LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
A COMPONENT UNIT OF THE
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2012
ISSUED MAY 8, 2013

LOUISIANA 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, CFE

April 18, 2013

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Louisiana Agricultural Finance Authority (authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2012, which collectively comprise the authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities of the authority as of June 30, 2012, and the respective changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 15, management has removed $60,000,000 and $9,337,812 from its notes receivable and accrued interest receivable, respectively, because the authority's board declared Lake Charles Cane-Lacassine Mill, LLC (LLC) in default on its obligation to purchase the mill at its March 23, 2012, meeting. On September 11, 2012, the authority took possession of the mill. The authority obtained a fair market valuation for the mill property, dated January 15, 2013, and has included the estimated value of $8,549,581 in its capital assets. In addition, the authority and the State Market Commission guaranteed two LLC loans, on which the LLC has defaulted. The outstanding principal and interest on the loans totaling $6,567,705 has been included in the authority's liabilities.

In addition, as described in note 15, on May 15, 2012, the 19th Judicial District Court of East Baton Rouge Parish issued a final judgment in favor of Texans Credit Union (Texans). Louisiana State Cypress entered into a loan agreement with Texans in fiscal year 2007, and the State Market Commission guaranteed the loan. Louisiana State Cypress defaulted on the loan in fiscal year 2010, and Texans filed a lawsuit against the authority and other parties seeking recovery of the outstanding balance on the loan. The authority entered into a settlement agreement with Texans on September 11, 2012, for $1,280,000 and has included the settlement amount in the authority's liabilities.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2013, on our consideration of the authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

APD:CGEW:EFS:THC:ch

LAFA 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of the Louisiana Agricultural Finance Authority's (authority) financial performance presents a narrative overview and analysis of the authority's financial activities for the year ended June 30, 2012. 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 2012 by \$1,896,467, which represents a 97.1% decrease from last fiscal year, as adjusted. The net assets decreased by \$63,095,213.

- The authority's operating revenue decreased by \$2,498,441 (or 15.3%) and the change in net assets decreased by \$69,250,051.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of three parts: management's discussion and analysis (this section), the basic financial statements, and 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 (pages 9-10) 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 (page 11) 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 (pages 12-13) presents information showing how the authority's cash changed as a result of current year operations. The cash flows statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by Governmental Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets
As of June 30, 2012 and June 30, 2011
(in thousands)

	2012	2011 (Restated)
Current and other assets	$35,623	$120,538
Capital assets	51,597	45,785
Total assets	87,220	166,323
Other liabilities	41,114	47,744
Long-term debt outstanding	44,210	53,587
Total liabilities	85,324	101,331
Net assets:		
Invested in capital assets, net of debt	2,589	12,012
Restricted	5,968	14,187
Unrestricted	(6,661)	38,793
Total net assets	$1,896	$64,992

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the amount of indebtedness attributable to the acquisition, construction, or improvement of those assets. Restricted net assets represent those assets that are not available for spending as a result of legislative requirements, grant agreements, or other external restrictions. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be used for.

At its March 23, 2012, meeting, the authority declared the Lake Charles Cane-Lacassine Mill, LLC (LLC) in default on its $60,000,000 note for the purchase of the Lacassine Syrup Mill (mill). As a result, for financial statement purposes, the authority wrote off the outstanding principal and interest on the note, which totaled $69,337,812 and took possession of the mill, which had an estimated fair value of $8,549,581 as of January 15, 2013 (notes 3, 5, and 15).

In addition, at its September 26, 2012, meeting, the authority granted the Commissioner of Agriculture and Forestry authority to purchase the outstanding principal and interest totaling $6,567,705 on two LLC loans guaranteed by the authority and the State Market Commission (SMC - transferred to the authority in fiscal 2009) (notes 10 and 15).

The decrease in net assets reflects the net effect of the LLC's default on the note and the loans, which occurred prior to June 30, 2012, and are recorded as of June 30, 2012, as required by GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, paragraphs 8-15.

