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

FINANCIAL STATEMENT AUDIT
ISSUED FEBRUARY 24, 2010

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

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

December 22, 2009

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, 2009. 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, 2009, 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.

As discussed in note 1-B to the financial statements, Act 24 of the 2009 Regular Session of the Louisiana Legislature, effective June 12, 2009, abolished the State Market Commission, the Farm Youth Loan Program, and other programs administered by the State Market Commission through the Louisiana Department of Agriculture and Forestry and transferred their duties and obligations to the Louisiana Agricultural Finance Authority. The State Market Commission's financial activities are included in the accompanying financial statements.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2009, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA
Temporary Legislative Auditor

CLM:CGEW:BQD:THC:dl

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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, 2009. 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 begin on page 9.

FINANCIAL HIGHLIGHTS

- The authority's assets exceeded its liabilities at the close of fiscal year 2009 by $57,884,692, which represents a 70.2% increase from last fiscal year. The net assets increased by $23,865,712.

- The authority's operating revenue increased by $4,100,465 (or 38.8%) and the net results from activities increased by $27,003,696 (or 860.5%).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets
As of June 30, 2009 and June 30, 2008
(in thousands)

	June 30, 2009	June 30, 2008 (Restated)
Current and other assets	$97,666	$82,690
Capital assets	52,854	54,762
Total assets	150,520	137,452
Current liabilities	20,770	14,623
Long-term debt outstanding	71,865	88,810
Total liabilities	92,635	103,433
Net assets:		
Invested in capital assets, net of debt	19,635	19,474
Restricted	26,013	11,762
Unrestricted	12,237	2,783
Total net assets	$57,885	$34,019

Restricted net assets represent those assets that are not available for spending as a result of debt covenants and/or 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, 2009 and June 30, 2008
(in thousands)

	June 30, 2009	June 30, 2008 (Restated)
Operating revenues	$14,764	$10,663
Operating expenses	(13,158)	(13,920)
Operating income (loss)	1,606	(3,257)
Nonoperating revenues (expenses)	15,874	120
Transfers in	6,386	NONE
Net increase (decrease) in net assets	$23,866	($3,137)

Operating revenues increased $4,100,465 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. Revenues received from these funds totaled approximately $3 million and $8 million, respectively. Nonoperating revenues increased by $22,124,473 from state appropriations for debt service payments, from the inclusion of the State Market Commission's assets, and from a gain on the sale of capital assets. The authority's total revenues increased by $26,224,938 (or 241.1%). The total cost of all programs and services decreased by $762,385 (or 5.5%).

CAPITAL ASSETS

At the end of 2009, the authority had $52,853,688 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 $1,908,413 (or 3.5%) over the last year, as adjusted.

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

	2009	2008 (Restated)
Land	$6,857	$6,633
Buildings and improvements	30,381	29,079
Equipment	14,735	18,251
Construction-in-progress	881	799
Total	$52,854	$54,762

DEBT ADMINISTRATION

The authority has $89,086,750 of revenue bonds and notes outstanding at June 30, 2009, compared to $97,708,438 last year, a decrease of 8.8%. 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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Statement A

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

Statement of Net Assets, June 30, 2009

ASSETS	
Current assets:	
Cash and cash equivalents (note 2)	$545,585
Accounts receivable (net)	971
Due from primary government (note 11)	3,646,057
Interest receivable (note 3)	100,000
Notes receivable	82,380
Deferred charges and prepaid expenses	46,875
Unamortized debt issuance cost (note 6)	80,973
Total current assets	4,502,841
Noncurrent assets:	
Restricted assets:	
Cash (note 2)	26,097,216
Accounts receivable (net)	11,673
Interest receivable	5,277,226
Notes receivable (note 3)	60,692,893
Deferred charges and prepaid expenses	537,109
Unamortized debt issue costs (note 6)	546,541
Property, plant, and equipment (net of depreciation) (note 4)	52,853,688
Other noncurrent assets	902
Total noncurrent assets	146,017,248
TOTAL ASSETS	150,520,089
LIABILITIES	
Current liabilities:	
Accounts payable	19,105
Liabilities payable from restricted assets	124,724
Due to federal government	63,789
Deferred revenue	1,500
Bonds payable (note 6)	17,221,687
Accrued interest on bonds payable	3,339,529
Total current liabilities	20,770,334

(Continued)

The accompanying notes are an integral part of this statement.

