LOUISIANA UTILITIES RESTORATION CORPORATION

A COMPONENT UNIT OF THE
STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

**Financial Statement Audit for the
Year Ended June 30, 2022
Issued May 24, 2023**

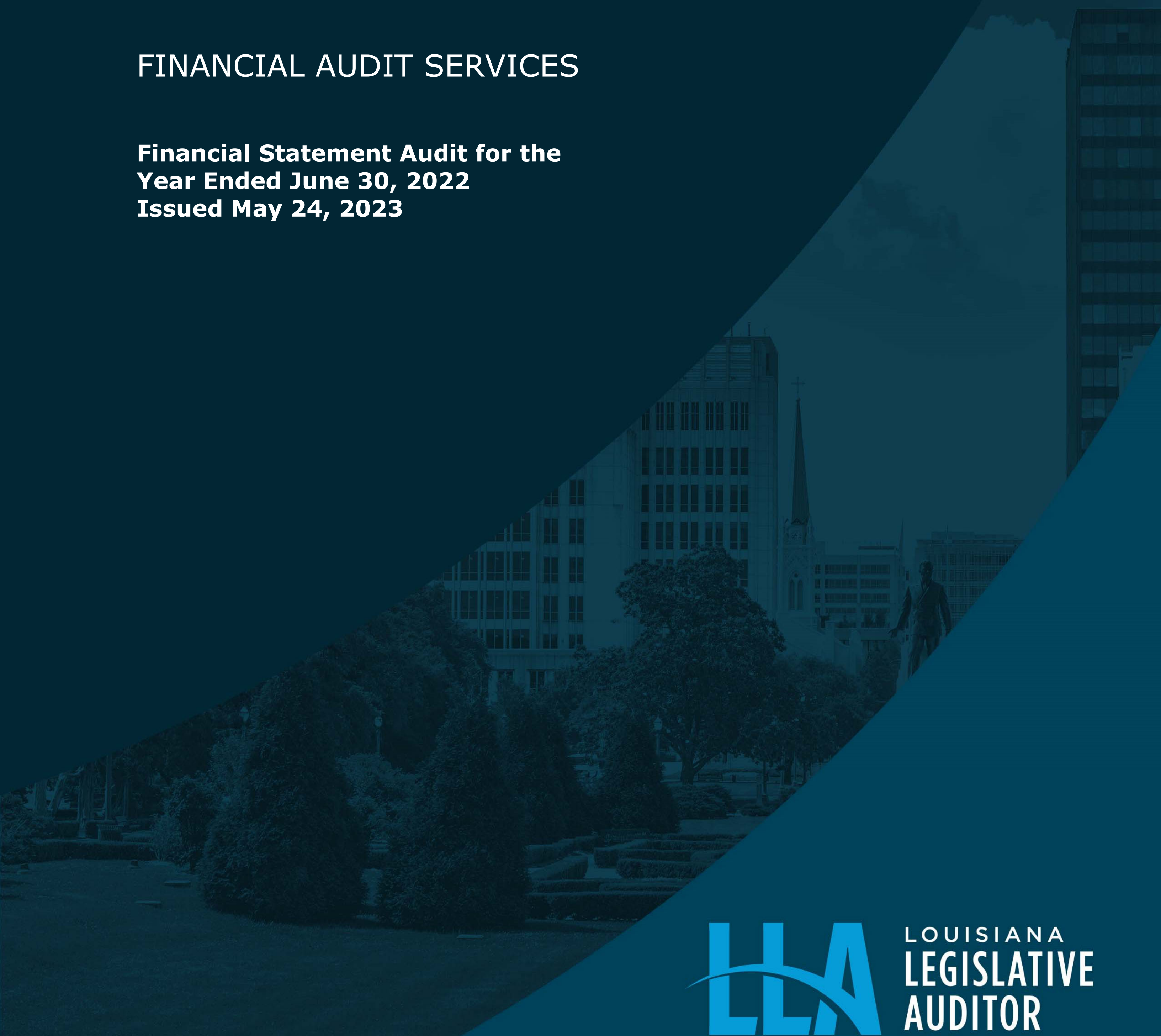

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TABLE OF CONTENTS

May 11, 2023

Independent Auditor's Report

LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the major enterprise funds of the Louisiana Utilities Restoration Corporation (Corporation), a special-purpose government and discrete component unit of the state of Louisiana, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the major enterprise funds of the Corporation as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United

States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2023, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely 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 effectiveness of the Corporation's 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 the Corporation's internal control over financial reporting and compliance.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

RJD:CRV:BQD:EFS:ch
LURC 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial report of the Louisiana Utilities Restoration Corporation (the Corporation) represents management's analysis of the Corporation's financial performance for the year ended June 30, 2022. This should be read in conjunction with the financial statements and the corresponding note disclosures of the Corporation, which follow this section.

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

FINANCIAL HIGHLIGHTS

During the year ended June 30, 2022, the main financial activities of the Corporation were as follows:

- The Corporation issued System Restoration Bonds of $3,193,505,000 to help cover system restoration costs incurred by Entergy Louisiana, LLC (ELL) as a result of hurricanes Laura, Delta, Zeta, Ida and winter storm Uri ("System Restoration Bonds Series 2022A").

- The Corporation collected $76,742,683 in system restoration charges for the ELL Program and $33,083,285 in system restoration charges for the Entergy Gulf States Louisiana, LLC (EGSL) Program.

- The Corporation paid $6,098,759 in interest and $66,667,259 in principal obligations on the Series 2010-ELL Program and Series 2014-ELL Program System Restoration Bonds.

- The Corporation paid $2,172,233 in interest and $29,834,696 in principal obligations on the Series 2010-EGSL Program and Series 2014-EGSL Program System Restoration Bonds.

- The Corporation paid $587,130 to ELL in servicing fees.

