

STUDENT TUITION ASSISTANCE AND REVENUE  
TRUST PROGRAMS (START PROGRAMS)

PRIVATE-PURPOSE TRUST FUNDS  
OF THE STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT  
FOR THE YEAR ENDED DECEMBER 31, 2019  
ISSUED AUGUST 26, 2020

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# TABLE OF CONTENTS

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	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, December 31, 2019 .....	1.....24
Combining Schedule of Changes in Fiduciary Net Position for the Year Ended December 31, 2019.....	2.....25
Schedule of Investments, December 31, 2019 .....	3.....26
<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
<b>Appendix</b>	
Management’s Corrective Action Plan and Response to the Finding and Recommendation.....	A





LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

August 24, 2020

## Independent Auditor's Report

**BOARD OF DIRECTORS OF THE LOUISIANA  
TUITION TRUST AUTHORITY  
STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAMS  
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 Programs (START Programs), private-purpose trust funds of the state of Louisiana, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the START Programs' 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 the START Programs as of December 31, 2019, 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 the activity of the START Programs and do not purport to, and do not, present fairly the financial position of the state of Louisiana as of December 31, 2019, 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.

As discussed in note 1 and note 8, the START Programs implemented Governmental Accounting Standards Board (GASB) Statement 84, *Fiduciary Activities*, for the year ended December 31, 2019. As a result of the implementation, the START Programs removed the Savings Enhancement Fund and the Variable Earnings Transaction Fund from its financial statements and added the Kindergarten Through Grade Twelve Savings Plan. As a result of the implementation, the START Programs' net position decreased by \$22,043,974 as of January 1, 2019. 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*

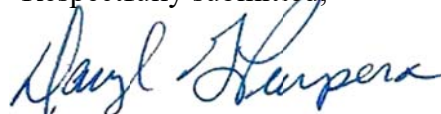
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the START Programs' basic financial statements. The accompanying supplementary information schedules, including the Combining Schedule of Fiduciary Net Position, the Combining Schedule of Changes in Fiduciary Net Position, and the Schedule of Investments on pages 24 through 28 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 August 24, 2020, on our consideration of the START Programs' 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 START Programs' 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 START Programs' internal control over financial reporting and compliance.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor





## MANAGEMENT’S DISCUSSION AND ANALYSIS

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As management of the Student Tuition Assistance and Revenue Trust Programs (START Programs), we offer readers of the START Programs’ financial statements this narrative overview and analysis of the financial activities of the START Programs for the year ended December 31, 2019. The START Programs are administered by the Louisiana Office of Student Financial Assistance, a Program under the Board of Regents, as directed by the Louisiana Tuition Trust Authority. The responsibility for selection of the START Programs’ investments and the investment of the START Programs’ funds rests with the State Treasurer.

### FINANCIAL HIGHLIGHTS

- The assets of the START Programs exceeded its liabilities at the close of the most recent fiscal year by \$1,038,379,561 (net position – amounts held in trust for participants).
- The START Programs’ total net position increased by \$195,601,208, from \$842,778,353 (restated) on December 31, 2018, to \$1,038,379,561 on December 31, 2019.
- The number of accounts increased by 3,922, from 63,512 on December 31, 2018, to 67,434 on December 31, 2019.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the START Programs’ basic financial statements. The START Programs’ 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 the START Programs’ fixed and variable investments.

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

The **Statement of Changes in Fiduciary Net Position** presents information showing how the START Programs’ 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 the START Programs' net position and changes in net position for the Louisiana Education Tuition and Savings Fund and the K12 Fund; as well as a schedule that lists and categorizes the investments held by the START Programs 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 the START Programs, assets exceeded liabilities by \$1,038,379,561 at the close of the most recent year, December 31, 2019. By far, the largest portion of the START Programs' net position (92.93%) reflects its investments at fair market value. The following is a comparison of the START Programs' net position to the prior year.

