

Report Highlights

Student Tuition Assistance and Revenue Trust (START) Program

DARYL G. PURPERA,
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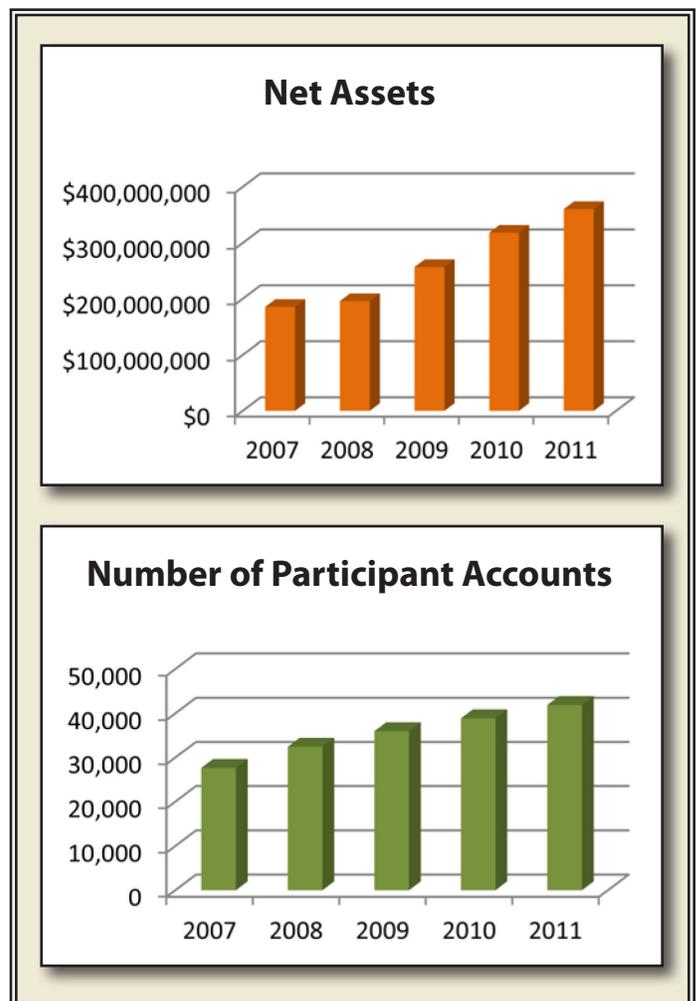
Why We Conducted This Audit

We conducted a financial statement audit of the START program for the year ended December 31, 2011, in accordance with Louisiana Revised Statute 17:3099.1 to provide accountability for funds on deposit and investments managed through the program.

What We Found

We tested controls, compliance, and financial reporting related to certain accounts, including cash, investments, participants' deposits and disbursements, and investment income. We also examined financial trends in the financial statements to look for unusual changes that did not follow a logical pattern. Our procedures disclosed the following:

- START's financial statements are fairly stated.
- Based on our tests, we found no weaknesses in internal controls or violations of laws that are required to be reported.
- START continues to experience growth. Net assets increased by \$42,483,433 to \$360,852,073 and the number of participant accounts increased by 3,023 to 41,910 in 2011. Participant deposits totaled \$52,740,028 and disbursements to participants totaled \$19,754,979 in 2011.



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



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2011
ISSUED NOVEMBER 21, 2012

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Three copies of this public document were produced at an approximate cost of \$15.72. 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. 7417 or Report ID No. 80110155 for additional information.

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EXECUTIVE SUMMARY

We conducted a financial statement audit of the Student Tuition Assistance and Revenue Trust (START) program for the year ended December 31, 2011, to evaluate its accountability over trust funds.

We tested controls, compliance, and financial reporting related to material financial statement accounts and examined financial trends in the financial statements to look for unusual changes that did not follow logical patterns. Our procedures disclosed the following:

- START's financial statements are fairly stated.
- We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses or instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.
- START continues to experience growth. Net assets increased by \$42,483,433 to \$360,852,073 and the number of participant accounts increased by 3,023 to 41,910 in 2011. Participant deposits totaled \$52,740,028 and disbursements to participants totaled \$19,754,979 in 2011.

This report is a public report and has been distributed to state officials. We appreciate START's assistance in the successful completion of our work.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

August 27, 2012

Independent Auditor's Report

**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, 2011, 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, 2011, 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.

