

STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
A PRIVATE-PURPOSE TRUST FUND  
OF THE STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT  
ISSUED SEPTEMBER 22, 2010

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

August 23, 2010

Independent Auditor's Report  
on the Financial Statements

**BOARD OF DIRECTORS OF THE LOUISIANA  
TUITION TRUST AUTHORITY  
STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Student Tuition Assistance and Revenue Trust Program, a private-purpose trust fund of the State of Louisiana, as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of management of the Student Tuition Assistance and Revenue Trust Program. 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.

As described in note 1, the accompanying financial statements present only the Student Tuition Assistance and Revenue Trust Program and do not purport to and do not present fairly the financial position of the State of Louisiana as of December 31, 2009, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Student Tuition Assistance and Revenue Trust Program as of December 31, 2009, and the changes in its net assets 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 August 23, 2010, on our consideration of the Student Tuition Assistance and Revenue Trust Program'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 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Student Tuition Assistance and Revenue Trust Program's basic financial statements. The accompanying supplementary information including the Combining Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets and the Schedule of Investments on pages 25 through 30 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statements and schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

LS:BDC:BQD:THC:ja

START09

As management of the Student Tuition Assistance and Revenue Trust (START) Program, we offer readers of START's financial statements this narrative overview and analysis of the financial activities of START for the year ended December 31, 2009. START is administered by the Louisiana Office of Student Financial Assistance (LOSFA) under the direction of the Louisiana Tuition Trust Authority (LATA). The responsibility for selection of START investments and the investment of START funds rests with the state treasurer.

### FINANCIAL HIGHLIGHTS

- START's assets exceeded its liabilities at the close of the most recent fiscal year by \$257,076,325 (net assets held in trust for participants).
- START's total net assets increased by \$61,312,894 from \$195,763,431 on December 31, 2008, to \$257,076,325 on December 31, 2009.
- The net number of accounts increased by 3,670 from 32,452 on December 31, 2008, to 36,122 on December 31, 2009.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to START's basic financial statements. START's basic financial statements are comprised of three components: (1) Statement of Net Assets, (2) Statement of Changes in Net Assets, and (3) Notes to the Financial Statements. These financial statements include the activities of START's fixed and variable investments. This report includes a Combining Statement of Fiduciary Net Assets, a Combining Statement of Changes in Fiduciary Net Assets, and a Schedule of Investments presented as supplementary information in addition to the basic financial statements.

The Statement of Fiduciary Net Assets presents information on all of START's assets and liabilities, with the difference between the two reported as net assets held in trust for participants. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of START is improving or deteriorating.

The Statement of Changes in Fiduciary Net Assets presents information showing how START's net assets changed during the most recent calendar year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., accrued interest receivable).

**Notes to the Financial Statements.** The accompanying notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

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**BASIC FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of START, assets exceeded liabilities by \$257,076,325 at the close of the most recent year, December 31, 2009. By far the largest portion of START's net assets (93%) reflects its investments at fair market value. The following is START's net assets at December 31, 2009 and 2008.

**Fiduciary Net Assets  
As of December 31, 2009 and 2008**

|   | <u>2009</u>          | <u>2008</u>          |
|---|----------------------|----------------------|
| Assets:   |                      |                      |
| Cash  | \$16,872,442         | \$17,848,111         |
| Investments at fair market value                | 239,353,016          | 177,029,756          |
| Accrued interest receivable                     | 1,104,678            | 1,169,166            |
| Total Assets                                    | <u>257,330,136</u>   | <u>196,047,033</u>   |
| Liabilities - Disbursements payable             | <u>253,811</u>       | <u>283,602</u>       |
| Net Assets Held in Trust for START Participants | <u>\$257,076,325</u> | <u>\$195,763,431</u> |

**Changes in Net Assets.** Key elements of the changes for the years ended December 31, 2009 and 2008, are as follows:

**Changes in Fiduciary Net Assets  
For the Years Ended December 31, 2009 and 2008**

|   | <u>2009</u>       | <u>2008</u>         |
|---|-------------------|---------------------|
| From investment activities:                                     |                   |                     |
| Investment income   | \$6,436,891       | \$7,101,459         |
| Net increase (decrease) in fair value of investments            | 20,452,931        | (35,014,954)        |
| Increase (decrease) in net assets from<br>investment activities | <u>26,889,822</u> | <u>(27,913,495)</u> |
| From participants' transactions:                                |                   |                     |
| Deposits  | 45,645,848        | 47,242,969          |
| Disbursements   | (12,694,675)      | (10,699,003)        |
| Increase in net assets from participants' transactions          | <u>32,951,173</u> | <u>36,543,966</u>   |



