Louisiana Agricultural Finance Authority
Department of Agriculture and Forestry
A Component Unit of the State of Louisiana

Financial Statement Audit
For the Year Ended June 30, 2011
Issued April 18, 2012

LOUISIANA LEGISLATIVE AUDITOR
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EXECUTIVE SUMMARY

Our audit of the Louisiana Agricultural Finance Authority (authority) for the period July 1, 2010, through June 30, 2011, disclosed the following:

- We qualified our audit opinion because of management's decision not to record a liability for a probable loss from the outcome of a lawsuit.

- We did not identify any significant or material internal control deficiencies or instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is a public report and has been distributed to state officials. We appreciate the assistance from the Louisiana Department of Agriculture and Forestry and the authority in the successful completion of our work.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 23, 2012

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Louisiana Agricultural Finance Authority (authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2011, which collectively comprise the authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 11, management has chosen not to recognize a liability and a corresponding decrease in net assets and increase in expenses in the financial statements for the probable loss from a lawsuit, the minimum loss which we estimate to be $3,318,900. Accounting principles generally accepted in the United States of America require the accrual of a loss that is both probable and estimable in the financial statements. In addition, when the estimated loss is within a range and no amount within the range is a better estimate than any other amount, the minimum amount in the range should be accrued. Though the minimum amount in the range is not necessarily the amount of loss that will ultimately be determined, it is not likely that the ultimate loss will be less than the minimum amount.

In our opinion, except for the effects of not accruing the liability from a lawsuit as described in the preceding paragraph, the financial statements referred to previously present fairly, in all material respects, the financial position of the authority as of June 30, 2011, and the respective changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in note 15, on March 23, 2012, the authority declared the Lake Charles Cane-Lacassine Mill, LLC (LLC) in default of its obligation to pay the authority $2,948,147 due in December 2011. The default occurred under its promissory note for the purchase of the Lacassine syrup mill and for the LLC's failure to ensure additional loans from two separate banks were brought to a current status, both of which are guaranteed by the authority or the State Market Commission (transferred to the authority on June 12, 2009). In addition, on March 23, 2012, the authority paid the past due amount totaling $127,500 to one bank and granted the Louisiana Department of Agriculture and Forestry's commissioner permission to negotiate with the two banks to ensure its loans are repaid. Outstanding principal on the two guaranteed loans at June 30, 2011, totaled $6,940,000, which may become a liability of the authority if the LLC does not satisfy its obligations.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2012, on our consideration of the authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Daryl Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CLM:CGEW:EFS:THC:dl

LAFA 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of the Louisiana Agricultural Finance Authority's (authority) financial performance presents a narrative overview and analysis of the authority's financial activities for the year ended June 30, 2011. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this information in conjunction with the authority's basic financial statements, which begins on page 9.

FINANCIAL HIGHLIGHTS

- The authority's assets exceeded its liabilities at the close of fiscal year 2011 by $64,292,796, which represents a 9.3% increase from last fiscal year, as adjusted. The net assets increased by $5,455,954.

- The authority's operating revenue increased by $3,997,700 (or 32.5%), and the change in net assets increased by $3,661,498 (or 204.0%).

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the authority, as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the authority's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the authority's cash changed as a result of current year operations. The cash flows statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by Governmental Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets
As of June 30, 2011 and June 30, 2010
(in thousands)

	June 30, 2011	June 30, 2010 (Restated)
Current and other assets	$119,839	$113,507
Capital assets	45,785	51,042
Total assets	165,624	164,549
Other liabilities	47,744	42,929
Long-term debt outstanding	53,587	62,783
Total liabilities	101,331	105,712
Net assets:		
Invested in capital assets, net of debt	12,012	15,357
Restricted	14,187	8,078
Unrestricted	38,094	35,402
Total net assets	$64,293	$58,837

Restricted net assets represent those assets that are not available for spending as a result of legislative requirements. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be used for.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2011 and June 30, 2010
(in thousands)

	June 30, 2011	June 30, 2010
Operating revenues	$16,282	$12,284
Operating expenses	(50,451)	(18,951)
Operating loss	(34,169)	(6,667)
Nonoperating revenues (expenses)	39,625	8,461
Net increase in net assets	$5,456	$1,794

Operating revenues increased $3,997,700 as a result of increased intergovernmental revenues from the Louisiana Department of Agriculture and Forestry (LDAF) from the Licensing and Regulatory Board Fund and the Gaming Control Fund. Revenues received from these funds totaled approximately $3 million and $5.7 million, respectively, and an additional $2.2 million remained due from LDAF at June 30, 2011, for debt service. Nonoperating revenues increased by $31,099,488. The authority's total revenues increased by $35,097,188 (or 168.2%). The total cost of all programs and services increased by $31,435,690 (or 164.8%).

