Nature of Lease</u>	<u>Date of Lease</u>	<u>Minimum Lease Payments Receivable</u>	<u>Remaining Interest to End of Lease</u>	<u>Remaining Principal to End of Lease</u>
Buildings	12/01/98	\$3,671,416	<u>\$311,416</u>	<u>\$336,000</u>
Less - amounts representing executory costs		<u>NONE</u>		
Minimum lease payments receivable		3,671,416		
Less - allowance for uncollectibles		<u>NONE</u>		
Net minimum lease payments receivable		3,671,416		
Estimated residual value of leased property		<u>NONE</u>		
Subtotal		3,671,416		
Less - unearned income		<u>(3,677,730)</u>		
Net investment in direct financing leases		<u>(\$6,314)</u>		

Minimum lease payments do not include contingent rentals that may be received as stipulated in the lease contracts. Contingent rental payments occur if, for example, the use of the building exceeds a certain level of activity each year. The authority had no contingent rentals for fiscal year ended June 30, 2000.

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

The following is a schedule by year of minimum lease receivables for the five succeeding fiscal years as of June 30, 2000:

<u>Year</u>	<u>Minimum Lease Receivable</u>
2001	\$860,768
2002	936,133
2003	939,150
2004	935,365
2005	NONE
Total	<u><u>\$3,671,416</u></u>

**4. Lessor - Operating Leases**

When a lease agreement does not satisfy at least one of the four criteria (common to both lessee and lessor accounting) and both of the criteria for a lessor (collectibility and no uncertain reimbursable costs), the lease is classified as an operating lease. In an operating lease, there is no simulated sale and the lessor simply records rent revenues as they become due.

The following property is on lease or held for leasing as of June 30, 2000:

Buildings	\$8,139,862
Less - accumulated depreciation	<u>(2,177,085)</u>
Total carrying amount of property	<u><u>\$5,962,777</u></u>

The following is a schedule by years of minimum future rentals on noncancellable operating lease(s) as of June 30, 2000:

<u>Composition of Lease</u>	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>Thereafter</u>
Buildings - minimum future rentals	<u>\$1,804,193</u>	<u>\$1,542,760</u>	<u>\$1,445,760</u>	<u>\$1,133,760</u>	<u>NONE</u>

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2000.

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

**N. GENERAL LONG-TERM OBLIGATIONS**

The following is a summary of the long-term obligation transactions at June 30, 2000:

Long-term obligations payable at June 30, 1999	\$4,000,000
Additions	NONE
Retirements	<u>(640,000)</u>
Long-term obligations payable at June 30, 2000	<u>\$3,360,000</u>

The notes payable of \$10,000,000 shown on Statement A is a short-term bank loan at June 30, 2000.

According to the AICPA *Audit and Accounting Guide for State and Local Governmental Units of 1986*, "some authorities are created solely to lower the cost of borrowing for private sector entities . . . the debt . . . should normally not be recorded in the financial statements of the government unless the government authority or other component unit of the government has responsibility for repayment in the event of default."

Debt issued by the authority for which the authority and the government have no responsibility for repayment is not recorded in the accompanying financial statement and is comprised of the following issues:

<u>Issued for</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Dates</u>	<u>Authorized and Issued</u>	<u>Retired</u>	<u>Outstanding</u>
Agricultural Loan Program:						
	unknown	1984A	various	\$7,697,961	\$7,359,976	\$337,985
	unknown	1984B	various	6,496,669	6,114,591	382,078
	unknown	1985	various	14,462,629	14,419,248	43,381
	8.25%	1986A I	various	150,000,000	103,377,515	46,622,485
	8.80%	1986A II	various	150,000,000	101,286,633	48,713,367
Louisiana Pacific Corporation:						
	5.20%	1999A	various	5,610,000	90,000	5,520,000
	4.62%	1999B	various	3,080,000	50,000	3,030,000
				<u>\$337,347,259</u>	<u>\$232,697,963</u>	<u>\$104,649,296</u>
Balance at June 30, 2000						

