

To the Senior Management and
The Board of Directors of
Mazon Ridge Economic Development Region, Inc.
May 28, 1997
Page Three

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

Respectfully,

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



Mike M. Martin
Certified Public Accountant

MMH/jad

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1996

PROGRAM SERVICES

	ENTERPRISE COMMUNITY	LOAN
Computer expenses	-	-
Contract labor	43,196	-
Consulting fees	3,094	1,244
Depreciation	11,101	934
Dues and subscriptions	-	-
Equipment acquisitions (under \$1,000)	4,847	1,720
Equipment and building maintenance	5,358	1,686
Fringe benefits	21,823	8,992
Indirect costs	346	90
Insurance	1,763	1,686
Interest	-	3,411
Other	3,571	275
Postage	3,282	517
Printing	3,849	1,738
Professional fees	-	-
Projects - feasibility studies	1,086	-
Projects - industrial development	34,450	-
Projects - job training and education	88,200	-
Projects - small business operations	28,073	-
Promotional	8,807	2,700
Provision for loan losses	-	7,027
Recruitment/Retention expense	3,308	200
Rent - building and equipment	12,936	356
Salaries and wages	87,362	34,564
Seminars	5,897	450
Supplies	12,080	880
Telephone	17,851	1,691
Travel	87,836	4,624
Utilities	6,372	508
	<u>484,940</u>	<u>75,513</u>

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

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 1996

Current Year Findings	Questioned Costs
<p>Response: The standard agreement utilized for subrecipients has been revised and now includes information regarding the audit requirements of OMB Circular A-133. Also, the Corporation's audit was expanded to include the records of the subrecipient's program.</p>	
<p>3. Enterprise Community - CFDA 10.772; Grant No. 3706517 - Grant Period - year ended December 31, 1996</p>	
<p>Statement of Condition: The Corporation exceeded the approved administrative budget and did not request a written budget modification.</p>	
<p>Criteria: The approved budgeted amount for administrative supplies was \$2,500. The actual costs were \$4,135, or \$1,635 over budget.</p>	1,635
<p>Effect of Condition: The administrative expenditure for supplies exceeded the amount approved in the grant and thus is subject to disallowance.</p>	
<p>Cause of Condition: This occurred because no procedures were in place to ensure that actual administrative costs did not exceed budget amounts.</p>	
<p>Recommendation: The Corporation should establish procedures to monitor proposed expenditures against the approved budget and to request budget modifications in writing, where appropriate.</p>	
<p>Response: We concur with the auditors' recommendations. Procedures will be established to prevent a recurrence of this situation.</p>	
<p>4. Enterprise Community - CFDA 10.772; Grant No. 3706517 Rural Business Enterprise Grant - CFDA 10.768; Grant No. 10424 Intermediary Relending Program - CFDA 10.770 - Grant Period - year ended December 31, 1996</p>	
<p>Statement of Condition: Financial reports, operating cost reports and project performance reports required by the grant and loan agreements were not filed by the required due dates.</p>	
<p>Criteria: The grant and loan agreements specify the due dates for filing certain financial reports, operating cost reports, and project performance reports.</p>	

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 1995

<u>Current Year Findings</u>	<u>Questioned Costs</u>
<p>Cause of Condition: Time constraints created by the implementation and operation of the various programs of the Corporation did not permit the timely filing of the reports by the employee in charge of such filing.</p> <p>Recommendation: Responsibility for filing the required reports should be shifted to personnel who have the time and the ability to file the reports timely. Also, such personnel should be reminded of the due dates of the various reports.</p> <p>Response: Responsibility for filing the required reports has been shifted to personnel who have the time and the ability to file the reports timely. Also, the Corporation has designated one individual to monitor the filing of the reports.</p>	
TOTAL QUESTIONED COSTS	<u>\$ 4,000</u>
Final Year Findings	
<p>The Corporation resolved Findings Nos. 1 and 2 by performing the specific tasks outlined in the Corporation's responses in the December 31, 1995, financial report.</p>	