Overview of the Financial Statements

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

Basic Financial Statements

The basic financial statements present information for the Corporation as a whole in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The *Statement of Net Position* (page 9) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of the financial position of the Corporation.

The *Statement of Revenues, Expenses, and Changes in Net Position* (page 10) presents information showing how the Corporation's assets changed as a result of operations during the year ended June 30, 2022. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal years.

The *Statement of Cash Flows* (pages 11-12) presents information showing how the Corporation's cash changed as a result of operations during the year ended June 30, 2022. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB Statement No. 34.

The condensed Statements of Net Position as of June 30, 2022, and 2021, are as follows:

Statements of Net Position
June 30, 2022, and 2021

	2022	2021	Increase (Decrease)	Percentage Change
Current Assets	$103,208,228	$60,810,557	$42,397,671	69.72%
Total Assets	103,208,228	60,810,557	42,397,671	69.72%
Current Liabilities	152,070,857	100,654,951	51,415,906	51.08%
Noncurrent Liabilities	3,221,354,622	165,410,023	3,055,944,599	1,847.50%
Total Liabilities	3,373,425,479	266,064,974	3,107,360,505	1,167.90%
Net Position - Unrestricted (Deficit)	($3,270,217,251)	($205,254,417)	($3,064,962,834)	(1,493.25)%

The increase in current assets resulted from new reserve accounts funded by proceeds from the issuance of the Series 2022A System Restoration Bonds in May 2022.

The increase in current and noncurrent liabilities represents the respective current and long-term maturities on the Series 2022A System Restoration Bonds issued during the fourth quarter of fiscal year 2022.

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

The condensed Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2022, and 2021, are as follows:

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2022 and 2021

	2022	2021	Increase (Decrease)	Percentage Change
Operating Revenues - System Restoration Charges (Net)	$132,491,063	$108,315,258	$24,175,805	22.32%
Nonoperating Revenues -				
Interest Income	42,383	18,202	24,181	132.85%
Other Income	5,000	0	5,000	100.00%
Total Revenues	132,538,446	108,333,460	24,204,986	22.34%
Operating Expenses	1,585,274	1,297,167	288,107	22.21%
Nonoperating Expenses -				
Trust Contribution	3,163,571,872	0	3,163,571,872	100.00%
Interest Expense	18,388,532	10,346,342	8,042,190	77.73%
Underwriters' Discount	9,265,920	0	9,265,920	100.00%
Bond Issuance Costs	4,689,682	0	4,689,682	100.00%
Total Expenses	3,197,501,280	11,643,509	3,185,857,771	27,361.66%
Change in Net Position	($3,064,962,834)	$96,689,951	($3,161,652,785)	(3,269.89)%

The operating revenues of the Corporation are derived from system restoration charges collected by ELL from its customers to satisfy the debt service requirements of the Corporation. The increase in operating revenues resulted from the system restoration charges assessed to meet the required principal payments on the Series 2022A System Restoration Bonds issued during the fourth quarter of fiscal year 2022.

The increase in operating expenses related to the Series 2022A System Restoration Bonds issuance.

The significant increase in non-operating expenses resulted from the trust contribution, bond interest expense, bond issuance costs and the underwriters' discount corresponding to the issuance of the Series 2022A System Restoration Bonds.

Contacting the Management of the Louisiana Utilities Restoration Corporation

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

Ms. Jamie Hurst Watts
Long Law Firm, L.L.P.
1800 City Farm Drive
Building 6
Baton Rouge, LA 70806

LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA

Statement of Net Position
June 30, 2022

	Enterprise Funds		
	ELL Program	**EGSL Program**	**Total**
Assets			
Current Assets - Restricted			
Cash Equivalents (Note 2)	$55,964,857	$15,847,017	$71,811,874
Receivables, Net (Note 3)	29,377,987	2,018,367	31,396,354
Total Current Assets	85,342,844	17,865,384	103,208,228
Total Assets	85,342,844	17,865,384	103,208,228
Liabilities			
Current Liabilities - Restricted			
Accounts Payable	445,141	176,337	621,478
Accrued Interest Payable	13,344,000	544,977	13,888,977
Current Portion of Bonds Payable, Net (Note 4)	119,872,376	17,688,026	137,560,402
Total Current Liabilities	133,661,517	18,409,340	152,070,857
Noncurrent Liabilities - Restricted			
Bonds Payable, Net (Note 4)	3,197,773,350	23,581,272	3,221,354,622
Total Liabilities	3,331,434,867	41,990,612	3,373,425,479
Net Position - Unrestricted (Deficit)	($3,246,092,023)	($24,125,228)	($3,270,217,251)

The accompanying notes are an integral part of this statement.

LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

	Enterprise Funds		
	ELL Program	**EGSL Program**	**Total**
Operating Revenues			
System Restoration Charges	$100,167,750	$32,421,945	$132,589,695
(Increase)/decrease in Allowance for Uncollectible Accounts	(105,637)	7,005	(98,632)
Total Operating Revenues (Note 5)	100,062,113	32,428,950	132,491,063
Operating Expenses			
Servicing Fees	556,144	296,460	852,604
Professional Services	315,108	306,062	621,170
Ongoing Financing Costs	55,750	55,750	111,500
Total Operating Expenses	927,002	658,272	1,585,274
Operating Income	99,135,111	31,770,678	130,905,789
Nonoperating Revenues (Expenses)			
Interest and Dividend Income	30,616	11,767	42,383
Other Income	5,000	0	5,000
Trust Contribution (Note 6)	(3,163,571,872)	0	(3,163,571,872)
Interest Expense	(16,673,194)	(1,715,338)	(18,388,532)
Underwriters' Discount	(9,265,920)	0	(9,265,920)
Bond Issuance Costs	(4,689,682)	0	(4,689,682)
Total Nonoperating Revenues (Expenses), Net	(3,194,165,052)	(1,703,571)	(3,195,868,623)
Change in Net Position	(3,095,029,941)	30,067,107	(3,064,962,834)
Net Position, Beginning of Year	(151,062,082)	(54,192,335)	(205,254,417)
Net Position, End of Year	($3,246,092,023)	($24,125,228)	($3,270,217,251)

The accompanying notes are an integral part of this statement.

LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2022

	Enterprise Funds		
	ELL Program	**EGSL Program**	**Total**
Cash Flows from Operating Activities			
System Restoration Charges Received	$76,742,683	$33,083,285	$109,825,968
Servicing Fees Paid	(290,670)	(296,460)	(587,130)
Professional Services Paid	(307,112)	(299,612)	(606,724)
Ongoing Financing Costs Paid	(85,750)	(65,750)	(151,500)
Net Cash Provided by Operating Activities	76,059,151	32,421,463	108,480,614
Cash Flows from Non-Capital Financing Activities			
Proceeds from Sale of Bonds	3,193,505,000	0	3,193,505,000
Trust Contribution	(3,163,571,872)	0	(3,163,571,872)
Bond Issuance Costs	(4,689,682)	0	(4,689,682)
Underwriters' Discount	(9,265,920)	0	(9,265,920)
Other Income	5,000	0	5,000
Bond Principal Obligations Paid	(66,667,259)	(29,834,696)	(96,501,955)
Interest Paid on Bonds	(6,098,759)	(2,172,233)	(8,270,992)
Net Cash Used in Non-Capital Financing Activities	(56,783,492)	(32,006,929)	(88,790,421)
Cash Flows from Investing Activities			
Interest and Dividends Received	30,616	11,767	42,383
Net Cash Provided by Investing Activities	30,616	11,767	42,383
Net Increase in Cash Equivalents	19,306,275	426,301	19,732,576
Cash Equivalents, Beginning of Year	36,658,582	15,420,716	52,079,298
Cash Equivalents, End of Year	$55,964,857	$15,847,017	$71,811,874

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA
Statement of Cash Flows
For the Year Ended June 30, 2022

	Enterprise Funds		
	ELL Program	**EGSL Program**	**Total**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	$99,135,111	$31,770,678	$130,905,789
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Increase (Decrease) in Allowance for Uncollectible Accounts	105,637	(7,005)	98,632
Changes in Assets and Liabilities			
(Increase) Decrease in Receivables	(23,425,067)	661,340	(22,763,727)
Increase (Decrease) in Accounts Payable	243,470	(3,550)	239,920
Net Cash Provided by Operating Activities	$76,059,151	$32,421,463	$108,480,614

(Concluded)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

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

In 2005, Louisiana was struck by hurricanes Katrina and Rita, causing unprecedented damages to the infrastructure of Entergy Louisiana, Inc. As of October 1, 2015, Entergy Gulf States Louisiana, L.L.C. (EGSL) and Entergy Louisiana, LLC (ELL) were combined into a single operating company ultimately referred to as Entergy Louisiana, LLC. As a result of that transaction, and pursuant to Assignment and Assumption Agreements executed in connection therewith, the combined Entergy Louisiana, LLC succeeded both EGSL and ELL as the servicer for the existing programs. ELL and EGSL previously funded and paid for the majority of the system restoration costs using internally generated funds, borrowings from the Entergy Money Pool, and proceeds of debt issuances. The severity of the resulting damage to utilities and the importance of maintaining a reliable and reasonably priced source of electricity to the state's economic recovery prompted the Louisiana Legislature to assist electric utilities by authorizing a new financing structure to provide utilities with low-cost capital. As a result, the Louisiana Legislature passed the Restoration Law, which authorized the creation of the Corporation for the purpose of making the capital contribution and financing that contribution through the issuance of system restoration bonds.

A utility subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) must apply to the LPSC for a Financing Order under the Restoration Law to authorize the issuance of system restoration bonds. If the LPSC determines, in its discretion, that certain criteria in the Restoration Law are met, the LPSC may issue a Financing Order that, among other things, authorizes the Corporation to impose system restoration charges on the customers of a utility; authorizes the Corporation to pledge the system restoration property to an authorized issuer under the Restoration Law as security for a loan of the proceeds of the system restoration bonds issued by the issuer; authorizes the petitioning utility to serve as collection agent for the system restoration charges; and requires the Corporation to transfer the net proceeds from the issuance of such bonds to the utility for the public good as a non-shareholder contribution to capital. The proceeds of the bonds would serve as the mechanism by which non-shareholder capital contributions are paid by the Corporation to a utility company in an amount that would adequately satisfy the following expenditures: (1) system restoration costs previously incurred for damages; (2) the establishment of a storm damage reserve account for each entity that would be used to fund system restoration costs in the event of future damages due to hurricanes and other storms; and (3) bond issuance costs.

The Financing Order is adopted for the following purposes: (1) to approve and authorize the financing and capital contribution; (2) to authorize the issuance of system restoration bonds in one or more series; (3) to approve the structure of the proposed financing and capital contribution; (4) to create system restoration property solely in favor of the Corporation, including the right to impose and collect system restoration charges in an amount to be calculated as provided in a Financing Order; and (5) to approve the form of tariff to impose the system restoration charges on behalf of the Corporation.

Act 293 of the 2021 Regular Session of the Louisiana Legislature amended the Restoration Law and the Louisiana Electric Storm Recovery Securitization Act to include, among other provisions, authorization to create special public trusts or to participate as an assignee in certain financial transactions for the purpose of providing an alternate financing mechanism available to the LPSC and the council of the city of New Orleans (CNO), as applicable. The Corporation may create trusts in movable property and serve as a beneficiary along with a utility, or participate as an assignee, by and with the express approval of the LPSC or the CNO, including authorization in a financing order. Such trust shall own, administer, and distribute the trust property contributed and earned for the benefit of its beneficiaries, and, when applicable, a pledgee. A financing order shall require the Corporation to transfer the net proceeds of the system restoration bonds to a trust whose beneficiary is the related utility that is collecting the applicable system restoration charges.