Statement A

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2009

LIABILITIES (CONT.)	
Noncurrent liabilities -	
bonds payable (note 6)	$71,865,063
TOTAL LIABILITIES	92,635,397
NET ASSETS	
Invested in capital assets, net of related debt	19,635,434
Restricted for:	
Capital projects	11,011,649
Debt service	15,000,454
Unrestricted	12,237,155
TOTAL NET ASSETS	$57,884,692

(Concluded)

The accompanying notes are an integral part of this statement.

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

Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2009

OPERATING REVENUES:	
Rental income pledged as security for revenue bonds	$2,380,032
Intergovernmental (note 13)	10,171,287
Use of money and property	2,146,914
Other	65,508
Total operating revenues	14,763,741
OPERATING EXPENSES:	
Administrative services	120,034
Contractual services	183,141
Operating services	902,791
Supplies	292,312
Professional services	65,498
Amortization of bond issuance costs (note 6)	80,973
Interest expense	5,670,962
Miscellaneous	98,954
Depreciation expense	5,743,407
Total operating expenses	13,158,072
OPERATING INCOME	1,605,669
NONOPERATING REVENUES (Expenses):	
State appropriations	15,050,000
Gain on disposal of fixed assets	897,552
Nonoperating revenue - federal revenues	4,476
Nonoperating expense - federal expenses	(77,986)
Net nonoperating revenues	15,874,042
INCOME BEFORE SPECIAL ITEM	17,479,711
Special item - Act 124 transfer of State Market Commission assets from the Department of Agriculture and Forestry (note 1-B)	6,386,001
CHANGE IN NET ASSETS	23,865,712
NET ASSETS - BEGINNING OF YEAR, Restated (note 9)	34,018,980
TOTAL NET ASSETS AT END OF YEAR	$51,498,691

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

Statement of Cash Flows
For the Year Ended June 30, 2009

Cash flows from operating activities:	
Cash received from customers	$12,519,660
Cash payments to suppliers for goods and services	(1,789,102)
Other disbursements, net	(5,889,737)
Net cash provided by operating activities	4,840,821
Cash flows from noncapital financing activities:	
State appropriations	15,050,000
Principal paid on notes payable	(6,400,000)
Federal grant receipts	4,476
Federal grant disbursements	(76,633)
Receipts from Louisiana Department of Agriculture for:	
Boll Weevil Eradication Program	3,344,101
Loans	448,909
Other disbursements, net	(474,542)
Net cash provided by noncapital financing activities	11,896,311
Cash flows from capital and related financing activities:	
Principal paid on bonds	(2,221,688)
Acquisition/construction of capital assets	(513,439)
Proceeds from sale of capital assets	440,724
Net cash used by capital and related financing activities	(2,294,403)
Net increase in cash and cash equivalents	14,442,729
Cash and cash equivalents at beginning of year	12,200,072
Cash and cash equivalents at end of year	$26,642,801

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Cash Flows, 2009

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$1,605,669
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	5,824,380
Changes in assets and liabilities:	
Decrease in receivables	104,882
(Increase) in due from other funds	(97,167)
(Increase) in other assets	(1,855,645)
Increase in accounts payable	315,343
Increase in due to other funds	19,670
(Decrease) in deferred revenue	(29,500)
(Decrease) in other liabilities	(1,046,811)
Total adjustments	3,235,152
Net cash provided by operating activities	$4,840,821
Schedule of Noncash Investing, Capital, and Financing Activities:	
Transfer of assets from State Market Commission	$6,386,001

(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 his will on the authority. The accompanying financial statements present only the activity of the authority. Annually, the State of Louisiana issues basic financial statements that include the activity contained in the accompanying financial statements.

Act 24 of the 2009 Regular Session of the Louisiana Legislature abolished the State Market Commission (SMC), the Farm Youth Loan Program, and other programs administered by the SMC through the Louisiana Department of Agriculture and Forestry and transferred their duties and obligations to the Louisiana Agricultural Finance Authority. Act 24 became effective on June 12, 2009; therefore, the SMC's financial activities, including the financial activities of the programs it administered, are included in the Louisiana Agricultural Finance Authority's financial statements for the year ended June 30, 2009.

C. BASIS OF ACCOUNTING

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

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

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

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

D. BUDGET PRACTICES

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

E. CASH

Cash represents amounts in demand deposits and amounts on deposit with the fiscal agent bank. Under state law, the authority may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the

Union, or the laws of the United States. Furthermore, the authority may invest in time certificates of deposit of state banks organized under the laws of the State of Louisiana, national banks having their principal offices in Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state chartered credit unions.

