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

FINANCIAL STATEMENT AUDIT

ISSUED JULY 25, 2007

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Ten copies of this public document were produced at an approximate cost of $36.00. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 9272 or Report ID No. 06503186 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.

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June 20, 2007

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying basic financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 2006. These financial statements are the responsibility of management of the Louisiana Agricultural Finance Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Agricultural Finance Authority as of June 30, 2006, and 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.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Louisiana Agricultural Finance Authority did not directly suffer any major effects of these two hurricanes, the long-term effects of these events directly on the Louisiana Agricultural Finance Authority cannot be determined at this time.

During the fiscal year ended June 30, 2006, the Louisiana Legislative Auditor (LLA) provided certain nonaudit services for the State of Louisiana directed toward assisting the state Department of Military Affairs and the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) relative to their administration of the Federal Emergency Management Agency's (FEMA) Public Assistance program. The LLA provided the Department of Military Affairs and GOHSEP with assistance in reviewing documents submitted by applicants and reviewing the application and payment process to provide recommendations to those agencies for meeting their responsibilities for compliance with FEMA and state regulations. To maintain independence for audit purposes while providing these nonaudit services, the LLA has met the criteria and requirements set forth in *Government Auditing Standards*: *Temporary Exemptions and Guidance in Response to Hurricanes Katrina and Rita*, issued by the Government Accountability Office in November 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2007, on our consideration of the Louisiana Agricultural Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 the 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 7 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 primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

COK:CGEW:THC:dl

LAFA 06

Management's discussion and analysis of the Louisiana Agricultural Finance Authority's financial performance presents a narrative overview and analysis of the authority's financial activities for the year ended June 30, 2006. 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 2006 by $41,193,113, which represents a 46% increase from last fiscal year. The net assets increased by $11,711,357.

- The authority's operating revenue increased by $7,206,222 (or 156%) and the net results from activities increased by $12,387,866 (or 1,831%).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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 Fund 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 GASB 34.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets
As of June 30, 2006 and June 30, 2005
(in thousands)

	June 30, 2006	June 30, 2005 (Restated)
Current and other assets	$133,606	$36,527
Capital assets	39,491	75,428
Total assets	173,097	111,955
Other liabilities	11,044	18,140
Long-term debt outstanding	120,860	64,092
Total liabilities	131,904	82,232
Net assets:		
Invested in capital assets, net of debt	31,043	34,588
Restricted	189	587
Unrestricted (deficit)	9,961	(5,452)
Total net assets	$41,193	$29,723

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, 2006 and June 30, 2005
(in thousands)

	June 30, 2006	June 30, 2005 (Restated)
Operating revenues	$11,830	$4,745
Operating expenses	(6,409)	(5,350)
Operating income (loss)	5,421	(605)
Nonoperating revenues (expenses)	6,290	1,496
Net increase (decrease) in net assets	$11,711	$891

Operating revenues increased $7,786,578 as a result of increased intergovernmental revenues received from the Louisiana Department of Agriculture from the Licensing and Regulatory Board Fund and the Gaming Control Fund for construction costs related to the Lacassine Syrup

Mill. Revenues received from these funds totaled approximately $4.4 million and $4.7 million, respectively. Nonoperating revenues increased by $4,793,853. The majority of this increase resulted from a gain of $4,690,928 on the sale of the Lacassine Syrup Mill. The authority's total revenues increased by $11,878,950 (or 190%). The total cost of all programs and services increased by $1,058,259 (or 19.8%).

CAPITAL ASSETS

At the end of 2006, the authority had $39,490,986 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 $35,998,307 (or 48%) over the last year, as adjusted.

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

	2006	2005 (Restated)
Land	$6,632	$6,512
Buildings and improvements	29,583	29,838
Equipment	2,325	4,690
Construction-in-progress	951	34,449
Total	$39,491	$75,489

DEBT ADMINISTRATION

The authority has $76,790,748 of revenue bonds and notes outstanding at June 30, 2006, compared to $69,390,748 last year, an increase of 11%. 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 at current year-end or prior year-end.

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 Louisiana Agricultural Finance 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 631, Baton Rouge, Louisiana 70821-0631.

