

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, 2015  
ISSUED JUNE 29, 2016

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

**LEGISLATIVE AUDITOR**  
DARYL G. PURPERA, CPA, CFE

**ASSISTANT LEGISLATIVE AUDITOR**  
**FOR STATE AUDIT SERVICES**  
NICOLE B. EDMONSON, CIA, CGAP, MPA

**DIRECTOR OF FINANCIAL AUDIT**  
ERNEST F. SUMMERVILLE, JR., CPA

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 is 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. One copy of this public document was produced at an approximate cost of \$1.50. 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 website at [www.la.la.gov](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 7417 or Report ID No. 80150193 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

# TABLE OF CONTENTS

---

	Page
Independent Auditor's Report.....	2
Management's Discussion and Analysis .....	5
<b>Statement</b>	
Basic Financial Statements:	
Statement of Fiduciary Net Position..... A .....	8
Statement of Changes in Fiduciary Net Position .....	B .....9
Notes to the Financial Statements .....	10
<b>Schedule</b>	
Supplemental Information Schedules	
Combining Schedule of Fiduciary Net Position for the Year Ended December 31, 2015.....1.....	21
Combining Schedule of Changes in Fiduciary Net Position for the Year Ended December 31, 2015.....2.....	22
Schedule of Investments.....3.....	23
<b>Exhibit</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	A





LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

June 21, 2016

## 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**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the fiduciary fund activities of the Student Tuition Assistance and Revenue Trust Program (START), a private-purpose trust fund of the state of Louisiana, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise START's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary fund activities of START as of December 31, 2015, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in note 1, the financial statements present only START and do not purport to, and do not, present fairly the financial position of the state of Louisiana as of December 31, 2015, 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. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

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.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise START's basic financial statements. The accompanying supplementary information schedules, including the Combining Schedule of Fiduciary Net Position, the Combining Schedule of Changes in Fiduciary Net Position, and the Schedule of Investments on pages 21 through 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2016, on our consideration of START'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering START's internal control over financial reporting and compliance.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

DSG:CGEW:BH:EFS:aa

START 2015



## 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, 2015. START is administered by the Louisiana Office of Student Financial Assistance under the direction of the Louisiana Tuition Trust Authority. The responsibility for selection of START investments and the investment of START funds rests with the State Treasurer.

### FINANCIAL HIGHLIGHTS

- The assets of START exceeded its liabilities at the close of the most recent fiscal year by \$644,059,114 (net position – amounts held in trust for participants).
- START's total net position increased by \$38,930,127, from \$605,128,987 on December 31, 2014, to \$644,059,114 on December 31, 2015.
- The number of accounts increased by 3,157, from 50,648 on December 31, 2014, to 53,805 on December 31, 2015.

### 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 Position, (2) Statement of Changes in Fiduciary Net Position, and (3) Notes to the Financial Statements. These financial statements include the activities of START's fixed and variable investments.

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

The **Statement of Changes in Fiduciary Net Position** presents information showing how START's net position changed during the most recent calendar year. All changes in net position 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.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents supplemental information that presents combining schedules of START's net position and changes in net position for the Louisiana Education Tuition and Savings Fund,

Savings Enhancement Fund, and the Variable Earnings Transaction Fund; as well as a schedule that lists and categorizes the investments held by START at the end of the year.

## BASIC FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of START, assets exceeded liabilities by \$644,059,114 at the close of the most recent year, December 31, 2015. By far, the largest portion of START's net position (95.6%) reflects its investments at fair market value. The following is a comparison of START's net position to the prior year.

**Table A-1**  
**Comparative Statement of Fiduciary Net Position**  
**As of December 31, 2015 and 2014**

	2015	2014
Assets:		
Cash	\$28,580,783	\$30,441,705
Investments at fair market value	615,828,224	574,561,258
Accrued interest receivable	708,885	762,609
Total Assets	645,117,892	605,765,572
Liabilities:		
Disbursements payable	1,058,778	636,585
Total Liabilities	1,058,778	636,585
Net Position - Amounts Held in Trust for START Participants	\$644,059,114	\$605,128,987

**Changes in Net Position.** Key elements of the changes for the years ended December 31, 2015, and 2014 are as follows:

**Table A-2**  
**Comparative Statement of Changes in Fiduciary Net Position**  
**For the Years Ended December 31, 2015 and 2014**

