

LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
ISSUED DECEMBER 9, 2009

**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

October 13, 2009

Independent Auditor's Report
on the Financial Statements

LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Louisiana Transportation Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 2008. These financial statements are the responsibility of management of the Louisiana Transportation Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Transportation Authority as of June 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. The direct effects on the Louisiana Transportation Authority are the increase in construction costs that arose as a result of

these hurricanes; however, the long-term effects of these events directly on the Louisiana Transportation Authority cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2009, on our consideration of the Louisiana Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor

EMS:CGEW:BQD:THC:dl

LTA08

Management's Discussion and Analysis of the Louisiana Transportation Authority's (Authority) financial performance presents a narrative overview and analysis of the Authority's financial activities for the year ended June 30, 2008. 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 document in conjunction with the additional information contained in the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's assets exceeded its liabilities at the close of fiscal year 2008 by \$42,547,517. The Authority is in a start-up mode and until construction is complete, has no revenue except interest earnings.
- The Authority's operating loss decreased by \$3,005 to \$604,218 in fiscal year 2008 from \$607,223 in fiscal 2007, before capital contributions. Capital contributions totaled \$23,719,649 and \$9,006,104 in fiscal year 2008 and 2007, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of three sections - 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 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 financial position of the Authority is improving or deteriorating.

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

The Statement of Cash Flows presents information showing how the Authority's cash changed as a result of current year operations. The cash flows statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by Governmental Accounting Standards Board (GASB) 34.

FINANCIAL ANALYSIS**Net Assets**

The Authority's total net assets at June 30, 2008, changed by approximately \$23 million, a 119% increase over June 30, 2007 (see Table A-1). Total assets increased 13.3% to approximately \$221 million and total liabilities increased 1.6% to \$178 million.

Table A-1
Louisiana Transportation Authority
Statement of Net Assets
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
Current assets	NONE	\$1,716
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	\$86	91
Investments	54,675	110,067
Other	202	1,129
Construction-in-progress	161,730	77,249
Other	4,211	4,795
Total assets	<u>220,904</u>	<u>195,047</u>
Current liabilities	14,687	11,828
Noncurrent liabilities	<u>163,670</u>	<u>163,787</u>
Total liabilities	<u>178,357</u>	<u>175,615</u>
Net assets - unrestricted	<u><u>\$42,547</u></u>	<u><u>\$19,432</u></u>

This schedule is prepared from the Authority's statement of net assets as shown on page 9, which is prepared on an accrual basis of accounting.

Significant statement of net asset changes from 2007 include the following:

- Noncurrent assets - restricted investments decreased because bond proceeds were spent on construction of the LA Highway 1 project.
- Construction-in-progress increased from continuing construction of the LA Highway 1 project, which is being funded from bond proceeds and capital contributions received from the Department of Transportation and Development (DOTD).

- Net assets increased primarily as a result of DOTD's capital contributions for the LA Highway 1 project.

Changes in Net Assets

The change in net assets at June 30, 2008, is approximately \$23 million, or 119% more than at June 30, 2007. The changes in net assets are detailed in Table A-2. These changes are primarily the result of capital contributions totaling \$23,719,649 received from DOTD. The Authority is in its start-up phase on the LA Highway 1 project and will have no revenues until the highway opens and toll collection begins.

Table A-2
Louisiana Transportation Authority
Statement of Changes in Net Assets
(in thousands of dollars)

	2008	2007
Operating revenues	NONE	NONE
Operating expenses	\$604	\$607
Operating loss	(604)	(607)
Nonoperating revenues (expenses)	NONE	NONE
Capital contributions	23,719	9,006
Change in net assets	23,115	8,399
Net assets, beginning of the year	19,432	11,033
Total net assets	<u>\$42,547</u>	<u>\$19,432</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the Authority reported capital assets totaling \$161,730,233, which represents an increase of \$84,480,907, or 109%, from fiscal 2007 and which consists entirely of construction-in-progress for the LA Highway 1 project (see note 5).