**Changes in Fiduciary Net Assets (Cont.)  
For the Years Ended December 31, 2009 and 2008**

|   | 2009          | 2008          |
|---|---------------|---------------|
| From other transactions:  |               |               |
| Increase in net assets from state<br>general fund appropriation       | \$1,700,000   | \$1,700,000   |
| Decrease in net assets from transfer to state<br>Overcollections Fund | (228,101)     |               |
| Increase in net assets from other transactions                        | 1,471,899     | 1,700,000     |
| Total increase in net assets  | 61,312,894    | 10,330,471    |
| Net assets, beginning of year   | 195,763,431   | 185,432,960   |
| Net assets, end of year   | \$257,076,325 | \$195,763,431 |

**ECONOMIC OUTLOOK**

START expects to continue to see growth in new accounts and deposits, despite economic uncertainty and the impact of the global financial crisis in the second half of 2008. Federal legislation that was passed in February 2009 allowed account owners to change their investment options twice during 2009 (previously, investment option changes were restricted to one change per calendar year). This allowed account owners who invested in equities to follow market trends and move their funds to more conservative options, especially as their beneficiary was close to college enrollment. Currently, 41% of START accounts and 48% of deposits are invested in the Louisiana Principal Protection Fund that has a guaranteed rate of return established by the state treasurer which, for 2009, was 3.22%. That, along with the Earnings Enhancement, which is matched to deposits, gives most of our account owners a greater return than can be found with other savings alternatives. As expected, because of instability in the markets, the percentage of account owners investing in the Louisiana Principal Protection Option during 2009 increased significantly. As the economy improves, the percentage of account owners investing in equities will increase and the percentage investing in the Louisiana Principal Protection Option will decrease.

As the program continues to mature, more beneficiaries will reach college age. That, along with the rising costs of higher education, will cause the number of disbursements, as well as the average amount of each disbursement for qualified higher education expenses, to markedly increase.

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**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of START's finances for all those with an interest in START's finances. For questions concerning any of the information provided in this report or requests for additional financial information, please access the START Web site, [www.startsaving.la.gov](http://www.startsaving.la.gov), or call the START office at (225) 922-1012 or toll free at 1-800-259-5626, extension 1012.

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STATE OF LOUISIANA  
FIDUCIARY FUND - PRIVATE-PURPOSE TRUST FUND**

**Statement of Fiduciary Net Assets, December 31, 2009**

**ASSETS**

|                      |                  |
|----------------------|------------------|
| Cash (note 2)        | \$16,872,442     |
| Investments (note 3) | 239,353,016      |
| Interest receivable  | <u>1,104,678</u> |

|              |                    |
|--------------|--------------------|
| TOTAL ASSETS | <u>257,330,136</u> |
|--------------|--------------------|

|  |                |
|--|----------------|
| <b>LIABILITIES - DISBURSEMENTS PAYABLE</b> | <u>253,811</u> |
|--|----------------|

|  |                             |
|--|-----------------------------|
| <b>NET ASSETS HELD IN TRUST FOR START PARTICIPANTS</b> | <u><u>\$257,076,325</u></u> |
|--|-----------------------------|

The accompanying notes are an integral part of this statement.

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**STUDENT TUITION ASSISTANCE AND  
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STATE OF LOUISIANA  
FIDUCIARY FUND - PRIVATE-PURPOSE TRUST FUND**

**Statement of Changes in Fiduciary Net Assets  
For the Year Ended December 31, 2009**

**ADDITIONS**

|  |                       |
|--|-----------------------|
| Participant deposits   | \$45,645,848          |
| Investment income:   |                       |
| Interest and dividends   | 6,436,891             |
| Net increase in the fair value of investments                  | 20,452,931            |
| Appropriated from state General Fund for earnings enhancements | <u>1,700,000</u>      |
| <br>Total additions  | <br><u>74,235,670</u> |

**DEDUCTIONS**

|  |                         |
|--|-------------------------|
| Disbursements to participants          | (12,694,675)            |
| Transfer to state Overcollections Fund | <u>(228,101)</u>        |
| <br>Total deductions                   | <br><u>(12,922,776)</u> |

|                      |            |
|----------------------|------------|
| Change in net assets | 61,312,894 |
|----------------------|------------|

|                                      |                    |
|--------------------------------------|--------------------|
| <b>NET ASSETS, BEGINNING OF YEAR</b> | <u>195,763,431</u> |
|--------------------------------------|--------------------|

|                                |                             |
|--------------------------------|-----------------------------|
| <b>NET ASSETS, END OF YEAR</b> | <u><u>\$257,076,325</u></u> |
|--------------------------------|-----------------------------|

The accompanying notes are an integral part of this statement.

