

LOUISIANA UTILITIES RESTORATION CORPORATION
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2010
ISSUED MARCH 16, 2011

**LEGISLATIVE AUDITOR
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This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$16.35. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 10199 or Report ID No. 80100098 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

February 16, 2011

Independent Auditor's Report

LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the major enterprise funds of the Louisiana Utilities Restoration Corporation (the Corporation), a component unit of the State of Louisiana, as of and for the year ended June 30, 2010, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

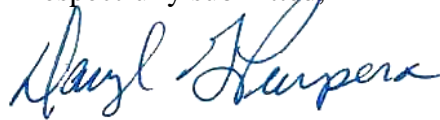
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major enterprise funds of the Corporation as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2011, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to

provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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
Legislative Auditor

AE:AD:BQD:THC:kg

LURC 2010

This section of the financial report of the Louisiana Utilities Restoration Corporation (the Corporation) for the fiscal year from July 1, 2009, through June 30, 2010, represents management's analysis of the Corporation's financial performance during the year then ended. This should be read in conjunction with the financial statements and the corresponding note disclosures of the Corporation, which follows this section.

Management's Discussion and Analysis is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34 issued in June 1999.

FINANCIAL HIGHLIGHTS

During the fiscal year ending June 30, 2010, the main financial activities of the Corporation are as follows:

- The Corporation collected \$102,064,559 in system restoration charges from Entergy Louisiana, LLC (ELL) and \$42,762,474 in system restoration charges from Entergy Gulf States Louisiana, L.L.C. (EGSL).
- The Corporation paid \$56,780,763 in interest and \$66,113,837 in principal obligations on the Series 2008-ELL Program system restoration bonds.
- The Corporation paid \$22,486,707 in interest and \$28,107,651 in principal obligations on the Series 2008-EGSL Program system restoration bonds.
- The Corporation paid \$549,572 to utility companies in servicing fees.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

The basic financial statements present information for the Corporation 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* (page 9) 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 the financial position of the Corporation.

The *Statement of Revenues, Expenses, and Changes in Net Assets* (page 11) presents information showing how the Corporation's assets changed as a result of operations from July 1, 2009, through June 30, 2010. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The *Statement of Cash Flows* (page 13) presents information showing how the Corporation's cash changed as a result of operations from July 1, 2009, through June 30, 2010. The cash flow statement is prepared using the direct method and includes the reconciliation of operating loss to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

The condensed Statement of Net Assets for fiscal years 2009 and 2010 are as follows:

Statement of Net Assets
June 30, 2010 and 2009

	June 30, 2010	June 30, 2009 (Restated)	Increase (Decrease)	Percentage Change
Current assets	\$90,477,293	\$119,083,007	(\$28,605,714)	(24.02%)
Noncurrent assets	4,799,915	5,816,278	(1,016,363)	(17.47%)
Total assets	<u>95,277,208</u>	<u>124,899,285</u>	<u>(29,622,077)</u>	(23.72%)
Current liabilities	109,798,254	143,580,938	(33,782,684)	(23.53%)
Noncurrent liabilities	782,723,951	871,520,675	(88,796,724)	(10.19%)
Total liabilities	<u>892,522,205</u>	<u>1,015,101,613</u>	<u>(122,579,408)</u>	(12.08%)
Total net assets (deficit) - unrestricted	<u>(\$797,244,997)</u>	<u>(\$890,202,328)</u>	<u>\$92,957,331</u>	10.44%

The decrease in current assets arose primarily because of the use of cash and cash equivalents to meet the Corporation's debt service requirements. The first installment of principal and interest on the bonds issued was due on August 1, 2009; therefore, the sources of funds to meet these requirements were on hand at the end of the prior fiscal year.

The decrease in current liabilities resulted from the payment of all accrued interest from the date of issuance until the first required debt service installment. The primary cause of the decline in noncurrent liabilities is the required principal payments on the outstanding bonds.

Since liabilities payable from restricted assets exceed restricted assets, the Corporation is reporting a deficit in net assets, which is required to be presented as unrestricted. Restricted net assets represent those assets that are not available for spending as a result of bond agreements.