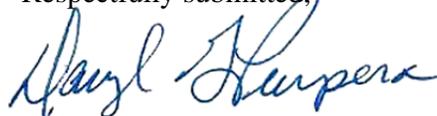
In our opinion, the financial statements referred to previously present fairly, in all material respects, the net assets of the Student Tuition Assistance and Revenue Trust Program as of December 31, 2011, and the changes in its net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Student Tuition and 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 21 through 24 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

KS:CRV:BQD:THC:ch

START 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011. START is administered by the Louisiana Office of Student Financial Assistance (LOSFA) under the direction of the Louisiana Tuition Trust Authority (LATTA). 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 \$360,852,073 (net assets held in trust for participants).
- START's total net assets increased by \$42,483,433 from \$318,368,640 on December 31, 2010, to \$360,852,073 on December 31, 2011.
- The number of accounts increased by 3,023 from 38,887 on December 31, 2010, to 41,910 on December 31, 2011.

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 Fiduciary Net Assets; (2) Statement of Changes in Fiduciary 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.

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 \$360,852,073 at the close of the most recent year, December 31, 2011. By far the largest portion of START's net assets (94%) reflects its investments at fair market value. The following is START's net assets at December 31, 2011 and 2010.

**Fiduciary Net Assets
As of December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Assets:		
Cash	\$20,059,434	\$22,148,063
Investments at fair market value	340,225,743	296,381,121
Accrued interest receivable	1,059,523	1,037,418
Total Assets	<u>361,344,700</u>	<u>319,566,602</u>
Liabilities:		
Disbursements payable	311,595	329,137
Due to state General Fund	181,032	868,825
Total Liabilities	<u>492,627</u>	<u>1,197,962</u>
Net Assets Held in Trust for START Participants	<u><u>\$360,852,073</u></u>	<u><u>\$318,368,640</u></u>

Changes in Net Assets. Key elements of the changes for the years ended December 31, 2011 and 2010 are as follows:

**Changes in Fiduciary Net Assets
For the Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
From investment activities:		
Investment income	\$8,005,305	\$6,979,607
Net increase in fair value of investments	1,377	19,313,422
Increase in net assets from investment activities	<u>8,006,682</u>	<u>26,293,029</u>
From participants' transactions:		
Deposits	52,740,028	50,858,126
Disbursements	<u>(19,754,979)</u>	<u>(16,622,615)</u>
Increase in net assets from participants' transactions	<u>32,985,049</u>	<u>34,235,511</u>

Changes in Fiduciary Net Assets (Cont.)
For the Years Ended December 31, 2011 and 2010

	2011	2010
From other transactions:		
Increase in net assets from state		
General Fund appropriation	\$1,700,000	\$1,700,000
Decrease in net assets from transfer to state		
General Fund	(181,032)	(936,225)
Decrease in net assets from transfer to state		
Medical Assistance Trust Fund	(27,266)	
Increase in net assets from other transactions	1,491,702	763,775
Total increase in net assets	42,483,433	61,292,315
Net assets, beginning of year	318,368,640	257,076,325
Net assets, end of year	\$360,852,073	\$318,368,640

ECONOMIC OUTLOOK

Since 2010, LOSFA has dedicated two staff members to directly market the START Saving Program to business and industry. Indications are that contact with individuals through benefit fairs increase name recognition and knowledge of the program. This, and the payroll deduction option, contributed to an increase in accounts.

Currently, 56% of START accounts and 43% of deposits are invested in the Louisiana Principal Protection Fund, which has a guaranteed rate of return established by the State Treasurer which, for 2011, was 2.53%. 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, during periods of instability in the markets, the percentage of account owners investing in the Louisiana Principal Protection Option increased significantly. As the capital markets improve, the percentage of account owners investing in equities will increase and the percentage investing in the Louisiana Principal Protection Option will decrease.

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, or call the START office at (225) 219-1012 or toll free at 1-800-259-5626, extension 1012.

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

Statement of Fiduciary Net Assets, December 31, 2011

ASSETS

Cash (note 2)	\$20,059,434
Investments (note 3)	340,225,743
Interest receivable	<u>1,059,523</u>
TOTAL ASSETS	<u>361,344,700</u>

LIABILITIES

Disbursements payable	311,595
Due to state General Fund (note 5)	<u>181,032</u>
TOTAL LIABILITIES	<u>492,627</u>

NET ASSETS HELD IN TRUST FOR START PARTICIPANTS	<u><u>\$360,852,073</u></u>
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The accompanying notes are an integral part of this statement.

