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MACON RIDGE
ECONOMIC DEVELOPMENT REGION, INC.

FINANCIAL REPORT
DECEMBER 31, 1998

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

FINANCIAL REPORT
DECEMBER 31, 1998

CONTENTS

MARTIN, HARRISON & SMALLWOOD, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

May 7, 1999

The Board of Directors
Macon Ridge Economic Development Region, Inc.
Ferriday, Louisiana

We have audited the accompanying balance sheet of Macon Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of December 31, 1998, and the related statements of support, revenue, expenses and changes in fund balances, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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; Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Macon Ridge Economic Development Region, Inc. as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 1999, on our consideration of Macon Ridge Economic Development Region, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Martin, Harrison & Smallwood, LLP

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

BALANCE SHEET
DECEMBER 31, 1998

	OPERATING FUNDS	
	UNRESTRICTED	RESTRICTED
ASSETS		
Cash	4,695	52,101
Certificate of deposit	-	-
Grants receivable	-	106,689
Contracts receivable	-	34,763
Interest receivable - loans	-	-
Other receivables	-	300
Interfund receivables	40,314	-
Loans receivable		
Intermediary Relending Program, net of allowance for loan losses of $120,595	-	-
Rural Business Enterprise Grant Program, net of allowance for loan losses of $20,494	-	-
Property and equipment, net	14,980	411,814
TOTAL ASSETS	59,989	605,667
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	-	46,231
Accrued liabilities	465	1,597
Compensated absences	-	9,949
Interfund payables	-	51,654
Deferred revenue	-	25,313
Note payable	-	-
Total current liabilities	465	134,744
Note payable, less current portion	-	-
TOTAL LIABILITIES	465	134,744
FUND BALANCES	59,524	470,923
TOTAL LIABILITIES AND FUND BALANCES	59,989	605,667

The accompanying notes are an integral part of these financial statements.

LOAN PROGRAMS	TOTAL
289,377	346,173
90,000	90,000
-	106,689
-	34,763
18,110	18,110
-	300
11,340	51,654
599,491	599,491
321,718	321,718
4,571	431,365
1,334,607	2,000,263

-	46,231
536	2,598
-	9,949
-	51,654
71,923	97,236
73,079	73,079
145,538	280,747
844,980	844,980
990,518	1,125,727
344,089	874,536
1,334,607	2,000,263

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF SUPPORT, REVENUE, EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 1998

	OPERATING FUNDS	
	UNRESTRICTED	RESTRICTED
SUPPORT AND REVENUE		
Grants:		
Enterprise Community Program	-	463,579
Rural Business Enterprise Grant	-	225,000
Office of Rural Development	65	14,959
Louisiana Office of Rural Development - Building acquisition grant	-	186,200
Contracts:		
Family Preservation Plan	-	8,662
Louisiana Department of Economic Development:		
Cooperative Endeavors	5,670	251,766
Drug Court	-	1,928
Contributions	15,000	240
Interest income	59	101
Loan interest income	-	-
Loan application and origination fees and penalties	-	-
Miscellaneous income	5,447	27,472
Total support and revenue	26,241	1,179,907
EXPENSES		
Programs:		
Grant program:		
Enterprise Community	-	497,297
Loan programs	-	-
Other programs	-	268,794
Total programs	-	766,091
Management and general	45,180	5,547
Total expenses	45,180	771,638
EXCESS (DEFICIT) OF SUPPORT AND REVENUE OVER EXPENSES	(18,939)	408,269
TRANSFER OF FUND BALANCES	13,826	(13,826)
FUND BALANCES - BEGINNING OF YEAR	64,637	76,480
FUND BALANCES - END OF YEAR	59,524	470,923

The accompanying notes are an integral part of these financial statements.

LOAN PROGRAMS	TOTAL
-	463,579
86,507	311,507
-	15,024
-	186,200
-	8,662
-	257,436
-	1,928
-	15,240
9,303	9,463
74,383	74,383
12,118	12,118
-	32,919
182,311	1,388,459
-	497,297
113,522	113,522
-	268,794
113,522	879,613
11,481	62,208
125,003	941,821
57,308	446,638
-	-
286,781	427,898
344,089	874,536