The condensed Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2010, and June 30, 2009, are as follows:

**Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009**

	<u>June 30, 2010</u>	<u>June 30, 2009 Restated</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Operating revenues - system restoration charges (net)	\$145,951,309	\$113,484,337	\$32,466,972	28.61%
Nonoperating revenues - income interest	<u>56,071</u>	<u>470,094</u>	<u>(414,023)</u>	(88.07%)
Total revenues	<u>146,007,380</u>	<u>113,954,431</u>	<u>32,052,949</u>	28.13%
Operating expenses	820,130	954,284,705	(953,464,575)	(99.91%)
Nonoperating expenses - expense interest	<u>52,229,919</u>	<u>49,872,054</u>	<u>2,357,865</u>	4.73%
Total expenses	<u>53,050,049</u>	<u>1,004,156,759</u>	<u>(951,106,710)</u>	(94.72%)
Change in net assets	<u><u>\$92,957,331</u></u>	<u><u>(\$890,202,328)</u></u>	<u><u>\$983,159,659</u></u>	110.44%

The operating revenues of the Corporation are derived from the system restoration charges collected by the utility companies from their customers. The increase of the current year operating revenues over the prior year is a result of the prior year not consisting of a full 12 months of collections. The system restoration charges were assessed subsequent to the bond issuance dates of July 29, 2008, and August 26, 2008.

The significant decline in operating expenses was caused by the absence of non-shareholder contributions to utility companies during the current year. The total non-shareholder contributions for the prior fiscal year amounted to \$953,764,024.

Contacting Management of the Corporation

This financial report is designed to provide a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact the registered agent for the Corporation as follows:

Mr. David Guerry
Long Law Firm
One United Plaza, Suite 500
4041 Essen Lane
Baton Rouge, Louisiana 70809

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**LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Statement of Net Assets, June 30, 2010

	ELL PROGRAM	EGSL PROGRAM	TOTAL
ASSETS			
Current assets - restricted:			
Cash equivalents (note 2)	\$52,826,056	\$22,361,407	\$75,187,463
Receivables, net (note 3)	10,615,519	4,674,311	15,289,830
Total current assets	<u>63,441,575</u>	<u>27,035,718</u>	<u>90,477,293</u>
Noncurrent assets - restricted -			
bond issuance costs, net	3,300,966	1,498,949	4,799,915
Total Assets	<u>66,742,541</u>	<u>28,534,667</u>	<u>95,277,208</u>
LIABILITIES			
Current liabilities - restricted:			
Accounts payable	116,519	100,156	216,675
Accrued interest payable	14,704,491	6,080,362	20,784,853
Bonds payable, net (note 4)	64,523,461	24,273,265	88,796,726
Total current liabilities	<u>79,344,471</u>	<u>30,453,783</u>	<u>109,798,254</u>
Noncurrent liabilities - restricted -			
bonds payable, net (note 4)	556,798,768	225,925,183	782,723,951
Total Liabilities	<u>636,143,239</u>	<u>256,378,966</u>	<u>892,522,205</u>
NET ASSETS (Deficit) - Unrestricted	<u><u>(\$569,400,698)</u></u>	<u><u>(\$227,844,299)</u></u>	<u><u>(\$797,244,997)</u></u>

The accompanying notes are an integral part of this statement.

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**LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Revenues, Expenses,
and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010**

	ELL PROGRAM	EGSL PROGRAM	TOTAL
OPERATING REVENUES:			
System restoration charges	\$102,824,752	\$43,129,535	\$145,954,287
(Increase) decrease in allowance for uncollectible accounts	562	(3,540)	(2,978)
System restoration charges, net (note 5)	<u>102,825,314</u>	<u>43,125,995</u>	<u>145,951,309</u>
OPERATING EXPENSES:			
Servicing fees	207,158	167,750	374,908
Professional services	207,611	207,611	415,222
Ongoing financing costs	20,000	10,000	30,000
Total operating expenses	<u>434,769</u>	<u>385,361</u>	<u>820,130</u>
OPERATING INCOME	<u>102,390,545</u>	<u>42,740,634</u>	<u>145,131,179</u>
NONOPERATING REVENUES (Expenses):			
Interest and dividend income	39,170	16,901	56,071
Interest expense	(36,956,389)	(15,273,530)	(52,229,919)
Net nonoperating expenses	<u>(36,917,219)</u>	<u>(15,256,629)</u>	<u>(52,173,848)</u>
CHANGE IN NET ASSETS	65,473,326	27,484,005	92,957,331
NET ASSETS (Deficit) BEGINNING OF YEAR, Restated (note 6)	<u>(634,874,024)</u>	<u>(255,328,304)</u>	<u>(890,202,328)</u>
TOTAL NET ASSETS (Deficit) AT END OF YEAR	<u><u>(\$569,400,698)</u></u>	<u><u>(\$227,844,299)</u></u>	<u><u>(\$797,244,997)</u></u>

The accompanying notes are an integral part of this statement.