In 2008, Louisiana was struck by hurricanes Gustav and Ike which caused extensive damage to infrastructure and caused power outages throughout ELL's and EGSL's systems. In response, ELL and EGSL, in conjunction with the Corporation, filed separate applications for Financing Orders under the Restoration Law, which were approved by the LPSC on April 21, 2010, and were issued by the LPSC on April 30, 2010. The funds for the non-shareholder capital contributions to ELL were obtained through the issuance of $468,900,000 of Series 2010 System Restoration Bonds, dated July 22, 2010 (the 2010-ELL Program), in four tranches. The funds for the non-shareholder capital contributions to EGSL were obtained through the issuance of $244,100,000 of Series 2010 System Restoration Bonds, dated July 22, 2010 (the 2010-EGSL Program), in three tranches.

In 2012, Louisiana was struck by hurricane Isaac which caused extensive damage to infrastructure and caused power outages throughout ELL's and EGSL's systems. In response, ELL and EGSL, in conjunction with the Corporation, filed a Joint Application for Financing, Quantification, and Ancillary Orders under the Restoration Law, which were approved by the LPSC on June 18, 2014, and were issued by the LPSC on August 6, 2014. The funds for the non-shareholder capital contributions to ELL were obtained through the issuance of $243,850,000 of Series 2014 System Restoration Bonds, dated August 6, 2014 (the 2014-ELL Program), in two tranches. The funds for the non-shareholder capital contributions to EGSL were obtained through the issuance of $71,000,000 of Series 2014 System Restoration Bonds, dated August 6, 2014 (the 2014-EGSL Program), in one tranche.

Throughout 2020 and 2021, Louisiana was struck by hurricanes Laura, Delta, Zeta, Ida and winter storm Uri which caused extensive damage to infrastructure and caused power outages throughout ELL's systems. In response, ELL and the Corporation filed the first supplemental joint application with the LPSC seeking authority to cause the issuance of system restoration bonds in an aggregate principal amount equal to the sum of $1.86 billion of net system restoration costs, the costs of re-establishing storm damage reserves for ELL's operations that are subject to the jurisdiction of the LPSC in the amount of $290 million in a restricted storm reserve escrow account, and issuance costs. On this date, ELL also filed the second supplemental joint application requesting an order, separate from the Financing Order, approving a tariff to implement ancillary adjustments relating to the system restoration process. On September 30, 2021, ELL and the Corporation filed a third supplemental joint application requesting the establishment of a $1 billion Hurricane Ida Escrow to be added to the aggregate principal amount. On February 23, 2022, the LPSC approved all applications and the issuance of the Financing Order, which was issued on March 2, 2022.

The approvals contained in the Financing Order include authorization to issue system restoration bonds in one or more series in an aggregate principal amount equal to the sum of: (a) $2,056,849,979 of system restoration costs; (b) the costs of re-establishing regular storm damage reserves for ELL's operations that are subject to the jurisdiction of the LPSC in the amount of $290,000,000 in a restricted storm damage reserve escrow account; (c) the costs of funding and financing a special Hurricane Ida Escrow storm damage reserve escrow fund in the amount of $1,000,000,000 in a separate restricted reserve escrow account; (d) issuance costs; and (e) certain carrying costs. This bond transaction closed on May 19, 2022.

To generate funds to meet the principal and interest obligations on the system restoration bonds, the customers of ELL are assessed a system restoration charge. ELL, in its capacity as servicer, collects the charges from each customer, which are billed to each customer as part of their standard monthly invoices, on behalf of the Corporation. ELL then remits the collected system restoration charges into accounts maintained by the trustee for the benefit of the Corporation. These fees, and the corresponding rights to these fees, are considered system restoration property and serve as collateral for the bonds. In the event that system restoration charges remitted by ELL are not sufficient to meet principal and interest obligations, the Corporation can withdraw funds from Debt Service Reserve Subaccounts (DSRSs) established for each utility company, which were created by a portion of the monies from the corresponding bond issuances. The DSRSs will be replenished to the required balances as established in the corresponding Financing Order with system restoration charges collected subsequent to the withdrawal of funds. On a semiannual basis, system restoration charges are reviewed by the Corporation to determine if the charges are at a sufficient level to meet bond principal and interest obligations along with other necessary expenses of the Corporation. Any adjustments to the charges to customers are made as a result of each review.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Corporation's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations).

B. REPORTING ENTITY

Using the criteria in GASB Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the state of Louisiana. The Corporation is considered a discretely presented component unit of the state of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the Corporation is created as a public corporation and instrumentality of the state of Louisiana and has corporate powers; (2) a majority of the members of the board of directors are either appointed by the governor or are primary government officials; (3) the annual operating budget must be approved by the LPSC, which is part of the primary government; and (4) the primary government has the ability to impose its will on the Corporation, as defined in GASB Statement No. 14 and amended by GASB Statement No. 61.

The state of Louisiana issues an annual comprehensive financial report, which includes the activity contained in the accompanying basic financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

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

The Corporation reports the following major proprietary funds:

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

- EGSL Program - accounts for all activities related to the system restoration property and system restoration charges of Entergy Gulf States Louisiana, L.L.C., who combined with Entergy Louisiana, LLC in October 2015.

D. CASH EQUIVALENTS

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

E. INVESTMENTS

In accordance with the Corporation's investment policy, funds held by the Corporation or the indentured trustee on behalf of the Corporation may be invested and reinvested in investments and securities that are legal investments under the laws of the state of Louisiana in accordance with LRS 33:2955 and secured, as applicable, in accordance with LRS 49:321.