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

Statement of Net Assets, June 30, 2006

ASSETS	
Current Assets:	
Cash (note 2)	$45,431
Accounts receivable, net	4,300
Due from primary government (note 8)	19,238,233
Unamortized debt issue costs	41,527
Total current assets	19,329,491
Noncurrent assets:	
Cash - restricted (note 2)	1,991,851
Revenue lease receivable (note 4-C)	111,929,707
Unamortized debt issue costs	353,861
Property, plant, and equipment (net of depreciation) (note 3)	39,490,986
Other noncurrent assets	900
Total noncurrent assets	153,767,305
TOTAL ASSETS	173,096,796
LIABILITIES	
Current liabilities:	
Accounts payable	329,951
Accounts payable from restricted assets	1,304,003
Notes payable (note 5)	7,891,155
Accrued interest on bonds payable	661,656
Accrued interest on notes payable	644,220
Obligations under capital leases (note 5)	212,815
Total current liabilities	11,043,800

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND
Statement of Net Assets, June 30, 2006

LIABILITIES (CONT.)	
Noncurrent liabilities:	
Deferred revenues	$51,929,707
Bonds payable (note 5)	54,608,438
Notes payable (note 5)	14,291,155
Obligations under capital leases (note 5)	30,583
Total noncurrent liabilities	120,859,883
TOTAL LIABILITIES	131,903,683
NET ASSETS	
Invested in capital assets, net of related debt	31,043,346
Restricted for federal grants and contracts	28,123
Restricted for Woodworth construction	160,427
Unrestricted	9,961,217
TOTAL NET ASSETS	$41,193,113

(Continued)

The accompanying notes are an integral part of this statement.

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

Statement of Revenues, Expenses,
and Changes in Net Assets
For the Year Ended June 30, 2006

Operating revenues:	
Rental income pledged as security for revenue bonds	$2,280,509
Intergovernmental (note 10)	9,165,275
Use of money and property	158,706
Other	225,833
Total operating revenues	11,830,323
Operating expenses:	
Contractual services	89,478
Operating services	2,617,136
Supplies	203,868
Professional services	424,992
Amortization of bond issuance costs (note 5)	103,308
Interest expense	1,130,410
Depreciation expense	1,839,674
Total operating expenses	6,408,866
Operating income	5,421,457
Nonoperating revenues (expenses):	
Capital contributions	1,503,485
Gain on disposal of fixed assets	4,690,928
Nonoperating revenue - federal revenues	10,479,155
Nonoperating expense - federal expenses	(10,383,668)
Net nonoperating revenues	6,289,900
Change in net assets	11,711,357
TOTAL NET ASSETS AT BEGINNING OF YEAR - AS RESTATED (note 7)	29,481,756
TOTAL NET ASSETS AT END OF YEAR	$41,193,113

The accompanying notes are an integral part of this statement.

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

Statement of Cash Flows
For the Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from customers	$11,649,888
Cash payments to suppliers for goods and services	(3,789,070)
Net cash provided by operating activities	7,860,818
Cash flows from noncapital financing activities:	
Repayment of notes payable	(2,000,000)
Proceeds from issuance of notes payable	7,400,000
Public Assistance program receipts	11,035,426
Public Assistance program disbursements	(9,804,584)
Payments to Louisiana Department of Agriculture for Boll Weevil Eradication Program	(5,000,000)
Other	27,941
Net cash provided by noncapital financing activities	1,658,783
Cash flows from capital and related financing activities:	
Proceeds from issuance of bonds	2,000,000
Acquisition/construction of capital assets	(22,454,076)
Proceeds from sale of capital assets	69,978
Other	(20)
Net cash used by capital and related financing activities	(20,384,118)
Net decrease in cash and cash equivalents	(10,864,517)
Cash and cash equivalents at beginning of year	12,901,799
Cash and cash equivalents at end of year	$2,037,282

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND
Statement of Cash Flows, 2006

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$5,421,457
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	1,942,982
Changes in assets and liabilities:	
(Increase) in receivables	(1,800)
(Increase) in due from other funds	(175,355)
Increase in accounts payable	152,053
(Decrease) in due to other funds	(146,788)
(Decrease) in deferred revenue	(1,800)
Increase in other liabilities	670,069
Total adjustments	2,439,361
Net cash provided by operating activities	$7,860,818

Schedule of Noncash Investing, Capital, and Financing Activities:	
Contributions of fixed assets	$168,831
Disposal of fixed assets	51,291
Revenue lease - Lacassine Syrup Plant	111,929,707

(Concluded)

The accompanying notes are an integral part of this statement.