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1998

	PROGRAM SERVICES		
	ENTERPRISE COMMUNITY	LOAN	OTHER
Computer expenses	519	-	3,108
Contract labor	48,602	-	5,461
Consulting fees	40,456	889	59,198
Depreciation	29,052	1,450	2,978
Dues and subscriptions	658	-	-
Equipment acquisitions (under $1,000)	4,573	1,086	1,762
Equipment and building maintenance	4,940	860	889
Fringe benefits	47,468	13,832	36,172
Insurance	2,636	813	-
Interest	-	8,042	-
LA DED - Delta Service Corporation	-	-	10,200
Other	1,920	3,576	3,246
Postage	1,123	544	2,760
Printing	930	385	1,136
Professional fees	6,200	7,942	-
Projects - infrastructure	6,500	-	-
Projects - job training and education	54,786	-	-
Projects - leadership development	162	-	-
Promotional	1,089	1,943	1,800
Provision for loan losses	-	18,133	-
Recruitment/Retention expense	549	58	425
Rent - building and equipment	8,415	242	20
Salaries and wages	166,849	44,520	107,849
Seminars	1,870	920	1,850
Supplies	11,311	1,449	3,368
Travel	26,160	2,805	24,875
Utilities	30,529	4,033	1,697
	497,297	113,522	268,794

The accompanying notes are an integral part of these financial statements.

SUPPORTING SERVICES MANAGEMENT AND GENERAL	TOTAL
4,150	7,777
1,800	55,863
1,390	101,933
4,072	37,552
1,357	2,015
(637)	6,784
246	6,935
(517)	96,955
2,759	6,208
-	8,042
-	10,200
15,076	23,818
248	4,675
473	2,924
12,575	26,717
-	6,500
-	54,786
-	162
229	5,061
-	18,133
1,080	2,112
72	8,749
6,074	325,292
418	5,058
7,101	23,229
3,275	57,115
967	37,226
62,208	941,821

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1998

OPERATING ACTIVITIES	
Excess of support and revenue over expenses	446,638
Adjustments to reconcile excess of support and revenue over expenses to net cash provided by (used in) operating activities:	
Depreciation	37,552
Provision for loan losses	18,133
(Increase) decrease in:	
Grants receivable	63,571
Contracts receivable	52,067
Other receivables	3,348
Loan interest receivable	(7,336)
Increase (decrease) in:	
Accounts payable	(94,779)
Accrued liabilities	(11,043)
Deferred revenue	27,894
Net cash provided by (used in) operating activities	536,045
INVESTING ACTIVITIES	
Purchase of certificate of deposit	(90,000)
Redemption of certificate of deposit	35,250
Loans made to others	(369,799)
Payments received on loans to others	144,100
Purchases of equipment and leasehold improvements	(363,819)
Net cash provided by (used in) investing activities	(644,268)
FINANCING ACTIVITIES	
Loan proceeds - Intermediary Relending Program	260,422
Payment of loan - Intermediary Relending Program	(74,725)
Net cash provided by (used in) financing activities	185,697
NET INCREASE IN CASH AND CASH EQUIVALENTS	77,474
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	268,699
CASH AND CASH EQUIVALENTS AT END OF YEAR	346,173
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	11,427

DISCLOSURE OF ACCOUNTING POLICY

For purposes of the statement of cash flows, the Company considers all highly liquid debt purchased with a maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements.

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Macon Ridge Economic Development Region, Inc. (the Corporation) is a nonprofit organization whose membership consists of municipalities and economic development organizations located in northeast Louisiana. The Corporation's mission is economic development, industrial recruitment and readiness, and job creation.

In December, 1994, the Corporation's application for a rural Enterprise Community was approved by the United States Department of Agriculture (USDA). Approval as an Enterprise Community was coupled with a three-year USDA grant in the amount of $2,950,000. In 1998 this contract was renewed for an additional three years of operations. The purpose of the Enterprise Community program is to implement a strategic plan formulated for revitalizing the economy of portions of five parishes within the Corporation's domain.

USDA also approved a $2,000,000 loan to the Corporation to establish a revolving loan fund for business and economic development within the Enterprise Community, as well as throughout the Corporation's entire area. This loan was obtained through USDA's Intermediary Relending Program. In August, 1995, the USDA approved a $300,000 Rural Business Enterprise Grant to operate a small business loan program solely for the Enterprise Community. An additional $300,000 grant was approved in March, 1998 to continue this program.

Periodically, the Corporation implements, on a contractual basis, other programs designated for economic and industrial development and job training.