CAPITAL ASSETS

At the end of 2011, the authority had $45,784,820 invested in a broad range of capital assets, including land, buildings, equipment, and construction-in-progress. This amount represents a net decrease (including additions and deductions) of $5,257,330 (or 10.3%) over the last year, as adjusted.

Capital Assets at Year-End
(Net of Depreciation, in thousands)

	2011	2010 Restated
Land	$6,857	$6,857
Buildings and improvements	32,799	33,462
Equipment	6,070	10,046
Construction-in-progress	59	677
Total	$45,785	$51,042

DEBT ADMINISTRATION

The authority has $62,783,375 of revenue bonds outstanding at June 30, 2011, compared to $71,865,062 last year, a decrease of 12.6%. The authority does not have general obligation bonds, and the revenue bonds were private placement bonds that do not require rating.

The authority had no claims and judgments in the prior year. However, during the fiscal year ended June 30, 2011, the authority was party to a lawsuit filed against the authority on October 14, 2009, by Texans Federal Credit Union (Texans) for recovery under a loan guarantee of $3.2 million made by the State Market Commission (SMC) on behalf of the Louisiana Cypress Mill (cypress mill) (notes 10 and 11). (All SMC's activities and assets were transferred to the authority under Act 24 of 2009.)

On May 13, 2010, the Nineteenth Judicial District Court for the Parish of East Baton Rouge granted Texans' motion for partial summary judgment. The authority appealed the judgment, and the First Circuit Court of Appeal ruled in favor of Texans. The authority filed writ of appeal to the Louisiana Supreme Court, which has been denied. The estimated potential loss is $3,318,900.

CONTACTING THE LOUISIANA AGRICULTURAL FINANCE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide residents, taxpayers, customers, and investors and creditors with a general overview of the authority's finances and to show the authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Corinne Brousseau, Louisiana Department of Agriculture and Forestry, Post Office Box 3334, Baton Rouge, Louisiana 70821-3334.

Statement A

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

Statement of Net Assets, June 30, 2011

ASSETS	
Current assets:	
Cash (note 2)	$1,383,462
Accounts receivable (net)	46,955
Due from primary government (note 9)	4,004,460
Interest receivable	2,376,520
Notes receivable (note 3)	8,783,849
Deferred charges and prepaid expenses	46,875
Unamortized debt issuance cost	204,769
Total current assets	16,846,890
Noncurrent assets:	
Restricted assets:	
Cash (note 2)	15,210,610
Notes receivable (note 3)	20,135,265
Interest receivable	6,883,792
Notes receivable (note 3)	59,647,021
Deferred charges and prepaid expenses	443,359
Unamortized debt issue costs	670,641
Property, plant, and equipment (net of depreciation) (note 4)	45,784,820
Other noncurrent assets	900
Total noncurrent assets	148,776,408
TOTAL ASSETS	165,623,298
LIABILITIES	
Current liabilities:	
Accounts payable	79,919
Liabilities payable from restricted assets	1,020,318
Due to Governor's Office of Homeland Security and Emergency Preparedness	393,532
Due to federal government	917,037
Deferred revenue	3,500

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2011

LIABILITIES (CONT.)	
Current liabilities: (Cont.)	
Bonds payable (note 6)	$9,196,688
Accrued interest on bonds payable	716,797
Total current liabilities	12,327,791
Noncurrent liabilities:	
Due to Office of Community Development (note 3)	35,413,024
Bonds payable (note 6)	53,586,687
Other noncurrent liabilities	3,000
Total noncurrent liabilities	89,002,711
TOTAL LIABILITIES	101,330,502
NET ASSETS	
Invested in capital assets, net of related debt	12,011,599
Restricted for capital projects	3,009,598
Restricted for debt service	3,168,621
Restricted for other specific purposes	8,008,544
Unrestricted	38,094,434
TOTAL NET ASSETS	$64,292,796

(Continued)

The accompanying notes are an integral part of this statement.

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

Statement of Revenues, Expenses,
and Changes in Net Assets
For the Year Ended June 30, 2011

OPERATING REVENUES:	
Rental income pledged as security for revenue bonds	$2,697,318
Intergovernmental (note 12)	11,322,383
Use of money and property	2,223,271
Other	39,083
Total operating revenues	16,282,055
OPERATING EXPENSES:	
Administrative services	511,776
Contractual services	231,708
Operating services	1,746,157
Supplies	266,952
Professional services	282,418
Amortization of bond issuance costs	248,815
Interest expense	2,584,917
Federal grants	38,705,501
Miscellaneous	393,553
Depreciation expense (note 4)	5,479,026
Total operating expenses	50,450,823
OPERATING LOSS	(34,168,768)
NONOPERATING REVENUES (Expenses)	
Nonoperating revenue - federal revenues	39,576,523
Nonoperating expense - federal expenses	(55,301)
Gain on disposal of fixed assets	103,500
Net nonoperating revenues	39,624,722
Change in net assets	5,455,954
NET ASSETS - BEGINNING OF YEAR, Restated (note 8)	58,836,842
TOTAL NET ASSETS AT END OF YEAR	$64,292,796

The accompanying notes are an integral part of this statement.