	2015	2014
Additions:		
Participant Deposits	\$72,618,213	\$71,619,129
Investment Income:		
Interest and dividends	14,303,729	12,914,495
Change in the fair value of investments	(12,487,781)	24,957,970
State General Fund appropriation	1,700,000	1,700,000
Total additions	76,134,161	111,191,594
Deductions:		
Participant distributions	(37,204,034)	(31,178,799)
Transfer to state Overcollections Fund		(19,892)
Total deductions	(37,204,034)	(31,198,691)
Increase in net position	38,930,127	79,992,903
Net position, Beginning of year	605,128,987	525,136,084
Net position, End of year	\$644,059,114	\$605,128,987

## ECONOMIC OUTLOOK

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 in an increase in accounts.

Currently, 60% of START accounts and 34% of deposits are invested in the Louisiana Principal Protection Fund, which has a guaranteed rate of return established by the State Treasurer, which for 2015 was 1.672%. 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, generally, the percentage of account owners investing in equities will continue to 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 call the START office at (225) 219-1012 or toll free at (800) 259-5626 or access the START website, [www.startsaving.la.gov](http://www.startsaving.la.gov).



**Statement A**

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

**Statement of Fiduciary Net Position, December 31, 2015**

**ASSETS**

Cash (note 2)	\$28,580,783
Investments (note 3)	615,828,224
Interest receivable	708,885

**TOTAL ASSETS** 645,117,892

**LIABILITIES**

Disbursements payable	1,058,778
-----------------------	-----------

**TOTAL LIABILITIES** 1,058,778

**NET POSITION - AMOUNTS HELD  
IN TRUST FOR START PARTICIPANTS**

\$644,059,114

The accompanying notes are an integral part of this statement.



**Statement B**

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

**Statement of Changes in Fiduciary Net Position  
For the Year Ended December 31, 2015**

**ADDITIONS**

Participant deposits	\$72,618,213
Investment income:	
Interest and dividends	14,303,729
Net decrease in the fair value of investments	(12,487,781)
Appropriated from state General Fund for earnings enhancements	1,700,000
Total additions	<u>76,134,161</u>

**DEDUCTIONS**

Disbursements to participants	<u>(37,204,034)</u>
Total deductions	<u>(37,204,034)</u>

Change in net position	<u>38,930,127</u>
------------------------	-------------------

<b>NET POSITION, BEGINNING OF YEAR</b>	<u>605,128,987</u>
--	--------------------

<b>NET POSITION, END OF YEAR</b>	<u><u>\$644,059,114</u></u>
----------------------------------	-----------------------------

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.* 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 the Louisiana Tuition Trust Authority (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 college savings plan (CSP) 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 IRC Section 529. 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 a CSP 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 CSP is opened.
- An authorized representative of a legal entity must open the CSP 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 CSPs in the name of the minor. These CSPs 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. Under these circumstances, the account owner forfeits the state of Louisiana's match and the earnings on the amount matched. 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 website, [www.startsaving.la.gov](http://www.startsaving.la.gov), or by calling the START office at (225) 219-1012 or toll free at (800) 259-5626.

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

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

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards* published by GASB. The accompanying financial statements have been prepared in accordance with such principles.

### **B. REPORTING ENTITY**

GASB Codification Section 2100 has defined the governmental reporting entity to be the state of Louisiana. START is a private-purpose trust fund of the state of Louisiana, and the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) LATTA's members consist of all but two members of the Louisiana Student Financial Assistance Commission, the majority of whose members are either appointed by the governor or are in positions of governance of state entities (e.g., State Superintendent of Education, President of the State Board of Elementary and Secondary Education, chairpersons of public institutions of higher education); and (2) the state has control and exercises authority over START because START is administered by LOSFA.

The accompanying financial statements present information only as to the balances of START. Annually, the state of Louisiana issues basic financial statements, which include the activity contained in the accompanying financial statements. The financial statements are audited by the Legislative Auditor.