DEBT ADMINISTRATION

The Authority had \$195,800,000 in bonds and notes outstanding at fiscal year-end 2008, which has remained constant for each of the last three years because no principal payments have been made (see note 6). Standard & Poor's, Fitch, and Moody's have given the Authority's bonds a rating of AAA. The Authority has no outstanding claims and judgments at fiscal year-end. No new debt was issued in fiscal year 2008.

ECONOMIC FACTORS AND NEXT YEAR'S ACTIVITIES

Because construction is continuing for Phase 1 of the LA Highway 1 project, the Authority anticipates no revenues from operations until fiscal year 2010. Interest earnings on the investment of bond proceeds are reported as required in the official statement. Continuing expenses paid by DOTD on the project will be recorded by the Authority as contributed capital, which will increase net assets over the next year.

CONTACTING THE LOUISIANA TRANSPORTATION AUTHORITY'S MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Michael Bridges, Undersecretary of Management and Finance, Department of Transportation and Development, Post Office Box 94245, Baton Rouge, Louisiana 70804-9245.

**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

**Statement of Net Assets
June 30, 2008**

ASSETS

Noncurrent assets:

Restricted assets:

Cash and cash equivalents (note 2)	\$86,361
Investments (note 3)	54,674,626
Accrued interest receivable (note 4)	201,650
Construction-in-progress (note 5)	161,730,233
Unamortized bond issue costs	4,211,175
Total assets	<u>220,904,045</u>

LIABILITIES

Current liabilities:

Accounts payable	6,426,192
Due to DOTD (note 7)	7,708,942
Accrued interest on bonds payable	551,973
Total current liabilities	<u>14,687,107</u>

Noncurrent liabilities - bonds payable,
net of unamortized bond premium (discount)

	<u>163,669,421</u>
Total liabilities	<u>178,356,528</u>

NET ASSETS

Invested in capital assets, net of related debt	45,550,614
Unrestricted	<u>(3,003,097)</u>

Total net assets	<u><u>\$42,547,517</u></u>
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The accompanying notes are an integral part of this statement.

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**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

**Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended June 30, 2008**

OPERATING REVENUES	<u>NONE</u>
OPERATING EXPENSES	
Administrative expenses	\$21,290
Amortization of bond issuance costs	<u>582,928</u>
Total operating expenses	<u>604,218</u>
OPERATING LOSS	(604,218)
NONOPERATING EXPENSES	<u>NONE</u>
LOSS BEFORE OTHER REVENUES	(604,218)
Capital Contributions	<u>23,719,649</u>
CHANGE IN NET ASSETS	23,115,431
NET ASSETS AT BEGINNING OF YEAR	<u>19,432,086</u>
NET ASSETS AT END OF YEAR	<u><u>\$42,547,517</u></u>

The accompanying notes are an integral part of this statement.

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**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Year Ended June 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash payments for operating expenses	(21,290)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Interest paid on bonds	(6,623,675)
Acquisition/construction of capital assets	(52,873,778)
Net cash used by capital and related financing activities	(59,497,453)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investment securities	55,392,618
Interest earned on investments	4,121,266
Net cash provided by investing activities	59,513,884

NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,859)
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	91,220
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CASH AND CASH EQUIVALENTS AT END OF YEAR	86,361
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RECONCILIATION OF OPERATING LOSS TO

NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	(604,218)
Adjustment to reconcile operating income to net cash provided by operating activities -	
Amortization expense	582,928
Net cash used for operating activities	(21,290)

Schedule of Noncash Capital and Financing Activities:

Additions to CIP from:	
Capital contributions	23,719,649
Capitalized net interest expense	5,311,364
Amounts paid by and due to DOTD	1,346,981

The accompanying notes are an integral part of this statement.