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

**Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2011**

ADDITIONS

Participant deposits	\$52,740,028
Investment income:	
Interest and dividends	8,005,305
Net increase in the fair value of investments	1,377
Appropriated from state General Fund for earnings enhancements	1,700,000
Total additions	<u>62,446,710</u>

DEDUCTIONS

Disbursements to participants	(19,754,979)
Transfer to state General Fund (note 5)	(181,032)
Transfer to state Medical Assistance Trust Fund (note 6)	(27,266)
Total deductions	<u>(19,963,277)</u>

CHANGE IN NET ASSETS

42,483,433

NET ASSETS, BEGINNING OF YEAR318,368,640**NET ASSETS, END OF YEAR**\$360,852,073

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

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 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 residents of the United States.
- Either the account owner or the beneficiary must be a Louisiana resident.
- 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 and for any purpose. If the withdrawal is not for qualified higher education expenses, the entire account balance must be withdrawn. 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, or by calling the START office at (225) 219-1012 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 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 by START prior to investment in mutual funds managed by the Vanguard Group or held prior to 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:

- Louisiana Principal Protection Fund--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.
- Age-Based Moderate Track Fund--Deposits are placed in Vanguard LifeStrategy Moderate Growth Fund and automatically moved to Vanguard LifeStrategy Conservative Growth Fund on the beneficiary's 6th birthday, then to the Vanguard LifeStrategy Income Fund on the beneficiary's 11th birthday (each fund has a progressively more conservative asset allocation) and finally, when the beneficiary is 16, to the Principal Protection Fund.
- Age-Based Growth Track Fund--Deposits are placed in Vanguard LifeStrategy Conservative Growth Fund and automatically moved to Vanguard LifeStrategy Income Fund on the beneficiary's 6th birthday, then to the Vanguard LifeStrategy Growth Fund on the beneficiary's 11th birthday (each fund has a progressively more conservative asset allocation) and finally, when the beneficiary is 16, to the Principal Protection Fund. This track is different from the Age-Based Moderate Track Fund in that the initial fund is less aggressive.
- Age-Based Aggressive Track Fund--Deposits are placed in Vanguard LifeStrategy Conservative Growth Fund and automatically moved to Vanguard LifeStrategy Income Fund on the beneficiary's 9th birthday, then to the Vanguard LifeStrategy Growth Fund on the beneficiary's 13th birthday (each fund has a progressively more conservative asset allocation) and finally, when the beneficiary is 16, to the Principal Protection Fund. This fund is different from the Age-Based Growth Track Fund in that the progressions take place when the beneficiary is older.
- Vanguard Total World Stock Index Fund, Investor Shares--Provides shareholders low-cost exposure to stock markets around the globe, including the United States, developed foreign markets, and emerging markets. In addition to stock market risk, the fund is also subject to currency risk and country risk. Long-term investors seeking global equity exposure who are comfortable with the volatility inherent in stock market investing may wish to consider this fund.
- Vanguard Total Stock Market Index Fund, Institutional Shares--Seeks to track the performance of the MSCI US Broad Market Index. Invests in large-, mid-, and small-cap stocks diversified across growth and value styles. Passively managed, using index sampling.

- Vanguard Total International Stock Index Fund, Institutional Shares--This fund offers investors a low cost way to gain equity exposure to both developed and emerging international economies. The fund tracks stock markets all over the globe, with the exception of the United States. Because it invests in non-U.S. stocks, including those in developed and emerging markets, the fund can be more volatile than a domestic fund. Long-term investors who want to add a diversified international equity position to their portfolio might want to consider this fund as an option.
- Vanguard Small-Cap Index Fund, Signal Shares--Tracks the performance of a benchmark index that measures the investment return of small capitalization stocks. It employs a passive management investment approach designed to track the performance of the MSCI US Small Cap 1750 Index, a broadly diversified index of the stocks of smaller U.S. companies. It attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.
- Vanguard Mid-Cap Index Fund, Signal Shares--Tracks the performance of a benchmark index that measures the investment return of mid-capitalization stocks. It employs a passive management investment approach designed to track the performance of the MSCI US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S. companies. It attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.
- Vanguard Large-Cap Index Fund, Signal Shares--Tracks the performance of a benchmark index that measures the investment return of large-capitalization stocks. It employs a passive management investment approach designed to track the performance of the MSCI US Prime Market 750 Index, a broadly diversified index of the stocks of predominantly large U.S. companies. It attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

Account owners are allowed to redistribute their existing account balances over any and all funds, provided the percentages are in whole digits and the total of all percentages equal 100%. All existing funds are liquidated and the proceeds are used to purchase shares in the funds based on the account owner's instructions. Future deposits will be allocated according to the last distribution unless changed by the account owner. Account owners may change their investment selection(s) for each new deposit. Investment selections for deposits already made cannot be changed more than once each calendar year.