The official bond documents authorize the trustee to invest in direct obligations of the United States of America, time deposits or certificates of deposit of an eligible banking institution, commercial paper with the highest available credit rating, money market mutual funds with the highest available credit ratings, and any other investment permitted by each of the rating agencies. The funds held by the Corporation or the indentured trustee on behalf of the Corporation related to the Series 2014 System Restoration Bonds are also authorized to be invested in demand deposits, bankers' acceptances of an eligible banking institution, and certain repurchase obligations.

F. REVENUES AND EXPENSES

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

- *Operating Revenues* include system restoration charges which are billed to utility customers.

- *Nonoperating Revenues* include interest and dividend income.

- *Operating Expenses* generally include costs associated with the collection of system restoration charges, costs of administering the Corporation, and non-shareholder capital contributions, if applicable.

- *Nonoperating Expenses* include interest paid on debt, amortization of bond discounts, bond issuance costs and trust contributions, if applicable.

G. RESTRICTED ASSETS AND LIABILITIES

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

H. RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

I. LONG-TERM OBLIGATIONS

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

J. INCOME TAXES

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

K. NET POSITION

Net position comprises the various net earnings from revenues and expenses. Net position generally is classified in the following components:

- *Restricted Net Position* consists of restricted assets reduced by liabilities related to those assets. Restricted assets are subject to external constraints required by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* is the net amount of the assets and liabilities that are not included in the determination of restricted net position.

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

L. USE OF ESTIMATES

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

2. DEPOSITS AND INVESTMENTS

At June 30, 2022, the Corporation's investments totaling $71,811,874 consisted of 20 accounts, 16 held by the trustee Bank of New York Mellon, and four held by the trustee U.S. Bank Trust Company, N.A. All of the Corporation's investments are reported as cash equivalents on the Statement of Net Position. Each of the accounts held by the trustee Bank of New York Mellon invests in the Dreyfus Government Cash Management Fund, which is a money market mutual fund rated "AAAm" by the Standard & Poor's Investor Services.

The total debt reserve balance in the 2010-ELL Program, the 2010-EGSL Program and in the 2014-ELL Program and 2014-EGSL Program and in the 2022A-ELL Program of $21,355,828 is held in separate accounts to satisfy the Debt Service Reserve Requirements provided for by the bond indentures. The 2010-ELL Program and 2010-EGSL Program bond series reserve requirements are $2,344,500 and $1,220,500, respectively. The 2014-ELL Program and 2014-EGSL Program bond series reserve requirements are $1,219,250 and $355,000, respectively. The 2022A-ELL Program bond series reserve requirement is $15,967,525. The Corporation met all reserve balance requirements at June 30, 2022.

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

Custodial credit risk is defined as the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. As of June 30, 2022, $19,713,951 of the Corporation's U.S. Bank balance of $19,963,951 was exposed to custodial credit risk because it was uninsured and uncollateralized.

3. SYSTEM RESTORATION CHARGES RECEIVABLE AND REVENUE

ELL, in its capacity as servicer, collects funds from its customers through system restoration charges, and then remits those funds to the Corporation, which uses those funds to meet principal and interest obligations on bonds payable, bond issuance costs, if applicable, and ongoing financing costs. During the year ended June 30, 2022, the Corporation received a total of $76,742,683 and $33,083,285 from ELL and EGSL, respectively, which are included with system restoration charges reported on the Statement of Revenues, Expenses, and Changes in Net Position.

As reflected on the Statement of Net Position, the system restoration charges receivable of the Corporation as of June 30, 2022 are as follows:

	ELL Program	EGSL Program	Total
System Restoration Charges Receivable	$29,522,648	$2,028,306	$31,550,954
Less: Allowance for Uncollectible Accounts	(144,661)	(9,939)	(154,600)
Total	$29,377,987	$2,018,367	$31,396,354

4. LONG-TERM OBLIGATIONS

The Series 2010 System Restoration Bonds were issued to finance the non-shareholder capital contributions to ELL and EGSL in consideration of expenditures made by the two entities to repair the damages sustained as a result of hurricanes Gustav and Ike, as outlined in the Introduction section in the Notes. The Series 2014 System Restoration Bonds were issued to finance the non-shareholder capital contributions to ELL and EGSL in consideration of expenditures made by the two entities to repair the damages sustained as a result of hurricane Isaac, as outlined in the Introduction section in the Notes. The Series 2022A System Restoration Bonds were issued in consideration of expenditures made by ELL to repair the damages sustained as a result of hurricanes Laura, Delta, Zeta, and Ida, and winter storm Uri, as outlined in the Introduction section in the Notes.

The bonds are secured by system restoration property as disclosed in the Financing Orders, which consists of the rights to system restoration charges that ELL invoices to its customers; ELL then remits all charges collected to the Corporation. The 2022A System Restoration Bonds are also secured by assets held in trust. See Note 6.

Long-term obligations as of June 30, 2022 consisted of the following:

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Amounts Due Within One Year
Bonds Payable					
Series 2010-ELL Program	$67,220,587		($45,583,623)	$21,636,964	$21,636,964
Series 2010-EGSL Program	34,910,965		(23,634,116)	11,276,849	11,276,849
Series 2014-ELL Program	123,600,865		(21,083,636)	102,517,229	21,663,613
Series 2014-EGSL Program	36,200,475		(6,200,580)	29,999,895	6,414,063
Series 2022A-ELL Program		$3,193,505,000		3,193,505,000	76,575,729
Total Bonds Payable	261,932,892	3,193,505,000	(96,501,955)	3,358,935,937	137,567,218
Less: Discount on Bonds					
Series 2010-ELL Program	(5,937)		5,097	(840)	(840)
Series 2010-EGSL Program	(9,838)		8,432	(1,406)	(1,406)
Series 2014-ELL Program	(15,717)		3,090	(12,627)	(3,090)
Series 2014-EGSL Program	(7,520)		1,480	(6,040)	(1,480)
Total Discount on Bonds	(39,012)		18,099	(20,913)	(6,816)
Total Bonds Payable, Net	$261,893,880	$3,193,505,000	($96,483,856)	$3,358,915,024	$137,560,402