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## INTRODUCTION

The Louisiana Student Tuition Assistance and Revenue Trust (START) Program is a private-purpose trust fund of the State of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 17:3091 et seq., within the Louisiana Tuition Trust Authority (LATTA) and is domiciled in East Baton Rouge Parish. START is administered by the Louisiana Office of Student Financial Assistance (LOSFA), an agency of the State of Louisiana created under the Department of Education by R.S. 36:650, under the direction of LATTA (R.S. 17:3093). LATTA is comprised of 23 members representing all areas of education, the banking community, the state treasurer, a representative from the Louisiana House of Representatives, and a representative from the Louisiana Senate.

START was created to help make education affordable and accessible to all residents of Louisiana, to encourage savings, and to enhance the ability of residents to obtain access to institutions of postsecondary education. START allows individuals to save for qualified higher education expenses for the postsecondary education of the program's education savings account (ESA) beneficiaries. START is Louisiana's qualified tuition program under Section 529 of the Internal Revenue Code (IRC) of 1986, as amended, and treats deposits in a tax-favored manner under the provisions of Section 529, IRC. To encourage college savings, the State of Louisiana matches a portion of an account owner's annual deposits and does not tax START earnings when used to pay for qualified higher education expenses.

Qualified higher education expenses are:

- (1) tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible educational institution;
- (2) room and board; and
- (3) expenses for special needs services in the case of a special needs beneficiary, which are incurred in connection with such enrollment or attendance.

Participation in START is voluntary, and all deposits to an ESA are credited to a single ESA for a designated beneficiary. An account owner may select a START investment option that offers fixed earnings, variable earnings, or both.

An account owner may open only one account per beneficiary; however, multiple account owners may establish an account for one beneficiary. An account may be opened by an individual, a legal entity, or a custodian who meets the following requirements:

- Both the account owner and the beneficiary are United States citizens and/or permanent citizens of the United States.
- Either the account owner or the beneficiary must be a Louisiana resident.

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- Individual account owners must be at least 18 years old at the time the ESA is opened.
- An authorized representative of a legal entity must open the ESA in the name of the legal entity.
- Custodians for minors under the Uniform Transfers to Minors Act and custodians of minors appointed by courts of competent jurisdiction may open ESAs in the name of the minor; however, these ESAs earn an earnings enhancement of 2%.

Account owners may withdraw their deposits at any time. However, the account owner forfeits the State of Louisiana's match and the earnings on the amount matched when funds are withdrawn for other than qualified higher education expenses. The forfeited match and earnings are retained by START and are available for allocation to the remaining account owners. Account owners who withdraw deposits for other than qualified higher education expenses are responsible for any resulting income tax liability.

The START disclosure statement and participation agreements can be obtained at the START Web site, [www.startsaving.la.gov](http://www.startsaving.la.gov), or by calling the START office at (225) 922-1012 or toll free at 1-800-259-5626, extension 1012.

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. BASIS OF PRESENTATION**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The accompanying financial statements present information only as to the balances of the START Program. Annually, the State of Louisiana issues basic financial statements, which include the activity contained in the accompanying financial statements for the START funds - the Louisiana Education Tuition and Savings Fund comprised of Vanguard Investments and the START Investors Fund, the Savings Enhancement Fund, and the Variable Earnings Transaction Fund. The state's basic financial statements are audited by the Louisiana Legislative Auditor.



**B. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The financial statements of START are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, additions are recognized when earned and deductions are recognized when incurred.

**C. CASH AND INVESTMENTS**

Cash represents amounts on deposit with the custodian, fiscal agent banks, and/or the investment advisors. Under state law, START may deposit funds with 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. START provides broad guidelines for acceptable investments by authorizing any investments in which Louisiana public retirement boards are authorized by law to invest and by authorizing investment of up to 100% of deposits in equity securities, based on the investment options chosen by account owners. All deposits are invested on behalf of the program by the state treasurer. START's permissible investments are limited by the investment options selected by the state treasurer. START's investments are stated at fair value based on actual value and quoted market values. The fair value of investments is determined on a business-day basis.

Deposits are classified in one of two subaccounts: fixed earnings or variable earnings. Each subaccount consists of separate assets. The fixed earnings subaccount consists of deposits in a fixed earnings option, earnings on the deposits, forfeitures of interest, all other receipts from any other source that LATTA determines appropriate, and the Savings Enhancement Fund, which includes state appropriated earnings enhancements and the earnings thereon. The variable earnings subaccount consists of deposits in a variable earnings option that are held before investment by START in mutual funds managed by the Vanguard Group or held before disbursement or refund.

Deposits in fixed earnings are invested by the state treasurer, and deposits in variable earnings options are held in the fund subaccount until they are invested by the state treasurer in one or more mutual funds managed by the Vanguard Group. Account holders own an interest in the investments held by START but do not own shares of the underlying Vanguard funds.