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 her 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. FUND ACCOUNTING

All activities of the authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. BASIS OF ACCOUNTING

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund’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.

E. BUDGET PRACTICES

The authority does not adopt a formal budget on a fiscal basis.

F. CASH

Cash represents petty cash and amounts in demand deposits. 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.

G. 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

H. 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.

I. LONG-TERM OBLIGATIONS

Bond issuance costs are reported and amortized over the life of the bonds. Capital leases are reported at the present value of net minimum lease payments.

J. 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.

2. CASH

For reporting purposes, cash represents amounts in interest-bearing demand deposits and petty cash. At June 30, 2006, the authority has cash deposits (book balances) of $2,037,282 as follows:

Interest-bearing demand deposits	$2,037,082
Petty cash	200
Total	$2,037,282

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	$970,487
AmSouth - Demand Account	Operating Account	1,362,468
Total		$2,332,955

3. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2006, follows:

	Beginning Balance July 1, 2005	Adjustments	Restated Beginning Balance July 1, 2005	Additions	Deletions	Ending Balance June 30, 2006
Capital assets not being depreciated:						
Land	$6,512,438		$6,512,438	$120,034		$6,632,472
Construction-in-progress	32,626,183	$1,822,733	34,448,916	21,182,268	($54,680,412)	950,772
Total capital assets not being depreciated	39,138,621	1,822,733	40,961,354	21,302,302	(54,680,412)	7,583,244
Capital assets being depreciated:						
Buildings	29,421,392	(135,292)	29,286,100	54,619,928	(53,762,557)	30,143,471
Land improvements	7,291,422	(202,108)	7,089,314	60,484	(60,484)	7,089,314
Equipment	8,869,973	3,970	8,873,943	216,411	(2,588,896)	6,501,458
Total capital assets being depreciated	45,582,787	(333,430)	45,249,357	54,896,823	(56,411,937)	43,734,243
Less accumulated depreciation for:						
Buildings	(6,230,185)	11,875	(6,218,310)	(756,865)		(6,975,175)
Land improvements	(325,853)	6,355	(319,498)	(354,966)		(674,464)
Equipment	(4,183,610)		(4,183,610)	(727,842)	734,590	(4,176,862)
Total accumulated depreciation	(10,739,648)	18,230	(10,721,418)	(1,839,673)	734,590	(11,826,501)
Total capital assets (net)	$73,981,760	$1,507,533	$75,489,293	$74,359,452	($110,357,759)	$39,490,986

Additions to buildings and land improvements of $54,619,928 and $60,484, respectively, consist of transfers of completed projects from construction-in-progress totaling $54,680,412, which are reported as deletions. Deletions of buildings and land improvements of $53,762,557 and $60,484, respectively, represent the capital lease of the Lacassine Syrup Mill to the Lake Charles Cane-Lacassine Mill, LLC (note 4-C). In addition, $1,616,494 of the $2,588,896 reported as deletions for equipment represents equipment included in the capital lease of the syrup mill.

Information relating to construction-in-progress follows:

Project	Costs to Date	Estimated Completion Date	Estimated Cost to Complete
Haughton fence	$4,421	7/1/2007	$21,000
Homer fence	21,438	7/1/2007	3,500
Oberlin office building	329,108	7/1/2007	150,000
Woodworth office building	595,805	7/1/2008	1,400,000
Total	$950,772		$1,574,500

4. LEASES

A. Capital Leases

The authority has entered into lease agreements for financing the acquisition of equipment. Capital leases are recognized in the accompanying financial statements. The amounts to be accrued for capital leases and the disclosures required for capital and operating leases by the National Council on Governmental Accounting Statement No. 5, as adopted by the GASB, and FASB 13 are reported on the following schedules:

Nature of Lease	Date of Lease	Last Payment Date	Remaining Interest to End of Lease	Remaining Principal to End of Lease
Equipment	07/10//2004	10/10/06	$215	$35,461
Equipment	04/05/2005	03/05/2007	620	31,167
Equipment	04/27/2005	03/27/2007	1,496	75,207
Equipment	12/15/2005	11/15/2007	3,656	101,563
			$5,987	$243,398