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 \$20,059,434 at December 31, 2011. 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 \$340,225,743, 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, 2011, and the change in investments during the year.

	Fair Value	Investment Maturities (in Years)			Greater than 10
		Less than 1	1 to 5	6 to 10	
Investment Securities:					
Corporate Bonds	\$66,253,633	\$808,344	\$51,029,899	\$12,404,490	\$2,010,900
Federal Agency Bonds and Notes:					
Citigroup (FDIC guaranteed)	5,051,000	5,051,000			
Federal Farm Credit Bank	11,298,870		4,255,120	7,043,750	
Federal Home Loan Mortgage Corporation	5,115,917		5,115,917		
Federal National Mortgage Association Notes	45,652,490	2,513,175	43,139,315		
U. S. Treasury Notes	15,406,235		15,406,235		
Total Investment Securities	148,778,145	\$8,372,519	\$118,946,486	\$19,448,240	\$2,010,900
Vanguard Mutual Funds	191,447,598				
Total Investments	\$340,225,743				

**Changes in Investments - Fair Market Value
For the Years Ended December 31, 2011 and 2010**

	2011	2010
Balance, beginning	\$296,381,121	\$239,353,016
Add:		
Investment purchases	190,303,503	74,552,532
Market value adjustment	1,377	19,313,422
Total	486,686,001	333,218,970
Less - investment sales/redemptions	(146,460,258)	(36,837,849)
Balance, ending	\$340,225,743	\$296,381,121

Unrealized investment gains exceeded unrealized investment losses by \$1,377 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, 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, 2011:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$5,763,900
AA	11,975,377
A	47,513,656
BBB	<u>1,000,700</u>
Total	<u>\$66,253,633</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). Beginning with the 2010 calendar year, the investment option may be changed once per calendar year. 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, 2011:

<u>Portfolio</u>	<u>Average Annual Return</u>		
	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
Vanguard LifeStrategy Moderate Growth	0.26%	11.30%	2.95%
Vanguard LifeStrategy Conservative Growth	1.76%	9.99%	3.49%
Vanguard LifeStrategy Income	3.77%	8.36%	4.25%
Vanguard LifeStrategy Growth	(2.28%)	12.59%	2.17%
Vanguard Total World Stock Index, Investor Shares	(7.88%)	12.76%	N/A
Vanguard Total Stock Market Index Fund, Institutional Shares	1.09%	15.72%	3.15%
Vanguard Total International Stock Index Fund, Institutional Shares	(14.51%)	N/A	N/A
Vanguard Small-Cap Index Fund, Signal Shares	(2.68%)	20.50%	5.35%
Vanguard Mid-Cap Index Fund, Signal Shares	(1.99%)	21.35%	N/A
Vanguard Large-Cap Index Fund, Signal Shares	1.58%	15.07%	N/A
Louisiana Fixed Return Investments (Louisiana Principal Protection Fund)	2.53%	2.81%	3.67%
Earnings Enhancements	2.47%	2.70%	3.55%

5. SAVINGS ENHANCEMENT FUND

R.S. 17:3129.4(C) 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 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; however, Executive Order No. BJ 2011-25 required the reduction in expenditure of state general funds appropriated and \$181,032 of this amount is being transferred back to the state of Louisiana's General Fund. The remaining balance in the Savings Enhancement Fund will be sufficient to fully satisfy Earnings Enhancements for 2011. Earnings Enhancements in future years are dependent on sufficient appropriations by the Louisiana Legislature.

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 prior to 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.

Act 378 of the 2011 Regular Session of the Louisiana Legislature authorized the state treasurer to transfer \$27,266 from START's Variable Earnings Transactions Fund to the state of Louisiana's Medical Assistance Fund.