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

Statement of Cash Flows
For the Year Ended June 30, 2011

Cash flows from operating activities:	
Cash received from customers	$11,694,092
Cash payments to suppliers for goods and services	(2,642,743)
Administration of federal programs	(38,285,190)
Cash payments for interest	(2,841,681)
Other operating receipts	164,601
Net cash used by operating activities	(31,910,921)
Cash flows from noncapital financing activities:	
Operating grants received:	
Federal receipts	42,589,946
Federal disbursements	(55,301)
Loan receipts	4,371,007
Other	1,640,266
Net cash provided by noncapital financing activities	48,545,918
Cash flows from capital and related financing activities:	
Principal paid on bonds	(9,081,687)
Acquisition/construction of capital assets	(227,694)
Proceeds from sale of capital assets	103,500
Other	(43,478)
Net cash used by capital and related financing activities	(9,249,359)
Net increase in cash	7,385,638
Cash at beginning of year	9,208,434
Cash at end of year	$16,594,072

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Cash Flows, 2011

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($34,168,768)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	5,727,841
Changes in assets and liabilities:	
(Increase) in receivables	(43,955)
(Increase) in due from other funds	(2,345,619)
(Increase) in other assets	(2,029,872)
Increase in accounts payable	1,033,502
Increase in due to other funds	168,243
Increase in deferred revenues	2,000
(Decrease) in other liabilities	(254,293)
Total adjustments	2,257,847
Net cash used by operating activities	($31,910,921)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:	
Cash classified as current assets	$1,383,462
Cash classified as noncurrent assets	15,210,610
Total Cash	$16,594,072
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Disposition of capital assets	($179,354)

(Concluded)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

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 nine members, one of whom is the commissioner of the Department of Agriculture and Forestry and eight 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 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 authority and do not constitute a debt of the State of Louisiana. Upon termination of the authority by law, R.S. 3:283 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying basic financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting principles and financial reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The authority applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In accordance with policies established by the Division of Administration, the authority has elected to follow GASB pronouncements issued after November 30, 1989, rather than FASB pronouncements.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The authority is considered a component unit of the State of Louisiana because the state exercises oversight responsibility in that the governor appoints eight of the nine authority members and is able to impose his will on the authority. The accompanying financial statements present only the activity of the authority. Annually, the State of Louisiana issues basic financial statements that include the activity contained in the accompanying financial statements.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the authority is considered a special-purpose government engaged only in business type activities. All activities of the authority are accounted for within a single proprietary (enterprise) fund.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Assets.

Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with the authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenue of the authority is rental fees for office space and intergovernmental revenue from the Department of Agriculture and Forestry. Operating expenses include administrative expenses, interest, and depreciation on capital assets.

D. BUDGET PRACTICES

Although not required to submit a budget for legislative approval, the authority prepares and submits an operating budget to its Board of Directors for approval.

E. CASH

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

F. CAPITAL ASSETS

Property and equipment are valued at historical cost except for donated capital assets, which are recorded at their estimated value at the time of donation. Equipment includes all items valued at or above $5,000. Depreciation of all exhaustible capital assets of the authority is charged as an expense against operations. Depreciation is computed using the straight-line method based on the estimated useful lives as follows:

	Years
Buildings and improvements	40
Equipment	5 or 10

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

The authority has no employees. Department of Agriculture and Forestry employees perform the administrative and accounting functions for the authority. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the authority.

H. LONG-TERM OBLIGATIONS

Long-term obligations consist of bonds payable. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In addition, long-term obligations consist of monies due to the Division of Administration, Office of Community Development (OCD). This amount relates to the Louisiana Farm and Agribusiness Recovery Loan and Grant Program (see note 3).

I. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following three components:

> Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets subject to external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of all other net assets that are not included in the other categories previously mentioned.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the authority's policy is to first apply the expense toward restricted resources, then toward unrestricted resources.

J. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2011, the authority implemented the following accounting standards:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* Statement No. 54 establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of Statement No. 54 had no impact on the financial statements or notes.

- GASB Statement No. 59, *Financial Instruments Omnibus*. Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of Statement No. 59 had no impact on the financial statements or notes.