F. CAPITAL ASSETS

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

	Years
Buildings and improvements	40
Equipment	5 or 10

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

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

H. LONG-TERM OBLIGATIONS

Long-term obligations consist of bonds payable. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

I. NET ASSETS

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

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

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

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

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

2. CASH

For reporting purposes, cash represents amounts in interest-bearing demand deposits and amounts on deposit with the fiscal agent bank. At June 30, 2009, the authority has cash deposits (book balances) of $26,642,801 as follows:

Interest-bearing demand deposits	$3,233,686
Cash with fiscal agent	23,409,115
Total	$26,642,801

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 Institution	Program or Type	Amount
Capital One - Demand Account	Operating Account	$3,353,486
Hancock Bank - Fiscal Agent	Investment Account	23,409,115
Total		$26,762,601

3. NOTES RECEIVABLE

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

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

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

Effective June 12, 2009, the SMC was transferred from the Louisiana Department of Agriculture and Forestry to the authority. Included in the transfer were notes receivable for SMC loans and the Farm Youth Loan Program totaling $775,273 (current portion, $82,380).

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2009, follows:

	Beginning Balance July 1, 2008	Prior Period Adjustments	Restated Balance July 1, 2008	Additions	Transfers	Deletions	Ending Balance June 30, 2009
Capital assets not being depreciated:							
Land	$6,632,775		$6,632,775		$224,500		$6,857,275
Construction-in-progress	804,140	($5,132)	799,008	$82,008			881,016
Total capital assets not being depreciated	7,436,915	(5,132)	7,431,783	82,008	224,500	NONE	7,738,291
Capital assets being depreciated:							
Buildings	33,104,928	(101,258)	33,003,670	333,072	2,577,654		35,914,396
Land improvements	7,388,744	(468,532)	6,920,212		341,016		7,261,228
Equipment	27,901,026	(823,397)	27,077,629	278,736	1,200,000	($3,019,237)	25,537,128
Total capital assets being depreciated	68,394,698	(1,393,187)	67,001,511	611,808	4,118,670	(3,019,237)	68,712,752
Less accumulated depreciation for:							
Buildings	(9,193,325)	2,531	(9,190,794)	(971,751)	(600,000)		(10,762,545)
Land improvements	(1,841,836)	187,413	(1,654,423)	(378,044)			(2,032,467)
Equipment	(8,990,655)	164,679	(8,825,976)	(4,393,612)	(135,746)	2,552,991	(10,802,343)
Total accumulated depreciation	(20,025,816)	354,623	(19,671,193)	(5,743,407)	(735,746)	2,552,991	(23,597,355)
Total capital assets (net)	$55,805,797	($1,043,696)	$54,762,101	($5,049,591)	$3,607,424	($466,246)	$52,853,688

Transfers totaling $3,607,424 represent the net effect of the transfer of the SMC's assets from the Louisiana Department of Agriculture and Forestry to the authority. Information relating to construction-in-progress follows:

Project	Costs to Date	Estimated Completion Date	Estimated Cost to Complete
Woodworth office building	$751,364	10/31/2009	$300,000
Natchitoches project	29,771	8/24/2010	488,000
Opelousas project	217	8/24/2010	3,450,000
Chopin Building	99,663	On Hold	NONE
Total	$881,015		$4,238,000

5. LEASES

A. Capital Leases

The authority has no capital leases at June 30, 2009.

B. Operating Leases

The total payments for operating leases, consisting of land and office space leases, during the fiscal year 2008-2009 amounted to $1,200. The following is a schedule by years of future minimum annual rental payments required under operating leases:

Year ending June 30,	Office Space	Land	Total Minimum Payments Required
2010	$89,222	$3,078	$92,300
2011	46,216	1,539	47,755
2012	46,216	757	46,973
2013	46,216	150	46,366
2014	19,257		19,257
Total	$247,127	$5,524	$252,651

C. Lessor - Operating Leases

When a lease agreement does not satisfy at least one of the four criteria (common to both lessee and lessor accounting) and both of the criteria for a lessor (collectibility and no uncertain reimbursable costs), the lease is classified as an operating lease. In an operating lease, there is no simulated sale and the lessor simply records rent revenues as they become due. The following property is on lease or held for leasing as of June 30, 2009:

	Cost	Accumulated Depreciation	Carrying Amount
Buildings	$15,022,691	($5,313,511)	$9,709,180
Land	475,734		475,734
Total carrying amount of property	$15,498,425	($5,313,511)	$10,184,914

The following is a schedule by year of minimum future rentals on noncancelable operating leases as of June 30, 2009:

Year Ending June 30,	Amount
2010	$2,214,422
2011	1,828,544
2012	1,828,544
2013	1,828,544
2014	1,828,544
2015-2019	7,814,889
2020-2024	510,240
2025-2029	460,240
2030-2034	460,240
2035-2039	460,240
2040-2044	460,240
2045-2049	460,240
2050-2054	112,740
Total	$20,267,667

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2009.

6. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the authority for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
Bonds, notes, loans, and capital leases payable:					
Notes payable	$6,400,000		($6,400,000)		
Bonds payable	91,308,438		(2,221,688)	$89,086,750	$17,221,687
Capital lease obligations	195,346		(195,346)		
Total	$97,903,784	NONE	($8,817,034)	$89,086,750	$17,221,687

<u>Bonds Payable</u>

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, 2008	Issued (Redeemed)	Outstanding June 30, 2009	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 2006:							
Building projects	3/30/2006	3,804,219	3,804,219	($760,844)	3,043,375	9/15/2012	variable
Building projects	3/30/2006	3,804,219	3,804,219	(760,844)	3,043,375	9/15/2012	variable
Series 2006B	4/27/2006	2,000,000	2,000,000	(400,000)	1,600,000	9/15/2012	variable
Series 2007 - building projects and equipment purchases	3/26/2007	6,000,000	5,700,000	(300,000)	5,400,000	9/15/2026	variable
Series 2007 - multi buildings and equipment purchases	10/1/2007	31,000,000	31,000,000		31,000,000	9/15/2017	fixed
Total		$91,608,438	$91,308,438	($2,221,688)	$89,086,750		

Debt service requirements to maturity are as follows:

Fiscal year ending	Interest Rate Swap	Principal	Interest	Total
2010	$534,553	$17,221,688	$3,299,825	$21,056,066
2011		7,221,688	3,256,878	10,478,566
2012		7,221,688	3,001,432	10,223,120
2013		9,021,686	2,745,986	11,767,672
2014		6,800,000	2,414,040	9,214,040
2015-2019		39,200,000	4,764,776	43,964,776
2020-2024		1,500,000	483,300	1,983,300
2025-2029		900,000	96,660	996,660
Total	$534,553	$89,086,750	$20,062,897	$109,684,200

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

Unamortized bond issuance costs associated with the Series 2007 revenue bonds issued on October 1, 2007, include legal and other fees. The original issuance costs were $366,150. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2009, is $305,125. The bond issuance costs amortized in fiscal year 2008-2009 were $36,615.

The Series 2007 revenue bonds in the amount of $6,000,000 issued on March 26, 2007, are secured by revenue from a lease agreement between the authority and LDAF. The initial interest rate on the bonds is fixed at 5.37% until September 15, 2012, and then will be adjusted on September 15, 2012; September 15, 2017; and September 15, 2022, to 65% of the then applicable swap rate plus 198 basis points.

Unamortized bond issuance costs associated with the Series 2007 revenue bonds include legal and other fees. The original issuance costs were $58,000. 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, 2009, is $51,586. The bond issuance costs amortized in fiscal year 2008-2009 were $2,831.

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

Unamortized bond issuance costs associated with the Series 2006 and 2006B revenue bonds include legal and other fees. The original issuance costs were $11,317. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2009, is $5,622. The bond issuance costs amortized in fiscal year 2008-2009 were $1,750.

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). In addition, LAFA obtained a non-revocable, direct-pay letter of credit to provide credit support on the bonds. The bonds may be fixed per annum (term) or fluctuating per annum (weekly) rate bonds bearing interest at a rate not exceeding 12% per annum. Interest at the weekly rate and interest at the term rate for any period of one year or less is computed on the basis of a 365- or 366-day year. Interest at the term rate for any period of more than one year is computed on the basis of a 360-day year with 12 months of 30 days each.

Unamortized bond issuance costs associated with the Series 2004 revenue bonds include legal and other fees. The original issuance costs were $307,326 plus underwriter's fees totaling $170,000. 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, 2009, is $265,181. The bond issuance costs amortized in fiscal year 2008-2009 were $39,777 ($25,610 for costs classified as bond issue costs and $14,167 for the initial underwriter's fee).