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

CERTIFIED PUBLIC ACCOUNTANTS

LESLIE A. HARRISON, CPA
DANIEL W. SMALLWOOD, CPA
MICHAEL W. HARRISON, CPA
COURTNEY A. SMALLWOOD, CPA

LESLIE A. HARRISON, CPA
COURTNEY A. SMALLWOOD, CPA
DANIEL W. SMALLWOOD, CPA
MICHAEL W. HARRISON, CPA
COURTNEY A. SMALLWOOD, CPA

2000 KENNETH HARRISON
FOUR GREEN PARK DRIVE
MORRISVILLE, NORTH CAROLINA
TELEPHONE: (714) 368-0580
FAX: (714) 368-0581

25 24 23 22 21
20 19 18 17 16
15 14 13 12 11
10 9 8 7 6
5 4 3 2 1

May 28, 1997

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

In planning and performing our audit of the financial statements of Mason Ridge Economic Development Region, Inc. (the Corporation) for the year ended December 31, 1996, we considered the Corporation's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. We previously reported on the Corporation's internal control structure in our reports dated May 28, 1997. This letter does not affect our report dated May 28, 1997, on the financial statements of Mason Ridge Economic Development Region, Inc.

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

Internal Controls

Finding: The loan agreements utilized in the Corporation's two loan programs (Intermediary Relending Program and Rural Business Enterprise Grant Program) require that each borrower meet certain financial and nonfinancial covenants on a periodic basis. It was noted during the audit, that in some instances procedures had not been performed by the Corporation to ascertain whether each borrower was in compliance with the financial covenants. Also, in some instances, borrowers were not adhering to the requirements of the nonfinancial covenants.

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 nonfinancial covenants of the borrower's respective loan agreement. Furthermore, the Corporation should develop a program for the continual monitoring of each borrower's compliance with the loan covenants. Also, the Corporation should maintain adequate documentation of each borrower's compliance or lack of compliance with the loan covenants.

Other Comments

Loan Program Covenants - Reviewed Financial Statements

The Corporation's loan agreements contain a covenant which requires the borrower to submit reviewed financial statements on an annual basis. However, the Corporation should consider modifying this covenant to require the submission of compiled financial statements. Since the procedures to be followed by an accountant in a financial statement review are more stringent than for a compilation, requiring the submission of reviewed financial statements most likely will cause the borrower to incur unnecessary accounting costs. Properly prepared compiled financial statements should provide the Corporation with the relevant financial information it needs to ascertain the borrower's compliance with applicable financial covenants, as well as, the borrower's financial stability.

If the Corporation decides to require the submission of compiled financial statements on an annual basis, then the Corporation should consider modifying the loan agreements to reflect the following minimum requirements:

- . The financial statements must be prepared in conformity with generally accepted accounting principles and must contain full disclosure.
- . The financial statements must be prepared by a Certified Public Accountant who is independent of the borrower.
- . The Certified Public Accountant must be participating in the AICPA Peer Review Program.
- . The Certified Public Accountant must have received an unqualified report (with or without a Letter of Comments) from the firm's most recent Peer Review.

MADON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1986

Current Year Findings	Questioned Costs
UNITED STATES DEPARTMENT OF AGRICULTURE:	
1. Enterprise Community - CFDA 16.772; Grant No. 3708327; Grant Period - year ended December 31, 1986	
Statement of Condition: A sub recipient did not obtain approval from the Corporation prior to incurring costs in excess of approved budgeted amounts.	
Criteria: Costs exceeding budgeted amounts are unallowable costs.	\$ 2,000
Effect of Condition: The costs may be disallowed.	
Cause of Condition: The Corporation failed to adequately monitor the subrecipient's adherence to the program budget.	
Recommendation: The Corporation should establish procedures to ensure that subrecipient's program budgets are compared to actual program costs on a periodic basis. Also, the Corporation should establish a process for subrecipients to follow for obtaining amendments to program budgets.	
Response: We concur with the auditor's recommendations. Procedures have been established to prevent a recurrence of this situation.	
2. Enterprise Community - CFDA 16.772; Grant No. 3708327; Grant Period - year ended December 31, 1986	
Statement of Condition: Subrecipient receiving federal awards in excess of \$25,000 did not perform the required audit under OMB Circular A-133.	
Criteria: Subrecipients of federal awards of \$25,000 or more are required to have an audit in accordance with the provisions of OMB Circular A-133.	
Cause of Condition: Subrecipient, while aware of the federal award, was not familiar with the audit requirements of OMB Circular A-133.	
Recommendation: Agreements with subrecipients should include information necessary to make subrecipients aware of the audit requirements of OMB Circular A-133.	