2. CASH

For reporting purposes, cash represents amounts in interest-bearing demand deposits and amounts on deposit with the fiscal agent bank. At June 30, 2011, the authority has cash deposits (book balances) of $16,594,072 as follows:

Interest-bearing demand deposits	$13,129,362
Cash with fiscal agent	3,464,710
Total	$16,594,072

Custodial credit risk is the risk that in the event of a bank failure, the authority's deposits may not be recovered. Under state law, the authority's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair 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 securities are held in the name of the authority or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

The following is a breakdown by banking institution and amount of the collected bank balances:

Banking Instituion	Program or Type	Amount
Capital One - Demand Account	Operating Account	$13,755,553
Hancock Bank - Fiscal Agent	Investment Account	3,464,710
Total		$17,220,263

3. NOTES RECEIVABLE

Notes receivable totaling $88,566,135 reported on the Statement of Net Assets at June 30, 2011, is composed of the following:

Type	Balance at June 30, 2011	Noncurrent Portion
Lacassine Syrup Mill	$60,000,000	$59,328,373
Louisiana Farm and Agribusiness Recovery Loan and Grant Program	28,156,761	20,135,265
State Market Commission and Farm Youth Loan Program	409,374	318,648
Total	$88,566,135	$79,782,286

At June 30, 2006, the authority entered into a lease-purchase agreement with Lake Charles Cane-Lacassine Mill, LLC (LLC), for the Lacassine Syrup Mill (mill), located in Lacassine, Louisiana. The LLC leased the mill and certain equipment for $60 million plus annual interest of 3%. Included in the agreement was an operating lease for land on which the mill was constructed. The term of the lease agreement was from June 29, 2006, to December 31, 2051.

The authority granted the LLC an option to purchase the mill at any time during the term of the agreement. On November 2, 2006, the LLC exercised the option to purchase the mill and equipment. The authority financed the purchase with a $60 million promissory note plus 3% annual interest to be paid in 44 successive annual installments beginning on December 31, 2007.

The authority and the LLC amended the land portion of the agreement to include a 55-year second term. Initially, the LLC will pay the user fee assessed to all tenants and/or occupants within the Lacassine industrial park. Beginning in the second term, land lease payments will be $500 per acre per annum and will increase to $2,500 per acre per annum following any year in which the syrup plant is idle for more than one-half of the sugarcane harvest season for reasons controlled by the LLC.

On November 30, 2009, under a cooperative endeavor agreement, effective March 23, 2009, between the authority and the Division of Administration - OCD, the authority began issuing loans and grants for the Louisiana Farm and Agribusiness Recovery Loan and Grant Program. The funds were awarded by the U.S. Department of Housing and Urban Development with Community Development Block Grant Program (CDBG) funds, which are administered through OCD. At June 30, 2011, agribusiness and farm loans outstanding total $28,156,761, the current portion of which totals $8,021,496. These loans are reported as notes receivable on the Statement of Net Assets.

Amounts due to OCD totaling $35,413,024 reported on the Statement of Net Assets represent the outstanding balance of notes receivable, including amounts paid by borrowers to the authority but not remitted to OCD at June 30, 2011. In accordance with the cooperative endeavor agreement between the authority and OCD, the authority is liable to OCD only for the payments received from the borrower; the authority is not responsible to OCD for any unpaid amounts. At June 30, 2011, borrowers have made payments totaling $6,868,841 to the authority.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2011, follows:

	Beginning Balance July 1, 2010	Prior Period Adjustments	Restated Balance July 1, 2010	Additions	Transfers	Deletions	Ending Balance June 30, 2011
Capital assets not being depreciated:							
Land	$6,857,393		$6,857,393				$6,857,393
Construction-in-progress	685,387	($8,331)	677,056	$58,755	($677,056)		58,755
Total capital assets not being depreciated	7,542,780	(8,331)	7,534,449	58,755	(677,056)	NONE	6,916,148
Capital assets being depreciated:							
Buildings	40,459,205		40,459,205	150,562	677,056		41,286,823
Land improvements	7,261,228		7,261,228				7,261,228
Equipment	24,749,762		24,749,762	30,974		($179,354)	24,601,382
Total capital assets being depreciated	72,470,195	NONE	72,470,195	181,536	677,056	(179,354)	73,149,433
Less accumulated depreciation for:							
Buildings	(11,847,915)		(11,847,915)	(1,112,639)			(12,960,554)
Land improvements	(2,410,513)		(2,410,513)	(378,044)			(2,788,557)
Equipment	(14,704,066)		(14,704,066)	(3,988,343)		160,759	(18,531,650)
Total accumulated depreciation	(28,962,494)	NONE	(28,962,494)	(5,479,026)	NONE	160,759	(34,280,761)
Total capital assets (net)	$51,050,481	($8,331)	$51,042,150	($5,238,735)	NONE	($18,595)	$45,784,820

Information relating to construction-in-progress follows:

Project	Costs to Date	Estimated Completion Date	Estimated Cost to Complete
Indian Creek Sewerage Upgrade	$31,336	12/31/2012	$400,000
Lacassine Rail Spur	27,419	12/31/2012	350,000
Total	$58,755		$750,000

5. LEASES

A. Capital Leases

The authority has no capital leases.