Detailed summaries, by projects and tranches, of all bonded debt outstanding at June 30, 2022 are as follows:

	Date of Issue	Original Issue	Outstanding June 30, 2021	Issued (Redeemed)	Outstanding June 30, 2022	Final Payment Dates	Final Maturity Dates	Interest Rates
ELL Program								
Series 2010:								
Tranche A-1	July 22, 2010	$112,000,000				Feb. 1, 2014	Feb. 1, 2016	1.11%
Tranche A-2	July 22, 2010	111,000,000				Feb. 1, 2017	Feb. 1, 2019	2.47%
Tranche A-3	July 22, 2010	121,000,000				Feb. 1, 2020	Feb. 1, 2022	3.45%
Tranche A-4	July 22, 2010	124,900,000	$67,220,587	($45,583,623)	$21,636,964	Aug. 1, 2022	Aug. 1, 2024	3.96%
Series 2014:								
Tranche A-1	August 6, 2014	91,700,000				Feb. 1, 2020	Feb. 1, 2022	1.66%
Tranche A-2	August 6, 2014	152,150,000	123,600,865	(21,083,636)	102,517,229	Aug. 1, 2026	Aug. 1, 2028	3.24%
Series 2022A:								
Tranche A-1	May 19, 2022	750,000,000		750,000,000	750,000,000	Feb. 1, 2027	Feb. 1, 2029	3.62%
Tranche A-2	May 19, 2022	743,505,000		743,505,000	743,505,000	Feb. 1, 2031	Feb. 1, 2033	4.15%
Tranche A-3	May 19, 2022	700,000,000		700,000,000	700,000,000	Feb. 1, 2034	Feb. 1, 2036	4.28%
Tranche A-4	May 19, 2022	1,000,000,000		1,000,000,000	1,000,000,000	Aug. 1, 2037	Aug. 1, 2039	4.48%
EGSL Program								
Series 2010:								
Tranche A-1	July 22, 2010	97,000,000				Feb. 1, 2016	Feb. 1, 2018	1.52%
Tranche A-2	July 22, 2010	60,000,000				Feb. 1, 2019	Feb. 1, 2021	3.22%
Tranche A-3	July 22, 2010	87,100,000	34,910,965	(23,634,116)	11,276,849	Aug. 1, 2022	Aug. 1, 2024	3.99%
Series 2014:								
Tranche A-1	August 6, 2014	71,000,000	36,200,475	(6,200,580)	29,999,895	Aug. 1, 2026	Aug. 1, 2028	2.86%
		$4,221,355,000	261,932,892	3,097,003,045	3,358,935,937			
Net Original Discounts			(855,901)		(855,901)			
Net Accumulated Amortization of Discounts			816,889	18,099	834,988			
Bonds Payable, Net			$261,893,880	$3,097,021,144	$3,358,915,024			

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

	ELL Program		EGSL Program		Total	
Obligations Due June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2023	$119,876,306	$96,414,522	$17,690,912	$1,041,826	$137,567,218	$97,456,348
2024	185,201,202	130,886,456	6,578,380	632,257	191,779,582	131,518,713
2025	191,815,185	124,217,094	6,781,780	442,639	198,596,965	124,659,733
2026	198,765,047	117,308,163	6,969,117	247,359	205,734,164	117,555,522
2027	192,558,552	110,149,427	3,256,555	46,569	195,815,107	110,195,996
2028 - 2032	1,023,023,723	432,881,557	0	0	1,023,023,723	432,881,557
2033 - 2037	1,264,014,945	191,890,335	0	0	1,264,014,945	191,890,335
2038 - 2039	142,404,233	3,186,293	0	0	142,404,233	3,186,293
Total	$3,317,659,193	$1,206,933,847	$41,276,744	$2,410,650	$3,358,935,937	$1,209,344,497

Principal and interest payments are due semi-annually on August 1 and February 1. On each payment date, principal will be paid in accordance with the above expected payment schedule, but only to the extent that funds are available. The schedule sets forth the expected payments from the issuance date to the scheduled final payment date. However, the bonds will not be in default if principal is not paid as specified in the schedule unless the principal of any tranche is not paid in full on or before the final maturity date of that tranche.

5. PLEDGED REVENUES

All bonds in Note 4 are secured by the pledge of system restoration property, which consists of: (1) all rights and interests to receive system restoration charges invoiced and collected by ELL as authorized in each respective Financing Order; and (2) all collections, claims, rights to payments, and payments arising from the rights and interests to receive system restoration charges, specifically limited to those charges prescribed in the Financing Orders adopted in LPSC Docket Nos. U-30981, U-32764 and U-35991-A. This system restoration property represents the collateral for the System Restoration Bonds issued by the Corporation. The minimum estimated amount of the pledged revenues over the 12-year repayment period of all Series 2010 System Restoration Bonds is $870,349,869, over the 12-year repayment period of all Series 2014 System Restoration Bonds is $376,953,675, and over the 16-year repayment period of all Series 2022A System Restoration Bonds is $4,391,525,086, which represents all principal and interest obligations on the bonds totaling $5,638,828,630. For the year ended June 30, 2022, the pledged revenues recognized were $132,491,063, and the principal and interest requirements for the debt collateralized by those revenues were $114,890,487.

6. TRUST CONTRIBUTION

In accordance with the requirements of the Financing Orders for the Series 2022A System Restoration Bonds, the Corporation transferred a total of $3,163,571,872 to the Trustee, as an Initial Capital Contribution, which shall constitute the initial Trust Estate. This amount funds system restoration costs, the replenishment of a Storm Damage Reserve Escrow and the costs of funding and financing a special Hurricane Ida storm damage reserve escrow fund.