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LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

	ELL PROGRAM	EGSL PROGRAM	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
System restoration charges received	\$102,064,559	\$42,762,474	\$144,827,033
Servicing fees paid	(310,612)	(238,960)	(549,572)
Professional services paid	(272,282)	(272,282)	(544,564)
Ongoing financing costs paid	(20,000)	(10,000)	(30,000)
Net cash provided by operating activities	101,461,665	42,241,232	143,702,897
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Bond principal obligation paid	(66,113,837)	(28,107,651)	(94,221,488)
Interest paid on bonds	(56,780,763)	(22,486,707)	(79,267,470)
Net cash used by noncapital financing activities	(122,894,600)	(50,594,358)	(173,488,958)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends received	68,076	28,821	96,897
Net cash provided by investing activities	68,076	28,821	96,897
NET DECREASE IN CASH EQUIVALENTS	(21,364,859)	(8,324,305)	(29,689,164)
CASH EQUIVALENTS AT BEGINNING OF YEAR	74,190,915	30,685,712	104,876,627
CASH EQUIVALENTS AT END OF YEAR	\$52,826,056	\$22,361,407	\$75,187,463
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$102,390,545	\$42,740,634	\$145,131,179
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase (decrease) in allowance for uncollectible accounts	(562)	3,540	2,978
Changes in assets and liabilities:			
(Increase) in receivables	(760,193)	(367,061)	(1,127,254)
(Decrease) in accounts payable	(168,125)	(135,881)	(304,006)
Net cash provided by operating activities	\$101,461,665	\$42,241,232	\$143,702,897

The accompanying notes are an integral part of this statement.

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INTRODUCTION

The Louisiana Utilities Restoration Corporation (the Corporation) was created by Act 55 of the 2007 Regular Session of the Louisiana Legislature codified under the provisions of Louisiana Revised Statutes (R.S.) 45:1311 through 1328. The Corporation is a non-profit, special-purpose public entity that is an instrumentality of the State of Louisiana.

In August and September 2005, Entergy Louisiana, Inc. (ELI, also referred to as ELL for Entergy Louisiana, LLC, the Successor to ELI) and Entergy Gulf States Louisiana, L.L.C. (EGSL) sustained unprecedented damages from the effects of hurricanes Katrina and Rita. ELL and EGSL have previously funded and paid for the majority of the system restoration costs using internally generated funds, borrowings from the Entergy Money Pool, and proceeds of debt issuances. The economic burden incurred by ELL and EGSL due to the damages and related system restoration costs incurred, combined with the necessity to maintain a reliable and reasonably priced source of electricity to the residents and businesses of the State of Louisiana, prompted the Louisiana Legislature to develop a new financing structure for utility companies that would offer other sources of capital at a lower cost to those entities. This new structure is based upon the formation of the Corporation, which can create financing through the issuance of system restoration bonds. The proceeds of these bonds would serve as the mechanism by which non-shareholder capital contributions are paid by the Corporation to a utility company in an amount that would adequately satisfy the following expenditures: (1) system restoration costs previously incurred for damages; (2) the establishment of a storm damage reserve account for each entity that would be used to fund system restoration costs in the events of future damages due to hurricanes and other storms; and (3) bond issuance costs.