B. Operating Leases

The total payments for operating leases, consisting of land and office space leases, during the fiscal year 2010-2011 amounted to $93,032. The following is a schedule by year of future minimum annual rental payments required under operating leases:

Year ending June 30,	Office Space	Land	Total Minimum Payments Required
2012	$46,216	$2,739	$48,955
2013	46,216	2,139	48,355
2014	19,257	2,139	21,396
2015		2,139	2,139
2016		2,139	2,139
2017-2021		7,356	7,356
Total	$111,689	$18,651	$130,340

C. 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, 2011:

	Cost	Accumulated Depreciation	Carrying Amount
Buildings	$15,237,946	($6,161,559)	$9,076,387
Land	507,475		507,475
Total carrying amount of property	$15,745,421	($6,161,559)	$9,583,862

The following is a schedule by year of minimum future rentals on noncancelable operating leases as of June 30, 2011:

Year Ending June 30,	Amount
2012	$2,267,141
2013	1,890,034
2014	1,890,034
2015	1,814,839
2016	1,794,322
2017-2021	4,385,368
2022-2026	293,465
2027-2031	293,465
2032-2036	293,465
2037-2041	293,465
2042-2046	293,465
2047-2051	244,346
Total	$15,753,409

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2011.

6. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the authority for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Bonds payable	$71,865,062	NONE	($9,081,687)	$62,783,375	$9,196,688

Details of all bonds outstanding at June 30, 2011, follow:

Issued for	Date Issued	Original Issue	Outstanding June 30, 2010	Issued (Redeemed)	Outstanding June 30, 2011	Maturity Date	Interest Rates
Series 2004 -							
Lacassine Syrup Plant	3/2/2004	$45,000,000	$30,000,000	($6,860,000)	$23,140,000	9/15/2015	3.80%
Series 2006:							
Building projects	3/30/2006	3,804,219	2,282,531	(760,843)	1,521,688	9/15/2012	variable
Building projects	3/30/2006	3,804,219	2,282,531	(760,844)	1,521,687	9/15/2012	variable
Series 2006 B	4/27/2006	2,000,000	1,200,000	(400,000)	800,000	9/15/2012	variable
Series 2007:							
Building projects and equipment purchases	3/26/2007	6,000,000	5,100,000	(300,000)	4,800,000	9/15/2026	4.52%
Series 2007:							
Multi-buildings and equipment purchases	10/1/2007	31,000,000	31,000,000		31,000,000	9/15/2017	5.25%
Total		$91,608,438	$71,865,062	($9,081,687)	$62,783,375		

Debt service requirements to maturity are as follows:

Fiscal year ending	Principal	Interest	Total
2012	$9,196,688	$2,507,385	$11,704,073
2013	9,376,687	2,288,341	11,665,028
2014	7,685,000	2,017,254	9,702,254
2015	8,005,000	1,679,313	9,684,313
2016	8,185,000	1,264,039	9,449,039
2017-2021	18,535,000	1,515,957	20,050,957
2022-2026	1,500,000	271,200	1,771,200
2027	300,000	13,560	313,560
Total	$62,783,375	$11,557,049	$74,340,424

The Series 2007 revenue bonds in the amount of $31,000,000 issued on October 1, 2007, are secured by revenues from a lease agreement between the authority and the Louisiana Department of Agriculture and Forestry (LDAF). Interest is fixed at 5.25% for the term of the bonds and calculated on the basis of a 360-day year consisting of twelve 30-day months.

Unamortized bond issuance costs associated with the Series 2007 revenue bonds issued on October 1, 2007, include legal and other fees. The original issuance costs were $366,150. 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, 2011, is $231,895. The bond issuance costs amortized in fiscal year 2010-2011 were $36,615.

On June 1, 2011, the authority issued the First Amendment to Trust Indenture, converting the interest rate on the Series 2007 revenue bonds, originally issued on March 26, 2007, for $6,000,000 at a fixed interest rate of 5.37% per annum, adjusted every five years, to a fixed interest rate of 4.52% per annum. The authority added three projects for which the proceeds may be spent: (1) the addition of new rails spurs on land owned in Lacassine, Louisiana; (2) making sewerage improvements at Indian Creek Recreation Area in Woodworth, Louisiana; and (3) purchasing automobiles for lease to, and use by, LDAF. The transaction does not meet the definition of an advanced refunding of debt as defined in paragraph D20.102 of the Codification of Governmental Accounting and Financial Reporting Standards.

The Series 2007 revenue bonds are secured by revenue from a lease agreement between the authority and LDAF. Unamortized bond issuance original costs totaled $58,000 and additional costs from the interest rate conversion totaled $46,500 for legal and other fees. 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, 2011, is $92,369. The bond issuance costs amortized in fiscal year 2010-2011 were $2,886.