Statement of Revenues, Expenses, and Changes in Net Assets For the Years Ended June 30, 2012 and June 30, 2011 (in thousands)

	2012	2011 (Restated)
Operating revenues:		
Rental income	$2,817	$2,697
Intergovernmental revenues	10,779	11,322
Other	187	2,263
Total operating revenues	13,783	16,282
Nonoperating revenues:		
Federal revenues	3,787	39,577
Other		103
Total nonoperating revenues	3,787	39,680
Total revenues	17,570	55,962
Operating expenses:		
Federal grants		38,706
Operating and other services	10,621	11,046
Note receivable default	60,788	
Settlement of claims and litigation	1,280	
Purchase of guaranteed loans	6,568	
Total operating expenses	79,257	49,752
Nonoperating expenses:		
Federal expenses	1,409	55
Total expenses	80,666	49,807
Change in net assets	(63,096)	6,155
Net assets, beginning of the year (restated)	64,992	58,837
Total net assets	$1,896	$64,992

Operating revenues decreased $2,498,441 as a result of a decrease in interest income from the LLC's default on its note. Nonoperating revenues decreased by $35,892,671 primarily from decreases in federal revenues for the farm and agribusiness loan and grant programs. The authority's total revenues decreased by $38,391,112 (68.7%). The total cost of all programs and services increased by $30,858,939 (62%), primarily from a decrease in federal expenses offset by the effects of the LLC's default on its note, purchase of the LLC's loans, and settlement of claims and litigation, which totaled $68,635,936.

CAPITAL ASSETS

At the end of 2012, the authority had $51,597,037 invested in a broad range of capital assets, including land, buildings, equipment, and construction-in-progress. This amount represents a net increase (including additions and deductions) of $5,812,217 (12.7%) over the last year.

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

	2012	2011
Land	$6,857	$6,857
Buildings and improvements	39,858	32,799
Equipment	2,122	6,070
Construction-in-progress	2,760	59
Total	$51,597	$45,785

DEBT ADMINISTRATION

The authority has $53,586,687 of revenue bonds outstanding at June 30, 2012, compared to $62,783,375 at June 30, 2011, a decrease of 14.6%.

During the fiscal year ended June 30, 2012, the authority was party to a lawsuit filed against it on October 14, 2009, by Texans Federal Credit Union (Texans) for recovery under a $3.2 million loan guarantee made by SMC on behalf of the Louisiana Cypress Mill (notes 10, 11, and 15). On May 15, 2012, the 19th Judicial District Court for the Parish of East Baton Rouge rendered a final judgment in favor of Texans, and on September 11, 2012, the authority entered into a settlement agreement with Texans for $1,280,000, paid with SMC and Louisiana Department of Agriculture and Forestry funds. The liability for the settlement has been recorded as claims and litigation payable on the Statement of Net Assets.

In addition, subsequent to the fiscal year ended June 30, 2012, the authority purchased outstanding principal and interest on two loans made by the LLC and guaranteed by SMC and the authority (notes 11 and 15). The liability for these loans, which totaled $6,567,705 at June 30, 2012, has been recorded as loan guarantees payable on the Statement of Net Assets.

CONTACTING THE LOUISIANA AGRICULTURAL FINANCE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

Statement of Net Assets, June 30, 2012

ASSETS	
Current assets:	
Cash (note 2)	$2,265,082
Accounts receivable (net)	34,589
Due from primary government (note 9)	2,630,028
Notes receivable (note 3)	7,259,285
Capital lease receivable (note 4)	1,200,000
Deferred charges and prepaid expenses	46,875
Unamortized debt issuance cost	203,368
Other current assets	900
Total current assets	13,640,127
Noncurrent assets:	
Restricted assets:	
Cash (note 2)	5,967,849
Notes receivable (note 3)	13,951,749
Capital lease receivable	1,200,000
Deferred charges and prepaid expenses	396,484
Unamortized debt issue costs	467,274
Property, plant, and equipment (net of depreciation) (note 4)	51,597,037
Total noncurrent assets	73,580,393
TOTAL ASSETS	87,220,520
LIABILITIES	
Current liabilities:	
Accounts payable	36,051
Liabilities payable from restricted assets	967,981
Deferred revenue - lease interest payments	52,972
Due to Office of Community Development (note 3)	8,495,362
Due to federal government	888,624
Loan guarantees payable (note 10)	6,567,705
Claims and litigation payable (note 11)	1,280,000

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2012

LIABILITIES (CONT.)	
Current liabilities: (Cont.)	
Bonds payable (note 6)	$9,376,687
Accrued interest on bonds payable	857,686
Total current liabilities	28,523,068
Noncurrent liabilities:	
Deferred revenues - lease interest payments	24,741
Due to Office of Community Development (note 3)	12,563,244
Bonds payable (note 6)	44,210,000
Other noncurrent liabilities	3,000
Total noncurrent liabilities	56,800,985
TOTAL LIABILITIES	85,324,053
NET ASSETS	
Invested in capital assets, net of related debt	2,589,875
Restricted for capital projects	1,343,056
Restricted for debt service	3,236,469
Restricted for other specific purposes	1,388,324
Unrestricted	(6,661,257)
TOTAL NET ASSETS	$1,896,467

(Concluded)

The accompanying notes are an integral part of this statement.