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. All money damage claims against the state are managed and paid through the Office of Risk Management (ORM). On October 31, 2007, LOSFA received notification that a class action lawsuit was filed in Orleans Parish against Iron Mountain Off-site Data Protection and LOSFA seeking unspecified damages as a result of the loss of LOSFA data tapes that included personal data for START account owners and beneficiaries. We have been informed by ORM that this matter was closed on April 14, 2010.

COMBINING STATEMENTS AND SUPPLEMENTARY SCHEDULE

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, 2011, 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, 2011.

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

Combining Statement of Fiduciary Net Assets, December 31, 2011

	LOUISIANA EDUCATION TUITION AND SAVINGS FUND	SAVINGS ENHANCEMENT FUND	VARIABLE EARNINGS TRANSACTION FUND	TOTAL
ASSETS				
Cash	\$19,161,302	\$867,023	\$31,109	\$20,059,434
Investments	326,978,113	13,247,630		340,225,743
Interest receivable	954,353	102,256	2,914	1,059,523
TOTAL ASSETS	347,093,768	14,216,909	34,023	361,344,700
LIABILITIES				
Disbursements payable	300,837	10,758		311,595
Due to state General Fund		181,032		181,032
TOTAL LIABILITIES	300,837	191,790	NONE	492,627
NET ASSETS HELD IN TRUST FOR START PARTICIPANTS	\$346,792,931	\$14,025,119	\$34,023	\$360,852,073

**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, 2011**

	LOUISIANA EDUCATION TUITION AND SAVINGS FUND	SAVINGS ENHANCEMENT FUND	VARIABLE EARNINGS TRANSACTION FUND	TOTAL
ADDITIONS				
Participant deposits	\$52,740,028			\$52,740,028
Investment income:				
Interest, dividends and other	7,667,020	\$318,798	\$19,487	8,005,305
Net increase (decrease) in the fair value of investments	(149,144)	150,521		1,377
Appropriated from state General Fund for earnings enhancements		1,700,000		1,700,000
Total additions	<u>60,257,904</u>	<u>2,169,319</u>	<u>19,487</u>	<u>62,446,710</u>
DEDUCTIONS				
Disbursements to participants	(19,194,985)	(559,994)		(19,754,979)
Transfers to state General Fund		(181,032)		(181,032)
Transfer to state Medical Assistance Trust Fund			(27,266)	(27,266)
Total deductions	<u>(19,194,985)</u>	<u>(741,026)</u>	<u>(27,266)</u>	<u>(19,963,277)</u>
CHANGE IN NET ASSETS	41,062,919	1,428,293	(7,779)	42,483,433
NET ASSETS, BEGINNING OF YEAR	<u>305,730,012</u>	<u>12,596,826</u>	<u>41,802</u>	<u>318,368,640</u>
NET ASSETS, END OF YEAR	<u><u>\$346,792,931</u></u>	<u><u>\$14,025,119</u></u>	<u><u>\$34,023</u></u>	<u><u>\$360,852,073</u></u>