BASIS OF ACCOUNTING AND PRESENTATION

The financial statements of the Corporation have been prepared on the accrual basis of accounting.

For financial reporting purposes, the provisions of Governmental Accounting Standards Board Statement No. 29, The Use of Not-for-Profit Accounting and Financial Reporting Principles by Government Entities (GASB No. 29) apply to the Corporation. GASB No. 29 requires the Corporation to follow the financial statement presentation guidance of AICPA Statement of Position 78-10, Accounting Principles and Reporting Practices for Certain Nonprofit Organizations (SOP 78-10). Accordingly, the accounts of the Corporation are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. The assets, liabilities and fund balances of the Corporation are reported in two self-balancing groups as follows:

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Operating funds include unrestricted and restricted resources available for support of the Corporation's operations.

- Loan Program Funds include resources restricted for the Corporation's lending programs.

PERVASIVENESS OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level which, in Management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on Management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, Management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment having estimated useful lives greater than one year are recorded at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment.

Maintenance and repairs are charged to operations; significant improvements are capitalized. The cost and related accumulated depreciation of assets retired or otherwise disposed are eliminated from the accounts and the resulting gain or loss is included in income.

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain property and equipment are restricted as to use and disposition by grant agreements and by contractual agreements.

EXPENSE ALLOCATION

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Support, Revenue, Expenses and Changes in Fund Balances and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

INCOME TAX STATUS

The Corporation is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code.

TOTAL COLUMNS

Total columns are presented to facilitate financial analysis. Data in these columns do not present financial position and results of operations in conformity with generally accepted accounting principles.

NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT

Cash at December 31, 1998, consisted of the following:	
General fund - operating	4,695
Enterprise Community Program - operating (restricted)	2,000
Intermediary Relending Program (loan program)	90,274
Rural Business Enterprise Grant Program (loan program)	199,103
Rural Business Enterprise Grant Program (building renovation fund)	50,101
	346,173

Certificates of Deposit at December 31, 1998, consisted of the following:	
Intermediary Relending Program (loan program)	80,000
Rural Business Enterprise Grant Program (loan program)	10,000
	90,000

Cash and certificates of deposit in the Intermediary Relending Program accounts are restricted for lending purposes, for the program's administrative costs and for repayment of the debt to USDA. Cash and certificate of deposit in the Rural Business Enterprise Grant Program loan accounts are restricted for lending purposes and for the program's administrative costs. Cash in the Rural Business Enterprise Grant Program building renovation fund is restricted for renovation purposes.

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 3 - GRANT RECEIVABLE – ENTERPRISE COMMUNITY PROGRAM

Grants receivable include unreimbursed costs in the amount of $106,689 incurred in operating the Enterprise Community Program. The Enterprise Community grant receivable is due from the Louisiana Department of Social Services, Office of Community Services (OCS), which is the contracting agency for the Enterprise Community Program in the State of Louisiana.

NOTE 4 - LOANS RECEIVABLE

During 1996, the Corporation began making loans to business entities through USDA's Intermediary Relending Program. Under this program, loans of up to $150,000 may be made to business entities in the Corporation's eleven-parish operational area. A maximum of twenty-five percent (25%) of the total loan portfolio may be loans of up to $250,000 to recipients who qualify. Loan recipients are required to fund twenty-five percent (25%) of their approved project costs.

At least sixty percent (60%) of the total Intermediary Relending Program funds available must be loaned to businesses within the Enterprise Community, and a maximum of forty percent (40%) of the funds available may be loaned to businesses outside of the Enterprise Community.

During 1996, the Corporation began making loans to business entities under the Rural Business Enterprise Grant Program. This program allows loans of up to $25,000 to be made to businesses within the Enterprise Community.

Principal payments and interest received on loans made under the Intermediary Relending Program can be used only for the following purposes: for payment of the debt to USDA; for payment of reasonable administrative costs of the program; and for relending purposes. Principal payments and interest received on loans under Rural Business Enterprise Grant Program can be utilized only for the payment of reasonable administrative costs and for relending purposes.

NOTE 5 - PROPERTY, EQUIPMENT AND DEPRECIATION

The major classes of owned property and equipment at December 31, 1998, are summarized below:

CLASS	
Building	270,599
Land	82,500
Furniture and fixtures	9,034
Equipment	102,738
Building improvements	50,474
	515,345
Less accumulated depreciation	83,980
Net property and equipment	431,365

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 6 - NOTE PAYABLE

The note payable represents the balance due to USDA at December 31, 1998, for the total amount of funds borrowed from USDA under the Intermediary Relending Program. In accordance with the loan agreement, up to $2,000,000 may be borrowed by the Corporation for relending purposes to business entities within its eleven parish operational area.