Statement B

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, 2012

OPERATING REVENUES:	
Rental income pledged as security for revenue bonds	$2,816,602
Intergovernmental (note 12)	10,779,473
Use of money and property	176,855
Other	10,684
Total operating revenues	13,783,614
OPERATING EXPENSES:	
Administrative services	590,747
Contractual services	213,159
Operating services	1,261,631
Lacassine Mill note receivable default (notes 3 and 15)	60,788,231
Settlement of Texans Credit Union litigation (notes 11 and 15)	1,280,000
Purchase of Lacassine Mill guaranteed loans (notes 10 and 15)	6,567,705
Supplies	272,402
Professional services	112,591
Amortization of bond issuance costs and prepaid lease	251,643
Interest expense	2,468,706
Miscellaneous	9,680
Depreciation expense (note 4)	5,440,230
Total operating expenses	79,256,725
OPERATING LOSS	(65,473,111)
NONOPERATING REVENUES (Expenses):	
Nonoperating revenue - federal revenues	3,787,352
Nonoperating expense - federal expenses	(1,409,454)
Net nonoperating revenues	2,377,898
Change in net assets	(63,095,213)
NET ASSETS - BEGINNING OF YEAR, Restated (note 8)	64,991,680
TOTAL NET ASSETS AT END OF YEAR	$1,896,467

The accompanying notes are an integral part of this statement.

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

Statement of Cash Flows
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Cash received from customers	$3,158,421
Cash received from primary government	10,207,403
Cash payments to suppliers for goods and services	(2,312,594)
Cash payments for interest	(2,330,287)
Other payments	(297,723)
Net cash provided by operating activities	8,425,220
Cash flows from noncapital financing activities:	
Operating grants received:	
Federal receipts	1,699,882
Federal disbursements	(2,357,033)
Loan receipts	6,925,708
Payments to Office of Community Development	(13,929,065)
Cash received from primary government	3,733,071
Other receipts	404,479
Net cash used by noncapital financing activities	(3,522,958)
Cash flows from capital and related financing activities:	
Principal paid on bonds	(9,196,688)
Acquisition/construction of capital assets	(4,066,715)
Net cash used by capital and related financing activities	(13,263,403)
Net decrease in cash	(8,361,141)
Cash at beginning of year	16,594,072
Cash at end of year	$8,232,931

(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, 2012

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating loss	($65,473,111)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	5,691,873
Changes in assets and liabilities:	
Decrease in receivables	12,366
(Increase) in due from primary government	(871,027)
Decrease in interest receivable	9,337,812
Decrease in notes receivable	60,000,000
(Increase) in capital assets	(8,549,581)
Decrease in other assets	614,059
(Decrease) in accounts payable	(105,624)
(Decrease) in deferred revenues	(3,500)
Increase in loan guarantees payable	6,567,705
Increase in claims and litigation payable	1,280,000
(Decrease) in other liabilities	(75,752)
Total adjustments	73,898,331
Net cash provided by operating activities	$8,425,220
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:	
Cash classified as current assets	$2,265,082
Cash classified as noncurrent assets	5,967,849
Total Cash	$8,232,931
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Disposition of capital assets	($150,105)

(Concluded)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. REPORTING ENTITY

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

C. BASIS OF ACCOUNTING

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

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

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

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

D. BUDGET PRACTICES

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

E. CASH

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

F. CAPITAL ASSETS

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

	Years
Buildings and improvements	40
Equipment	5 or 10

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

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

H. LONG-TERM OBLIGATIONS

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

I. NET ASSETS

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

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

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

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

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

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, 2012, the authority has cash deposits (book balances) of $8,232,931 as follows:

Interest-bearing demand deposits	$4,699,964
Cash with fiscal agent	3,532,967
Total	$8,232,931

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	$4,733,512
Whitney Bank - Fiscal Agent	Investment Account	3,532,967
Total		$8,266,479

3. NOTES RECEIVABLE

Notes receivable totaling $21,211,034 reported on the Statement of Net Assets at June 30, 2012, is composed of the following:

Type	Balance at June 30, 2012	Noncurrent Portion
Louisiana Farm and Agribusiness Recovery Loan and Grant Program	$20,900,646	$13,704,052
State Market Commission and Farm Youth Loan Program	310,388	247,697
Total	$21,211,034	$13,951,749

At its March 23, 2012, meeting, the authority's board declared the Lake Charles Cane-Lacassine Mill, LLC (LLC) in default on its $60 million promissory note, which the authority issued to the LLC to finance the LLC's purchase of the Lacassine Syrup Mill (mill). The LLC was unable to cure the default, and on September 11, 2012, the authority took possession of the mill under a *Dation en Paiement*. In accordance with the requirements of GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, paragraphs 8-15, the authority has removed the note receivable from the financial statements because the LLC was in default on its obligation under the note as of June 30, 2012.

On November 30, 2009, under a cooperative endeavor agreement, effective March 23, 2009, between the authority and OCD, the authority began issuing loans and grants for the Louisiana Farm and Agribusiness Recovery Loan and Grant Program. The funds were awarded by the U.S. Department of Housing and Urban Development with Community Development Block Grant Program (CDBG) funds, which are administered through OCD. At June 30, 2012, agribusiness and farm loans outstanding total $20,900,646. These loans are reported as notes receivable on the Statement of Net Assets.

Amounts due to OCD totaling $21,058,606 reported on the Statement of Net Assets represent the outstanding balance of notes receivable, including amounts paid by borrowers to the authority but not remitted to OCD at June 30, 2012. In accordance with the cooperative endeavor agreement between the authority and OCD, the authority is liable to OCD only for the payments received from the borrowers; the authority is not responsible to OCD for any unpaid amounts. At June 30, 2012, borrowers have made payments totaling $7,355,101 to the authority.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2012, follows:

	Beginning Balance July 1, 2011	Additions	Deletions	Ending Balance June 30, 2012
Capital assets not being depreciated:				
Land	$6,857,393			$6,857,393
Nondepreciable asset held for sale		$8,549,581		8,549,581
Construction-in-progress	58,755	2,701,063		2,759,818
Total capital assets not being depreciated	6,916,148	11,250,644	NONE	18,166,792
Capital assets being depreciated:				
Buildings	41,286,823			41,286,823
Land improvements	7,261,228			7,261,228
Equipment	24,601,382	2,341,354	($2,472,393)	24,470,343
Total capital assets being depreciated	73,149,433	2,341,354	(2,472,393)	73,018,394
Less accumulated depreciation for:				
Buildings	(12,960,554)	(1,112,639)		(14,073,193)
Land improvements	(2,788,557)	(378,044)		(3,166,601)
Equipment	(18,531,650)	(4,414,005)	597,300	(22,348,355)
Total accumulated depreciation	(34,280,761)	(5,904,688)	597,300	(39,588,149)
Total capital assets (net)	$45,784,820	$7,687,310	($1,875,093)	$51,597,037

Deletions of equipment include 155 vehicles with acquisition costs totaling $2,322,287 purchased in fiscal year 2012 and leased to the Louisiana Department of Agriculture and Forestry (LDAF) under a capital lease (note 5-C). Current year depreciation totaling $464,458 has been removed from accumulated depreciation.

Information relating to construction-in-progress follows:

Project	Costs to Date	Estimated Completion Date	Estimated Cost to Complete
Indian Creek Sewerage Upgrade	$31,336	12/31/2012	$400,000
Lacassine Rail Spur	27,419	12/31/2012	350,000
Baton Rouge Roof Upgrade	2,701,063	12/31/2012	600,000
Total	$2,759,818		$1,350,000

5. LEASES

A. Capital Leases

The authority, as lessee, has no capital leases.

B. Operating Leases

The total payments for operating leases, consisting of land and office space leases, during the fiscal year 2011-2012 amounted to $95,830. The following is a schedule by year of future minimum annual rental payments required under operating leases:

Year ending June 30,	Office Space	Land	Total Minimum Payments Required
2013	$46,216	$49,614	$95,830
2014	19,257	49,614	68,871
2015		49,614	49,614
2016		49,614	49,614
2017		49,614	49,614
2018-2022		219,079	219,079
2023-2027		600	600
Total	$65,473	$467,749	$533,222

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 July 1, 2011, the authority entered into a lease agreement with LDAF for 156 vehicles, 155 of which were purchased in fiscal year 2012. LDAF will lease the vehicles, which cost $2,322,287, for $600,000 per year. The term of the lease agreement is from July 1, 2011, to June 30, 2015.

