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MACON RIDGE
ECONOMIC DEVELOPMENT REGION, INC.

FINANCIAL REPORT
DECEMBER 31, 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9-15-04

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

FINANCIAL REPORT
DECEMBER 31, 2003

CONTENTS

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

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

May 18, 2004

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

We have audited the accompanying balance sheet of Macon Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of December 31, 2003, and the related statements of support, revenue, expenses and changes in fund balances, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; Government Auditing Standards, issued by the Comptroller General of the United States; and the Louisiana Government Audit Guide, issued by the Louisiana Society of Certified Public Accountants and the Louisiana Legislative Auditor. 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 Macon Ridge Economic Development Region, Inc. as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 18, 2004, on our consideration of Macon Ridge Economic Development Region, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Martin, Harrison & Smallwood, LLP

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

BALANCE SHEET
DECEMBER 31, 2003

	OPERATING FUNDS	
	UNRESTRICTED	RESTRICTED
ASSETS		
Cash	$ 8,423	$ 300
Certificates of deposit	-	-
Grants receivable	-	68,255
Interest receivable - loans	-	-
Other receivables	416	-
Interfund receivables	46,379	-
Loans receivable		
Intermediary Relending Program, net of allowance for loan losses of $221,241	-	-
Rural Business Enterprise Grant Program, net of allowance for loan losses of $71,486	-	-
Property and equipment, net	-	434,716
Other Assets	-	-
TOTAL ASSETS	$ 55,218	$ 503,271
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ -	$ 16,599
Accrued liabilities	570	5,377
Compensated absences	-	6,700
Interfund payables	-	37,149
Due to USDA	-	-
Note payable	43,907	-
Total current liabilities	44,477	65,825
Note payable, less current portion	-	-
TOTAL LIABILITIES	44,477	65,825
FUND BALANCES	10,741	437,446
TOTAL LIABILITIES AND FUND BALANCES	$ 55,218	$ 503,271

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

LOAN PROGRAMS	TOTAL
$ 452,543	$ 461,266
240,000	240,000
-	68,255
26,095	26,095
-	416
-	46,379
1,129,316	1,129,316
368,085	368,085
10,763	445,479
362,198	362,198
$ 2,589,000	$ 3,147,489

$ -	$ 16,599
565	6,512
-	6,700
9,230	46,379
25,000	25,000
-	43,907
34,795	145,097
2,082,508	2,082,508
2,117,303	2,227,605
471,697	919,884
$ 2,589,000	$ 3,147,489

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF SUPPORT, REVENUE, EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2003

	OPERATING FUNDS	
	UNRESTRICTED	RESTRICTED
SUPPORT AND REVENUE		
Grants:		
Enterprise Community Program	$ -	$ -
Rural Business Technical Grant	-	-
RUS Distance Learning	-	50,265
Contracts:		
Louisiana Department of Economic Development:		
Distance Learning	-	63,000
Cooperative Endeavors	-	260,617
State of Louisiana - Renewal Community	-	110,337
Contributions	19,487	3,933
Interest income	-	48
Loan interest income	-	-
Loan servicing income	1,674	-
Loan application and origination fees and penalties	258	-
Miscellaneous income	10,932	21,442
Total support and revenue	32,351	509,642
EXPENSES AND LOSSES		
Programs:		
Grant program:		
RUS Distance Learning	-	48,027
Renewal Community	-	109,557
Loan programs	-	-
Other programs	-	282,686
Total programs	-	440,270
Management and general	27,930	-
Total expenses	27,930	440,270
Loss on Sale of Assets	-	-
Total expenses and losses	27,930	440,270
EXCESS OF SUPPORT AND REVENUE OVER EXPENSES	4,421	69,372
TRANSFER OF FUND BALANCES	-	-
FUND BALANCES - BEGINNING OF YEAR	6,320	368,074
FUND BALANCES - END OF YEAR	$ 10,741	$ 437,446