START currently offers the following investment options:

- Age-Based Option - deposits are automatically moved over time among different portfolios with progressively more conservative asset allocations.
- Louisiana Principal Protection Option - 100% of deposits and interest earned thereon are invested in the Louisiana Fixed Return Investments portfolio managed by the state treasurer. The state guarantees the return of account owners' principal and interest earned thereon.

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- Total Equity Option - 100% of each deposit is invested in the Vanguard Total Stock Market Index Fund Institutional Shares (VITSX), under which owners seek the highest possible returns and assume the highest possible risk.
- Balanced Option - 50% of each deposit is invested in the VITSX, and 50% is invested in the Louisiana Fixed Return Investments portfolio managed by the state treasurer.
- Equity-Plus Option - 75% of each deposit is invested in the VITSX, and 25% is invested in the Louisiana Fixed Return Investments portfolio managed by the state treasurer.
- Principal Preservation-Plus Option - 25% of each deposit is invested in the VITSX, and 75% is invested in the Louisiana Fixed Return Investments portfolio managed by the state treasurer.
- Equity Plus International Option - 80% of each deposit is invested in the VITSX, and 20% is invested in the Vanguard Total International Stock Index Fund (VGTSX) holding a large blend of international/global stocks, under which account owners seek the highest possible returns and assume the highest possible risk.

The current five-year contract with the Vanguard Group, the state treasurer, and LATTA began on January 1, 2009, and will continue in effect through December 31, 2013, unless terminated by either party by 60 days advance written notice to the other.

### **2. DEPOSITS WITH FINANCIAL INSTITUTIONS**

For reporting purposes, deposits with financial institutions consist of demand deposits and funds received from participants for investment in a zero balance bank account. START deposits are pooled with all deposits in the State of Louisiana's general fund and special funds, separately managed funds, State of Louisiana bond issue funds, et cetera, and are carried at cost.

As reflected on the Statement of Fiduciary Net Assets (Statement A), START has deposits (cash) totaling \$16,872,442 at December 31, 2009. These deposits are held and controlled by the state treasurer and are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States of America are included within the state's basic financial statements. Cash on deposit with the state treasurer is invested in various instruments in the pooled investment account of the state treasurer. The investments are not identifiable by fund.

Custodial credit risk is the risk that in the event of a bank failure, START's deposits may not be recovered. Under state law, START's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the

amount on deposit with the fiscal agent bank. A quarterly review for uncollateralized funds is performed by the state treasurer. In addition, the treasurer reviews the collateral at least monthly between the quarterly reviews and takes appropriate action as necessary to ensure collateral is sufficient for cash deposits.

### 3. INVESTMENTS

Investments of \$239,353,016, as presented on Statement A, are reported at fair value. The following table itemizes the investments, the range of maturity dates, and fair market value of investments at December 31, 2009, and the change in investments during the year.

|   | Fair Value    | Investment Maturities (in Years) |              |              |                 |
|---|---------------|----------------------------------|--------------|--------------|-----------------|
|   |               | Less than 1                      | 1 to 5       | 6 to 10      | Greater than 10 |
| Investment Securities:                      |               |                                  |              |              |                 |
| Corporate Bonds                             | \$31,252,561  |                                  | \$11,978,966 | \$19,273,595 |                 |
| Federal Agency Bonds and Notes:             |               |                                  |              |              |                 |
| Citigroup (FDIC guaranteed)                 | 5,038,600     |                                  | 5,038,600    |              |                 |
| Federal Farm Credit Bank                    | 4,012,520     |                                  | 4,012,520    |              |                 |
| Federal Home Loan Bank                      | 9,080,350     |                                  | 8,055,040    | 1,025,310    |                 |
| Federal Home Loan Mortgage Corporation      | 23,025,405    |                                  | 23,025,405   |              |                 |
| Federal National Mortgage Association Notes | 31,052,530    |                                  | 31,052,530   |              |                 |
| U.S. Treasury Notes                         | 11,915,160    |                                  | 9,045,000    | 2,870,160    |                 |
| Total Investment Securities                 | 115,377,126   | NONE                             | \$92,208,061 | \$23,169,065 | NONE            |
| Vanguard Mutual Funds                       | 123,975,890   |                                  |              |              |                 |
| Total Investments                           | \$239,353,016 |                                  |              |              |                 |

#### Changes in Investments - Fair Market Value For the Years Ended December 31, 2009 and 2008

|                                     | 2009          | 2008          |
|-------------------------------------|---------------|---------------|
| Balance, beginning                  | \$177,029,756 | \$163,150,846 |
| Add:                                |               |               |
| Investment purchases                | 135,151,382   | 127,170,640   |
| Market value adjustment             | 20,452,931    | (35,014,954)  |
| Total                               | 332,634,069   | 255,306,532   |
| Less - investment sales/redemptions | (93,281,053)  | (78,276,776)  |
| Balance, ending                     | \$239,353,016 | \$177,029,756 |

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Unrealized investment gains exceeded unrealized investment losses by \$20,452,931 at year-end. This net unrealized investment gain is reflected in the year-end investments since they are reported at fair market value.