To create the new financing structure, ELL and EGSL, each in conjunction with the Corporation, were required to submit a separate Financing Order to the Louisiana Public Service Commission (LPSC) for approval. The Financing Orders are filed for the following purposes: (1) to authorize the Corporation to finance the non-shareholder contributions through the issuance of system restoration bonds by the Louisiana Public Facilities Authority; (2) to approve the financing structure; (3) to approve the issuance of the system restoration bonds; (4) to create system restoration property solely in favor of the Corporation, including the rights to impose and collect system restoration charges; and (5) to approve a tariff to implement system restoration charges on behalf of the Corporation. The LPSC granted such approval of each submitted Financing Order on April 16, 2008. The funds for the non-shareholder capital contributions to ELL were obtained through the issuance of \$687,700,000 of Series 2008 System Restoration Bonds, dated July 29, 2008, (the 2008-ELL Program) in three tranches. The funds for the non-shareholder capital contributions to EGSL were obtained through the issuance of \$278,400,000 of Series 2008 System Restoration Bonds, dated August 26, 2008, (the 2008-EGSL Program) in three tranches. See note 4 and note 7 (regarding a subsequent event) for more information on these obligations and others.

To generate funds to meet the principal and interest obligations on the system restoration bonds, the customers of ELL and EGSL are assessed a system restoration charge. ELL and EGSL, as contracted servicers, collect the charges from each customer, which are billed to customers as part of its standard monthly invoices, on behalf of the Corporation. ELL and EGSL then remit

the collected system restoration charges into an account maintained by the trustee for the benefit of the Corporation. These fees, and the corresponding rights to these fees, are considered system restoration property and serve as collateral for the bonds. In the event that system restoration charges remitted by ELL and EGSL are not sufficient to meet principal and interest obligations, the Corporation can withdraw funds from a Debt Service Reserve Subaccount (DSRS) established for each utility company, which is created by a portion of the monies from the corresponding bond issuances. The DSRS will be replenished to the required balance as established in the corresponding Financing Order with system restoration charges collected subsequent to the withdrawal of funds. On a semiannual basis, system restoration charges are reviewed by the Corporation to determine if the charges are at a sufficient level to meet bond principal and interest obligations along with other necessary expenses of the Corporation. Any adjustments to the charges to customers are made as a result of each review.

Pursuant to Act 55, the Corporation has the following powers and may be involved in the following activities: (1) enter into the bond issuance agreement and corresponding transactions involving the collection of and the remittance of system restoration charges as prescribed in the LPSC-approved Financing Order; (2) employ individuals as deemed necessary to perform the duties of the Corporation; (3) acquire, sell, pledge, or transfer system restoration property; (4) borrow monies from an issuer of system restoration bonds as needed to meet the requirements of the Financing Order; (5) sue or be sued in the name of the Corporation; (6) negotiate and enter into contracts as deemed necessary; (7) engage in activities that are permitted of nonprofit organizations in the State of Louisiana as long as those activities are not prohibited by the Financing Order; (8) maintain separate accounts and records corresponding to each utility company for which the Corporation receives system restoration charges; (9) prepare an annual operating budget and submit to LPSC for approval; and (10) perform any other acts as deemed necessary to carry out the requirements of the Financing Order.

The Corporation is governed by a seven-member board of directors comprised of the following: (1) two representatives appointed by the governor who have a background and expertise in financial affairs; these individuals will serve at the pleasure of the governor; (2) the Treasurer of the State of Louisiana, or an employee of the Department of the Treasury of Louisiana, as his designee; (3) chairperson of the House Committee on Commerce, or a member of that committee as designated by the chairperson; (4) chairperson of the Senate Committee on Commerce, or a member of that committee as designated by the chairperson; (5) the secretary of the LPSC, or an employee of the LPSC as his designee; and (6) the president of the City Council of the City of New Orleans, or a designee of the president who shall have a background and expertise in financial affairs. With the exception of elected officials, members of the board shall be confirmed by the Senate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Corporation's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing

GAAP for state and local governments through its pronouncements (statements and interpretations). The Corporation applies the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) unless those pronouncements conflict with or contradict GASB pronouncements. The Corporation has elected to not apply FASB pronouncements issued after that date.

B. REPORTING ENTITY

Using the criteria in GASB Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered a discretely presented component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the Corporation is created as a public corporation and instrumentality of the State of Louisiana and has corporate powers; (2) a majority of the members of the board of directors are either appointed by the governor or are primary government officials; (3) the annual operating budget must be approved by the LPSC, which is part of the primary government; and (4) the primary government has the ability to impose its will on the Corporation, as defined in GASB Statement No. 14. Annually, the State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying basic financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business type activities (enterprise fund). Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when a liability has been incurred, regardless of the timing of the related cash flows. The Corporation reports the following major proprietary funds:

- ELL Program - accounts for all activities related to the system restoration property and system restoration charges of Entergy Louisiana, LLC.
- EGSL Program - accounts for all activities related to the system restoration property and system restoration charges of Entergy Gulf States Louisiana, L.L.C.