Under the terms of the loan agreement, interest at a rate of 1.00% is accrued on the outstanding balance. Beginning in December, 1998, principal and interest payments of $82,260 are to be paid on an annual basis until the note matures in December, 2025.

The note payable is collateralized by an Assignment of Security Interest for each loan made that is collateralized by personal property. Also, the note payable is collateralized by an Assignment of Mortgage for each loan made that is collateralized by real estate.

Interest expense for the year ended December 31, 1998, totaled $8,042.

NOTE 7 - FINANCIAL INSTRUMENTS

CONCENTRATION OF CREDIT RISK

The Corporation operates its Enterprise Community Program under a cost reimbursement contract which results in amounts due from OCS at various times during the performance of the contract. See Note 3.

Generally, the Corporation operates its other contractual programs on a cost reimbursement basis.

The Corporation maintains cash balances at several financial institutions located in Northeast Louisiana. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 1998, the Corporation's uninsured cash balances totaled $250,478 and were on deposit with one financial institution. However, the uninsured cash balances have been guaranteed by a bank deposit guaranty bond in an amount not to exceed $400,000.

COLLATERALIZATION POLICY

Unless otherwise disclosed, the Corporation does not obtain collateral or other security to support financial instruments subject to credit risk.

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 8 - SIMPLIFIED EMPLOYEE PENSION

The Corporation has established a Simplified Employee Pension (SEP) for its employees in accordance with Section 408(k) of the Internal Revenue Code. The Corporation contributed $36,305 to the SEP during 1998.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent to December 31, 1998, the Corporation received USDA approval to make loans through the Intermediary Relending Program totaling $648,003 and Rural Business Enterprise Grant Program totaling $91,450. Total funds received to date were $498,003 for the Intermediary Relending Program and $91,450 for the Rural Business Enterprise Grant Program.

OTHER INDEPENDENT AUDITORS' REPORTS

MARTIN, HARRISON & SMALLWOOD, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

May 7, 1999

The Board of Directors
Macon Ridge Economic Development Region, Inc.

We have audited the financial statements of Macon Ridge Economic Development Region, Inc. as of and for the year ended December 31, 1998, and have issued our report thereon dated May 7, 1999. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Compliance

As part of obtaining reasonable assurance about whether Macon Ridge Economic Development Region, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Macon Ridge Economic Development Region, Inc. in a separate letter dated May 7, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Macon Ridge Economic Development Region, Inc.'s internal control over financial reporting in order 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 that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management, and the federal awarding agencies. However, this report is a matter of public record, and its distribution is not limited.

Martin, Harrison & Smallwood, LLP

MARTIN, HARRISON & SMALLWOOD, L.L.P.
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Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

May 7, 1999

The Board of Directors
Macon Ridge Economic Development Region, Inc.

Compliance

We have audited the compliance of Macon Ridge Economic Development Region, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 1998. Macon Ridge Economic Development Region, Inc.'s major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Macon Ridge Economic Development Region, Inc.'s management. Our responsibility is to express an opinion on Macon Ridge Economic Development Region, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Macon Ridge Economic Development Region, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Macon Ridge Economic Development Region, Inc.'s compliance with those requirements.

The Board of Directors
Macon Ridge Economic Development Region, Inc.
May 7, 1999
Page Two

In our opinion, Macon Ridge Economic Development Region, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1998.

Internal Control Over Compliance

The management of Macon Ridge Economic Development Region, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Macon Ridge Economic Development Region, Inc.'s internal control over compliance with requirements that could have a material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Martin, Harrison & Smallwood, LLP

MARTIN, HARRISON & SMALLWOOD, L.L.P.
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Independent Auditors' Report on
Schedule of Expenditures of Federal Awards

May 7, 1999

The Board of Directors
Macon Ridge Economic Development Region, Inc.