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

Schedule of Investments, December 31, 2011

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
FIXED EARNINGS INVESTMENTS AND EARNINGS ENHANCEMENTS				
Corporate Securities:				
\$800,000	Boeing Co.	11/20/12	1.875%	\$808,344
1,500,000	McDonald's Corp.	03/01/13	4.300%	1,562,385
1,000,000	Colgate-Palmolive Co.	05/15/13	4.200%	1,050,210
2,000,000	International Business Machines Corp.	08/05/13	1.000%	2,015,740
5,000,000	International Business Machines Corp.	08/05/13	1.000%	5,039,350
1,775,000	Coca-Cola Bottling Company Consolidated	03/15/14	3.625%	1,889,523
2,000,000	Coca-Cola Bottling Company Consolidated	03/15/14	3.625%	2,129,040
4,200,000	International Business Machines Corp.	05/12/14	1.250%	4,247,754
1,000,000	SLM Corporation	05/15/14	5.375%	1,000,700
2,500,000	Wal-Mart Stores, Inc.	05/15/14	3.200%	2,640,225
1,000,000	Sherwin-Williams Co.	12/15/14	3.125%	1,053,730
8,000,000	ConocoPhillips	01/15/15	4.600%	8,847,920
800,000	Abbott Laboratories	05/27/15	2.700%	839,032
4,000,000	Abbott Laboratories	05/27/15	2.700%	4,195,160
250,000	Colgate-Palmolive Co.	08/05/15	4.500%	268,080
5,000,000	Dell Inc.	09/10/15	2.300%	5,108,800
2,500,000	Wal-Mart Stores, Inc.	10/25/15	1.500%	2,539,250
2,500,000	PepsiCo Inc.	05/10/16	2.500%	2,600,800
4,000,000	The Hershey Co.	11/01/16	1.500%	4,002,200
2,500,000	McDonald's Corp.	03/01/18	5.350%	2,987,250
2,500,000	Coca-Cola Bottling Company Consolidated	03/15/19	4.875%	2,927,750
5,000,000	Microsoft Corp.	06/01/19	4.200%	5,763,900
250,000	Coca-Cola Bottling Company Consolidated	08/15/19	4.500%	282,170
400,000	Abbott Laboratories	05/27/20	4.125%	443,420
2,000,000	McDonald's Corp.	01/15/22	2.625%	2,010,900
<u>\$62,475,000</u>		Total Corporate Securities		<u>\$66,253,633</u>
Federal Agency Bonds and Notes:				
<i>Citigroup, Inc. (FDIC Guaranteed):</i>				
<u>\$5,000,000</u>		07/12/12	2.125%	<u>\$5,051,000</u>
<i>Federal Farm Credit Bank:</i>				
\$4,000,000		09/22/14	3.000%	\$4,255,120
2,000,000		10/04/21	2.940%	2,012,500
5,000,000		10/04/21	2.940%	5,031,250
<u>\$11,000,000</u>				<u>\$11,298,870</u>

(Continued)

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

Schedule of Investments, December 31, 2011

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
<i>Federal Home Loan Mortgage Corporation:</i>				
\$50,000		06/12/13	4.000%	\$52,617
<u>5,000,000</u>		06/18/14	3.050%	<u>5,063,300</u>
<u>\$5,050,000</u>	<i>Total Federal Home Loan Mortgage Corporation</i>			<u>\$5,115,917</u>
<i>Federal National Mortgage Association:</i>				
\$2,500,000		06/22/12	1.250%	\$2,513,175
15,000,000		02/05/14	2.750%	15,682,200
10,000,000		11/20/14	2.250%	10,580,200
2,500,000		09/14/15	1.725%	2,518,975
5,000,000		09/14/15	1.725%	5,037,950
5,000,000		04/11/16	2.375%	5,282,750
<u>4,000,000</u>		07/18/16	2.125%	<u>4,037,240</u>
<u>\$44,000,000</u>	<i>Total Federal National Mortgage Association</i>			<u>\$45,652,490</u>
<i>U.S. Treasury Notes:</i>				
\$2,000,000		07/31/14	2.625%	\$2,117,340
7,000,000		07/31/14	2.625%	7,410,690
2,500,000		03/31/15	2.500%	2,665,625
<u>3,000,000</u>		03/31/16	2.375%	<u>3,212,580</u>
<u>\$14,500,000</u>	<i>Total U.S. Treasury Notes</i>			<u>\$15,406,235</u>
<u>\$142,025,000</u>	<i>Total Fixed Return Investments and Earnings Enhancements</i>			<u>\$148,778,145</u>
VARIABLE EARNINGS INVESTMENTS				
<i>The Vanguard Group (Mutual Funds):</i>				
	LifeStrategy Income			\$27,735,289
	LifeStrategy Conservative Growth			33,032,795
	Total Stock Market Index Institutional Shares			97,742,169
	Total World Stock Institutional			722,920
	Total International Stock Index			5,893,564
	LifeStrategy Moderate Growth			19,146,007
	LifeStrategy Growth			2,596,326
	Small-Cap Index			2,027,183
	Mid-Cap Index			1,466,222
	Large-Cap Index			<u>1,085,123</u>
	<i>Total Vanguard Mutual Funds</i>			<u>\$191,447,598</u>
	<i>Total Investments</i>			<u>\$340,225,743</u>

(Concluded)

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Exhibit A

The following pages contain a report on internal control over financial reporting and on compliance with laws and regulations and other matters required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The 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 and other matters that would be material to the presented financial statements.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

August 27, 2012

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, 2011, and have issued our report thereon dated August 27, 2012. 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

Management of the START Program is responsible for establishing and maintaining effective 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 a 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 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

KS:CRV:BQD:THC:ch

START 2011