The Series 2006 and Series 2006B revenue bonds are secured by income and revenues in the Feed, Fertilizer, and Pesticide Funds (License and Regulatory Boards Funds Account). The interest rate on the bonds is variable and is calculated by multiplying the London Interbank Offered Rate (LIBOR) by 65% and adding 119 basis points. Interest is calculated on the basis of a 360-day year based on actual days elapsed.

Unamortized bond issuance costs associated with the Series 2006 and 2006B revenue bonds include legal and other fees. The original issuance costs were $11,317. 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, 2011, is $2,123. The bond issuance costs amortized in fiscal year 2010-2011 were $1,749.

The Series 2004 Lacassine Syrup Plant revenue bonds totaling $45,000,000 are secured by the net revenues from the operation of the facilities and the avails of the net slot machine proceeds described in R.S. 27:392(B)(4). The bonds may be fixed per annum (term) or fluctuating per annum (weekly) rate bonds bearing interest at a rate not exceeding 12% per annum. Interest at the weekly rate and interest at the term rate for any period of one year or less is computed on the basis of a 365- or 366-day year. Interest at the term rate for any period of more than one year is computed on the basis of a 360-day year with 12 months of 30 days each.

Unamortized bond issuance costs associated with the Series 2004 revenue bonds include legal and other fees. The original issuance costs were $307,326 plus underwriter's fees totaling $170,000. Because of the interest rate conversion, the issuance costs have now been increased to $803,448 ($248,607 - remainder of previous issuance costs plus $554,841 for the issuance costs during fiscal year 2010). 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, 2011, is $549,022. The bond issuance costs amortized in fiscal year 2010-2011 were $160,690.

7. CONDUIT DEBT OBLIGATIONS

In August 1995, the GASB issued Interpretation No. 2 (Disclosure of Conduit Debt Obligations). Governmental entities may enter into arrangements whereby a nongovernmental entity is able to finance the acquisition of facilities by issuing conduit debt obligations, which the GASB describes as follows:

> Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity.

The GASB concluded that conduit debt does not create a liability and, therefore, does not have to be presented on the governmental entity's financial statements.

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.

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

Issued for	Interest Rates	Date Issued	Maturity Dates	Authorized and Issued	Retired to Date	Outstanding June 30, 2011
Agricultural Loan Program:						
	8.25%	1986A I	various	$150,000,000	$108,126,047	$41,873,953
	8.80%	1986A II	various	150,000,000	105,830,563	44,169,437
Total				$300,000,000	$213,956,610	$86,043,390

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. Both of the 1986 series bonds subsequently 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. Distributions through the fiscal year ended June 30, 2011, under the modified plan, including interest, total $155,106,581 for the LAFA I bonds and $154,807,982 for the LAFA II bonds. These distributions include court-ordered trust administration costs of $4,729,530 for the LAFA I bonds and $4,729,430 for the LAFA II bonds. Principal and interest of $108,126,047 and $42,251,004, respectively, have been paid for the LAFA I series bonds, and principal and interest of $105,830,563 and $44,247,989, respectively, have been paid for the LAFA II series bonds. Under the plan, distributions can continue until the conservator declares that they are complete or the modified plan has expired.

8. NET ASSETS RESTATED

The beginning net assets as reflected on Statement B have been restated to reflect the following adjustments:

Net assets, June 30, 2010	$58,917,427
Due to Office of Community Development	(31,855)
Accounts payable	(26,135)
Capital assets	(8,331)
Rental income	(15,428)
Other	1,164
Net assets at June 30, 2010, as restated	$58,836,842

9. DUE FROM PRIMARY GOVERNMENT

At June 30, 2011, the authority has amounts due to/from the primary government for the following:

Source	Total
Department of Agriculture and Forestry:	
Boll Weevil Eradication Program - rental payment	$28,800
Repayment of bond proceeds	276,683
Rental payment	168,250
Cash discount on trucks/dozers	241,448
Forestry	230,739
Debt service	2,245,458
Other	22,726
Personal services - salaries	(171,766)
Division of Administration - Office of Community Development	954,229
Department of Transportation and Development	7,893
Total due from primary government	$4,004,460

10. LOAN GUARANTEES

On November 3, 2006, the authority guaranteed a $4,000,000 loan between the Lake Charles Cane-Lacassine Mill, LLC and Jeff Davis Bank and Trust Company. Principal outstanding on the loan at June 30, 2011, totals $2,740,000.

On June 29, 2006, the State Market Commission (SMC) guaranteed a $7,000,000 loan between the Lake Charles Cane-Lacassine Mill, LLC and Hancock Bank. Principal outstanding on the loan at June 30, 2011, totals $4,200,000.

On June 28, 2007, SMC guaranteed a $3,150,000 loan between LA State Cypress, LLC (cypress mill) and Texans Credit Union (Texans) located in Richardson, Texas.