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INTRODUCTION

The Louisiana Transportation Authority (Authority) is a public corporation created within the Department of Transportation and Development of the State of Louisiana. The Louisiana Legislature created the Authority pursuant to Act No. 1209 of the 2001 Regular Session of the Louisiana Legislature for the purpose of pursuing alternative and innovative funding sources, including but not limited to public/private partnerships, tolls, and unclaimed property bonds to supplement public revenue sources and to improve Louisiana's transportation system. The Authority is governed by nine directors who shall be the governing body of the Authority with full power to promulgate rules and regulations for the maintenance and operation of the Authority, subject to the approval of the House and Senate committees on Transportation, Highways and Public Works. In accordance with the provisions of the Act, the Authority has the power to issue bonds for any purpose of the Authority and to pledge revenues for the payment of the principal and interest of such bonds. The Authority has no taxing power.

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. 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 nine Authority directors are either members of the legislature or are appointed by the governor, and the state is able to impose its will on the Authority through its oversight responsibility. 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. These basic financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

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

D. BASIS OF ACCOUNTING

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. BUDGET PRACTICES

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

F. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents include amounts on deposit with the fiscal agent bank and invested in money market funds. 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. The Master Indenture of Trust dated April 1, 2005, authorizes the trustee, as directed by the Authority, to invest in direct U.S. Treasury obligations; bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by federal agencies or by U.S. government instrumentalities, which are federally sponsored; direct security repurchase agreements of any federal book-entry only securities previously referenced with a financial institution rated not less than "A" by a rating agency and with collateral held by a third party; certificates of deposit; mutual or trust fund institutions registered by the Securities and

Exchange Commission under the Securities Act of 1933 and the Investment Act of 1940 and which have underlying investments consisting solely of and limited to securities of the U.S. government or its agencies; and investment grade commercial paper of domestic U.S. corporations.

Investments that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are reported as restricted investments.

G. FIXED ASSETS

The Authority follows the capitalization policies established by the Louisiana Division of Administration, Office of Statewide Accounting and Reporting Policy. Any infrastructure asset exceeding \$3 million is capitalized and depreciated using the straight-line method over 40 years.

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

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

I. NONCURRENT LIABILITIES

Bond issuance costs are reported and amortized over the life of the bonds using the straight-line method. Bond premium and discounts are amortized over the life of the bonds using the effective interest-rate method.

J. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net assets are generally 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.

2. CASH AND CASH EQUIVALENTS

As reflected on Statement A, the Authority has cash and cash equivalents totaling \$86,361 at June 30, 2008. The Authority's cash and cash equivalents are comprised of money market funds that consist of shares in investments in direct obligations of the U.S. Department of the Treasury including Treasury bills, bonds, notes and other obligations issued or guaranteed by the U.S. Treasury, and repurchase agreements backed by such obligations. The Authority's investments in the U.S. Treasury Plus Money Market Funds were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. These funds are reflected as restricted assets in the Statement of Net Assets.

3. INVESTMENTS

At June 30, 2008, the Authority has investments stated at cost, which approximates market, totaling \$54,674,626, which are composed of repurchase agreements. At June 30, 2008, the repurchase agreements were collateralized by Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae) mortgage-backed securities, with a fair market value of \$48,409,720 (82%) and \$10,968,798 (18%), respectively, for a total collateral of \$59,378,518 (109% of investments). The securities are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The maturities of investments held at June 30, 2008, are as follows:

Maturity

Less than 1 year	\$42,132,611
1-5 years	8,542,015
10 years or longer	<u>4,000,000</u>
Total	<u><u>\$54,674,626</u></u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority limits its credit risk with the repurchase agreements by requiring the market value of the securities underlying repurchase agreements to equal at least 100%-105% of the value of the repurchased securities at all times, depending on the type of underlying security. The Authority further limits its credit risk by limiting collateral for repurchase agreements, to securities explicitly guaranteed by the U.S. government (U.S. Treasury, Government National Mortgage Association) and implicitly guaranteed by the U.S. government for government-sponsored entities (Fannie Mae, Freddie Mac, and Federal Home Loan Bank).