The Board of Directors
Macon Ridge Economic Development Region, Inc.
May 28, 1997

In our opinion, Macon Ridge Economic Development Region, Inc. complied, in all material respects, with the specific requirements referred to in the second paragraph that are applicable to each of its major federal award programs for the year ended December 31, 1996.

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

Martin, Harrison & Smallwood, LLP

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 life of the property and equipment. Leasehold improvements are recorded at cost and are depreciated using the straight-line method over the term of the lease.

Maintenance and repairs are charged to operations; significant improvements are capitalised. 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.

RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT

Contributions/grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor/grantor restrictions.

Support that is restricted by the donor/grantor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

EXPENSE ALLOCATION

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities 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)(29) of the Internal Revenue Code.



RECEIVED
DEC 21 1994

**MACON RIDGE
ECONOMIC DEVELOPMENT REGION, INC.
FINANCIAL REPORT
DECEMBER 31, 1994**

under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or requested, 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.

Ms. 02 091

Revenue Code _____

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

FINANCIAL REPORT
DECEMBER 31, 1988

CONTENTS

	Page
Independent Auditors' Report	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10
OTHER INDEPENDENT AUDITORS' REPORTS	
Independent Auditors' Report on Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	11-12
Independent Auditors' Report on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	13
Independent Auditors' Report on Schedule of Federal Awards	14
Schedule of Federal Awards	15

MADON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

FINANCIAL REPORT

DECEMBER 31, 1996

CONTENTS (CONTINUED)

	Page
OTHER INDEPENDENT AUDITORS' REPORTS (CONTINUED)	
Independent Auditors' Report on Internal Control Structure Used in Administering Federal Awards	16-18
Independent Auditors' Report on Compliance with General Requirements Applicable to Federal Awards Programs	19
Independent Auditors' Report on Compliance with Specific Requirements Applicable to Major Federal Awards Programs	20-21
Schedule of Findings and Questioned Costs	22-24

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

CHARTERED PUBLIC ACCOUNTANTS

1800 KILPATRICK BLVD., P.O. BOX 9044 - MONROE, LA 70111-0044 - (504) 885-0000
501 DUNSTON STREET, SUITE 8 - DUBLAI, LA 70001 - (504) 885-0100

Independent Auditors' Report

May 28, 1997

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

We have audited the accompanying statement of financial position of Macon Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of December 31, 1996, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards: Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". These standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements 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, 1996, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated May 28, 1997, on our consideration of Macon Ridge Economic Development Region, Inc.'s internal control structure and our report dated May 28, 1997, on its compliance with laws and regulations.

Martin, Harrison & Smallwood, LLP

3

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1996

ASSETS	
Cash	625,314
Grant receivable	548,074
Contracts receivable	15,718
Other current assets	3,665
Loans receivable	
Intermediary Relending Program, net of allowance for loan losses of \$4,368	214,035
Rural Business Enterprise Grant Program, net of allowance for loan losses of \$2,759	125,182
Property and equipment, net	77,536
Other assets	450
TOTAL ASSETS	1,651,021
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	29,536
Accrued liabilities	11,415
Bank overdraft in bank account	19,680
Grant and contract payable	89,737
Grantor advance	528,140
Notes payable	369,150
TOTAL LIABILITIES	1,175,658
 NET ASSETS	
Unrestricted:	
Operating	232,693
Property and equipment	77,536
Total unrestricted	310,229
Temporarily restricted:	
Loan programs	167,127
Permanently restricted	-
TOTAL NET ASSETS	475,363
TOTAL LIABILITIES AND NET ASSETS	1,651,021