D. CASH EQUIVALENTS

Cash equivalents consist of money market funds held by a Trustee bank. For the purpose of the Statement of Cash Flows and Statement of Net Assets presentation, all highly liquid investments (including restricted cash equivalents) with a maturity of three months or less when purchased are considered to be cash equivalents.

E. INVESTMENTS

In accordance with the Corporation's investment policy, funds held by the Corporation or the indentured trustee on behalf of the Corporation may be invested and reinvested in investments and securities that are legal investments under the laws of the State of Louisiana in accordance with R.S. 33:2955 and secured, as applicable, in accordance with R.S. 49:321. In addition, the official bond documents authorize the Trustee to invest in direct obligations of the United States of America; demand deposits, time deposits, certificate of deposit or bankers' acceptances of an eligible banking institution; commercial paper with the highest available credit rating; investments in money market mutual funds with the highest available credit ratings; certain repurchase obligations; and any other investment permitted by each of the rating agencies.

F. REVENUES AND EXPENSES

The Corporation has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

- *Operating revenue* includes system restoration charges which are billed to utility customers.
- *Nonoperating revenue* includes interest and dividend income.
- *Operating expenses* generally include costs associated with collection of system restoration charges, costs of administering the Corporation, and non-shareholder capital contributions, if applicable.
- *Nonoperating expenses* include interest paid on debt and amortization of bond issuance costs and discounts.

G. RESTRICTED ASSETS AND LIABILITIES

Restricted assets represent resources set aside for the purpose of funding debt service payments in accordance with the Financing Order approved by the LPSC. Restricted liabilities are those liabilities payable from restricted assets. All assets and liabilities of the Corporation are restricted either by state law or bond indenture.

**H. RECEIVABLES AND ALLOWANCE
FOR DOUBTFUL ACCOUNTS**

Receivables represent the balance of system restoration charges that have been invoiced by each utility company to its respective customers but that have not been received by the Corporation from each utility company. The Corporation carries this receivable balance at cost less an allowance for doubtful accounts. The allowance for doubtful accounts is based on historical trends of collections of each utility company.

I. LONG-TERM OBLIGATIONS

Bonds payable are reported net of the unamortized portion of the bond discount. Bond discounts and issuance costs are deferred and expensed over the life of the bonds using the straight-line method. Generally accepted accounting principles require that the interest-rate method of deferral should be used to expense bond discounts over the life of the bonds. However, the effect of using the straight-line method is not materially different from the results that would have been obtained had the interest-rate method been followed.

J. INCOME TAXES

Act 55 of the 2007 Regular Session of the Louisiana Legislature stipulates that the activities of the Corporation are not subject to Louisiana income tax and to Louisiana franchise tax. Because its income is derived from the exercise of an essential governmental function and will accrue to a state or political subdivision thereof, such income is excludable from federal income tax under Section 115(1) of the Internal Revenue Code.

K. NET ASSETS

Net assets comprise the various net earnings from revenues and expenses. Net assets generally are classified in the following components:

- *Restricted net assets* consist of net assets subject to external constraints placed on the use of net assets 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 restricted net assets.

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

L. USE OF ESTIMATES

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

2. INVESTMENTS

At June 30, 2010, the Corporation's investments totaling \$75,187,463 consist of eight separate accounts held by the Trustee, Bank of New York Mellon. All of the Corporation's investments are reported as cash equivalents on Statement A. Each of the accounts held by the Trustee invests in the Dreyfus Government Prime Cash Management Fund, which is a money market mutual fund rated "AAAm" by the Standard & Poor's Investor Services.

The total debt reserve balance of \$4,901,535 is held in separate accounts to satisfy the Debt Service Reserve Requirements provided for by the bond indentures. The 2008-ELL and 2008-EGSL bond series reserve requirements are \$3,438,500 and \$1,392,000, respectively. The Corporation met its reserve balance requirements at June 30, 2010.