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Authority limits concentration of credit risk by investing in repurchase agreements of financial institutions rated not less than "A" by a rating agency and by requiring collateral of 100%-105% held by a third party.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority has no policies to limit its interest rate risk. Because the Fannie Mae and Freddie Mac investments underlying the repurchase agreements are mortgage-backed securities, prepayment options cause them to be highly sensitive to changes in interest rates.

4. ACCRUED INTEREST RECEIVABLE, RESTRICTED

The Authority has accrued interest receivable at June 30, 2008 of \$201,650. These amounts represent income from investments earned before the year-end, but not received by the Authority until after the applicable year-end as noted.

5. CHANGES IN FIXED ASSETS

A summary of changes in fixed assets for the year ended June 30, 2008, follows:

	Balance June 30, 2007	Additions	Balance June 30, 2008
Construction-in-progress	\$77,249,326	\$84,480,907	\$161,730,233

6. LONG-TERM LIABILITIES

The following is a summary of changes in long-term debt of the Authority for the years ended June 30, 2008:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008
Bonds payable	\$195,800,000	NONE	NONE	\$195,800,000
Less deferred amounts:				
Unamortized bond discount	(34,447,007)		\$1,015,665	(33,431,342)
Unamortized bond premium	2,375,173		(1,074,410)	1,300,763
Unamortized bond discount, net	(32,071,834)	NONE	(58,745)	(32,130,579)
Total liabilities	\$163,728,166	NONE	(\$58,745)	\$163,669,421

On June 9, 2005, the Authority issued Series 2005A Senior Lien Toll Revenue Bonds, Series 2005B Senior Lien Toll Revenue Capital Appreciation Bonds, and Series 2005 Subordinate Lien Toll Revenue Bond Anticipation Notes (BANS), in accordance with the Master Indenture of Trust, as supplemented by a First Supplemental Indenture of Trust and a Second Supplemental Indenture of Trust all dated as of April 1, 2005. These bonds have maturities between

September 1, 2009, and December 1, 2030, with interest rates from 3.5% to 5.0%, except for the Capital Appreciation Bonds, which are interest free bonds issued at a deep discount.

In addition, the Authority has entered into a Secured Loan Agreement with the U.S. Department of Transportation (USDOT) to borrow up to \$66,000,000 to pay or reimburse the Authority for “Eligible Project Costs” of Phase I by refinancing the Series 2005 Subordinate Lien BANS.

Pursuant to the provisions of the Secured Loan Agreement, the USDOT has agreed to lend the Authority up to \$66,000,000 to pay or reimburse a portion of the Eligible Project Costs of Phase I under the Secured Loan Agreement between the Authority and the USDOT for the purpose of refinancing the Series 2005 Subordinate Lien BANS. To evidence the Authority’s obligations under the Secured Loan Agreement, the Authority issued the Series 2005 Transportation Infrastructure Finance and Innovation Act (TIFIA) Bond as a Subordinate Lien BAN.

All principal and interest are funded in accordance with Article 7, Section 27 of the Louisiana Constitution of 1974. These bonds are not general obligations of the state or any political subdivision thereof, and the faith and credit of the state is not pledged to the payment of these bonds. The Series 2005 Senior Lien bonds are payable solely from a first lien on and pledge of toll revenues. The Series 2005 Subordinate Lien BANS, which are to be refinanced by the TIFIA loan, are payable solely from a second lien on and pledge of toll revenues.