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, START will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. START investments are a part of the state's total investment portfolio. START funds invested in the Louisiana Principal Protection Option and the fixed earnings portion of other options, the Savings Enhancement Fund, and the Variable Earnings Transaction Fund are registered in the name of the State of Louisiana and are held in JP Morgan Chase Bank. The Vanguard Group manages funds invested in START equity options.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. R.S. 17:3099 permits START to invest its funds in any investments in which public retirement boards are authorized by law to invest, provided that up to 100% of deposits to an ESA may be invested in equity securities when an account owner has selected an equity investment option and that such investments in equity securities shall not be included in any limitation on investment in equity securities. The following table illustrates START's investments exposure to credit risk as of December 31, 2009:

| <u>Rating</u> | <u>Fair Value</u>   |
|---------------|---------------------|
| AAA           | \$4,992,150         |
| AA            | 3,863,320           |
| A             | 21,474,721          |
| BBB           | 922,370             |
| Total         | <u>\$31,252,561</u> |

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. START account owners have several options from which to choose for investment of their deposits. These options range from 100% equity investments, which are not guaranteed by the state, to 100% invested in the Louisiana Principal Protection Option (these deposits and the interest earned thereon are guaranteed by the state). Account owners may change their investment option once during any 12-month period (two changes were allowed during the 2009 calendar year because of changes in federal regulation). Account owners assume the risk associated with the option they select.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The state treasury has no specific policies to limit interest rate risk for START investments.

#### 4. INVESTMENT INCOME

Investment income is recognized when earned using the full accrual method of accounting. The investments in START are stated at fair value based on quoted market rates, and any increases or decreases are reported as net increase (decrease) in the fair value of investments. The fair value of investments is determined on a business-day basis.

Interest is calculated on a daily basis and is credited to accounts and reported to account owners after the conclusion of the calendar year in which the interest was earned. For purposes of determining account owners' shares sold and redeemed and for financial statement purposes, investments are valued and reported at fair market value, respectively. Realized gains/losses are a part of investment income.

START's objectives include providing safety of principal and daily liquidity with a competitive rate of return to account owners by pooling monies. The following table shows the START Program's annual return for the one-year, three-year, and five-year periods ended December 31, 2009:

| <u>Portfolio</u>  | <u>Average Annual Return</u> |                        |                       |
|---|------------------------------|------------------------|-----------------------|
|   | <u>One<br/>Year</u>          | <u>Three<br/>Years</u> | <u>Five<br/>Years</u> |
| Vanguard LifeStrategy Moderate Growth<br>(Age-Based Option, ages 0-5)   | 20.33%                       | 0.40%                  | 4.04%                 |
| Vanguard LifeStrategy Conservative Growth<br>(Age-Based Option, ages 6-10)  | 17.06%                       | 1.51%                  | 3.92%                 |
| Vanguard LifeStrategy Income<br>(Age-Based Option, ages 11-15)  | 12.08%                       | 2.75%                  | 3.88%                 |
| Vanguard Total Stock Market Index Fund Institutional Shares<br>(Total Equity Option)                                  | 28.83%                       | (0.85%)                | 3.85%                 |
| Vanguard Total International Stock Index Fund<br>(Equity Plus International Option)                                   | 36.73%                       | 2.72%                  | 10.07%                |
| Louisiana Fixed Return Investments (Louisiana Principal<br>Protection Option and Age-Based Option, ages 16 and above) | 3.22%                        | 4.38%                  | 4.38%                 |
| Earnings Enhancements   | 3.08%                        | 4.24%                  | 4.46%                 |

#### 5. SAVINGS ENHANCEMENT FUND

R.S. 17:3092 established the Savings Enhancement Fund to receive funds appropriated by the legislature or donated from any other source for the purpose of funding earnings enhancements. Earnings enhancements are annually appropriated by the legislature and represent payments credited to an ESA to help offset the beneficiary's qualified higher education expenses. The amount of the earnings enhancements credited to an account is based on the account owner's annual income and annual deposits of principal. Earnings enhancements and the interest earned thereon may only be disbursed for qualified higher education expenses and may not be refunded

## STUDENT TUITION ASSISTANCE AND REVENUE TRUST PROGRAM

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to the account owner if an account is closed. Earnings enhancements are recognized when appropriated by the legislature. As shown on Statement B, the earnings enhancements appropriated by the legislature to the START Program for the current year totaled \$1,700,000.