### **C. 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.

### **D. 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 to 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 prior to investment by START 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 sixth birthday, then to the Vanguard LifeStrategy Income Fund on the beneficiary's eleventh 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 sixth birthday, then to the Vanguard LifeStrategy Growth on the beneficiary's eleventh 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 ninth birthday, then to the Vanguard LifeStrategy Growth Fund on the beneficiary's thirteenth 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, Admiral Shares – Tracks the performance of a benchmark index that measures the investment return of small-capitalization stocks. It employs a “passive management,” or indexing, full-replication approach designed to track the performance of the CRSP US Small-Cap Index, a broadly diversified index of 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, Admiral Shares – Tracks the performance of a benchmark index that measures the investment return of mid-capitalization stocks. It employs a “passive management,” or indexing, full-replication approach designed to track the performance of the CRSP US Mid Cap Index, a broadly diversified index of stocks of medium sized 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, Admiral Shares – Tracks the performance of a benchmark index that measures the investment return of large-capitalization stocks. It employs a “passive management,” or indexing, full-replication approach designed to trace the performance of the CRSP US Large Cap Index, a broadly diversified index of stocks of large sized 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 instructions received from the account owner, 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, 2014, and will continue in effect through December 31, 2018, unless terminated by either party by 60 days advance written notice to the other.

## **E. ESTIMATES**

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.

## **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 Position (Statement A), START has deposits (cash) totaling \$28,580,783 at December 31, 2015. 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 State 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 \$615,828,224, as presented on Statement A, are reported at fair value. The following tables itemize the investments, the range of maturity dates, and fair market value of investments at December 31, 2015, 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	\$59,770,103	\$6,534,010	\$24,776,733	\$28,459,360	
Federal Agency Bonds and Notes:					
Federal Home Loan Mortgage Corporation	14,879,250		14,879,250		
Federal Home Loan Bank	9,975,850	2,994,120	6,981,730		
Federal National Mortgage Association Notes	38,750,670	5,025,900	33,724,770		
U.S. Treasury Notes	78,411,690	3,014,310	66,141,910	9,255,470	
Total Investment Securities	201,787,563	\$17,568,340	\$146,504,393	\$37,714,830	NONE
Vanguard Mutual Funds	414,040,661				
Total Investments	\$615,828,224				

### Changes in Investments - Fair Market Value

	2015
Balance, January 1, 2015	\$574,561,258
Add:	
Investment purchases	155,227,521
Market value adjustment	<u>(12,487,781)</u>
Total	717,300,998
Less - investment sales/redemptions	<u>(101,472,774)</u>
Balance, December 31, 2015	<u>\$615,828,224</u>

Unrealized investment losses exceeded unrealized investment gains by \$12,487,781 at year-end. This net unrealized investment loss 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 a CSP 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, 2015:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$23,062,960
AA	80,747,530
A	14,938,158
BBB	<u>4,627,225</u>
Total	<u>\$123,375,873</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.) 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 START's annual return for the one-year, three-year, and five-year periods ended December 31, 2015:

Portfolio	Average Annual Return		
	One Year	Three Years	Five Years
Vanguard LifeStrategy Moderate Growth	(0.57%)	7.18%	6.71%
Vanguard LifeStrategy Conservative Growth	(0.17%)	5.29%	5.36%
Vanguard LifeStrategy Income	0.22%	3.46%	4.14%
Vanguard LifeStrategy Growth	(1.17%)	9.07%	7.86%
Vanguard Total World Stock Index	(2.02%)	8.23%	6.79%
Vanguard Total Stock Market Index Fund Institutional Shares	0.45%	15.56%	12.85%
Vanguard Total International Stock Index Fund	(4.24%)	2.25%	2.11%
Vanguard Small-Cap Index Fund, Admiral Shares	(3.64%)	13.89%	11.44%
Vanguard Mid-Cap Index Fund, Admiral Shares	(1.34%)	15.86%	12.32%
Vanguard Large-Cap Index Fund, Admiral Shares	1.07%	15.70%	12.95%
Louisiana Fixed Return Investments (Louisiana Principal Protection Fund)	1.67%	1.97%	2.20%
Earnings Enhancements	1.15%	1.39%	1.83%

## 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 a CSP 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 START for the current year totaled \$1,700,000. The remaining balance in the Savings Enhancement Fund will be sufficient to fully satisfy earnings enhancements for 2015. 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 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 in fixed earnings. 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 0.27% per year and are subject to change at any time without notice. Earnings credited to the CSPs 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 CSPs.

## **8. SUBSEQUENT EVENTS**

Act 314 of the 2016 Regular Session of the Louisiana Legislature abolishes the Louisiana Student Financial Assistance Commission and transfers all its duties and responsibilities to the Louisiana Board of Regents (Board) effective August 1, 2016. This transfer includes moving LATTA and LOSFA and, therefore, START, under the supervision of the Board.