Details of all debt outstanding at June 30, 2008, follow:

	Date of Issue	Original Issue	Outstanding June 30, 2007	Issued (Redeemed)	Outstanding June 30, 2008	Maturities	Interest Rates	Future Interest Payments, June 30, 2008
Series 2005A Senior Lien Toll Revenue Bonds	June 9, 2005	\$78,350,000	\$78,350,000		\$78,350,000	2014-2031	3.5% - 4.5%	\$57,812,688
Series 2005B Senior Lien Toll Revenue Capital Appreciation Bonds	June 9, 2005	51,450,000	51,450,000		51,450,000	2025-2029	5.17% - 5.34%	
Series 2005 Subordinate Lien Toll Revenue Bond Anticipation Notes	June 9, 2005	66,000,000	66,000,000		66,000,000	2010	3.875% - 5.0%	4,051,875
Total		<u>\$195,800,000</u>	195,800,000	NONE	195,800,000			<u>\$61,864,563</u>
Net premium (discounts)			(31,995,203)		(32,130,579)			
Net accumulated amortization of premiums/discounts			<u>(76,631)</u>		<u>6,415</u>			
Bonds payable, net			<u>\$163,728,166</u>		<u>\$163,675,836</u>			

The annual requirements to amortize all bonds outstanding at June 30, 2008, are as follows:

	Principal	Interest	Total
2009		\$6,623,676	\$6,623,676
2010	\$66,000,000	4,192,550	70,192,550
2011		3,382,176	3,382,176
2012		3,382,176	3,382,176
2013		3,382,176	3,382,176
2014-2018	4,175,000	16,540,021	20,715,021
2019-2023	24,475,000	13,882,949	38,357,949
2024-2028	55,595,000	7,730,576	63,325,576
2029-2031	45,555,000	2,748,263	48,303,263
Total	<u>\$195,800,000</u>	<u>\$61,864,563</u>	<u>\$257,664,563</u>

7. COOPERATIVE ENDEAVORS

Louisiana Revised Statute 33:9022 defines cooperative endeavors as any form of economic development assistance between and among the state of Louisiana, its local governmental subdivisions, political corporations, public benefit corporations, the United States government or its agencies, or any public or private association, corporation, or individual. The term cooperative endeavor includes cooperative financing, cooperative development, or any form of cooperative economic development activity. The state of Louisiana has entered into cooperative endeavor agreements with certain entities aimed at developing the economy of the state.

The Authority entered into two cooperative endeavors, one with the Louisiana Department of Transportation and Development (DOTD) and the other with the state of Louisiana through the Division of Administration and the Louisiana Department of Economic Development (DED) in April 2005 to enhance the feasibility of financing Phase I of the LA 1 Project.

DOTD's obligations under the agreement are as follows: (1) align funding agreements with the Federal Highway Administration (FHWA) for advance construction, (2) guarantee the payment of costs overruns of Phase I, and (3) pay future operating and maintenance expenses from available DOTD funding subject to appropriation. The guarantee of funding from DOTD is to ensure that the owners of the Series 2005 Bonds will be granted a gross revenue pledge on any tolls generated by Phase I. At June 30, 2008, the Authority owes DOTD \$7,708,942 based on the cooperative endeavor agreement.

DED's obligations under the agreement are limited to \$18,000,000 per fiscal year, given that the Louisiana Legislature appropriates funds to cover this amount, to supplement the Debt Service Reserve for the Senior Lien Bond Debt if insufficient funds are on deposit to make payment obligations. The Authority must reimburse all amounts paid under this agreement before any additional bonds can be issued. At June 30, 2008, there were no outstanding liabilities with DED based on the cooperative endeavor agreement.

8. SUBSEQUENT EVENTS

On July 8, 2009, Phase 1A of the LA 1 Toll road was opened, and the Authority began collecting tolls on August 3, 2009.