The Louisiana Attorney General (AG) issued AG Opinion 08-0258 on March 26, 2009, and AG Opinion 09-0120 on September 22, 2009, for the SMC and the authority, respectively. The opinions state that the SMC and the authority must obtain Louisiana State Bond Commission (Bond Commission) approval before guaranteeing any loans. None of these loan guarantees were approved by the Bond Commission.

On April 24, 2009, SMC entered into a *Dation En Paiement* with the cypress mill, which had notified SMC that the cypress mill was going to default on its loan obligation to Texans, and under which SMC took possession of cypress mill assets with a fair market value totaling $3,227,707 at March 5, 2009. See note 11 for additional litigation information regarding this loan guarantee.

11. RISK MANAGEMENT AND CLAIMS AND LITIGATION

The authority is exposed to various risks of losses related to general liability: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The authority is a party to various legal proceedings incidental to its business but is not involved in litigation seeking damages. In the opinion of management, all such matters are adequately covered by insurance purchased from the Office of Risk Management and are not expected to have a material effect on the financial statements.

On July 30, 2009, Texans, which had provided a loan to the cypress mill and which the SMC had guaranteed without Bond Commission approval, notified the authority that the cypress mill had defaulted on its loan with Texans. In addition, Texans demanded that the authority pay all past due amounts under the loan within 30 days of the notice of default. To date, the authority has made no payments to Texans.

On October 14, 2009, Texans filed a lawsuit against the cypress mill, the LDAF, the SMC, and the authority seeking, ". . . all principal, interest, default interest and late fees due under the Cypress Note, along with reasonable attorney's fees and collection costs; and for all other relief to which TCU [Texans Credit Union] may be entitled."

On May 13, 2010, the Nineteenth Judicial District Court for the Parish of East Baton Rouge granted Texans' motion for partial summary judgment, stating, ". . . Attorney General Opinion 08-0258 was misapplied to this factual situation and holding that the State Market Commission was not required to obtain the approval of the Louisiana State Bond Commission prior to making a loan guarantee in favor of Texans Credit Union."

The court ordered that the judgment be designated a partial final judgment pursuant to the Louisiana Code of Civil Procedure, Article 1915(B)(1) for the purposes of appeal, allowing an immediate appeal of the judgment. The authority filed an appeal in this matter, and the Louisiana First Circuit Court of Appeals affirmed the lower court's ruling on May 3, 2011. On May 17, 2011, the First Circuit Court of Appeal denied the authority's application for a rehearing of the May 3, 2011, court's decision.

On July 7, 2011, the authority appealed the First Circuit Court of Appeal's decision to the Louisiana Supreme Court. The Supreme Court denied the writ of appeal on October 14, 2011. The authority requested a rehearing of the Supreme Court's decision on October 27, 2011, and the Supreme Court denied the request on November 23, 2011. Because a final judgment has not been issued by the courts, authority management has chosen not to recognize the liability and corresponding decrease in net assets in the financial statements.

Texans has filed a separate lawsuit against the SMC and the authority seeking to revoke the *Dation en Paiement* of the assets of the cypress mill to the authority. There is a reasonable possibility of an unfavorable outcome. The estimated potential loss is $10,000.

On February 28, 2011, the authority and Arkel Sugar Incorporated (Arkel), which had filed a lawsuit against the authority seeking payment for certain design services that Arkel contended were not in the scope of work under a March 2004 contract and that Arkel should be paid for the additional services, entered into a settlement agreement under which the authority agreed to pay Arkel $385,000.

On May 20, 2011, the authority and SMAR International Corporation (SMAR), which had filed a lawsuit against the authority seeking payment for certain invoices for goods and services provided to the Lacassine Syrup Mill, entered into a settlement agreement. The authority agreed to credit $40,000 to rental payments due to the authority for facility leases in Lacassine, Louisiana and owed to the authority by Lake Charles Cane-Lacassine Mill, LLC, and Azucar, Inc. In addition, the parties to the lawsuit will bear their own attorney's fees, court costs, and all other expenses incurred in the lawsuit.

During the past three years, there were no claims against the authority that exceeded insurance coverage. During the year ended June 30, 2011, a total of $146,249 was expended for legal services.

12. INTERGOVERNMENTAL REVENUES

During the fiscal year ended June 30, 2011, the authority received intergovernmental revenues from the primary government as follows:

Source	Amount
Department of Agriculture and Forestry:	
Gaming Control Fund	$7,900,897
Licensing and Regulatory Board	3,000,000
Office of Forestry	230,739
Chopin - (Enterprise Products Operating, LLC Servitude)	190,747
Total	$11,322,383

13. REVENUE USED AS SECURITY FOR REVENUE BONDS

Pledged revenues are specific revenues that have been formally committed to directly collateralize or secure debt of the pledging government. Pledged revenues must be disclosed for each period in which the secured debt remains outstanding and for each secured debt issued.