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

LOAN PROGRAMS	TOTAL
$ 43,631	$ 43,631
9,351	9,351
-	50,265
-	63,000
-	260,617
-	110,337
-	23,420
6,126	6,174
140,667	140,667
-	1,674
13,186	13,444
29,680	62,054
242,641	784,634
-	48,027
-	109,557
163,307	163,307
-	282,686
163,307	603,577
24,161	52,091
187,468	655,668
12,500	12,500
199,968	668,168
42,673	116,466
-	-
429,024	803,418
$ 471,697	$ 919,884

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003

	PROGRAM SERVICES		
	DISTANCE LEARNING	RENEWAL COMMUNITY	LOAN
Computer expenses	-	2,287	-
Contract labor	-	-	-
Consulting fees	-	2,625	-
Depreciation	4,209	-	980
Dues and subscriptions	-	72	281
Equipment acquisitions (under $1,000)	-	1,639	711
Equipment and building maintenance	-	171	869
Fringe benefits	-	15,747	10,647
Insurance	-	-	1,369
Interest	-	-	20,621
Other	43,200	1,339	951
Postage	-	956	370
Printing	-	580	547
Professional fees	-	1,150	30,393
Promotional	-	-	228
Provision for loan losses	-	-	52,749
Rent - building and equipment	-	3,671	149
Salaries and wages	-	52,551	34,373
Seminars	-	1,213	1,357
Supplies	618	8,501	614
Travel	-	12,185	2,350
Utilities	-	4,870	3,748
	$ 48,027	$ 109,557	$ 163,307

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

	SUPPORTING SERVICES	
OTHER	MANAGEMENT AND GENERAL	TOTAL
4,823	128	7,238
500	-	500
32,282	5,700	40,607
10,859	5,131	21,179
1,068	879	2,300
489	10	2,849
2,353	113	3,506
42,718	2,789	71,901
2,457	3,007	6,833
-	2,936	23,557
953	22,830	69,273
515	506	2,347
720	43	1,890
20	3,385	34,948
-	20	248
-	-	52,749
487	205	4,512
145,399	1,108	233,431
2,154	1,280	6,004
2,509	288	12,530
23,679	710	38,924
8,701	1,023	18,342
$ 282,686	$ 52,091	$ 655,668

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>OPERATING ACTIVITIES</u>	
Excess (deficit) of support and revenue over expenses	$ 116,466
Adjustments to reconcile excess of support and revenue over expenses to net cash provided by (used in) operating activities:	
Depreciation	21,179
Provision for loan losses	52,749
(Increase) decrease in:	
Grants receivable	40,772
Other receivables	560
Loan interest receivable	36,860
Other assets	(187,888)
Increase (decrease) in:	
Accounts payable	(3,747)
Accrued liabilities	(1,394)
Compensated absenses	2,028
Net cash provided by (used in) operating activities	77,585
<u>INVESTING ACTIVITIES</u>	
Purchase of certificate of deposit	(28)
Loans made to others	(84,838)
Payments received on loans to others and loans written off	218,319
Net cash provided by (used in) investing activities	133,453
<u>FINANCING ACTIVITIES</u>	
Payment of loan - Line of Credit	(69,347)
Loan proceeds - Intermediary Relending Program	176,892
Payment of loan - Intermediary Relending Program	(252,930)
Net cash provided by (used in) financing activities	(145,385)
NET INCREASE IN CASH AND CASH EQUIVALENTS	65,653
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	395,613
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 461,266

SUPPLEMENTAL DISCLOSURE
<u>OF CASH FLOW INFORMATION</u>

Cash paid during the year for:	
Interest	$ 23,557

<u>DISCLOSURE OF ACCOUNTING POLICY</u>

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

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

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

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

USDA also approved a $2,000,000 loan to the Corporation to establish a revolving loan fund for business and economic development within the Enterprise Community, as well as throughout the Corporation's entire area. In May, 2001, an additional $750,000 loan was approved to further fund this revolving loan program. These loans were obtained through USDA's Intermediary Relending Program.

In August, 1995, the USDA approved a $300,000 Rural Business Enterprise Grant to operate a small business loan program solely for the Enterprise Community. Two additional $300,000 grants were approved in March, 1998, and April, 2001, to continue this program.