The assets acquired through capital leases are as follows:

Equipment	$786,050
Less - accumulated depreciation	(106,084)
Total	$679,966

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2006:

Year Ending June 30,	
2007	$218,438
2008	30,947
Total minimum lease payments	249,385
Less - amounts representing executory costs	NONE
Net minimum lease payments	249,385
Less - amounts representing interest	(5,987)
Present value of net minimum lease payments	$243,398

B. Operating Leases

The total payments for operating leases, consisting of land leases, during the fiscal year 2005-2006 amounted to $1,200. A schedule of payments for the land operating leases follows for fiscal years ending June 30:

Year ending June 30,	Amount
2007	$1,200
2008	1,200
2009	1,200
Total	$3,600

C. Revenue Leases

Lessor - Sales-Type Lease

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

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

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

The authority granted to the lessee an option to purchase the mill at any time during the term of the agreement. If the option is exercised on or before December 31, 2010, the purchase price will be $60 million plus 3% interest per annum from the effective date of the agreement through the purchase date, less lease payments received by the authority from the lessee. If the option is exercised after December 31, 2010, the purchase price will be the fair market value of the mill, the equipment, and the operating lease of the land for a term of not more than 44 years beyond the term of the original lease, less lease payments received by the authority from the lessee.

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

Nature of Lease	Date of Lease	Lease Payments Receivable	Interest to End of Lease	Principal to End of Lease
Lacassine Syrup Plant	06/29/2006	$108,571,816	$50,371,816	$58,200,000
Equipment		3,357,891	1,557,891	1,800,000
Minimum lease payments		111,929,707	$51,929,707	$60,000,000
Less - amounts representing executory costs		NONE		
Minimum lease payments receivable		111,929,707		
Less - allowance for uncollectibles		NONE		
Net minimum lease payments receivable		111,929,707		
Estimated residual value of leased property		NONE		
Subtotal		111,929,707		
Less - unearned income		(51,929,707)		
Net investment in sales-type leases		$60,000,000		

The following is a schedule by year of minimum lease receivables as of June 30, 2006:

Year ending June 30,	Lease Receivable
2007	NONE
2008	$100,000
2009	100,000
2010	100,000
2011	100,000
2012-2016	13,941,213
2017-2021	13,941,214
2022-2026	13,941,215
2027-2031	13,941,213
2032-2036	13,941,214
2037-2041	13,941,214
2042-2046	13,941,213
2047-2051	13,941,211
Total	$111,929,707

D. 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, 2006:

Buildings	$12,341,272
Less - accumulated depreciation	(3,483,238)
Total carrying amount of property	$8,858,034

The following is a schedule by year of minimum future rentals on noncancelable operating leases as of June 30, 2006:

Year Ending June 30,	Amount
2007	$1,384,074
2008	819,600
2009	819,600
2010	819,600
2011	819,600
2012-2016	4,098,000
2017-2021	2,502,000
2022-2026	59,400
Total	$11,321,874

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2006.

5. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the authority for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Notes payable	$16,782,310	$7,400,000	($2,000,000)	$22,182,310	$7,891,155
Bonds payable	52,608,438	2,000,000		54,608,438	
Capital lease obligations	484,803	142,000	(383,405)	243,398	212,815
Total	$69,875,551	$9,542,000	($2,383,405)	$77,034,146	$8,103,970

Notes Payable

On March 30, 2006, Capital One Bank exchanged the authority's $15,782,310 outstanding Series 2002 notes for two Series 2006 notes totaling $7,891,155 each, selling notes totaling $7,891,155 to AmSouth Bank. On the same date, the authority issued Series 2006 B notes totaling $6,400,000 from Capital One Bank. The proceeds from the issuance of the Series 2006 B notes will be used to support the Boll Weevil Eradication Program. The notes are to be paid from net slot machine proceeds collected pursuant to R.S. 27:292(B)(4). The current refunding of the notes payable resulted in negative cash flows of $652,137 and an economic gain of $789,735.

The interest rate on the notes is variable, equal to the 30-day London InterBank Offered Rate (LIBOR) plus 75 basis points for the Series 2006 notes and 125 basis points for the Series 2006B notes. LIBOR is the rate at which deposits of United States dollars are offered in the London interbank market for certain set interest periods. Interest will be calculated on the basis of a 360-day year based on actual days elapsed.