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

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 1996

	UNRESTRICTED	TEMPORARILY RESTRICTED
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS		
Grants		
Enterprise Community Program	—	592,568
Rural Business Enterprise Grant	—	190,709
Contracts		
Family Preservation Plan	—	30,884
Louisiana School-to-Work Program	—	7,699
Contributions	1,560	506
Membership dues	3,687	—
Interest income	26,241	—
Loan application and origination fees	9,825	—
Net assets released from restrictions		
Restrictions satisfied by payments	849,048	(849,048)
Total public support, revenues and reclassifications	890,211	(26,678)
EXPENSES		
Programs		
Grant programs:		
Enterprise Community	494,948	—
Loan programs	75,513	—
Other programs	38,377	—
Total programs	548,838	—
Management and general	151,804	—
Total expenses	699,642	—
CHANGE IN NET ASSETS	190,570	(26,678)
NET ASSETS – BEGINNING OF YEAR	118,856	198,815
NET ASSETS – END OF YEAR	318,226	162,137

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

PERMANENTLY RESTRICTED	TOTAL
--	532,598
--	180,700
--	30,884
--	7,699
--	2,000
--	3,600
--	26,240
--	9,825
--	--
--	800,525
--	434,949
--	75,325
--	18,377
--	248,839
--	151,604
--	699,845
--	163,690
--	2,3,671
--	472,263

	SUPPORTING SERVICES MANAGEMENT AND GENERAL	TOTAL
OTHER		
-	8,834	8,834
2,070	-	45,236
-	291	6,729
-	719	12,794
-	2,488	2,488
-	244	6,811
23	313	7,388
5,813	21,823	58,251
49	18	709
227	2,635	6,311
-	-	5,411
3,867	2,633	9,547
13	373	3,165
349	50	5,429
-	22,219	22,219
-	-	1,086
-	-	26,438
-	-	85,308
-	-	26,073
142	308	11,957
-	-	7,127
160	628	4,257
121	68	15,483
21,560	85,161	126,427
157	108	6,604
1,199	366	14,445
186	523	20,251
3,321	1,028	46,789
-	146	7,228
<u>38,377</u>	<u>151,004</u>	<u>692,843</u>

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

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

OPERATING ACTIVITIES

Change in net assets	168,692
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	12,794
Provision for loan losses	7,127
(Increase) Decrease in:	
Grant receivable	(298,148)
Contracts receivable	(15,735)
Other current assets	(2,876)
Other assets	(450)
Increase (Decrease) in:	
Accounts payable	(20,148)
Accrued liabilities	6,088
Grant and contract payable	19,737
Net cash provided by (used in) operating activities	(88,544)

INVESTING ACTIVITIES

Loans made to others	(309,890)
Payments received on loans to others	15,548
Purchases of equipment & leasehold improvements	(46,307)
Net cash provided by (used in) investing activities	(440,714)

FINANCING ACTIVITIES

Increase in bank overdraft in bank account	19,660
Loan proceeds	589,170
Payment of grantor advance	(477,449)
Net cash provided by (used in) financing activities	541,411

NET INCREASE IN CASH AND CASH EQUIVALENTS 49,966

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 605,180

CASH AND CASH EQUIVALENTS AT END OF YEAR 655,146

DISCLOSURE OF ACCOUNTING POLICY

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments 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, 1996

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 eleven parishes located in Northeast Louisiana. The Corporation's mission is economic development, industrial recruitment and readiness, and job creation within the eleven parish area.

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 \$2,850,000. The purpose of the Enterprise Community program is to implement a strategic plan formulated for revitalizing the economy of portions of five parishes within the Corporation's domain.

USDA also approved a \$2,000,000 loan to the Corporation to establish a revolving loan fund for business and economic development within the Enterprise Community, as well as throughout the Corporation's entire area. This loan was obtained through USDA's Intermediary Lending Program. In addition, USDA approved a \$300,000 Rural Business Enterprise Grant to operate a small business loan program solely for the Enterprise Community.

Periodically, the Corporation implements, on a contractual basis, other programs designed 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.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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.