Capital Lease Obligations

The authority did not have any capital lease obligations at June 30, 2009.

7. INTEREST RATE SWAP AGREEMENT

The authority has entered into an interest rate swap agreement with Regions Bank (formerly AmSouth Bank) to reduce the impact of changes in interest rates on its Series 2004 Variable Rate Demand Revenue Bonds. As of June 30, 2009, $45,000,000 in outstanding bonds was recorded as a liability in the financial statements.

Objective of the interest rate swap: As a means of lowering its borrowing costs, the authority entered into the interest rate swap agreement, the intention of which was to effectively change the authority's variable interest rate on the bonds to a fixed rate of 5.87% for the duration of the agreement.

Terms: The Master Swap Agreement, dated July 14, 2006, and effective July 18, 2006, has a notional amount of $45,000,000 and terminates on September 15, 2009. The swap's notional amount matches the principal amount of the variable-rate bonds. Under the swap, the authority pays Regions Bank an annual interest payment computed at a fixed rate of 5.87% and receives a variable interest payment computed monthly based on a one-month LIBOR weighted average.

Fair Value: The fair value of the swap agreement as of June 30, 2009, is a negative $2,590,663, which is reported in the financial statements. The fair value was estimated using proprietary models of expected cash flows based upon the closing mid-market market rate/price environment of June 30, 2009.

Credit Risk: Credit risk is the risk that the counterparty will not fulfill its obligations. At June 30, 2009, LAFA was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, LAFA would be exposed to credit risk in the amount of the swap's fair value.

Basis Risk: Basis risk is the risk that arises when variable interest rates on a swap and the associated debt are based on different indexes. The interest rates for both the swap and the bonds are based on LIBOR; therefore, LAFA is not subject to basis risk.

Termination Risk: The authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap agreement may be terminated if either party fails to make payment, when due, under the swap agreement; breaches the agreement; made or repeated or deemed to have made or repeated a misrepresentation; bankrupts; or merges without assumption or commits an illegality. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, LAFA would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover Risk: Rollover risk is the risk that the swap does not extend to the maturity of the associated debt. The authority is exposed to rollover risk because the swap terminates prior to the maturity of the associated bond. When the swap terminates, the authority will not realize the synthetic rate offered by the swap on the bonds. The swap terminates on September 15, 2009, and the bonds mature on September 15, 2015.

8. CONDUIT DEBT OBLIGATIONS

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

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

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

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

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

Issued for	Interest Rates	Date Issued	Maturity Dates	Authorized and Issued	Retired to Date	Outstanding June 30, 2009
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
Total				$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, 2009, 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.

9. NET ASSETS RESTATED

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

Net assets, June 30, 2008	$34,719,945
Property, plant, and equipment	(1,043,696)
Due from Louisiana Department of Agriculture	242,731
Interest receivable	100,000
Net assets at June 30, 2008, as restated	$34,018,980

10. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Net assets restricted by enabling legislation total $15,000,000, which was appropriated in Act 122 of the 2009 Regular Session of the Legislature solely and exclusively for the retirement of authority's outstanding revenue bonds in advance of maturity.

11. DUE FROM PRIMARY GOVERNMENT

At June 30, 2009, the authority has amounts due to/from the primary government for the following:

Source	Total
Department of Agriculture and Forestry:	
Boll Weevil Eradication Program - rental payment	$28,800
Repayment of bond proceeds	1,750,683
Rental payment	121,417
Cash discount on trucks/dozers	241,448
Office of Forestry truck beds	242,728
Cash balance of State Market Commission	1,214,574
Other	66,077
Personal services	(19,670)
Total due from primary government	$3,646,057

12. 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. 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.

The authority entered into a contract with Arkel Sugar Incorporated (Arkel) to provide engineering services related to the Lacassine Syrup Mill (mill). Arkel has filed a lawsuit against the authority contending that certain design services performed by Arkel were not in the scope of work under the contract and that Arkel should be paid an additional $609,573 for the services. The authority contends that the design work was within the scope of the contract, that the contract had a cap amount within which Arkel agreed to do all necessary work and is therefore not entitled to any additional compensation. There is a reasonable possibility of an unfavorable outcome. The estimated potential loss is $480,000.