Credit Risk is defined as the risk that an issuer or other counterparty to an investment transaction will not fulfill its obligations. The Corporation does not have a formal credit risk policy. However, in practice, credit risk is minimized by investing in money market funds containing underlying securities which are issued or guaranteed as to principal and interest by the U.S. government or its agencies or instrumentalities.

3. SYSTEM RESTORATION CHARGES RECEIVABLE

The utility companies collect funds from their respective customers through system restoration charges, and then remit those funds to the Corporation, which uses those funds to meet principal and interest obligations on bonds payable, bond issuance costs, and ongoing financing costs. During the fiscal year ended June 30, 2010, the Corporation received a total of \$102,064,559 and \$42,762,474 from ELL and EGSL, respectively, which are included with system restoration charges reported on Statement B. As reflected on Statement A, the system restoration charges receivable of the Corporation as of June 30, 2010, are as follows:

	<u>ELL</u>	<u>EGSL</u>	<u>Total</u>
System restoration charges receivable	\$10,691,428	\$4,702,999	\$15,394,427
Allowance for doubtful accounts	<u>(75,909)</u>	<u>(28,688)</u>	<u>(104,597)</u>
Total	<u>\$10,615,519</u>	<u>\$4,674,311</u>	<u>\$15,289,830</u>

4. LONG-TERM LIABILITIES

The Series 2008 System Restoration Bonds were issued to finance the non-shareholder capital contributions to ELL and EGSL in consideration of expenditures made by the two corporations to repair the damages sustained as a result of hurricanes Katrina and Rita, as outlined in note 1. The bonds are secured by the system restoration property as disclosed in the Financing Order, which consists of the rights to system restoration charges that ELL and EGSL invoices to its customers, then remits all charges collected to the Corporation.

Long-term obligations as of June 30, 2010, consist of the following:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds Payable:					
Series 2008 - ELL Program	\$687,700,000		(\$66,113,837)	\$621,586,163	\$64,569,800
Series 2008 - EGSL Program	278,400,000		(28,107,651)	250,292,349	24,294,778
Total bonds payable	<u>966,100,000</u>	NONE	<u>(94,221,488)</u>	<u>871,878,512</u>	<u>88,864,578</u>
Less - discount on bonds:					
Series 2008 - ELL Program	(310,273)		46,339	(263,934)	(46,339)
Series 2008 - EGSL Program	(115,414)		21,513	(93,901)	(21,513)
Total discount on bonds	<u>(425,687)</u>	NONE	<u>67,852</u>	<u>(357,835)</u>	<u>(67,852)</u>
Total bonds payable, net	<u>\$965,674,313</u>	NONE	<u>(\$94,153,636)</u>	<u>\$871,520,677</u>	<u>\$88,796,726</u>

Detailed summaries, by projects and tranches, of all bonded debt outstanding at June 30, 2010, follow:

	Date of Issue	Original Issue	Outstanding June 30, 2009	Issued (Redeemed)	Outstanding June 30, 2010	Final Payment Dates	Final Maturity Dates	Interest Rates
Entergy Louisiana, LLC								
Series 2008:								
Tranche A-1	July 29, 2008	\$160,000,000	\$160,000,000	(\$66,113,837)	\$93,886,163	Feb. 1, 2012	Feb. 1, 2014	4.50%
Tranche A-2	July 29, 2008	367,000,000	367,000,000		367,000,000	Feb. 1, 2017	Feb. 1, 2019	5.75%
Tranche A-3	July 29, 2008	160,700,000	160,700,000		160,700,000	Aug. 1, 2018	Aug. 1, 2020	6.20%
Entergy Gulf States Louisiana, L.L.C.								
Series 2008:								
Tranche A-1	Aug. 26, 2008	103,000,000	103,000,000	(28,107,651)	74,892,349	Feb. 1, 2013	Feb. 1, 2015	4.95%
Tranche A-2	Aug. 26, 2008	90,000,000	90,000,000		90,000,000	Aug. 1, 2016	Aug. 1, 2018	5.88%
Tranche A-3	Aug. 26, 2008	<u>85,400,000</u>	<u>85,400,000</u>		<u>85,400,000</u>	Aug. 1, 2018	Aug. 1, 2020	6.55%
Total		<u>\$966,100,000</u>	966,100,000	(94,221,488)	871,878,512			
Net original (discounts)			(486,091)		(486,091)			
Net accumulated amortization of discounts			<u>60,404</u>	<u>67,852</u>	<u>128,256</u>			
Bonds payable, net			<u>\$965,674,313</u>	<u>(\$94,153,636)</u>	<u>\$871,520,677</u>			