### **6. VARIABLE EARNINGS TRANSACTION FUND**

R.S. 17:3095 mandates that the state treasurer must invest in fixed earnings any funds received for deposit in a START variable earnings option through checks and electronic funds transfers received through the Automated Clearing House (ACH) Network before the trade date for these funds. Any earnings from such investments are the property of the state and shall be deposited in the Variable Earnings Transaction Fund. Any earnings deposited in the fund can be used for two specific purposes:

- a. To pay any charges assessed to START by a financial institution and any loss of value between the purchase and redemption of units in a variable earnings option that are incurred when a check or ACH transfer is dishonored after the trade date by the financial institution on which it was drawn, and
- b. To be appropriated to the Savings Enhancement Fund to be used as earnings enhancements if LATTA declares any funds in the Variable Earnings Transaction Fund as surplus.

### **7. ADMINISTRATIVE CHARGES**

The Vanguard Group charges investment fees to START for the funds it manages and invests. These investment fees vary for each mutual fund up to a maximum of 0.26% per year and are subject to change at any time without notice. Earnings credited to the ESAs invested in Vanguard mutual funds are net of these investment fees. Costs incurred by LATTA, LOSFA, and the state treasurer to administer START are paid by those agencies and are not charged to the ESAs.

### **8. RISK MANAGEMENT**

LOSFA, as the administrator of START, is exposed to various risks of losses related to general liability: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. LOSFA is a party to a lawsuit filed as a class action and seeking unspecified damages as a result of the loss of data tapes, which included personal data for START account owners and beneficiaries, by Iron Mountain Off-site Data Protection on September 20, 2007. In the opinion of management, if money damages are awarded, such amount would be adequately covered by the Office of Risk Management, which is responsible for the administration of the state's Self-Insurance Fund, and would not have a material effect on START's financial statements.

On October 31, 2007, LOSFA received notification that a class action was filed in Orleans Parish against Iron Mountain and LOSFA seeking unspecified damages as a result of the lost data tapes. After a hearing on venue on November 21, 2008, this case was transferred to the Nineteenth Judicial District Court in Baton Rouge. Any potential liability on the part of the state is unknown at this time.

In the event the class action suit results in money damages assessed against the State of Louisiana, none of the monies in the START Saving Program may be used to pay the judgment since the monies in the fund belong to the individual account owners, not the State of Louisiana. All money damage claims against the state are managed and paid through the Louisiana Office of Risk Management.

**9. TRANSFER TO STATE OVERCOLLECTIONS FUND**

Act 226 of the 2009 Regular Session of the Louisiana Legislature authorized the state treasurer to transfer \$228,101 from START's Variable Earnings Transaction Fund to the state of Louisiana's Overcollections Fund.

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**COMBINING STATEMENTS AND  
SUPPLEMENTARY SCHEDULE**

The following presents the Combining Statement of Fiduciary Net Assets and the Combining Statement of Changes in Fiduciary Net Assets as of and for the year ended December 31, 2009, for the Student Tuition Assistance and Revenue Trust Program. This program includes the Louisiana Education Tuition and Savings Fund, the Savings Enhancement Fund, and the Variable Earnings Transaction Fund. Schedule 1 presents individual investments held by the Student Tuition Assistance and Revenue Trust Program at December 31, 2009.

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**STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
STATE OF LOUISIANA  
FIDUCIARY FUND - PRIVATE-PURPOSE TRUST FUND**

**Combining Statement of Fiduciary Net Assets, December 31, 2009**

|  | LOUISIANA<br>EDUCATION<br>TUITION AND<br>SAVINGS FUND | SAVINGS<br>ENHANCEMENT<br>FUND | VARIABLE<br>EARNINGS<br>TRANSACTION<br>FUND | TOTAL                |
|--|---|--------------------------------|---|----------------------|
| <b>ASSETS</b>  |   |                                |   |                      |
| Cash   | \$15,217,966  | \$1,572,204                    | \$82,272                                    | \$16,872,442         |
| Investments  | 229,153,556   | 10,199,460                     |   | 239,353,016          |
| Interest receivable  | 1,000,111   | 100,609                        | 3,958                                       | 1,104,678            |
| <b>TOTAL ASSETS</b>  | <b>245,371,633</b>                                    | <b>11,872,273</b>              | <b>86,230</b>                               | <b>257,330,136</b>   |
| <b>LIABILITIES - DISBURSEMENTS<br/>PAYABLE</b>             |   |                                |   |                      |
|  | 241,303   | 12,508                         | NONE  | 253,811              |
| <b>NET ASSETS HELD IN TRUST<br/>FOR START PARTICIPANTS</b> | <b>\$245,130,330</b>                                  | <b>\$11,859,765</b>            | <b>\$86,230</b>                             | <b>\$257,076,325</b> |