On August 26, 2009, the Authority received \$66 million in proceeds from the TIFIA loan. The funds were sent directly from the federal government to the Bank of New York, the Authority's trustee. The Bank of New York used those funds to pay the Series 2005 Subordinate Lien BANs, in accordance with the Master Indenture of Trust, as supplemented by a First Supplemental Indenture of Trust and a Second Supplemental Indenture of Trust, all dated as of April 1, 2005. The BANs matured and were paid on September 1, 2009.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

October 13, 2009

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

**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the basic financial statements of the Louisiana Transportation Authority (Authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 13, 2009. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the following paragraph, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

Inaccurate and Incomplete Annual Fiscal Report

For the third consecutive year, the Department of Transportation and Development (department) on behalf of the Louisiana Transportation Authority (LTA) did not prepare and submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration. As authorized by Louisiana Revised Statute (R.S.) 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP) prescribes the content and format for the preparation of each agency AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR) and LTA's separately issued financial statements in accordance with accounting principles generally accepted in the United States of America. Good internal control includes establishing a process to ensure that these AFRs are accurately prepared and reviewed. However, LTA's AFR for the fiscal year ended June 30, 2008, submitted to OSRAP and the Office of Legislative Auditor (OLA) on October 3, 2008, included the following errors and omissions:

Statement of Net Assets

- Capital assets were understated by \$3,384,416 because the department did not capitalize interest expense and include the expense in construction-in-progress as required by applicable accounting principles.
- Accrued interest on bonds payable was understated by \$551,973.
- Net assets were misclassified, resulting in the following errors:
 - Invested in capital assets, net of related debt was understated by \$52,787,677.
 - Net assets, restricted for capital projects were overstated by \$45,038,678, which is net of the effect of additional adjustments listed separately.
 - Unrestricted net assets were overstated by \$3,003,097.

Statement of Revenues, Expenses, and Changes in Net Assets

- Interest expense was not offset by interest income as required by applicable accounting principles, resulting in a \$3,180,515 overstatement of revenue and a corresponding overstatement of expenses.
- Operating expenses were understated by \$582,928 because the department classified the amortization of the costs of issuing bonds as nonoperating expenses.
- Interest expense was overstated by \$3,384,416 because the department did not capitalize interest expense as required by applicable accounting principles.

The department misclassified investment maturities in note 3 for the interest rate risk disclosures, resulting in a \$42,132,611 understatement of investment maturities less than one year and a corresponding overstatement of investment maturities for one to five years.

Management of the department did not establish detailed, written procedures for the compilation and review of the AFR for the fiscal year ended June 30, 2008, to ensure that the financial statements presented were fairly stated in all material respects. Inadequate preparation and review could result in misstated financial reports and undetected errors and/or fraud.

Management should establish a formal, written compilation process to ensure an adequate compilation and supervisory review of AFRs before submission to the Division of Administration.

Management concurred in part with the finding and recommendations stating that the AFRs were revised “as a result of the recommendation from the LLA to change the reporting requirement for the LTA and the Department’s infrastructure.” In addition, management stated that the department had a limited time to restate two prior years’ financial statements as well as preparing the financial statements for fiscal 2008 and stated that the errors noted in the finding are not systemic nor are they a lack of management control (see Appendix A).

Additional Comments: We believe that the comments in the finding are not related to the determination to report the LTA assets at 100% on LTA’s AFRs as management states in its response (Appendix A). In addition, we believe that the errors are systemic and indicative of a lack of internal controls because the errors cited above occurred consistently from fiscal years 2006 through 2008. These errors resulted from management’s failure to ensure that applicable accounting principles were appropriately applied and not from a limited amount of time to restate prior years’ AFRs.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described previously is a material weakness.