Debt service requirements, including interest to maturity, are as follows:

Fiscal Year Ending June 30,	Series 2008 - ELL Program		Series 2008 - EGSL Program		Total	
	Principal	Interest*	Principal	Interest*	Principal	Interest*
2011	\$64,569,800	\$34,642,601	\$24,294,778	\$14,329,415	\$88,864,578	\$48,972,016
2012	58,781,561	31,822,664	24,933,301	13,119,354	83,714,862	44,942,018
2013	67,682,848	28,513,413	26,635,474	11,863,151	94,318,322	40,376,564
2014	67,733,092	24,630,271	27,743,070	10,466,227	95,476,162	35,096,498
2015	74,469,604	20,634,001	29,595,267	8,807,560	104,064,871	29,441,561
2016-2019	288,349,258	36,228,074	117,090,459	15,660,582	405,439,717	51,888,656
Total	\$621,586,163	\$176,471,024	\$250,292,349	\$74,246,289	\$871,878,512	\$250,717,313

*Interest payments are due semiannually on August 1 and February 1.

On each payment date, principal will be paid in accordance with the above expected payment schedule, but only to the extent that funds are available. The schedule sets forth the expected payments from the issuance date to the scheduled final payment date. However, the bonds will not be in default if principal is not paid as specified in the schedule unless the principal of any tranche is not paid in full on or before the final maturity date of that tranche.

5. PLEDGED REVENUES

All bonds in note 4 are secured by the pledge of system restoration property, which consists of (1) all rights and interests to receive system restoration charges invoiced and collected by both ELL and EGSL as authorized in each respective Financing Order and (2) all collections, claims, rights to payments, and payments arising from the rights and interests to receive system restoration charges, specifically limited to those charges prescribed in the Financing Order outlined in Louisiana Public Service Commission Docket No. U-29203. This system restoration property represents the collateral for the system restoration bonds issued by the Corporation. The minimum estimated amount of the pledged revenues over the 10-year repayment period of all system restoration bonds is \$1,296,084,783, which represents all principal and interest obligations on the bonds. For the fiscal year ended June 30, 2010, the pledged revenues recognized were \$145,951,309 and the principal and interest requirements for the debt collateralized by those revenues were \$146,451,407.

6. PRIOR PERIOD ADJUSTMENT

In the prior year, the Corporation accrued expenses at the end of the fiscal year for professional services that were no longer obligations of the Corporation. Beginning net assets have been restated to correct this error. The restatement decreases the beginning net deficit of ELL and EGSL by \$97,941 and \$97,942, respectively.

7. SUBSEQUENT EVENTS

On July 22, 2010, the Louisiana Local Government Environmental Facilities and Community Development Authority (the Authority) issued \$468,900,000 (the 2010 - ELL Program) and \$244,100,000 (the 2010 - EGSL Program) in System Restoration Bonds Series 2010 (the Bonds). The proceeds of the Bonds were loaned to the Corporation to finance non-shareholder capital contributions to ELL and EGSL in consideration of expenditures made to repair damages sustained resulting from hurricanes Gustav and Ike. The LPSC approved the Financing Orders on April 21, 2010, for ELL and EGSL under the Louisiana Utilities Restoration Corporation Act authorizing the issuance. The Bonds are limited and special revenue obligations of the Authority and the principal and interest will be payable from system restoration charges imposed on all existing and future LPSC-jurisdictional electric customers receiving electric transmission or distribution service, or both, from ELL and EGSL and collected on behalf of the Corporation. The Bonds were issued in several tranches which bear interest rates from 1% - 4% per annum. Principal and interest will be payable semiannually on February 1 and August 1 of each year beginning on August 1, 2011.

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control over financial reporting and on compliance with laws, regulations, 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

February 16, 2011

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 UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the basic financial statements of the Louisiana Utilities Restoration Corporation (the Corporation), a component unit of the State of Louisiana, as of and for the year ended June 30, 2010, and have issued our report thereon dated February 16, 2011. 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 Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Corporation, its board of directors, 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,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

AE:AD:BQD:THC:kg

LURC 2010