The authority records that portion of capital lease receivables attributable to interest income as deferred revenue.

Lease	Date of Lease	Minimum Lease Payments Receivable	Remaining Interest to End of Lease	Remaining Principal to End of Lease
Minimum lease payments - vehicles	07/01/2011	$2,400,000	$77,713	$2,322,287
Less - amounts representing executory costs		NONE		
Minimum lease payments receivable		2,400,000		
Less - allowance for uncollectibles		NONE		
Net minimum lease payments receivable		2,400,000		
Estimated residual value of leased property		NONE		
Subtotal		2,400,000		
Less - unearned income		(77,713)		
Net investment in sales-type leases		$2,322,287		

The following is a schedule by year of minimum lease receivables as of June 30, 2012:

Year ending June 30,	Lease Receivable
2013	$1,200,000
2014	600,000
2015	600,000
Total	$2,400,000

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 (collectability 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, 2012:

	Cost	Accumulated Depreciation	Carrying Amount
Buildings	$16,083,930	($6,631,091)	$9,452,839
Land	52,543		52,543
Total carrying amount of property	$16,136,473	($6,631,091)	$9,505,382

The following is a schedule by year of minimum future rentals on non-cancelable operating leases as of June 30, 2012:

Year Ending June 30,	Amount
2013	$2,296,641
2014	1,831,341
2015	1,772,646
2016	1,737,127
2017	1,667,087
2018-2022	1,841,443
Total	$11,146,285

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2012.

With its purchase of the mill, LLC entered into a ground lease for land with the mill. However, because the LLC defaulted on its promissory note for the purchase of the mill (note 3), the ground lease has been removed from the lessor operating lease disclosure.

6. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the authority for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Bonds payable	$62,783,375	NONE	($9,196,688)	$53,586,687	$9,376,687

Details of all bonds outstanding at June 30, 2012, follow:

Issued for	Date Issued	Original Issue	Outstanding June 30, 2011	Issued (Redeemed)	Outstanding June 30, 2012	Maturity Date	Interest Rates
Series 2004 -							
Lacassine Syrup Plant	3/2/2004	$45,000,000	$23,140,000	($6,975,000)	$16,165,000	9/15/2015	3.80%
Series 2006:							
Building projects	3/30/2006	3,804,219	1,521,688	(760,844)	760,844	9/15/2012	variable
Building projects	3/30/2006	3,804,219	1,521,687	(760,844)	760,843	9/15/2012	variable
Series 2006 B	4/27/2006	2,000,000	800,000	(400,000)	400,000	9/15/2012	variable
Series 2007:							
Building projects and equipment purchases	3/26/2007	6,000,000	4,800,000	(300,000)	4,500,000	9/15/2026	4.52%
Series 2007:							
Multi-buildings and equipment purchases	10/1/2007	31,000,000	31,000,000		31,000,000	9/15/2017	5.25%
Total		$91,608,438	$62,783,375	($9,196,688)	$53,586,687		

Debt service requirements to maturity are as follows:

Fiscal year ending	Principal	Interest	Total
2013	$9,376,687	$2,288,341	$11,665,028
2014	7,685,000	2,017,254	9,702,254
2015	8,005,000	1,679,313	9,684,313
2016	8,185,000	1,264,039	9,449,039
2017	8,600,000	825,623	9,425,623
2018-2022	10,235,000	771,694	11,006,694
2023-2027	1,500,000	203,400	1,703,400
Total	$53,586,687	$9,049,664	$62,636,351

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 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, 2012, is $195,280. The bond issuance costs amortized in fiscal year 2011-2012 were $36,615.

On June 1, 2011, the authority issued the First Amendment to Trust Indenture, converting the interest rate on the Series 2007 revenue bonds, originally issued on March 26, 2007, for $6,000,000 at a fixed interest rate of 5.37% per annum, adjusted every five years, to a fixed interest rate of 4.52% per annum. The authority added three projects for which the proceeds may be spent: (1) adding new rails spurs on land owned in Lacassine, Louisiana; (2) making sewerage improvements at Indian Creek Recreation Area in Woodworth, Louisiana; and (3) purchasing automobiles for lease to, and use by, LDAF.

The Series 2007 revenue bonds are secured by revenue from a lease agreement between the authority and LDAF. Unamortized bond issuance original costs totaled $58,000 and additional costs from the interest rate conversion totaled $46,500 for legal and other fees. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2012, is $86,659. The bond issuance costs amortized in fiscal year 2011-2012 were $5,710.