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

MEMPHIS PUBLIC ACCOUNTANTS

1400 BELMONT BLVD., P.O. BOX 5044 - MEMPHIS, LA 38111-0044 - (901) 526-0000
505 PINEWOOD DRIVE, SUITE A - BIRMINGHAM, LA 35202 - (205) 978-0000

Independent Auditor's Report on Compliance
With General Requirements Applicable
to Federal Award Programs

May 28, 1997

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

We have audited the financial statements of Macon Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of and for the year ended December 31, 1996, and have issued our report thereon dated May 28, 1997.

We have applied procedures to test Macon Ridge Economic Development Region, Inc.'s compliance with the following requirements applicable to its federal award programs, which are identified in the accompanying Schedule of Federal Awards for the year ended December 31, 1996: political activity, civil rights, cash management, federal financial reports, allowable cost/cost principles, drug-free workplace and administrative requirements.

Our procedures were limited to applicable procedures described in the Office of Management and Budget's "Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions". Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Macon Ridge Economic Development Region, Inc.'s compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Macon Ridge Economic Development Region, Inc. had not complied, in all material respects, with those requirements. However, the results of our procedures disclose immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of the board of directors, management, the cognizant agency and the Legislative Auditor. However, this report is a matter of public record, and its distribution is not limited.

Martin, Harrison & Smallwood, L.L.P.

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

NOTE 2 - CASH

Cash consists of the following:

General fund - operating	72,369
Enterprise Community Program - operating (restricted)	8,550
Intermediary Relending Program - operating	441,852
Rural Business Enterprise Grant Program - operating	<u>133,445</u>
	<u>655,216</u>

Cash in the amount of \$387,625 in the Intermediary Relending Program account and cash in the amount of \$173,462 in the Rural Business Enterprise Grant Program account are restricted for the payment of each loan program's administrative expenses and for lending purposes.

NOTE 3 - GRANT RECEIVABLE

The grant receivable represents unreimbursed costs incurred in operating the Enterprise Community program. The grant receivable is due from the Louisiana Department of Social Services, Office of Community Services (OCS), which is the contracting agency for the Enterprise Community program in the State of Louisiana.

NOTE 4 - LOANS RECEIVABLE

During 1996, the Corporation began making loans to business entities through USDA's Intermediary Relending Program and the Corporation's Rural Business Enterprise Grant Program. Under the Intermediary Relending Program, loans of up to \$150,000 may be made to business entities in the Corporation's eleven parish operational area as follows: At least seventy percent (70%) of the total Intermediary Relending Program funds available must be loaned to businesses within the Enterprise Community, and a maximum of thirty percent (30%) of the funds available may be loaned to businesses outside of the Enterprise Community. Under the Rural Business Enterprise Grant Program, loans of up to \$25,000 may be made to businesses within the Enterprise Community.

NOTE 5 - PROPERTY, EQUIPMENT AND DEPRECIATION

The major classes of owned property and equipment at December 31, 1996, are summarized below:

CLASS	
Furniture and fixtures	9,034
Equipment	50,000
Leasehold improvements	<u>31,849</u>
	91,882
Less accumulated depreciation	<u>34,345</u>
Net property and equipment	<u>57,537</u>

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

NOTE 6 - GRANTOR ADVANCE

In accordance with the Corporation's Enterprise Community contract with OCS, the Corporation received an advance of \$571,389 in order to begin implementation of its Enterprise Community program. Under the terms of the contract, OCS will deduct one-twelfth (1/12) of the original advance amount from the Corporation's cost reimbursement claims approved by OCS until the entire advance is recouped. As of December 31, 1996, OCS had recouped only \$47,649 of the advance, resulting in a balance due of \$524,140.

NOTE 7 - NOTE PAYABLE

The note payable represents the balance due to USDA at December 31, 1996, for the total amount of funds borrowed from USDA under the Intermediary Relending Program. In accordance with the loan agreement, up to \$2,000,000 may be borrowed by the Corporation for relending purposes to business entities within its eleven parish operational area.

Under the terms of the loan agreement, interest at a rate of 3.80% is to be paid on a semiannual basis in 1996 and 1997. Beginning in December, 1998, principal and interest payments of \$8,200 are to be paid on an annual basis until the note matures in December, 2005.