Debt issued by the authority for which the authority and/or the government have responsibility for repayment in the event of default is recorded in the financial statements and is comprised of the following issue:

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

<u>Issued for</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Authorized and Issued</u>	<u>Retired</u>	<u>Outstanding</u>
Building projects	4.51%	12/01/1998	01/15/2004	<u>\$4,000,000</u>	<u>(\$640,000)</u>	<u>\$3,360,000</u>

Debt service requirements to maturity are as follows:

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>
2001	\$785,000	\$151,536
2002	820,000	116,133
2003	860,000	79,150
2004	<u>895,000</u>	<u>40,365</u>
Total	<u>\$3,360,000</u>	<u>\$387,184</u>

The following is a summary of bond transactions of the authority for the year ended June 30, 2000, for state government related issues:

	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
Balance as of June 30, 1999	\$4,000,000	\$567,584	\$4,567,584
Less - debt service payments in current fiscal year	<u>(640,000)</u>	<u>(180,400)</u>	<u>(820,400)</u>
Balance as of June 30, 2000	<u>\$3,360,000</u>	<u>\$387,184</u>	<u>\$3,747,184</u>

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

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

Bond Defaults

The authority is authorized by R.S. 3:266 to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation on new loans. During 1986, the authority issued two bond issues (1986A I and 1986A II) totaling \$300,000,000 that are currently in default.

Both of the 1986 bond issues were payable solely from the proceeds of two Guaranteed Investment Contracts with Executive Life Insurance Company and from certain agricultural loans permitted under the financing program. The commissioner of insurance from the state of California placed Executive Life Insurance Company into conservatorship on April 11, 1991. Later, both of the 1986 series bonds defaulted.

Trustees of the two 1986 series defaulted bonds, referred to as LAFA I and LAFA II, have received distributions on behalf of bondholders under a modified plan of rehabilitation for Executive Life Insurance Company. During the period April 11, 1991, through November 8, 1999, trustees received interim payments, including interest, totaling \$143,258,798 and \$142,981,524 for the LAFA I and LAFA II bonds, respectively. As a result of this modified plan, court ordered trust administration costs of \$4,526,500 for LAFA I and \$4,526,500 for LAFA II were incurred and distributions totaling \$277,187,321 were made to bondholders on January 20, 1994; May 25, 1994; April 12, 1995; November 30, 1995; April 24, 1996; May 15, 1997; and November 8, 1999. This amount represents principal of \$103,377,515 and interest of \$35,354,783 for LAFA I bondholders and principal of \$101,286,633 and interest of \$37,168,391 for LAFA II bondholders. Distributions under the modified plan of rehabilitation for Executive Life Insurance Company can continue until the conservator of the distributions declares the distributions are complete or the modified plan has expired.

In May 1999, the authority approved the issuance of \$8,690,000 in industry revenue bonds for the benefit of the Louisiana Pacific Corporation. Of these bonds, \$3,080,000 was issued in May 1999. The remaining \$5,610,000 was issued in July 1999. The total issue is backed by an \$11,700,000 mortgage in timber and real estate owned by the Louisiana Pacific Corporation. In addition, bondholders are secured by a letter of credit issued by Hibernia National Bank and Trust. These bonds are payable in semiannual installments over a period of five years. The authority has no obligation for the repayment of this debt in the event of default beyond collections that may be made through the sale of timber and real estate.

Discounts on bonds and issuance costs are amortized using the following method:

Unamortized bond issuance costs include legal fees and remarketing fees associated with the \$4,000,000 revenue bonds. The original issuance costs were \$36,240. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2000, is \$25,368. The bond issuance costs amortized in fiscal year 1999-2000 were \$7,248.

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

The authority has no advance refunded bonds.

**O. LITIGATION**

The authority is not a defendant in litigation seeking damages at June 30, 2000. No claims or litigation expenses were incurred during the fiscal year ended June 30, 2000.

**P. RELATED PARTY TRANSACTIONS**

The authority has no related party transactions at June 30, 2000.