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

BASIS OF ACCOUNTING AND PRESENTATION

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

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

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

PERVASIVENESS OF ESTIMATES

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

ALLOWANCE FOR LOAN LOSSES

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

PROPERTY, EQUIPMENT AND DEPRECIATION

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

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

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

EXPENSE ALLOCATION

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

INCOME TAX STATUS

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

TOTAL COLUMNS

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

NOTE 2 – CASH AND CERTIFICATES OF DEPOSIT

Cash at December 31, 2003, consisted of the following:

General fund - operating	($ 1,187)
Enterprise Community Program - operating (restricted)	5,730
Renewal Community Program – (restricted)	300
Intermediary Relending Program (loan program)	296,479
Rural Business Enterprise Grant Program (loan program)	156,064
Rural Business Enterprise Grant Program (building renovation fund)	3,880
	$ 461,266

Certificates of Deposit at December 31, 2003, consisted of the following:

Intermediary Relending Program (loan program)	$ 230,000
Rural Business Enterprise Grant Program (loan program)	10,000
	$ 240,000

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

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 3 - GRANT RECEIVABLE – RENEWAL COMMUNITY PROGRAM

Grants receivable include unreimbursed costs in the amount of $68,255 incurred in operating the Renewal Community Program. The Renewal Community grant receivable is due from the Louisiana Department of Economic Development, which is the contracting agency for the Renewal Community Program in the State of Louisiana.

NOTE 4 - LOANS RECEIVABLE

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

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

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

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

NOTE 5 - PROPERTY, EQUIPMENT AND DEPRECIATION

The major classes of owned property and equipment at December 31, 2003, are summarized below:

CLASS	
Building	$ 270,599
Land	82,500
Furniture and fixtures	10,034
Equipment	185,551
Building improvements	108,250
	656,934
Less accumulated depreciation	(211,455)
Net property and equipment	$ 445,479

NOTE 6 - NOTE PAYABLE

The notes payable represents the balance due to USDA and a local bank at December 31, 2003.

The total amount of funds borrowed from USDA are under the Intermediary Relending Program. In accordance with the loan agreement, up to $2,750,000 may be borrowed by the Corporation for relending purposes to business entities within its eleven parish operational area.

Under the terms of the loan agreement, interest at a rate of 1.00% is accrued on the outstanding balance. Beginning in December, 1998 the Corporation began making an annual principal and interest payment of $82,260, and this annual payment is to continue until the note matures in December, 2025.

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

The total amount due to a local bank is for a line of credit. The balance at December 31, 2003, is $43,907. It is collateralized by real estate.

Interest expense for the year ended December 31, 2003 totaled $23,557.

NOTE 7 - FINANCIAL INSTRUMENTS

CONCENTRATION OF CREDIT RISK

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

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

The Corporation maintains cash balances at several financial institutions located in Northeast Louisiana. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000, plus collateral held by the pledging banks or their agents with a market value of $507,823. At December 31, 2003, the Corporation's uninsured cash balances totaled $0.

COLLATERALIZATION POLICY

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

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8 - EMPLOYEE PENSION PLAN

The Corporation has established a Pension Plan for its employees in accordance with Section 401(k) of the Internal Revenue Code. The Corporation contributed $23,473 to the Plan during 2003.

NOTE 9 – RELATED PARTIES

The Corporation has no transactions with related parties at December 31, 2003.

OTHER INDEPENDENT AUDITORS' REPORTS

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

CERTIFIED PUBLIC ACCOUNTANTS

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

May 18, 2004

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

We have audited the financial statements of Macon Ridge Economic Development Region, Inc. as of and for the year ended December 31, 2003, and have issued our report thereon dated May 18, 2004. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Louisiana Governmental Audit Guide, issued by the Louisiana Society of Certified Public Accountants and the Louisiana Legislative Auditor.

Compliance

As part of obtaining reasonable assurance about whether Macon Ridge Economic Development Region, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Macon Ridge Economic Development Region, Inc. in a separate letter dated May 18, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Macon Ridge Economic Development Region, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

The Board of Directors
Macon Ridge Economic Development Region, Inc.
May 18, 2004
Page Two

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Macon Ridge Economic Development Region, Inc. in a separate letter dated May 18, 2004.