We have audited the financial statements of Macon Ridge Economic Development Region, Inc. as of and for the year ended December 31, 1998, and have issued our report thereon dated May 7, 1999. These financial statements are the responsibility of the management of Macon Ridge Economic Development Region, Inc. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Macon Ridge Economic Development Region, Inc. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Martin, Harrison + Smallwood, LLP

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 1998

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures	
United States Department of Agriculture:				
Direct Awards:				
Intermediary Relending Program	10.439	N/A	218,734	*
Rural Development Grant/Rural Business Enterprise Grant (Loan Program)	10.769	10424	61,500	
Rural Development Grant/Rural Business Enterprise Grant (Building Acquisition)	10.769	10424	173,844	
Pass-through from State of Louisiana Department of Social Services:				
Enterprise Community	10.772	3708327	463,579	*
Total			917,657	

* Denotes a major program.

Note: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1998

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Macon Ridge Economic Development Region, Inc.

2. No instances of noncompliance material to the financial statements of Macon Ridge Economic Development Region, Inc. were disclosed during the audit.

3. No reportable conditions were disclosed during the audit of the major federal award programs.

4. The auditors' report on compliance for the major federal award programs for Macon Ridge Economic Development Region, Inc. expresses an unqualified opinion.

5. No instances of noncompliance material to the major federal award programs for Macon Ridge Economic Development Region, Inc. were disclosed during the audit.

6. The programs tested as major programs included:
    United States Department Of Agriculture:
        Intermediary Relending Program - CFDA 10.439
        Enterprise Community - CFDA 10.772

7. The threshold for distinguishing Types A and B programs was $300,000.

8. Macon Ridge Economic Development Region, Inc. was not determined to be a low-risk auditee.

MARTIN, HARRISON & SMALLWOOD, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

2808 KILPATRICK BLVD., P.O. BOX 4044 - MONROE, LA 71211-4044 - (318) 388-0500
302 DEPOT STREET, SUITE A - DELHI, LA 71232 - (318) 878-5573

May 7, 1999

To the Senior Management and
The Board of Directors of
Macon Ridge Economic Development Region, Inc.

In planning and performing our audit of the financial statements of Macon Ridge Economic Development Region, Inc. (the Corporation) for the year ended December 31, 1998, we considered the Corporation's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. We previously reported on the Corporation's internal control structure in our reports dated May 7, 1999. This letter does not affect our report dated May 7, 1999, on the financial statements of Macon Ridge Economic Development Region, Inc.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Internal Controls

Finding: The loan agreements utilized in the Corporation's two loan programs (Intermediary Relending Program and Rural Business Enterprise Grant Program) require that each borrower and the Corporation meet certain financial and non-financial covenants. It was noted during the audit that in some instances procedures had not been performed by the Corporation to ascertain whether these financial and non-financial covenants were met.

Recommendation: Management of the Corporation should assign to an employee of the Corporation the responsibility of monitoring each borrower's compliance with the financial and non-financial covenants of the borrower's respective loan agreement. Furthermore, the Corporation should develop a program for the continual monitoring of both the borrower's compliance and the Corporation's compliance with the loan covenants. Also, the Corporation should maintain adequate documentation of each borrower's compliance or lack or compliance with the loan covenants. Specific examples of these findings follow.

Loan Program Covenants – Insurance Policies

The Corporation's loan agreements contain a covenant which requires the borrower to carry property and life insurance for the life of the loan. However, there are instances in which the proof of insurance in the file is outdated. The Corporation should have a system in place to track all insurance renewal dates and obtain copies of updated policies for the file on a timely basis.

Loan Program Covenants - Financial Statements

The Corporation's loan agreements contain a covenant which requires the borrower to submit financial statements on an annual basis. However, the Corporation should consider modifying this covenant to require the submission of a copy of a tax return prepared by a tax professional annually. Since the Corporation's loan recipients are generally small businesses which do not keep records in financial statement form, it is unlikely that they will produce statements annually. All loan recipients, regardless of their accounting system, should file tax returns annually, and properly prepared tax returns should provide the Corporation with the relevant financial information it needs to ascertain the borrower's compliance with applicable financial covenants, as well as the borrower's financial stability.

Loan Program Covenants – Intermediary Relending Program Enterprise Community Ratio

The Corporation is required lend 60% of funds within the Enterprise Community for Intermediary Relending Program loans. According to the USDA, this ratio is in effect both for the original \$2,000,000 loan and any revolved funds which are re-lent. There is some question among management regarding the determination of this ratio for the revolved funds. The Corporation should keep separate records of revolved amounts lent inside or outside of the Enterprise Community to verify that they do not lend more than the allowable 40% outside of the Enterprise Community. According to Judy Meche of USDA, if the original funds are separated 60/40, and the Corporation keeps an accurate account of the revolved funds generated from EC/Non-EC loans, the Corporation could basically operate two "separate" loan pools. Management should carefully monitor the loan funds to ensure that they are always in compliance with this 60/40 ratio.