The annual requirements to amortize all notes outstanding for the authority at June 30, 2006, including interest outstanding of $2,236,696, are as follows:

Fiscal year ending	Principal	Interest	Total
2007	$7,891,154	$904,328	$8,795,482
2008	7,891,156	908,048	8,799,204
2009	6,400,000	424,320	6,824,320
Total	$22,182,310	$2,236,696	$24,419,006

Bonds Payable

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

Issued for	Date Issued	Original Issue	Outstanding June 30, 2005	Issued (Redeemed)	Outstanding June 30, 2006	Maturity Date	Interest Rates
Series 2004 -							
Lacassine Syrup Plant	3/2/2004	$45,000,000	$45,000,000		$45,000,000	9/15/2015	variable
Series 2002:							
A - building projects	10/2/2002	2,755,000	1,928,500	($1,928,500)		1/15/2012	variable
B - building projects	2/21/2003	500,000	437,500	(437,500)		1/15/2012	variable
C - building projects	5/7/2003	500,000	437,500	(437,500)		1/15/2012	variable
D - building projects	7/24/2003	500,000	437,500	(437,500)		1/15/2012	variable
E - building projects	10/14/2003	1,000,000	875,000	(875,000)		1/15/2012	variable
F - building projects	11/14/2003	1,000,000	875,000	(875,000)		1/15/2012	variable
G - building projects	12/10/2003	1,020,500	892,938	(892,938)		1/15/2012	variable
H - building projects	1/21/2004	500,000	500,000	(500,000)		1/15/2012	variable
I - building projects	9/3/2004	500,000	500,000	(500,000)		1/15/2012	variable
J - building projects	12/2/2004	724,500	724,500	(724,500)		1/15/2012	variable
Series 2006:							
Building projects	3/30/2006	3,804,219		3,804,219	3,804,219	9/15/2012	variable
Building projects	3/30/2006	3,804,219		3,804,219	3,804,219	9/15/2012	variable
Series 2006 B	4/27/2006	2,000,000		2,000,000	2,000,000	9/15/2012	variable
Total		$63,608,438	$52,608,438	$2,000,000	$54,608,438		

Debt service requirements to maturity are as follows:

Fiscal year ending	Principal	Interest	Total
2007		$1,766,148	$1,766,148
2008		3,133,241	3,133,241
2009	$1,921,688	3,133,239	5,054,927
2010	8,351,688	3,039,392	11,391,080
2011	8,351,686	2,210,044	10,561,730
2012-2016	35,983,376	5,101,544	41,084,920
Total	$54,608,438	$18,383,608	$72,992,046

On March 30, 2006, Capital One Bank exchanged the authority's $7,608,438 outstanding Series 2002 bonds for two Series 2006 revenue bonds totaling $3,804,219 each, selling bonds totaling $3,804,219 to AmSouth Bank. The current refunding of the bonds payable resulted in negative cash flows of $641,049 and an economic loss of $251,625.

On April 27, 2006, the authority acquired a line of credit with AmSouth Bank not to exceed $2,000,000 to be evidenced by the authority's issuance of Series 2006 B revenue bonds. The proceeds will be used to complete the construction and installation of a facility for the Department of Agriculture and Forestry in Woodworth, Louisiana, and to pay the costs of issuing the bonds.

The related revenue bonds are secured by 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 LIBOR by 65% and adding 119 basis points. Interest will be calculated on the basis of a 360-day year based on actual days elapsed.

Unamortized bond issuance costs associated with the Series 2006 and 2006 B revenue bonds include legal and other fees. The original issuance costs were $94,545. 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, 2006, is $10,876. The bond issuance costs amortized in fiscal year 2005-2006 were $63,530.

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, and the bonds were issued at a discount of $170,000. 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, 2006, is $247,568. The bond issuance costs amortized in fiscal year 2005-2006 were $25,610. The balance of unamortized bond discount at June 30, 2006, is $136,944. The bond discount amortized in fiscal year 2005-2006 was $14,167.

Capital Lease Obligations

Capital lease obligations at June 30, 2006, of $243,398 are detailed in note 4-A.