This report is intended solely for the information and use of the board of directors, management, and the agencies granting funds to the Corporation, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Martin, Harrison & Smallwood, LLP

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

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May 18, 2004

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

In planning and performing our audit of the financial statements of Macon Ridge Economic Development Region, Inc. (the Corporation) for the year ended December 31, 2003, we considered the Corporation's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated May 18, 2004, on the financial statements of Macon Ridge Economic Development Region, Inc.

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

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

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

Loan Program Covenants – Insurance Policies

The Corporation's loan agreements contain a covenant that requires the borrower to carry property and life insurance for the life of the loan. There were instances where this was not done.

Loan Program Covenants – Financial Statements

The Corporation's loan agreements contain a covenant that requires the borrower to submit a copy of their tax return prepared by a tax professional annually. However, there were instances in the current year where loan recipients did not submit copies of their current tax returns. The Corporation should make a concerted effort to obtain copies of annual tax returns by reminding loan recipients, where necessary, that failure to comply with their loan agreement results in the loan being default. The Corporation should keep documentation regarding their efforts in obtaining copies and the loan recipients' responses.

Finding: In the review of delinquent loans it appears that the Corporation does not have adequate collateral to secure the principal amount of money owed on some of these loans.

Recommendation: All loans should be adequately collateralized at the time of closing to minimize losses. Delinquent loans should be worked on a regular basis and proper foreclosure action taken on a timely basis to limit losses as much as possible. This responsibility should be assigned to one or more employees who report to management on a frequent basis.

Finding: Review of loan files revealed that the corporation has four loans on the books that are set up as zero percent interest loans. This is in conflict with the loan paperwork in connection with each loan.

Recommendation: All loans should be set up to be charged the applicable interest rate at the time of the loan closing.

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

Respectfully,
MARTIN, HARRRISON & SMALLWOOD, L.L.P.

Mike Martin

Mike M. Martin
Certified Public Accountant

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

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August 17, 2004

Mr. Mike Martin
Martin, Harrison & Smallwood, L.L.P.
Certified Public Accountants
302 Depot Street, Suite A
Delhi, Louisiana 71232

Re: Audit findings for December 31, 2003

Dear Mike Martin:

We have reviewed the findings for December 31, 2004 and the responses are as follows:

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

Answer: Since the findings are not specific to any particular loan, the response is styled in general. We have been aware that in many instances in the current loan portfolio, procedures were not followed in the past regarding financial and non-financial covenants. All of the loans in this category were made by the prior administration. Presently, the loan department has made an internal list of technical deficiencies and is addressing each on a case by case basis. In some files, tax returns were submitted in lieu of financial statements which are acceptable to USDA. In some cases, we have sent certified letters, contacted the borrower and threatened legal action; however, if the account is current, we have not called the loan. But we are contacting each with a personal visit with the objective of obtaining said deficient item, whether it is insurance or a missing financial statement/tax return. Mrs. Dorothy Eames is in charge of monitoring compliance. A program was established a year ago to audit each file and the process is ongoing.

Finding: In the review of delinquent loans it appears that the Corporation does not have adequate collateral to secure the principal amount of money owed on some of these loans.

Answer: Admitted. These loans are dated prior to October 2002. The USDA regulations require the loans to be fully secured. At the time of the loans, the documentation submitted to USDA reflected that the collateral value was equal to the loan. Often in a workout situation, collateral value is diminished.

Finding: Review of loan files revealed that the corporation has four loans on the books that are set up as zero percent interest loans. This is in conflict with the loan paperwork connection with each loan.

Answer: Since the loans were not identified, we have checked our portfolio and found two loans at zero percent interest rates. Both are with the attorney and it is customary to drop the interest rate in our system so that a non-performing loan is not accruing interest that is not going to be received. The attorney, however, still pursues the full principal and interest in legal proceedings. All loans are set up to be charged the applicable interest rate at the time of the loan closing.

If you have any questions, please don't hesitate to contact me.

Sincerely,

Tana Trichel
President/CEO