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

Interest expense for the year ended December 31, 1996, totaled \$3,411, which was included in accrued liabilities at December 31, 1996.

NOTE 8 - LEASE

The Corporation has entered into a three year agreement for the lease of certain property, including the building in which the Corporation's offices are located. Total rental expense under this lease agreement for 1996 was \$12,000. The Corporation has the option to purchase the property for \$325,000 from March 7, 1997, through September 7, 1998.

The future minimum lease payments under this operating lease are as follows:

YEAR ENDED DECEMBER 31	
1997	12,000
1998	8,000

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

NOTE 9 - 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 Northwest Louisiana. Amounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 1996, the Corporation's uninsured cash balances totaled \$474,487.

Subsequent to December 31, 1996, the Corporation reached agreements with certain financial institutions which require such institutions to provide collateral or other security to support the Corporation's uninsured deposits.

COLLATERALIZATION POLICY

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

NOTE 10 - SIMPLIFIED EMPLOYEE PENSION

The Corporation has established a Simplified Employee Pension (SEP) for its employees in accordance with Section 408(k) of the Internal Revenue Code. The Corporation contributed \$22,463 to the SEP during 1996.

NOTE 11 - SUBSEQUENT EVENTS

Subsequent to December 31, 1996, the Corporation received USDA approval and funding to make loans through the Intermediary Relending Program totaling \$109,050 and to make loans through the Rural Business Enterprise Grant Program totaling \$67,000.

OTHER INDEPENDENT AUDITORS' REPORTS

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

CHARTERED FINANCIAL ACCOUNTANTS

7000 BELLAIR BLVD., P.O. BOX 5041 - MONROE, LA 70116-0504 - (504) 336-0000
201 BIRCH STREET, SUITE 4 - BOSSIERE, LA 70001 - (504) 833-6175

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

May 28, 1997

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

We have audited the financial statements of Macon Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of and for the year ended December 31, 1996, and have issued our report thereon dated May 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, "Audit of Institutions of Higher Education and Other Nonprofit Institutions." These standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Macon Ridge Economic Development Region, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are recorded in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Board of Directors
Mason Ridge Economic Development Region, Inc.
May 28, 1997

In planning and performing our audit of the financial statements of Mason Ridge Economic Development Region, Inc. for the year ended December 31, 1996, we obtained an understanding of its internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Mason Ridge Economic Development Region, Inc. in a separate letter dated May 28, 1997.

This report is intended for the information of the board of directors, management, the cognizant agencies and the Legislative Auditor. 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.

CERTIFIED PUBLIC ACCOUNTANTS

2010 BELPATRICK BLVD., P.O. BOX 4044 - MONROE, LA 71111-0444 - (504) 336-0000
300 DIXIE STREET, SUITE A - ORLÉANS, LA 70725 - (504) 836-0212

Independent Auditor's Report on Compliance
Based on an Audit of Financial Statements
Performed in Accordance with
Government Auditing Standards

May 28, 1997

The Board of Directors
Mazon Ridge Economic Development Region, Inc.
Farriday, Louisiana

We have audited the financial statements of Mazon Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of and for the year ended December 31, 1996, and have issued our report thereon dated May 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, "Audit of Institutions of Higher Education and Other Nonprofit Institutions". These standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

Compliance with laws, regulations, contracts and grants applicable to Mazon Ridge Economic Development Region, Inc. is the responsibility of the Corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of Mazon Ridge Economic Development Region, Inc.'s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed immaterial instances of noncompliance with the above requirements, which are described in the accompanying Schedule of Findings and Corrected Costs.

This report is intended for the information of the board of directors, management, the cognizant agencies and the Legislative Auditor. 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.