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

Unamortized bond issuance costs associated with the Series 2006 and 2006B revenue bonds include legal and other fees. The original issuance costs were $11,317. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2012, is $369. The bond issuance costs amortized in fiscal year 2011-2012 were $1,754.

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

Unamortized bond issuance costs associated with the Series 2004 revenue bonds include legal and other fees. The original issuance costs were $307,326 plus underwriter’s fees totaling $170,000. Because of the interest rate conversion, the issuance costs have now been increased to $803,448 ($248,607 - remainder of previous issuance costs plus $554,841 for the issuance costs during fiscal year 2010). These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2012, is $388,332. The bond issuance costs amortized in fiscal year 2011-2012 were $160,690.

7. CONDUIT DEBT OBLIGATIONS

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

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

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

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

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

Issued for	Interest Rates	Date Issued	Maturity Dates	Authorized and Issued	Retired to Date	Outstanding June 30, 2012
Agricultural Loan Program:						
	8.25%	1986A I	various	$150,000,000	$108,126,047	$41,873,953
	8.80%	1986A II	various	150,000,000	105,830,560	44,169,440
Total				$300,000,000	$213,956,607	$86,043,393

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, 2012, under the modified plan, including interest, total $155,144,866 for the LAFA I bonds and $154,846,267 for the LAFA II bonds. These distributions include court-ordered trust administration costs of $4,767,815 for the LAFA I bonds and $4,767,715 for the LAFA II bonds. Principal and interest of $108,126,047 and $42,251,004, respectively, have been paid for the

LAFA I series bonds, and principal and interest of $105,830,560 and $44,247,992, respectively, have been paid for the LAFA II series bonds. Under the plan, distributions can continue until the conservator declares that they are complete or the modified plan has expired.

8. NET ASSETS RESTATED

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

Net assets, June 30, 2011	$64,292,796
Adjustment for prior years expenses	698,884
Net assets at June 30, 2011, as restated	$64,991,680

9. DUE FROM PRIMARY GOVERNMENT

At June 30, 2012, the authority has amounts due to/from the primary government for the following:

Source	Total
Department of Agriculture and Forestry:	
Settlement of Texans Credit Union lawsuit	$480,000
Rental income	217,950
Salaries for security guards	(66,656)
Indian Creek salaries	(46,510)
Salaries for HUD Farm Program	(9,533)
Other	675
Office of Risk Management	631
Division of Administration - Office of Community Development	428
Governor's Office of Homeland Security and Emergency Preparedness	2,012,476
Department of Transportation and Development	40,567
Total due from primary government	$2,630,028

10. LOAN GUARANTEES

On November 3, 2006, the authority guaranteed a $4,000,000 loan between LLC and Jeff Davis Bank and Trust Company. Outstanding principal and accrued interest at June 30, 2012, totaled $2,705,000 and $122,500, respectively.

On June 29, 2006, the State Market Commission (SMC - transferred to the authority in fiscal 2009) guaranteed a $7,000,000 loan between the LLC and Hancock Bank. Outstanding principal and accrued interest at June 30, 2012, totaled $3,500,000 and $240,205, respectively.

On March 23, 2012, the authority declared the LLC in default on its $60 million promissory note for the purchase of the Lacassine mill. The LLC subsequently defaulted on the loan guarantees. At its September 26, 2012, meeting, the authority granted the Commissioner of Agriculture and Forestry the authority to issue bonds to purchase the outstanding balances on the loan guarantees.

In accordance with GASB Statement No. 56, the authority has recognized a liability totaling $6,567,705 for the principal and accrued interest outstanding on the two loan guarantees because the LLC was in default on its loans as of June 30, 2012.

11. RISK MANAGEMENT AND CLAIMS AND LITIGATION

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

On June 28, 2007, SMC guaranteed a $3,150,000 loan between LA State Cypress, LLC (cypress mill) and Texans Credit Union (Texans) located in Richardson, Texas. On April 24, 2009, SMC entered into a *Dation En Paiement* with the cypress mill, which had notified SMC that the cypress mill was going to default on its loan obligation to Texans, and under which SMC took possession of cypress mill assets with a fair market value totaling $3,227,707 at March 5, 2009. On October 14, 2009, Texans filed a lawsuit against the cypress mill, LDAF, SMC, and the authority seeking all principal, interest, default interest and late fees, attorney's fees, and collection costs resulting from the cypress mill's default.