## SUPPLEMENTAL INFORMATION SCHEDULES

---

### **Combining Schedule of Fiduciary Net Position for the year ended December 31, 2015**

Schedule 1 presents the Combining Schedule of Fiduciary Net Position for the Louisiana Education Tuition and Savings Fund, Savings Enhancement Fund, and Variable Earnings Transaction Fund.

### **Combining Schedule of Changes in Fiduciary Net Position for the year ended December 31, 2015**

Schedule 2 presents the Combining Schedule of Changes in Fiduciary Net Position for the Louisiana Education Tuition and Savings Fund, Savings Enhancement Fund, and Variable Earnings Transaction Fund.

### **Schedule of Investments**

Schedule 3 presents the face amount, description, maturity date, and yield (where applicable), and the fair value of investments held by START at December 31, 2015.



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

**Combining Schedule of Fiduciary Net Position, December 31, 2015**

	LOUISIANA EDUCATION TUITION AND SAVINGS FUND	SAVINGS ENHANCEMENT FUND	VARIABLE EARNINGS TRANSACTION FUND	TOTAL
<b>ASSETS</b>				
Cash	\$27,682,951	\$872,050	\$25,782	\$28,580,783
Investments	598,455,094	17,373,130		615,828,224
Interest receivable	643,721	63,094	2,070	708,885
	<u>626,781,766</u>	<u>18,308,274</u>	<u>27,852</u>	<u>645,117,892</u>
<b>LIABILITIES</b>				
Disbursements payable	1,035,644	23,134		1,058,778
	<u>1,035,644</u>	<u>23,134</u>	NONE	<u>1,058,778</u>
<b>NET POSITION - AMOUNTS HELD IN TRUST FOR START PARTICIPANTS</b>				
	<u>\$625,746,122</u>	<u>\$18,285,140</u>	<u>\$27,852</u>	<u>\$644,059,114</u>



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

**Combining Schedule of Changes in Fiduciary Net Position  
For the Year Ended December 31, 2015**

	LOUISIANA EDUCATION TUITION AND SAVINGS FUND	SAVINGS ENHANCEMENT FUND	VARIABLE EARNINGS TRANSACTION FUND	TOTAL
<b>ADDITIONS</b>				
Participant deposits	\$72,618,213			\$72,618,213
Investment income:				
Interest and dividends	14,087,632	\$205,403	\$10,694	14,303,729
Net change in the fair value of investments	(12,491,135)	3,354		(12,487,781)
Appropriated from state General Fund for earnings enhancements		1,700,000		1,700,000
Total additions	<u>74,214,710</u>	<u>1,908,757</u>	<u>10,694</u>	<u>76,134,161</u>
<b>DEDUCTIONS</b>				
Disbursements to participants	(36,277,204)	(926,830)		(37,204,034)
Total deductions	<u>(36,277,204)</u>	<u>(926,830)</u>	<u>0</u>	<u>(37,204,034)</u>
<b>CHANGE IN NET POSITION</b>	37,937,506	981,927	10,694	38,930,127
<b>INTERFUND TRANSFERS</b>	7,339		(7,339)	
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>587,801,277</u>	<u>17,303,213</u>	<u>24,497</u>	<u>605,128,987</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$625,746,122</u></u>	<u><u>\$18,285,140</u></u>	<u><u>\$27,852</u></u>	<u><u>\$644,059,114</u></u>