<u>Other Non-Finding Comments</u>

Loan Program – Loan Losses

The Corporation keeps a provision for loan losses of 2% of all loans, and an additional amount estimated by management for loans which they feel are doubtful due to the financial situation of the recipient. The additional provision is based on several factors, including the determination by management of the worth of the loan's collateral. Due to the uncertain nature of this estimate, the Corporation should monitor closely each situation in which a loss is likely to occur and adjust the loan loss provision accordingly.

We appreciate the time and courtesy extended to us by you and your staff during the course of the audit and ask that you contact us at any time if you have any questions concerning the above comments and recommendations.

Respectfully,

MARTIN, HARRISON & SMALLWOOD, L.L.P.

Mike Martin

Mike M. Martin
Certified Public Accountant

MMM/jkc

MACON RIDGE ECONOMIC
DEVELOPMENT REGION, INC.

903 Louisiana Avenue • Post Office Drawer 746
Ferriday, Louisiana 71334
Phone 318/757-3033 • LA WATTS 800/686-6733 • FAX: 318/757-4212

CORRECTIVE ACTION PLAN

DECEMBER 31, 1998

UNITED STATES DEPARTMENT OF AGRICULTURE

Macon Ridge Economic Development Region, Inc. respectfully submits the following corrective action plan for the year ended December 31, 1998.

Name and Address of independent public accounting firm: Martin, Harrison & Smallwood, L.L.P.
2808 Kilpatrick Blvd., P. O. Box 4044, Monroe LA 71211-4044.

Audit Period: December 31, 1998

The findings from the December 31, 1998 Management Letter are discussed below. The findings are numbered consistently with the numbers assigned in the letter. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

INTERNAL CONTROLS

Finding:

Recommendation: Management of the Corporation should assign to an employee of the Corporation the responsibility of monitoring each borrower's compliance with the financial and non-financial covenants of the borrower's respective loan agreement. Furthermore, the Corporation should develop a program for the continual monitoring of both the borrower's compliance and the Corporations's compliance with the loan covenants. *Also, the Corporation should maintain adequate documentation of each* borrower's compliance or lack of compliance with the loan covenants. Specific examples of these findings follow.

Loan Program Covenants - Insurance Policies

The Corporations's loan agreements contain a covenant which requires the borrower to carry property and life insurance for the life to the loan. However, there are instances in which the proof of the insurance in the file is outdated. The Corporation should have a system in place to track all insurance renewal dates and obtain copies of updated policies for the file on a timely basis.

Action Taken: We concur with the auditor's recommendations. This problem was caused due to a change in personnel. The person responsible for monitoring the loan covenants has started an assessment of the current conditions of the proof of insurance. Grants Management System has updated our revolving loan fund software with a program to monitor the insurance. This will correct any future problems with insurance renewal dates so that the policies may be updated on a timely basis.

Loan program Covenants - Financial Statements

The Corporation's loan agreements contain a covenant which requires the borrower to submit financial statements on an annual basis. However, the Corporation should consider modifying this covenant to require the submission of a copy of a tax return prepared by a tax professional annually. Since the Corporation's loan recipients are generally small businesses which do not keep records in financial statement form, it is unlikely that they will produce statements annually. All loan recipients, regardless of their accounting system, should file tax returns annually, and properly prepared tax returns should provide the Corporation with the relevant financial information it needs to ascertain the borrower's compliance with applicable financial covenants, as well as the borrower's financial stability.

Action Taken: We concur with the auditor's recommendations. We will modify our loan covenant to require the submission of a copy of a tax return prepared annually by a tax professional.

Loan Program Covenants - Intermediary Relending Program Enterprise Community Ratio

The Corporation is required to lend 60% of funds within the Enterprise Community for Intermediary Relending Program loans. According to the USDA, this ratio is in effect both for the original $2,000,000 loan and any revolved funds which are re-lent. There is some question among management regarding the determination of this ratio for the revolved funds. The Corporation should keep separate records of revolved amounts lent inside or outside of the Enterprise Community to verify that they do not lend more than the allowable 40% outside of the Enterprise Community. According to Judy Meche of

USDA, if the original funds are separated 60/40, and the Corporation keeps an accurate account of the revolved funds generated from EC/Non-EC loans, the Corporation could basically operate two "separate" loan pools. Management should carefully monitor the loan funds to ensure that they are always in compliance with this 60/40 ratio.