On May 15, 2012, the 19th Judicial District Court for the Parish of East Baton Rouge issued a final judgment in favor of Texans totaling $4,622,102 plus per diem interest. On September 7, 2012, the authority paid $1,280,000 ($800,000 and $480,000 were paid from SMC funds and LDAF funds, respectively) to Texans in an offer of final settlement under the judgment, which was accepted and signed by Texans on September 11, 2012. The authority ratified the settlement agreement at its September 26, 2012, meeting. In accordance with GASB Statement No. 56, the authority has recognized a liability for $1,280,000 because the final judgment in favor of Texans was issued before June 30, 2012.

During the past three years, other than the Texans settlement, there were no claims against the authority that exceeded insurance coverage. During the year ended June 30, 2012, a total of $31,979 was expended for legal services.

12. INTERGOVERNMENTAL REVENUES

During the fiscal year ended June 30, 2012, the authority received intergovernmental revenues from the primary government as follows:

Source	Amount
Department of Agriculture and Forestry	$10,755,688
Governor's Office of Homeland Security and Emergency Preparedness	15,360
Office of Risk Management	8,425
Total	$10,779,473

13. REVENUE USED AS SECURITY FOR REVENUE BONDS

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

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

The debt secured by the pledge totals $53,586,687. The approximate remaining amount of the pledge is $62,636,351 at June 30, 2012, representing $53,586,687 in principal and $9,049,664 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 2012, the pledged revenues recognized totaled $11,872,279. The principal requirement for fiscal year 2012 was $9,196,688 and the interest requirement was $2,468,706.

14. RELATED PARTY TRANSACTIONS

As discussed in note 3, during fiscal 2012, the authority administered the Louisiana Farm and Agribusiness Recovery Loan and Grant Program administered through OCD. Under the program, the authority has made loans and grants totaling $1,005,911 to 31 individuals employed by LDAF or serve in a capacity within LDAF who for reporting purposes are considered related parties. These individuals, whose loans are allowable under R.S. 42:1113(D)(1)(c)(iii) and under the cooperative endeavor agreement between the authority and OCD, qualified for the loans based on pre-established criteria applied to all loan applicants. The balance for these loans at June 30, 2012, is $467,852.

15. SUBSEQUENT EVENTS

As discussed in note 3, in its March 23, 2012, meeting, the authority declared Lake Charles Cane-Lacassine Mill, LLC (LLC) in default on its obligation to pay the authority for its purchase of the Lacassine Syrup Mill (mill) under a $60 million promissory note. On September 11, 2012, the authority entered into a *Dation En Paiement* with the LLC, and took possession of the mill assets. The authority obtained an estimate of the mill's fair market value as of January 15, 2013, which totaled $8,549,581.

As discussed in note 10, the LLC defaulted on two loans totaling $6,567,705 at June 30, 2012, in outstanding principal and interest, and on September 26, 2012, the authority granted the Commissioner of Agriculture and Forestry the authority to issue bonds to purchase the outstanding balances on the loans pursuant to the SMC and authority guarantees on those loans.

The authority is developing a plan to market the mill for sale and is pursuing legal action against the LLC for the difference between the principal plus interest on the note and the purchased loans and the mill's fair market value.

As discussed in note 11, on September 7, 2012, the authority paid $1,280,000 from SMC and LDAF funds to Texans Credit Union (Texans) in an offer of final settlement under the May 15, 2012, judgment in favor of Texans, which was accepted and signed by Texans on September 11, 2012. The authority ratified the settlement agreement at its September 26, 2012, meeting.

GASB Statement No. 56 defines events occurring subsequent to the balance sheet date that require recognition in the financial statements as those events that provide additional evidence with respect to conditions that existed at the date of the statement of net assets and affect the estimates inherent in the process of preparing financial statements and requires that the financial statements be adjusted for any changes resulting from the use of such evidence. Because the subsequent events above affected conditions existing as of June 30, 2012, the authority removed $60,000,000 and $9,337,812 from its notes and accrued interest receivables, respectively; included the mill's fair market value of $8,549,581 in its capital assets; recognized a liability totaling $6,567,705 for the principal and accrued interest outstanding on the two loan guarantees; and recognized a liability for claims and litigation totaling $1,280,000 for the Texans settlement.

On December 14, 2012, the authority issued $7,000,000 Revenue Bonds, Series 2012, the proceeds of which were used to pay the outstanding balances on the LLC loans purchased by the authority, at a fixed rate of 1.95% for a period of 10 years.