The authority entered into a contract with SMAR International Corporation (SMAR) to provide goods and services to the mill. SMAR has filed a lawsuit against the authority in the amount of $80,964 contending that certain invoices for goods and services were not paid. The authority contends that the unpaid liabilities are the responsibility of the Lake Charles Cane - Lacassine Mill, LLC (LCC). The authority's November 2, 2006, sale of the mill to the LLC transferred to the LLC the authority's unpaid liabilities for goods and services provided to the mill prior to the sale, which included goods and services provided by SMAR. There is a reasonable possibility of an unfavorable outcome. The estimated potential loss is $90,000.

During the past three years, there were no claims against the authority that exceeded insurance coverage. During the year ended June 30, 2009, a total of $18,469 was expended for legal services.

13. INTERGOVERNMENTAL REVENUES

During the fiscal year ended June 30, 2009, the authority received intergovernmental revenues from the primary government as follows:

Source	Amount
Department of Agriculture and Forestry:	
Gaming Control Fund	$7,661,302
Licensing and Regulatory Board	2,485,856
SMC - St. Martinville warehouse	20,000
Department of Social Services - Disability Determination - additional construction	4,129
Total	$10,171,287

14. REVENUE USED AS SECURITY FOR REVENUE BONDS

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

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

The debt secured by the pledge totals $89,086,750. The approximate remaining amount of the pledge is $109,149,646 at June 30, 2009, representing $89,086,750 in principal and $20,062,896 in interest. The term of the commitment was 23 years beginning in March 2004 and ending in September 2026. The dedicated revenues are pledged 100% annually up to the current amount due for principal and interest. For fiscal year 2009, the pledged revenues recognized totaled

$12,527,190. The principal requirement for fiscal year 2009 was $8,621,688 and the interest requirement was $6,791,588.

15. LOAN GUARANTEES

On November 3, 2006, the authority guaranteed a $4,000,000 loan between the Lake Charles Cane-Lacassine Mill, LLC and Jeff Davis Bank and Trust Company.

On June 29, 2006, the SMC guaranteed a $7,000,000 loan between the Lake Charles Cane-Lacassine Mill, LLC and Hancock Bank.

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

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

LA State Cypress notified the SMC that it was going to default on its loan obligation to Texans Credit Union, and on April 24, 2009, the SMC entered into a Dation En Paiement with the cypress mill, with which the SMC took possession of the cypress mill's assets. The fair market value of the cypress mill's assets, which totaled $3,227,707 as of March 5, 2009, is included in the authority's capital assets.

16. SUBSEQUENT EVENTS

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

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

For the fiscal year ending June 30, 2010, the authority has been awarded $2.4 million in federal funds from the Federal Emergency Management Agency's Hazard Mitigation Grant Program to wind retrofit two of its critical facilities to prevent future damages. The funds are administered through the Governor's Office of Homeland Security and Emergency Preparedness.

Beginning in the fiscal year ending June 30, 2010, the authority will manage the Louisiana Farm and Agribusiness Recovery Loan and Grant Program, which is part of the Louisiana Recovery Authority's 2008 Hurricane Gustav and Ike Recovery Program. The program has been awarded $44 million by the U.S. Department of Housing and Urban Development with Community Development Block Grant Program (CDBG) funds, which are to be administered through the Division of Administration's Office of Community Development.

In July 2009, the authority received a $2,412,560 grant from the U.S. Department of Agriculture's Commodity Credit Corporation and authorized by the American Recovery & Reinvestment Act of 2009 to assist aquaculture producers for losses associated with high feed input costs during the 2008 calendar year.

In July 2009, the authority purchased an office building in Opelousas for $3,450,000 using bond proceeds from the Multiple Buildings & Equipment Projects, Series 2007.

On November 18, 2009, the authority refunded the balance of $30 million outstanding for the Lacassine Syrup Mill bonds, issuing $30 million in refunding bonds at a fixed rate of 3.8% and maturing in 2014.

At its November 19, 2009, meeting the authority agreed to defer the Lake Charles Cane-Lacassine, LLC's (LLC) $100,000 payment due to the authority on December 31, 2009, until July 1, 2010. The payment due was the LLC's calendar year 2009 obligation to the authority required under the terms of the LLC's purchase of the mill (see note 3).

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 significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

December 22, 2009

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 (authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 22, 2009. Our report was modified to include an explanatory paragraph for the transfer of the State Market Commission to the authority and an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. 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 authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA
Temporary Legislative Auditor

CLM:CGEW:BQD:THC:dl

LAFA09