Specific pledged revenues are the net slot machine proceeds in R.S. 27:392(B)(4), the income and revenues in the Fertilizer Fund pursuant to R.S. 3:1311-1318, the income and revenues in the Feed Commission Fund pursuant to R.S. 3:1892-1907, the income and revenues in the Pesticide Fund pursuant to R.S. 3:3201-3257, and rental and lease income of the authority.

The debt secured by the pledge totals $62,783,375. The approximate remaining amount of the pledge is $74,340,424 at June 30, 2011, representing $62,783,375 in principal and $11,557,049 in interest. The term of the commitment was 23 years beginning in March 2004 and ending in September 2026. The dedicated revenues are pledged 100% annually up to the current amount due for principal and interest. For fiscal year 2011, the pledged revenues recognized totaled $8,650,439. The principal requirement for fiscal year 2011 was $9,081,687, and the interest requirement was $2,700,677.

14. RELATED PARTY TRANSACTIONS

As discussed in note 3, during fiscal 2011, the authority administered the Louisiana Farm and Agribusiness Recovery Loan and Grant Program administered through OCD. Under the program, the authority has made loans and grants totaling $1,133,916 to 29 individuals employed by LDAF or serve in a capacity within LDAF who for reporting purposes are considered related parties. These individuals, whose loans are allowable under R.S. 42:1113(D)(1)(c)(iii) and under the cooperative endeavor agreement between the authority and OCD, qualified for the loans based on pre-established criteria applied to all loan applicants. The balance for these loans at June 30, 2011, is $645,088.

15. SUBSEQUENT EVENTS

On December 31, 2011, a principal payment totaling $671,627 under the promissory note between the Lake Charles Cane-Lacassine Mill, LLC (LLC) and LAFA was due. In addition, an interest payment of $2,276,520 was due. As of March 23, 2012, the amount due remains unpaid. The LLC has requested a payment extension.

As discussed in note 10, on June 29, 2006, the State Market Commission (SMC) guaranteed a $7,000,000 loan between the LLC and Hancock Bank (Hancock). The guarantee is secured with a first mortgage on the mill. The LLC failed to make its March 15, 2012, payment to Hancock. On March 23, 2012, the authority paid $127,500 to Hancock to bring the loan to a current status.

In addition, on November 3, 2006, the authority guaranteed a $4,000,000 loan between the LLC and Jeff Davis Bank and Trust Company (Jeff Davis). Through June 30, 2011, the LLC has requested, and Jeff Davis has granted, 11 loan extensions in an effort to avoid a default on the loan. On January 9, 2012, the bank agreed to a further modification of the payment terms under the loan. Under the agreement, the LLC was required to make an immediate $10,000 interest payment to the bank. The remaining principal and interest payments due as of January 9, 2012, were extended to March 31, 2012, to bring the principal and interest payments to a current status. The remaining terms of the loan are unchanged.

In its March 23, 2012, meeting, the authority considered the LLC's request for a payment extension of the LLC's obligations under the promissory note. The request included a revision of the annual payments to the authority. The authority's governing board declared the LLC in default on its promissory note based on the LLC's failure to make all its past due payments, and the authority issued an immediate demand for payment. In addition, the authority granted the LDAF's commissioner permission to negotiate with the two banks to ensure its loans are repaid.

As discussed in note 11, on October 14, 2009, Texans Credit Union (Texans) filed a lawsuit against LA State Cypress, LLC (cypress mill), LAFA, LDAF, and SMC as a result of the cypress mill's default on its $3,150,000 loan with Texans. The loan was originally guaranteed by SMC when it was structurally a part of LDAF. Subsequent to the Supreme Court's November 23, 2011, decision, Texans filed a motion for summary judgment with the Nineteenth Judicial District Court (19^{th} JDC), and LAFA filed a petition to dismiss the Texans motion. On April 2, 2012, the 19^{th} JDC ruled in favor of Texans. As of the date of the LAFA audit report, the court has not determined the total award to Texans.

OTHER REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Exhibit A

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

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 23, 2012

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of 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 (authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2011, and have issued our report thereon dated March 23, 2012. Our report was qualified because authority management did not accrue a liability and record a corresponding decrease in net assets and increase in expenses in its financial statements resulting from a probable and estimable loss from the outcome of claims and litigation against the authority. In addition, our report was modified to include an emphasis of a matter regarding the Lake Charles Cane-Lacassine Mill, LLC's default status of its obligations to repay loans to the authority and banks. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

OTHER REPORTS

The Louisiana Legislative Auditor will issue a report on the Department of Agriculture and Forestry with historical information that the auditors were able to obtain on the development, financings, operations, and sale of the Lacassine syrup mill project. When issued, the report will be available on the auditor's Web site at www.lla.la.gov.

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

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA
Legislative Auditor

CLM:CGEW:EFS:THC:dl

LAFA 2011