OTHER REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Exhibit A

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

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 18, 2013

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

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

We have audited the financial statements of the business-type activities of the Louisiana Agricultural Finance Authority (authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2012, and have issued our report thereon dated April 18, 2013. Our report was modified to include emphasis of a matter paragraphs regarding the Lake Charles Cane-Lacassine Mill, LLC's default on a promissory note and other loans and the authority's settlement of a lawsuit with Texans Credit Union. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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

Inaccurate Annual Fiscal Report

The authority's Annual Fiscal Report (report) originally submitted to the Office of Statewide Reporting and Accounting Policy (OSRAP) on September 10, 2012, required significant modifications and corrections. The authority revised and resubmitted its report to correct errors. However, audit adjustments were necessary to correct errors in the final revised report.

Examples of problems with the revised report included:

- Net assets - invested in capital assets, net of related debt were understated by $2 million.
- Net assets - restricted for capital projects were overstated by $50 million.
- Net assets - restricted for debt service were understated by $57 million.
- Unrestricted net assets were overstated by $9 million.

The authority did not have adequate controls over its financial reporting process to ensure that an accurate and complete report was submitted to OSRAP by the due date of September 11, 2012. The final revision of the report was not submitted to OSRAP until January 3, 2013, 113 days after OSRAP's due date of September 11, 2012.

Failure to submit an accurate report by OSRAP's due date can delay the compilation of the state's Comprehensive Annual Financial Report and diminishes the value of the authority's separately issued financial statements. Furthermore, misstatements may occur and remain undetected, which increases the risk of additional errors or misappropriations.

Management should strengthen its financial reporting process by developing a better understanding of the underlying accounting records and establish a review function that would identify and correct errors and omissions before the report is submitted to OSRAP and to the Louisiana Legislative Auditor for audit. Management concurred with the finding, but stated that the underlying accounting records were accurate and sound, even though adjustments were necessary. Management provided a corrective action plan (see Appendix A).

Compliance and Other Matters

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

The authority's response to the finding identified in this report is attached in Appendix A. We did not audit the authority's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

APD:CGEW:EFS:THC:ch

LAFA 2012

APPENDIX A

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

LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY
MIKE STRAIN DVM
COMMISSIONER

April 11, 2013

Mr. Daryl G. Purpera, CPA, CFE
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Re: Inaccurate Annual Fiscal Report (AFR)

Dear Mr. Purpera:

The Louisiana Agricultural Finance Authority (LAFA) is in receipt of the reportable audit finding in your letter dated March 21, 2013. LAFA acknowledges there were audit adjustments necessary in order for the annual fiscal report (AFR) to reflect generally accepted accounting principles, but the underlying accounting records were accurate and sound. For the examples cited in the finding, these audit adjustments were made primarily for the purpose of reclassifying certain reported amounts among assets or liabilities, or between revenues and expenses. Adjustments having an impact on the total net assets or the net income of the authority were minimal. While we concur that the audit adjustments were appropriate, we would like to point out that several of the adjustments were the result of applying technical accounting standards to LAFA's complex issues, including the default by Lake Charles Cane –Lacassine Mill, LLC and the settlement of the Texans Credit Union Lawsuit- Cypress Mill subsequent to the end of Fiscal Year 2012. Going forward, to ensure that LAFA minimizes audit adjustments to future financial reports (AFR's) the following additional internal controls are being put in place:

1) Prior to the end of the fiscal year, a draft of the AFR will be prepared. This will provide an opportunity to correct any errors or omissions.
2) The LAFA General Ledger is being redesigned to provide more streamlined accounting records.
3) LAFA will engage an external CPA firm to review and assist with the preparation of the AFR.

We are confident that these measures will improve reporting accuracy and will only serve to enhance LAFA's already fiscally sound management practices.

Mrs. Catrina Irvin is the contact person responsible for corrective action, and all corrective action items should be in place by June 30, 2013.

The efforts of your staff in working with LAFA towards these goals are greatly appreciated.

Post Office Box 631, 5825 Florida Blvd., Baton Rouge, Louisiana 70821-0631 Telephone: (225) 922-1234 Fax: (225) 922-1253 www.ldaf.state.la.us

If I can be of further assistance, please do not hesitate to contact me. Thank you.

Sincerely,

Rene Simon
Director
Louisiana Agricultural Finance Authority

cc: Dr. Mike Strain, Commissioner
Dr. Brent Robbins, Deputy Commissioner
Mr. Kevin Finley, Internal Auditor
Mr. Dane Morgan, Assistant Commissioner OMF