6. 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 statement and is comprised of the following issues:

Issued for	Interest Rates	Date Issued	Maturity Dates	Authorized and Issued	Retired to Date	Outstanding June 30, 2006
Agricultural Loan Program:						
	8.25%	1986A I	various	$150,000,000	$107,938,898	$42,061,102
	8.80%	1986A II	various	150,000,000	105,653,156	44,346,844
Balance at June 30, 2006				$300,000,000	$213,592,054	$86,407,946

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, 2006, under the modified plan, including interest, total $154,523,387 for the LAFA I bonds and $154,226,287 for the LAFA II bonds. These distributions include court-ordered trust administration costs of $4,693,794 for the LAFA I bonds and $4,693,525 for the LAFA II bonds. Principal and interest of $107,938,898 and $41,890,695, respectively, have been paid for the LAFA I series bonds, and principal and interest of $105,653,156 and $43,879,606, 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.

7. NET ASSETS RESTATED

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

Net assets, June 30, 2005	$28,155,831
Corrections to capital assets	1,447,050
Correction to deferred revenue	(121,125)
Net assets at June 30, 2005, as restated	$29,481,756

8. DUE TO/FROM PRIMARY GOVERNMENT

At June 30, 2006, the authority has amounts due to/from the primary government for the following:

Source	Total
Department of Agriculture and Forestry:	
Boll Weevil Eradication Program:	
Repayment of loans*	$19,400,015
Lease payments on office space	28,800
Lease payments on office space	334,167
Reimbursement for electrical workers	12,867
Hurricane grants and expenses	(564,020)
Office of Marketing expenses	5,169
Operating services	167
Office of Group Benefits - lease payments on office space	21,068
Total due from primary government	$19,238,233

*The Department of Agriculture and Forestry funds the loan repayments from the net slot machine proceeds collected pursuant to R.S. 27:392(B)(4).

9. RISK MANAGEMENT

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. However, the authority is involved as a defendant in litigation seeking relief other than 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. During the past three years, there were no claims against the authority that exceeded insurance coverage.

During the year ended June 30, 2006, a total of $350,457 was expended for legal services.

10. INTERGOVERNMENTAL REVENUES

During the fiscal year ended June 30, 2006, the authority received intergovernmental revenues from the primary government as follows:

Source	Amount
Department of Agriculture and Forestry:	
Gaming Control Fund	$4,717,690
Licensing and Regulatory Board	4,447,585
Disaster Grants - Public Assistance (CFDA 97.036)	10,479,155
Total	$19,644,430

11. SUBSEQUENT EVENTS

Interest Rate Swap Agreement

On July 13, 2006, the authority entered into an interest rate swap agreement with AmSouth Bank to reduce the impact of changes in interest rates on its Series 2004 revenue bonds, totaling $45,000,000. The agreement is effective July 18, 2006, has a notional amount of $45,000,000 and terminates on September 15, 2009. Under the swap agreement, the authority will pay AmSouth Bank fixed interest payments of 5.87% for the bonds and will receive a variable interest payment computed monthly based on a one-month LIBOR weighted rate. The objective of the swap agreement is to effectively change the authority's variable interest rate on the bonds to a fixed interest rate of 5.87% for the duration of the agreement.

Lacassine Syrup Plant / Ethanol Plant Agreements

On August 11, 2006, Cementos Andino S. A., Inc. (Cementos) entered into an agreement with the Lake Charles Cane-Lacassine Mill, LLC (the Mill) and the authority to acquire an 80% ownership interest in the Mill, which includes the Lacassine Syrup Mill. In addition, Cementos will explore the feasibility of constructing an ethanol plant on 50 acres of land to be leased from the authority in its industrial park near Lacassine, Louisiana. The Mill will acquire a 20% ownership interest in the entity or entities that own the ethanol plant.

On November 2, 2006, Cementos assigned and transferred its rights and obligations under the August 11, 2006, agreement to Andino Sugar Development and Andino Entergy Enterprises. The Mill assigned its rights under the August 11, 2006, agreement to the Lake Charles Cane Cooperative, Inc., (Cooperative). The Mill admitted and accepted Andino Sugar as an additional member of the Mill with a proportionate membership interest in the Cooperative of 80%. In addition, Louisiana Green Fuels, LLC, was formed to own the ethanol plant.