CERTIFIED PUBLIC ACCOUNTANTS

2001 WILPATRICE BLVD., P.O. BOX 4044 | MONROE, LA 70116-0444 | (504) 833-0000
500 DEPOT STREET, SUITE 2 | BELLINGHAM, WA 98220 | (360) 874-6000

Independent Auditors' Report on
Schedule of Federal Awards

May 28, 1997

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

We have audited the financial statements of Macon Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of and for the year ended December 31, 1996, and have issued our report thereon dated May 28, 1997. Those financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, "Audit of Institutions of Higher Education and Other Nonprofit Institutions." These standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Martin, Harrison & Smallwood, LLP

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

CERTIFIED PUBLIC ACCOUNTANTS

2001 WALNUTHURST BLVD., P.O. BOX 2044, MEMPHIS, TN 38101-2044 • (901) 526-0000
500 DE LOACH AVENUE, SUITE 4 • BIRMINGHAM, TN 38203 • (615) 476-0075

**Independent Auditors' Report on Internal Control Structure
Used in Administering Federal Awards**

May 28, 1997

The Board of Directors
Macron Ridge Economic Development Region, Inc.
Farriday, Louisiana

We have audited the financial statements of Macron Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of and for the year ended December 31, 1996, and have issued our report thereon dated May 28, 1997. We have also audited the compliance of Macron Ridge Economic Development Region, Inc. with requirements applicable to major federal award programs and have issued our report thereon dated May 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, "Audit of Institutions of Higher Education and Other Nonprofit Institutions." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether Macron Ridge Economic Development Region, Inc. complied with laws and regulations, noncompliance with which would be material to a major federal award program.

In planning and performing our audit of the financial statements of Macron Ridge Economic Development Region, Inc. for the year ended December 31, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on Macron Ridge Economic Development Region, Inc.'s financial statements and on its compliance with requirements applicable to major awards programs and its report on the internal control structure in accordance with OMB Circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal award programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated May 28, 1997.

The management of Macron Ridge Economic Development Region, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide

management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal award programs in the following categories:

- Revenue/Receipts, including loans
- Expenditures
- Payroll
- Financial Reporting
- Governmental Financial Assistance Programs
 - General Requirements
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-free Workplace Act
 - Administrative requirements
 - Specific Requirements
 - Types of services allowed or unallowed
 - Matching, level of effort or cost-sharing
 - Special reporting requirements
 - Special rules and provisions, including nondiscrimination, client confidentiality, payment of taxes, approval of subcontract work, political activity, insurance bonding, Enterprise Community eligibility, and citizenship eligibility.
 - Monitoring subgrantees
 - Claims for advances and reimbursements
 - Amounts claimed or used for matching

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended December 31, 1996, Macon Ridge Economic Development Region, Inc. expended 100% of its total federal awards under major federal award programs.

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Corporation's major federal award programs, which are identifiable in the accompanying Schedule of Federal Awards. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal awards would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal award program 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Marion Ridge Economic Development Region, Inc. in a separate letter dated May 28, 1997.

This report is intended for the information of the board of directors, management, the cognizant agencies and the Legislative Auditor. 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.

CHARTERED PUBLIC ACCOUNTANTS

2001 WILHELMINA BLVD., P.O. BOX 4044 - MONROE, LA 70004 - (504) 336-8800
201 DEPOT STREET, SUITE A - BELLEVUE, LA 70006 - (504) 336-6000

**Independent Auditors' Report on Compliance
With Specific Requirements Applicable
to Major Federal Awards Programs**

May 28, 1997

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

We have audited the financial statements of Macon Ridge Economic Development Region, Inc. (a Nonprofit Corporation) as of and for the year ended December 31, 1996, and have issued our report thereon dated May 28, 1997.

We have also audited the compliance of Macon Ridge Economic Development Region, Inc. governing types of services allowed or unallowed; matching, level of effort or cost-sharing; reporting; monitoring of subrecipients; discrimination in the rendering of services and employment; client confidentiality; reporting; payment of taxes; approval of subrecipient work; political activity; insurance bonding; Enterprise Community eligibility; citizenship certification; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major Federal award programs, which are identified in the accompanying Schedule of Federal Awards, for the year ended December 31, 1996. The management of Macon Ridge Economic Development Region, Inc. is responsible for the Corporation's compliance with these requirements based on our audit. Our responsibility is to express an opinion on compliance with these requirements based on our audit.

We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, "Audit of Institutions of Higher Education and Other Nonprofit Institutions." These standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the second paragraph occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with these requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to in the second paragraph, which are described in the accompanying Schedule of Findings and Questioned Costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.