As reflected in the Statement of Revenues, Expenses, and Changes in Net Position, the Initial Capital Contribution of the Corporation for the year ended June 30, 2022, is as follows:

	Series 2022A
System Restoration Costs, Net of Debt Service Reserve and Bond Issuance Costs	$1,873,571,872
Storm Damage Reserve Escrow	290,000,000
Hurricane Ida Escrow	1,000,000,000
Total	$3,163,571,872

7. RECENT ACCOUNTING PRONOUNCEMENTS

The GASB issued Statement No. 87, *Leases,* in June 2017. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. In May 2020, GASB issued Statement No. 95, which deferred the effective date of Statement No. 87 for one year. The Statement was adopted by the Corporation July 1, 2021 and did not have a significant impact on the financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period,* in June 2018. This Statement establishes that in financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. In May 2020, GASB issued Statement No. 95 which deferred the effective date of Statement No. 89 for one year. The Statement was adopted by the Corporation July 1, 2021 and did not have a significant impact on the financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations,* in May 2019. This Statement's primary objective is to establish a single method of reporting conduit debt obligations by issuer by clarifying the existing definition of a conduit debt obligation, establishing additional standards, and improving required note disclosures. In May 2020, GASB issued Statement No. 95 which defers the effective date of Statement No. 91 for one year, making it effective for the Corporation for the fiscal year ending June 30, 2023. Statement No. 91 is not anticipated to have a significant impact.

The GASB issued Statement No. 98, *The Annual Comprehensive Financial Report,* in October 2021. This Statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. The new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. The Statement was adopted by the Corporation upon issuance and did not have a significant impact on the financial statements.

The GASB issued Statement No. 99, *Omnibus 2022*, in April 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The Statement was adopted by the Corporation in April 2022 and did not have a significant impact on the financial statements.

8. SUBSEQUENT EVENTS

On February 4, 2022, Entergy New Orleans, LLC (ENO) and the Corporation filed an Application for Authority to Fund and Finance Storm Recovery Reserves and Related Relief, requesting that the New Orleans City Council (the Council) authorize securitization of storm recovery costs including storm recovery reserves, pursuant to the Louisiana Electric Utility Storm Recovery Securitization Act, LRS 45:1226-1240. Through issuance of a Council-approved Financing Order, ENO seeks to replenish and fund restricted storm recovery reserves in the amount of $150 million, to be held by a non-affiliated escrow agent. Thereafter, on April 26, 2022, ENO submitted supplemental direct testimony stating that, as a result of an increase in certain estimated upfront and ongoing financing costs, the deal size increased to approximately $155,347,000. As ultimately approved by the Council on October 6, 2022, the deal size was increased again to $209,300,000 to allow recovery of all of ENO's unrecovered storm recovery costs following hurricane Ida; provide initial funding of ENO's storm recovery reserves for future storms; and fund the storm recovery bonds' upfront financing costs. The transaction closed on December 16, 2022.

ELL filed an Application with the LPSC on April 29, 2022, then with the Corporation, a First Supplemental Joint Application (Financing Application) June 16, 2022, for Recovery in Rates of Costs Related to Hurricane Ida and for Related Relief. These applications sought the LPSC's determination of the hurricane Ida restoration costs that would be eligible for recovery from their respective customers and to address the financing and recovery of the recoverable storm restoration costs. ELL requested approval to recover approximately $1.634 billion in net storm costs incurred by ELL in response to hurricane Ida and additional costs associated with hurricanes Laura, Delta and Zeta, and winter storm Uri, as provided in the Quantification Application as system restoration costs. The LPSC ultimately approved and authorized LURC to finance the amount of $1,491,483,000 pursuant to Orders issued on January 27, 2023. This transaction closed on March 29, 2023.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Exhibit A

The following pages contain our report on internal control over financial reporting and on compliance with laws, regulations, and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The 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

MICHAEL J. "MIKE" WAGUESPACK, CPA
LOUISIANA LEGISLATIVE AUDITOR

May 11, 2023

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

LOUISIANA UTILITIES RESTORATION CORPORATION
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 (*Government Auditing Standards*), the financial statements of the major enterprise funds of the Louisiana Utilities Restoration Corporation (Corporation), a special-purpose government and discrete component unit of the state of Louisiana, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated May 11, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 financial statements. 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 the following instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Unsecured Deposits

The Corporation did not ensure that all of its bank deposits were adequately secured as required by its policy and state law. This increases the risk of loss of state funds.

The Indenture Trustee established four bank accounts on behalf of the Corporation to deposit the system restoration charges relating to the Series 2022A bonds that were issued on May 19, 2022. At June 30, 2022, the balances in these accounts totaled $19,963,951, of which $250,000 was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of $19,713,951 was uninsured, uncollateralized, and exposed to potential loss. This occurred because management did not confirm the new indenture trustee's compliance with the Corporation's investment and collateralization policy and did not adequately monitor its bank accounts to ensure that all deposits were adequately secured and collateralized at all times.

The Corporation's investment and collateralization policy requires that any and all funds held by the Corporation or by an indenture trustee on behalf of the Corporation be secured pursuant to Louisiana Revised Statute 49:321, which requires that funds on deposit in excess of amounts insured by any United States governmental agency insuring bank deposits must at all times be fully secured from loss.

Management has represented the monies in the accounts that exceeded the FDIC cap have now been collateralized by the bank. Management should actively monitor its bank accounts to ensure that all deposits are adequately secured at all times. Management concurred in part with the finding and provided a plan of corrective action.