The authority entered into a land lease with Louisiana Green Fuels, LLC, for 50 acres of land on which the ethanol plant and related facilities will be constructed and operated, at an initial rate of $500 per acre. The land lease is for an initial term of 44 years with an option for a second term of 55 years.

On November 2, 2006, the Mill exercised its option to purchase the Lacassine Syrup Plant and certain equipment as outlined in the June 29, 2006, lease-purchase agreement between the authority and the Mill. The authority financed the purchase with a promissory note for principal totaling $60,000,000 and interest of 3% per annum to be paid in 44 successive annual installments beginning on December 31, 2007.

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

Loan Guarantee

On November 3, 2006, the Mill received a $4,000,000 line of credit from Jeff Davis Bank and Trust Company at a fixed rate of 7% per annum for the purposes of obtaining operating capital and making modifications to the Lacassine Syrup Plant. Pursuant to R.S. 3:262 through 3:283, the authority guaranteed the loan. The loan will be considered funded at the end of the first year. The loan will then be converted to a five-year loan, with payments of principal and accrued interest due in installments every 12 months thereafter.

If the Mill fails to pay an installment, the authority will pay Jeff Davis Bank the amount of the installment not paid by the Mill no later than 10 days from the date that the installment was due. If the authority fails to pay an installment on or before the date set forth in the agreement, Jeff Davis Bank may declare the loan to be in default and place the Mill and the authority in default, after which time the authority will be liable for all amounts due under the loan. The term of the agreement and the authority's guarantee will be effective until the loan is paid in full or 10 years from the effective date of the agreement, whichever occurs first.

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

June 20, 2007

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 basic financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, and have issued our report thereon dated June 20, 2007. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita and an emphasis of a matter regarding nonaudit services. 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

In planning and performing our audit, we considered the Louisiana Agricultural Finance Authority'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 an opinion on the internal control over financial reporting. However, we noted the matter described below involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Louisiana Agricultural Finance Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Inaccurate and Incomplete Annual Fiscal Report

The Louisiana Agricultural Finance Authority (LAFA) did not submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration for the fiscal year ended June 30, 2006. As authorized by Louisiana Revised Statute 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Accounting and Reporting Policy (OSRAP), prescribes the content and format for the preparation of each agency AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR) and LAFA's separately issued financial statements in accordance with accounting principles generally accepted in the United States of America. Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. However, LAFA's AFR submitted on August 28, 2006, included the following errors and omissions:

LAFA incorrectly reported the results from leasing activity and from receipt and disbursement of federal funds received for the Public Assistance Program (CFDA 97.036), resulting in the following errors on LAFA's Statement of Net Assets (SNA) and on its Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA):

SNA:

- Assets were understated by $12,369,655.
- Liabilities were understated by $8,195,466.
- Net assets were understated by $4,174,189.

SRECNA:

- Revenues were understated by $4,128,071.
- Capital contributions were understated by $1,334,653.
- Expenses were understated by $811,891.

LAFA classified transactions from leasing activity, federal funds, and long-term debt in error on its Statement of Cash Flows as follows:

- Cash received by customers was overstated by $11,035,426.
- Cash paid to suppliers was overstated by $9,804,584.
- Net cash provided by operating activities was overstated by $1,230,842.
- Proceeds from issuance of notes payable and principal paid on notes payable were each overstated by $15,782,310.
- Cash flows from non-capital financing activities were overstated by $1,230,842, and net cash provided by non-capital financing sources was understated by $1,230,842.
- Proceeds from sale of bonds and principal paid on bonds were each overstated by $7,608,438.

LAFA did not ensure that its footnote disclosures were consistent with the amounts presented in the financial statements, resulting in the following errors in the disclosures:

- Capital assets, net of depreciation (note 3), were overstated by $2,262,553.
- Net minimum lease payments receivable (note 4-C) for leasing activity was understated by $14,629,707.
- Total minimum future operating lease rentals (note 4-D) were overstated by $9,556,590.
- Long-term liabilities (note 5) were overstated by $24,390,748 for additions and reductions.
- Total interest on bonds (note 5) in the schedule of amortization was overstated by $2,082,363.
- Beginning net assets, restated (note 7), was overstated by $476,644.
- Due to other funds (note 8) was understated by $606,526.