**Q. ACCOUNTING CHANGES**

The authority made no accounting changes during the fiscal year ended June 30, 2000.

**R. FUND DEFICITS**

The authority did not incur a fund deficit during fiscal year ended June 30, 2000.

**S. MATERIAL VIOLATIONS OF FINANCE-  
RELATED LEGAL AND CONTRACTUAL  
PROVISIONS**

The authority has no material violations of finance-related legal or contractual provisions at June 30, 2000, or during the year then ended.

**T. COMPARATIVE DATA**

The authority does not have a different fiscal year-end than the state's.

**U. CONTRIBUTED CAPITAL**

The following presents all transactions that affected contributed capital during the fiscal year.

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

Balance at June 30, 1999		\$13,609,070
Additions:		
Capital outlay program:		
Licensing and Regulatory Boards	\$3,312,000	
Nurseries Program (ancillary of the department)	350,000	
Office of Risk Management - fire damage reimbursement	50,493	3,712,493
Donations from the Department of Agriculture and Forestry:		
Employee labor for construction	1,078,700	
Kodak scanner	91,843	
Upgrade lab equipment	4,100	
Headquarters Complex (net of accumulated depreciation)	5,516,965	
Land from the Forestry Commission	35,402	6,727,010
Donations from the U.S. Department of Agriculture		430,000
Deductions		<u>NONE</u>
Balance at June 30, 2000		<u><u>\$24,478,573</u></u>

**V. RETAINED EARNINGS DISCLOSURES**

The following is a breakdown of reserves. Reservations of retained earnings represent amounts either legally restricted to a specific future use or not available for expenditure.

<u>Reserved for</u>	<u>Total</u>
Boll Weevil Eradication Program	\$93,420
Intermodal Infrastructure Program:	
Planning and construction of a rail intermodal system for hauling of sugarcane	1,002,719
Sugar industry study of infrastructure needs	167,264
Formosan Termite Program	<u>6,227</u>
Total reservations	<u><u>\$1,269,630</u></u>

**W. SUBSEQUENT EVENTS**

There were no material events affecting the authority that occurred between the close of the fiscal period and issuance of the financial statement.

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

**X. OPERATING TRANSFERS**

During fiscal year ended June 30, 2000, the authority had operating transfers in from the primary government as follows:

<u>Source</u>	<u>Amount</u>
Department of Agriculture and Forestry:	
Licensing and Regulatory Boards' contribution for debt service	\$640,000
Contractual services for Formosan Termite Program	2,500,000
Repayment of loan for Boll Weevil Eradication Program	14,004,483
Office of Facility Planning and Control - intermodal infrastructure project	<u>3,000,000</u>
Total Operating Transfers In	<u><u>\$20,144,483</u></u>

The authority had operating transfers out totaling \$14,004,483 to the Boll Weevil Eradication Fund, which is part of primary government.

**Y. DUE FROM/TO PRIMARY GOVERNMENT**

At June 30, 2000, the authority has amounts due from/to the primary government for the following:

<u>Source</u>	<u>Total</u>
Due from Primary Government:	
Department of Agriculture and Forestry:	
Licensing and Regulatory Boards for debt service	\$90,200
Formosan Termite Program (funded from the state General Fund appropriation)	200,000
Repayment of loan for Boll Weevil Eradication Program (to be funded from the state General Fund appropriation)	14,004,483
State Employees Group Benefits Program for capital outlay disbursements	<u>15,958</u>
Total Due from Primary Government	<u><u>\$14,310,641</u></u>
Due to Primary Government:	
Boll Weevil Eradication Fund	\$4,004,483
Department of Revenue for overpayment of rent	<u>4,600</u>
Total Due to Primary Government	<u><u>\$4,009,083</u></u>

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
SUPPLEMENTAL INFORMATION SCHEDULE  
For the Year Ended June 30, 2000**

The following supplementary information schedule presents the segment information for the authority.