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

**Schedule of Investments, December 31, 2015**

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
<b>FIXED EARNINGS INVESTMENTS AND EARNINGS ENHANCEMENTS</b>				
Corporate Securities:				
\$2,500,000	PepsiCo Inc.	05/10/16	2.500%	\$2,515,250
4,000,000	Hershey Co.	11/01/16	1.500%	4,018,760
3,000,000	International Business Machines Corp.	02/06/17	1.250%	3,003,690
5,000,000	PepsiCo Inc.	02/22/17	0.950%	4,990,600
3,000,000	Catepillar Financial Services Corp.	03/01/18	1.300%	2,980,800
2,500,000	McDonald's Corp.	03/01/18	5.350%	2,676,925
3,000,000	International Business Machines Corp.	02/12/19	1.950%	3,014,130
2,000,000	ExxonMobil Corp.	03/15/19	1.819%	2,001,440
5,000,000	Microsoft Corp.	06/01/19	4.200%	5,407,650
250,000	Coca-Cola Enterprises Inc.	08/15/19	4.500%	268,750
400,000	Abbott Laboratories	05/27/20	4.125%	432,748
2,000,000	McDonald's Corp.	01/15/22	2.625%	1,950,300
3,000,000	Proctor & Gamble Co.	02/06/22	2.300%	2,997,870
4,000,000	Colgate-Palmolive Co.	05/03/22	2.300%	3,965,560
4,000,000	3M Co.	06/26/22	2.000%	3,891,760
11,000,000	Microsoft Corp.	11/15/22	2.125%	10,627,320
5,000,000	Microsoft Corp.	11/03/25	3.125%	5,026,550
<u>\$59,650,000</u>	Total Corporate Securities			<u>\$59,770,103</u>
<b>Federal Agency Bonds and Notes:</b>				
Federal Home Loan Mortgage Corporation:				
<u>\$15,000,000</u>		01/12/18	0.750%	<u>\$14,879,250</u>
<u>\$15,000,000</u>	Total Federal Home Loan Mortgage Corporation Notes			<u>\$14,879,250</u>

(Continued)

**Schedule 3**

**STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
STATE OF LOUISIANA  
Schedule of Investments, December 31, 2015**

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
Federal Home Loan Bank:				
\$3,000,000		11/23/16	0.625%	\$2,994,120
7,000,000		04/25/18	1.125%	6,981,730
<u>\$10,000,000</u>	Total Federal Home Loan Bank Notes			<u>\$9,975,850</u>
Federal National Mortgage Association:				
\$5,000,000		04/11/16	2.375%	\$5,025,900
5,000,000		02/08/18	0.875%	4,967,200
3,500,000		07/20/18	1.125%	3,485,720
10,000,000		11/26/19	1.750%	10,051,300
8,000,000		06/22/20	1.500%	7,900,400
7,500,000		10/15/20	1.500%	7,320,150
<u>\$39,000,000</u>	Total Federal National Mortgage Association Notes			<u>\$38,750,670</u>
<b>U.S. Treasury Notes</b>				
\$3,000,000		03/31/16	2.375%	\$3,014,310
25,000,000		12/15/17	1.000%	24,965,750
4,000,000		01/31/19	1.500%	4,014,080
10,000,000		01/31/19	1.500%	10,035,200
5,000,000		01/31/19	1.500%	5,017,600
2,000,000		09/30/20	1.375%	1,965,460
15,000,000		09/30/20	1.375%	14,740,950
500,000		10/31/20	1.375%	491,170
5,000,000		10/31/20	1.375%	4,911,700
1,000,000		05/15/23	1.750%	974,260
8,500,000		05/15/23	1.750%	8,281,210
<u>\$79,000,000</u>	Total U.S. Treasury Notes			<u>\$78,411,690</u>
<u>\$202,650,000</u>	Total Fixed Return Investments and Earnings Enhancements			<u>\$201,787,563</u>

(Continued)

**STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAM  
STATE OF LOUISIANA  
Schedule of Investments, December 31, 2015**

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
<b>VARIABLE EARNINGS INVESTMENTS</b>				
The Vanguard Group (Mutual Funds):				
	LifeStrategy Income			\$56,525,768
	LifeStrategy Conservative Growth			56,773,202
	Total Stock Market Index Institutional Shares			185,094,157
	Total World Stock Institutional			4,985,374
	Total International Stock Index			13,747,313
	LifeStrategy Moderate Growth			26,137,986
	LifeStrategy Growth			32,293,102
	Small-Cap Index			11,861,076
	Mid-Cap Index			12,376,503
	Large-Cap Index			<u>14,246,180</u>
	Total Vanguard Mutual Funds			<u>\$414,040,661</u>
		Totals		<u><u>\$615,828,224</u></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 as required by *Government Auditing Standards* issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.





LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

June 21, 2016

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*

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, in accordance with the 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, the financial statements of the Student Tuition Assistance and Revenue Trust Program (START), a private-purpose trust fund of the state of Louisiana, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise START's basic financial statements, and have issued our report thereon dated June 21, 2016. Our report was modified to include an emphasis of matter paragraph regarding financial statement comparability.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered START's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of START's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether START's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this communication is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

DSG:CGEW:BH:EFS:aa

START 2015