Management has not ensured that its AFR was properly prepared and reviewed for errors and misclassifications. Failure to submit an accurate AFR can delay the compilation and issuance of the state's CAFR and LAFA's audit report. Furthermore, misstatements from errors or fraud may occur and remain undetected.

Management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP and the Office of Legislative Auditor. Management concurred with the finding and recommendations and outlined modifications to its procedures for preparation and review of its financial statements (see Appendix A, page 1).

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

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

Undersecured Bank Deposits

LAFA did not ensure that adequate securities were pledged for deposits in one of its bank accounts and did not execute a collateral security agreement for the bank account when it was opened. Louisiana Revised Statute (R.S.) 49:321(C) provides, in part, that state depositing authorities shall require security for deposits, and the market value of the securities, together with government deposit insurance (FDIC), shall be equal to 100% of the amount on deposit. R.S. 49:321(D) permits state agencies to grant a grace period of five days for collateralization. Under the United States Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), a security agreement for collateral must (1) be in writing; (2) be approved by the financial institution's board of directors or loan committee, and that approval must be reflected in the minutes of the board or committee; and (3) be an official record of the depository institution from the time of its execution. If these FIRREA requirements are not met, the entity will not be able to maintain an enforceable security interest in collateral pledged to secure deposits against the receiver of a failed financial institution, and, thus, the accounts would not be considered collateralized.

For one of its bank accounts, opened on March 30, 2006, LAFA's deposits ranging from $5.2 million to $6.3 million were unsecured for 37 consecutive days. This condition occurred because LAFA did not enter into a security agreement with the financial institution until May 5, 2006, 37 days after the account was opened and the public funds were deposited. Failure to comply with state laws and FIRREA requirements increases the risk of loss of public funds resulting from the failure of a financial institution.

Management should enter into security agreements at the time public funds are deposited in financial institutions, and management should establish procedures to ensure that accounts are adequately monitored to ensure that deposits are adequately secured. Management concurred, in part, with the finding and recommendations, stating that the finding is erroneous because the account is now fully collateralized and was collateralized at the time that the finding was presented to management (see Appendix A, page 2).

Additional Comment: We agree that the account is now collateralized. However, for 37 consecutive days, LAFA's deposits in this account were not collateralized, resulting in noncompliance with Louisiana laws.

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

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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Management's Corrective Action Plans and Responses to the Findings and Recommendations

LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY
BOB ODOM, COMMISSIONER

March 27, 2007

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Mr. Steve Theriot
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Mr. Theriot:

re: Inaccurate and Incomplete Annual Fiscal Report

The Louisiana Agricultural Finance Authority (LAFA) takes great care in preparing and submitting fiscal reports as years of accurate reporting reveals.

However, at the time this Annual Fiscal Report (AFR) was due, some data needed simply was not available nor could a reasonable estimate of the data be made. For example, the amount of Hurricane Katrina related Federal Emergency Management Administration (FEMA) monies that would have to be returned to FEMA was simply unknown. When that amount was known, the single addition of that information to the report resulted in several adjustments to the report, as the new information impacted multiple parts of the report. In the case of this report, a few such additions or corrections, by necessity, resulted in multiple adjustments.

LAFA's process for preparation and review of these reports has been modified to provide for preparation and review of the statements quarterly instead of annually with each quarterly statement being subject to review before being included in the annual report.

Very truly yours,

Skip Rhorer
Assistant Commissioner

SR:sw

cc: Commissioner Bob Odom

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BOB ODOM, COMMISSIONER

March 27, 2007

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Mr. Steve Theriot
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Mr. Theriot:

re: Undersecured Bank Deposits

The Louisiana Agricultural Finance Authority (LAFA) concurs in part with the above referenced finding.

As the auditor knows of its own knowledge, LAFA routinely obtains and maintains collateral on all of its bank accounts and in that regard is in full compliance with all references to applicable laws contained in the auditor's finding.

The auditor's finding relates to one occasion for one account where a bank employee at the bank misclassified the account when it was opened contributing to a delay of 37 days in getting the customary collateral established. That account like all LAFA accounts was then and remains now fully collateralized just as it was fully collateralized at the time of the issuance of the auditor's finding.

Thus, the auditor's finding of "Undersecured Bank Deposits" is erroneous.

Very truly yours,

Skip Rhorer
Assistant Commissioner

SR:sw

cc: Commissioner Bob Odom

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