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

Segment Information  
For the Year Ended June 30, 2000

Operating revenues	\$1,998,071
Depreciation, depletion, and amortization expense	1,285,136
Operating income (loss)	(3,491,956)
Operating transfers in	20,144,483
Operating transfers out	14,004,483
Net Income	2,666,959
Current capital contributions:	
Contributions	6,727,010
Transfers	4,092,000
Property, plant and equipment:	
Additions	18,950,712
Deletions	(1,721,595)
Net working capital	1,361,976
Total assets	54,018,640
Bonds and other long-term liabilities:	
Payable from operating revenues	486,442
Payable from other sources	2,575,000
Total Equity	31,561,127

**OTHER REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

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



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

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

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December 5, 2000

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

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

We have audited the financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 2000, and have issued our report thereon dated December 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Louisiana Agricultural Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Annual Fiscal Report Not Submitted Timely**

The Louisiana Agricultural Finance Authority (LAFA) failed to submit its Annual Fiscal Report (AFR) to the Division of Administration, Office of Statewide Reporting and Accounting Policy by the September 1, 2000, due date. Louisiana Revised Statute 39:79 authorizes the commissioner of administration to establish the format of each agency's annual financial statement and to establish a due date. LAFA's AFR was submitted to the Division of Administration on September 25, 2000.

LAFA does not have adequate written procedures for employees to use to compile information to be included in the trial balance nor is there adequate supervisory review. Such procedures would enable the department to submit an accurate, audited AFR in a timely manner.

**EXHIBIT A**

LEGISLATIVE AUDITOR

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

Compliance and Internal Control Report  
December 5, 2000  
Page 2

Management should develop written procedures for the compilation process and should perform a detailed supervisory review of the trial balances and supporting documentation to ensure that an accurate AFR is submitted to the Division of Administration by the established due date. Management concurred with the finding and recommendation and outlined a plan of corrective action. However, management indicated that both the auditors and the Division of Administration were aware that the AFR would be late because the agencies were working together to gather the information needed to issue an accurate report (see management's response at Appendix A).

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Louisiana Agricultural Finance Authority's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we noted the matter relating to noncompliance with laws and regulations, as discussed in the compliance section of this report, that we consider to be a reportable condition.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

CCB:DLH:DSP:dl

[LAFA]

## Appendix A

### Management's Corrective Action Plan and Response to the Finding and Recommendation



LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY

BOB ODOM, COMMISSIONER

W.G. "BUD" COURSON, DEPUTY COMMISSIONER



November 29, 2000

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Dr. Daniel G. Kyle
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

re: Annual Fiscal Report Not Submitted Timely

The Louisiana Agricultural Finance Authority (LAFA) concurs in part with this finding.

Historically, LAFA has submitted to the Legislative Auditor's Office, a trial balance including costs related to construction, which is used to compile and audit the Annual Financial Report (AFR). This year, for the first time and at the Legislative Auditor's request, the cost of labor associated with construction was submitted for use in compiling and auditing the AFR. Since there were no additional expenditures for labor used in construction, it was necessary for LAFA to calculate and estimate a value of this labor. In order to arrive at an acceptable method, several procedures were considered; and all this took additional time.


LAFA worked diligently during this time with the Office of Risk Management and the Legislative Auditor's Office to ensure that the most accurate AFR was submitted. The Division of Administration was also aware that LAFA's AFR was going to be submitted after September 1, 2000, due to our effort to present the most accurate report possible.

LAFA contends, and it was our understanding that both the Division of Administration and the Legislative Auditor's Office concurred, that it was more beneficial to present an accurate report rather than meet the deadline.

Dr. Kyle  
November 29, 2000  
Page 2

With the assistance of the Legislative Auditor's Office, LAFA will create written procedures for preparing and reviewing the trial balance amount for completeness and accuracy. The Fiscal Officer will perform a detailed supervisory review of the trial balances supporting documentation.

Very truly yours,



Skip Rhorer  
Assistant Commissioner

SR:sw

cc: Commissioner Bob Odom  
Deputy Commissioner "Bud" Courson  
Fiscal Officer Linda Chaney