Action Taken: We still have questions concerning the 60/40 ratio for revolved funds which are relent. USDA originally responded that the 60/40 ratio applied to the revolved funds; when we went to a higher level of command, we were told that this ratio did not apply. Due to the mixed signals USDA has given us, we have requested a formal ruling on this matter. We will adhere to the 60/40 ratio for revolved funds until this matter has been resolved.

Other Non-Finding Comments:

Loan Program - Loan Losses

The Corporation keeps a provision for loan losses of 2% of all loans, and an additional amount estimated by management for loans which they feel are doubtful due to the financial situation of the recipient. The additional provision is based on several factors, including the determination by management of the worth of the loan's collateral. Due to the uncertain nature of this estimate, the Corporation should monitor closely each situation in which a loss is likely to occur and adjust the loan loss provision accordingly.

Action Taken: We concur with the auditor's recommendations. We will closely monitor each loan situation in which a loss is likely to occur and adjust the loan loss provision accordingly.

If the Legislative Auditor's Office has questions regarding these plans, please call Robin N. Charpentier at (318)757-3033.

Sincerely,

Lloyd S. Spillers, Jr.
President/CEO

MACON RIDGE ECONOMIC
DEVELOPMENT REGION, INC.

903 Louisiana Avenue • Post Office Drawer 746
Ferriday, Louisiana 71334
Phone 318/757-3033 • LA WATTS 800/686-6733 • FAX: 318/757-4212

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 1998

UNITED STATES DEPARTMENT OF AGRICULTURE:

1997 - REPORTABLE CONDITIONS, 97-1: Loans Receivable

Condition: Management has prescribed policies and procedures in place for monitoring delinquent loans. Such policies and procedures require that loans in default for more than ninety days be given to an attorney for collection. If the attorney is unable to collect on a delinquent loan, then the attorney is to begin foreclosure proceedings. At December 31, 1991, several loans which had been in default for more than ninety days had not been given to an attorney for collection.

Corrective action was taken.

1997 - FINDINGS AND QUESTIONED COSTS, 97-2 : Enterprise Community - CFDA 10.772

Condition: Federal funds were provided to a subrecipient for a tourism project that did not meet the established criteria of the Enterprise Community Strategic Plan.

Corrective action was taken. Please see attached memorandum to Austin Cormier from G. Richard Wetherill and letter dated September 30, 1998.

State of Louisiana
Department of Social Services
OFFICE OF COMMUNITY SERVICES
333 LAUREL STREET
P. O. BOX 3318 - PHONE - 504/342-2297
BATON ROUGE, LOUISIANA 70821

M. J. "MIKE" FOSTER, JR.
GOVERNOR

MADLYN B. BAGNERIS
SECRETARY

September 30, 1998

Mr. L. S. "Buddy" Spillers, Executive Director
Macon Ridge Economics Development Region, Inc.
P. O. Box 746
Ferriday, Louisiana 71334

Dear Mr. Spillers:

Re: Audit Review of FYE 12/31/97

We have received and reviewed the corrective action material which was submitted to address the findings and correct the deficiencies noted in the above referenced monitoring review.

Based on the information submitted, all deficiencies are hereby determined cleared and the report has been closed.

If additional information is needed, please contact Reed A. Preston at (504) 342-2494.

Sincerely,

Brenda F. Grogan

Brenda F. Grogan, Administrator
Energy Assistance Section

BFG:rp

cc: Mary Clary, Program Manager
Joe Green, Audit Supervisor-Om&F

MEMORADUM TO AUSTIN CORMIER, STATE DIRECTOR, LOUISIANA

FROM: G. Richard Wetherill
Director
Empowerment Program Division
Office of Community Development

SUBJECT: Macon Ridge EC Benchmark Additions

ATTENTION: Danny J. Creel

This is in response to your letter of December 1, 1997 regarding additional benchmarks that Macon Ridge has requested be added to their Strategic Plan. These categories to include tourism development and venture capital.

We concur with your review and approval of this request as the benchmarks are consistent with the approved strategic plan and the community residents were involved in the approval of these benchmarks additions.