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**STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
STATE OF LOUISIANA  
FIDUCIARY FUND - PRIVATE-PURPOSE TRUST FUND**

**Combining Statement of Changes in Fiduciary Net Assets  
For the Year Ended December 31, 2009**

|   | LOUISIANA<br>EDUCATION<br>TUITION AND<br>SAVINGS FUND | SAVINGS<br>ENHANCEMENT<br>FUND | VARIABLE<br>EARNINGS<br>TRANSACTION<br>FUND | TOTAL                |
|---|---|--------------------------------|---|----------------------|
| <b>ADDITIONS</b>  |   |                                |   |                      |
| Participant deposits  | \$45,645,848  |                                |   | \$45,645,848         |
| Investment income:  |   |                                |   |                      |
| Interest and dividends  | 6,065,889   | \$331,560                      | \$39,442                                    | 6,436,891            |
| Net increase in the fair value of investments                     | 20,385,601  | 67,330                         |   | 20,452,931           |
| Appropriated from state General<br>Fund for earnings enhancements |   | 1,700,000                      |   | 1,700,000            |
| <b>Total additions</b>  | <b>72,097,338</b>                                     | <b>2,098,890</b>               | <b>39,442</b>                               | <b>74,235,670</b>    |
| <b>DEDUCTIONS</b>   |   |                                |   |                      |
| Disbursements to participants                                     | (12,261,766)  | (432,909)                      |   | (12,694,675)         |
| Transfer to state Overcollections Fund                            |   |                                | (228,101)                                   | (228,101)            |
| <b>Total deductions</b>   | <b>(12,261,766)</b>                                   | <b>(432,909)</b>               | <b>(228,101)</b>                            | <b>(12,922,776)</b>  |
| Change in net assets  | 59,835,572  | 1,665,981                      | (188,659)                                   | 61,312,894           |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                              | <b>185,294,758</b>                                    | <b>10,193,784</b>              | <b>274,889</b>                              | <b>195,763,431</b>   |
| <b>NET ASSETS, END OF YEAR</b>                                    | <b>\$245,130,330</b>                                  | <b>\$11,859,765</b>            | <b>\$86,230</b>                             | <b>\$257,076,325</b> |

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**STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
STATE OF LOUISIANA**

**Schedule of Investments, December 31, 2009**

| FACE<br>AMOUNT  | DESCRIPTION           | MATURITY<br>DATE | COUPON<br>RATE                      | FAIR<br>VALUE       |
|---|-----------------------|------------------|-------------------------------------|---------------------|
| <b>FIXED EARNINGS INVESTMENTS AND EARNINGS ENHANCEMENTS</b> |                       |                  |                                     |                     |
| <b>Corporate Securities:</b>                                |                       |                  |                                     |                     |
| \$175,000   | Bellsouth Corporation | 10/15/11         | 6.000%                              | \$189,231           |
| 800,000   | Boeing Co.            | 11/20/12         | 1.875%                              | 791,088             |
| 1,500,000   | McDonald's Corp.      | 03/01/13         | 4.300%                              | 1,586,820           |
| 1,000,000   | Colgate-Palmolive Co. | 05/15/13         | 4.200%                              | 1,064,710           |
| 2,000,000   | The Coca-Cola Company | 03/15/14         | 3.625%                              | 2,061,580           |
| 1,775,000   | The Coca-Cola Company | 03/15/14         | 3.625%                              | 1,829,652           |
| 1,000,000   | SLM Corporation       | 05/15/14         | 5.375%                              | 922,370             |
| 2,500,000   | Wal-Mart Stores, Inc. | 05/15/14         | 3.200%                              | 2,545,875           |
| 1,000,000   | Sherwin-Williams Co.  | 12/15/14         | 3.125%                              | 987,640             |
| 8,000,000   | ConocoPhillips        | 01/15/15         | 4.600%                              | 8,495,920           |
| 250,000   | Colgate Palmolive Co. | 08/05/15         | 3.150%                              | 252,735             |
| 2,500,000   | McDonald's Corp.      | 03/01/18         | 5.350%                              | 2,680,550           |
| 2,500,000   | The Coca-Cola Company | 03/15/19         | 4.875%                              | 2,604,175           |
| 5,000,000   | Microsoft Corporation | 06/01/19         | 4.200%                              | 4,992,150           |
| 250,000   | The Coca-Cola Company | 08/15/19         | 4.500%                              | 248,065             |
| <u>\$30,250,000</u>   |                       |                  | <b>Total Corporate Securities</b>   | <u>\$31,252,561</u> |
| <b>Federal Agency Bonds and Notes:</b>                      |                       |                  |                                     |                     |
| <b><i>Citigroup, Inc. (FDIC Guaranteed):</i></b>            |                       |                  |                                     |                     |
| <u>\$5,000,000</u>  |                       | 07/12/12         | 2.125%                              | <u>\$5,038,600</u>  |
| <b><i>Federal Farm Credit Bank:</i></b>                     |                       |                  |                                     |                     |
| <u>\$4,000,000</u>  |                       | 09/22/14         | 3.000%                              | <u>\$4,012,520</u>  |
| <b><i>Federal Home Loan Bank:</i></b>                       |                       |                  |                                     |                     |
| \$500,000   |                       | 10/05/12         | 2.000%                              | \$500,315           |
| 2,500,000   |                       | 10/05/12         | 2.000%                              | 2,501,575           |
| 5,000,000   |                       | 02/11/14         | 3.000%                              | 5,053,150           |
| <u>1,000,000</u>  |                       | 06/29/17         | 6.000%                              | <u>1,025,310</u>    |
| <u>\$9,000,000</u>  |                       |                  | <b>Total Federal Home Loan Bank</b> | <u>\$9,080,350</u>  |