Compliance and Other Matters

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

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

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

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor

EMS:CGEW:BQD:THC:dl

LTA08

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



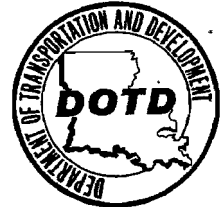
BOBBY JINDAL
GOVERNOR

**STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT**

P.O. Box 94245
Baton Rouge, Louisiana 70804-9245

www.dotd.la.gov

(225) 379-1270



WILLIAM D. ANKNER, Ph.D.
SECRETARY

September 29, 2009

Mr. Steve Theriot
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, La. 70804-9397

Re: **Legislative Auditor Report
Louisiana Transportation Authority
Inaccurate and Incomplete Annual Financial Report for FY 08**

Dear Mr. Theriot:

The Louisiana Transportation Authority was created by statute within the Department of Transportation and Development and as such is dependent on the LADOTD to provide support services. To that end, the Management response letter will be from the Department of Transportation and Development (Department).

The Department concurs in part with the finding. The Department does agree that the figures from the 2008 Louisiana Transportation Authority (LTA) Annual Financial Reports (AFR) were restated but this was as a result of the recommendation from the LLA to change the reporting requirement for the LTA and the Department's infrastructure. The decision to report the LTA assets at 100% on the LTA annual financial reports resulted in the reclassification of several figures within this annual financial report. The Department was given a very limited amount of time to go back two years and restate two additional sets of annual financial statements as well as prepare the financial statements for fiscal year 2008. As a result, some errors were unfortunately made. These errors are not systemic nor are they a lack of management control. They are a result of an unexpected and extremely tight deadline with new parameters.

It is important to note at this point, that the LLA audit of the LTA FY08 AFR has some of the same findings as noted in the FY 06 and 07 AFR. The FY 08 AFR was completed without the benefit of the LLA audit of the FY 07 AFR, therefore errors were carried forward. As such, this management response letter will have some of the same comments.

Comments on bulleted paragraphs:

Bullet #1 & 6 – Related to FASB 34 which requires the capitalization of interest. We concur with the revision. Since both the 2006 and 2007 AFRs were restated at the same time as 2008 AFR was prepared and all AFRs were audited at the same time the FASB 34

error carried forward in the 2008 AFR without correction. **Related to Bullet # 6 in 2006 AFR and Bullet #4 in 2007 AFR.**

Bullet #2 – The Department concurs with the accrued interest revision. Since both the 2006 and 2007 AFRs were restated at the same time as the 2008 AFR was prepared and all AFRs were audited at the same time the error carried forward in the 2008 AFR without correction and/or audit adjustment. **Related to Bullet # 4 in 2006 AFR and Bullet #2 in 2007 AFR.**

Bullet #3 – These are misclassification errors that do not affect the total net assets. These errors were directly related to the change in reporting requirements for capital assets. Since both the 2006 and 2007 AFRs were restated at the same time the 2008 AFR was prepared and all AFRs were audited at the same time the error carried forward in the 2008 AFR without correction and/or audit adjustment. **Related to Bullet # 2 in 2006 AFR and Bullet # 1 in 2007 AFR.**

Bullet #4 - Related to FASB 62 which requires the offset of interest expense by interest income. We concur with the revision. Since both the 2006 and 2007 AFRs were restated at the same time the 2008 AFR was prepared and all AFRs were audited at the same time the error carried forward in the 2008 AFR without correction and/or audit adjustment. **Related to Bullet # 7 in 2006 AFR and Bullet #3 in 2007 AFR.**

Bullet #5 – This is a misclassification error that does not affect the total net assets.

In closing, I believe the Department made a diligent effort to resolve the outstanding issues within these AFRs by working with both the LLA and OSRAP. Also, the Department had implemented internal controls over the preparation of the LTA annual financial reports at the time of the audit of the restated AFRs. More recently, the Department has hired a CPA firm to assist with the preparation of the annual financial statements for fiscal year 2009, 2010 and 2011.

Sincerely,

A handwritten signature in black ink, appearing to read 'W.D. Ankner', with a long horizontal stroke extending to the right.

William D. Ankner, Ph.D.
Secretary

c: Michael Bridges, Undersecretary
Kirt Clement, Deputy Undersecretary
Leshia Woods, Assistant Financial Services Administrator
John Lyon, Audit Director