The Corporation's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Corporation's response to the finding identified in our audit and attached in Appendix A. The Corporation's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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 Corporation'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 Corporation's internal control and compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

RJD:CRV:BQD:EFS:ch

LURC 2022

APPENDIX A: MANAGEMENT'S RESPONSE

LOUISIANA UTILITIES RESTORATION CORPORATION

Post Office Box 91154
602 North Fifth Street
Galvez Building, 12th Floor
Baton Rouge, Louisiana 70821

April 13, 2023

Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
Attention: Carmen Victorian, Audit Manager
P. O. Box 94397
Baton Rouge, Louisiana 70804-9394
Via Email Only CVictorian@LLA.La.gov

Re: Louisiana Utilities Restoration Corporation Fiscal Year 2022 Audit
Request for Response to Finding: Unsecured Deposits (LLF No. 1021-0000)

Dear Mr. Waguespack:

This letter is written to furnish the Louisiana Legislative Auditor (LLA) with the following response to the reportable audit finding for the Louisiana Utilities Restoration Corporation (LURC) referenced as "Unsecured Deposits". The LURC concurs in part with the individual finding and recommendation as explained herein.

1. **History of LURC's Investment and Collateralization Policy**

LURC was created in 2007 pursuant to Act 55 of the 2007 Regular Legislative Session. In 2008, LURC participated in the initial bond issuance related to Hurricanes Katrina and Rita system restoration costs. Thereafter, LURC was informed that the Louisiana Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP) considered LURC to be a discretely reporting component unit of the State of Louisiana and any such funds or the investment of any funds held by or on behalf of LURC must meet the requirements of state law. In 2009, the LURC Board of Directors adopted an investment and collateralization policy that references La. R.S. 33:2955 and 49:321.

2. **History of Indenture Trustees & Indenture Documents**

In 2010 and 2014, LURC again participated in bond issuances related to system restoration costs for Hurricanes Gustav/Ike and Isaac. For the 2008, 2010 and 2014 issuances, Bank of New York Mellon (BNY) served as the indenture trustee. In 2022, parties to the Series 2022A bond issuance related to system restoration costs for Hurricanes Laura/Delta/Zeta and Winter Storm Uri elected to change the indenture trustee from BNY to U.S. Bank Trust Company, National Association (US Bank). LURC was aware of this change but did not participate in the decision to change indenture trustees. Further, consistent with the prior transactions, LURC was not a party to the Series 2022A Indenture of Trust between the issuer (Louisiana Local Government Environmental Facilities and Community Development Authority) and US Bank. The Series 2022A Indenture is based on the same document executed in the prior bond issuances. US Bank did not inquire with LURC as to any applicable investment or collateralization policies with respect to the Series 2022A Indenture prior to opening accounts in May 2022.

Appendix A to the Series 2022A Indenture defined "Eligible Investments" as instruments or investment property which are legal investments for moneys of the Borrower and the Issuer and which evidence (emphasis added):

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> (b) demand or time deposits of, unsecured certificates of deposit of, ***money market deposit accounts of***, or bankers' acceptances issued by, ***any depository institution (including the Indenture Trustee or any of its Affiliates, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Bonds;***

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3. LURC Concurs in Part with the Reportable Audit Finding

In the course of its audit of LURC's FYE June 30, 2022 compiled financial statements, the LLA inquired as to the status of the funds in the US Bank accounts that exceeded the FDIC insured amount. In response, LURC informed US Bank of LURC's previously adopted investment and collateralization policy. Thereafter, on or about January 20, 2023, US Bank collateralized LURC's investments. During the period of time from funding the indenture trust accounts in May 2022 until January 20, 2023, there was no loss of or damage to the indenture trust account funds.

LURC acknowledges that its management did not initially confirm the new indenture trustee's compliance with its previously adopted investment and collateralization policy. However, LURC does not concur that its management did not adequately monitor its bank accounts to ensure that all deposits were adequately secured at all times. LURC's management does timely monitor all bank accounts, including those with two indenture trustees, at both the management and at the officer level. Further responding,

- In light of the transition from BNY to US Bank as the new indenture trustee, LURC's status as a non-party to the Indenture, and the use of the Indenture documentation from the prior bond issuances, LURC was unaware that US Bank had no knowledge of LURC's investment or collateralization policy.

- The definition of Eligible Investments as contained in Appendix A of the Indenture, which, as noted above, did not include LURC as a party, did not require US Bank to collateralize any funds in excess of the FDIC insured amount.

- US Bank, as national bank and regulated by the Office of the Comptroller of the Currency, is not required to collateralize funds that exceed the FDIC insured amount.

- Upon the LLA's inquiry into the collateralization of the account funds, LURC immediately communicated with US Bank regarding its investment and collateralization policy and US Bank immediately took steps to comply therewith.

- During the period of time from funding the indenture trust accounts until January 20, 2023, there was no loss of or damage to the indenture trust account funds.

4. Corrective Action Plan

As of January 20, 2023, all of LURC's bank accounts are in compliance with its investment and collateralization policy. In the event additional LURC bank accounts are created, LURC management will confirm compliance of those accounts with its investment and collateralization policy. Accordingly, no further corrective action regarding this finding is necessary. Further responding:

- Contact Person(s): Brandon Frey, LURC Chairperson and Jamie Watts, LURC Counsel.

- Corrective Action Planned: In the event additional LURC bank accounts are created, LURC management will confirm compliance of those accounts with its investment and collateralization policy. Accordingly, no further corrective action is necessary.

- Completion Date: As of January 20, 2023, all of LURC's bank accounts are in compliance with its investment and collateralization policy.

Very truly yours,

Brandon Frey, Chairperson
Louisiana Utilities Restoration Corporation

Enclosure
cc: Carmen Victorian, LLA Audit Manager and Reese Davis, LLA Senior Auditor
John E. Carroll, LURC Secretary-Treasurer
Jamie Hurst Watts and Catherine Smith Carrier, LURC Counsel
Dawn Laborie, LaPorte CPAs