(Continued)

**STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
STATE OF LOUISIANA  
Schedule of Investments, December 31, 2009**

| FACE<br>AMOUNT                                 | DESCRIPTION   | MATURITY<br>DATE | COUPON<br>RATE | FAIR<br>VALUE        |
|--|---|------------------|----------------|----------------------|
| <i>Federal Home Loan Mortgage Corporation:</i> |   |                  |                |                      |
| \$5,000,000                                    |   | 02/17/12         | 2.450%         | \$5,010,400          |
| 3,000,000                                      |   | 01/30/13         | 2.250%         | 2,994,570            |
| 10,000,000                                     |   | 01/30/13         | 2.250%         | 9,981,900            |
| 50,000   |   | 06/12/13         | 4.000%         | 52,735               |
| 5,000,000                                      |   | 06/18/14         | 3.050%         | 4,985,800            |
| <u>\$23,050,000</u>                            | <i>Total Federal Home Loan Mortgage Corporation</i>                       |                  |                | <u>\$23,025,405</u>  |
| <i>Federal National Mortgage Association:</i>  |   |                  |                |                      |
| \$15,000,000                                   |   | 02/05/14         | 2.750%         | \$15,168,750         |
| 2,000,000                                      |   | 09/29/14         | 3.000%         | 1,988,120            |
| 1,000,000                                      |   | 11/10/14         | 3.125%         | 993,440              |
| 3,000,000                                      |   | 11/10/14         | 3.125%         | 2,980,320            |
| 10,000,000                                     |   | 11/20/14         | 2.625%         | 9,921,900            |
| <u>\$31,000,000</u>                            | <i>Total Federal National Mortgage Association</i>                        |                  |                | <u>\$31,052,530</u>  |
| <b>U.S. Treasury Notes</b>                     |   |                  |                |                      |
| \$2,000,000                                    |   | 07/31/14         | 2.625%         | \$2,010,000          |
| 3,000,000                                      |   | 03/31/16         | 2.375%         | 2,870,160            |
| 7,000,000                                      |   | 07/31/14         | 2.625%         | 7,035,000            |
| <u>\$12,000,000</u>                            | <b>Total U.S. Treasury Notes</b>  |                  |                | <u>\$11,915,160</u>  |
| <u>\$114,300,000</u>                           | <b>Total Louisiana Fixed Return Investments and Earnings Enhancement:</b> |                  |                | <u>\$115,377,126</u> |

**VARIABLE EARNINGS INVESTMENTS**

**The Vanguard Group (Mutual Funds):**

|  |                      |
|--|----------------------|
| LifeStrategy Income                                | \$15,555,125         |
| LifeStrategy Conservative Growth                   | 21,059,740           |
| Total Stock Market Index Fund Institutional Shares | 68,174,684           |
| Vanguard Total International Stock Index           | 3,938,680            |
| LifeStrategy Moderate Growth                       | 15,247,661           |
| <b>Total Vanguard Mutual Funds</b>                 | <u>\$123,975,890</u> |

**Total Investments** \$239,353,016

(Concluded)



**OTHER REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

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

STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

August 23, 2010

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*

**BOARD OF DIRECTORS OF THE LOUISIANA  
TUITION TRUST AUTHORITY  
STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

We have audited the basic financial statements of the Student Tuition Assistance and Revenue Trust (START) Program, a private-purpose trust fund of the State of Louisiana, as of and for the year ended December 31, 2009, and have issued our report thereon dated August 23, 2010. Our report was modified to include an explanatory paragraph describing the individual fund presentation. 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 START'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 START's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of START'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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM

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Our consideration of 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 previously.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether START'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 START, its management, the board of directors of the Louisiana Tuition Trust Authority, 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  
Legislative Auditor

LS:BDC:BQD:THC:ja

START09