**Table A-1**  
**Comparative Statement of Fiduciary Net Position**  
**As of December 31, 2019, and 2018 (restated)**

	<u>2019</u>	<u>2018 (restated)</u>
Assets:		
Cash	\$75,807,883	\$17,615,909
Investments at fair market value	964,996,194	826,052,682
Accrued interest receivable	279,069	327,077
Total Assets	<u>1,041,083,146</u>	<u>843,995,668</u>
Liabilities:		
Disbursements payable	<u>2,703,585</u>	<u>1,217,315</u>
Total Liabilities	<u>2,703,585</u>	<u>1,217,315</u>
Net Position - Amounts Held in		
Trust for START Program Participants	<u>\$1,038,379,561</u>	<u>\$842,778,353</u>

**Changes in Net Position.** Investment activities and participants' transactions increased the START Programs' net position by \$195,601,208. Key elements of the increase are as follows:

**Table A-2**  
**Comparative Statement of Changes in Fiduciary Net Position**  
**For the Years Ended December 31, 2019, and 2018 (restated)**

	2019	2018 (restated)
Additions:		
Participant deposits	\$103,574,728	\$97,312,154
From investment activities:		
Interest and dividend income	24,213,404	25,227,039
Change in the fair value of investments	129,492,932	(54,462,616)
Total additions	<u>257,281,064</u>	<u>68,076,577</u>
Deductions:		
Participant distributions	<u>(61,679,856)</u>	<u>(56,887,831)</u>
Increase in net position	195,601,208	11,188,746
Net position, beginning of year (2019 restated)	<u>842,778,353</u>	<u>831,589,607</u>
Net position, end of year	<u><u>\$1,038,379,561</u></u>	<u><u>\$842,778,353</u></u>

## ECONOMIC OUTLOOK

Indications are that contact with individuals through benefit fairs increases name recognition and knowledge of the programs. This, and the payroll deduction option, contributed to an increase in accounts.

Currently, 56% of the START Programs' accounts and 23% of its investments are invested in the Louisiana Principal Protection Fund, which has a guaranteed rate of return established by the State Treasurer which, for 2019, was 2.19%. 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 the START Programs' finances for all those with an interest in the START Programs' 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).



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

**Statement of Fiduciary Net Position, December 31, 2019**

**ASSETS**

Cash (note 2)	\$75,807,883
Investments (note 3)	964,996,194
Interest receivable	<u>279,069</u>

TOTAL ASSETS 1,041,083,146

**LIABILITIES**

Disbursements payable	<u>2,703,585</u>
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TOTAL LIABILITIES 2,703,585

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

\$1,038,379,561

The accompanying notes are an integral part of this statement.



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

**Statement of Changes in Fiduciary Net Position  
For the Year Ended December 31, 2019**

**ADDITIONS**

Participant deposits	\$103,574,728
Investment income:	
Interest and dividends	24,213,404
Net increase in the fair value of investments	129,492,932
Total additions	<u>257,281,064</u>

**DEDUCTIONS**

Disbursements to participants	<u>(61,679,856)</u>
Total deductions	<u>(61,679,856)</u>

Change in net position	<u>195,601,208</u>
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<b>NET POSITION, BEGINNING OF YEAR, Restated (Note 8)</b>	<u>842,778,353</u>
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<b>NET POSITION, END OF YEAR</b>	<u><u>\$1,038,379,561</u></u>
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The accompanying notes are an integral part of this statement.





## NOTES TO THE FINANCIAL STATEMENTS

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### INTRODUCTION

The Louisiana Student Tuition Assistance and Revenue Trust Programs (START Programs) are private-purpose trust funds of the state of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 17:3091 *et seq.* The START Programs are administered by the Louisiana Office of Student Financial Assistance (LOSFA) within the Louisiana Board of Regents (Board) and are governed by the Louisiana Tuition Trust Authority (LATTA). LATTA is comprised of 21 members, including all members of the Board, the commissioner of higher education, a representative of the banking community, the State Treasurer, a representative from the Louisiana House of Representatives, and a representative from the Louisiana Senate.

The START Programs consist of savings plans for both postsecondary education and kindergarten through grade twelve education.

The Postsecondary Education Savings Plan 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. The Postsecondary Education Savings Plan allows individuals to save for qualified higher education expenses for beneficiaries. To encourage college savings, the state of Louisiana matches a portion of an account owner's annual deposits and does not tax earnings in the Postsecondary Education Savings Plan 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.

The Kindergarten Through Grade Twelve Savings Plan (K12 Plan) was created to allow families to save for tuition expenses related to attendance at eligible Louisiana schools that provide kindergarten through twelfth grade instruction. An eligible school is "a public or approved nonpublic elementary or secondary school in Louisiana that contains any of the grades kindergarten through twelve." Qualified expenses are considered the tuition for enrollment or attendance of a designated beneficiary at an eligible educational institution.

Both programs are qualified tuition programs under Section 529 of the Internal Revenue Code (IRC) of 1986, as amended. Participation in the START Programs is voluntary.

Under each program, 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, permanent residents of the United States, and/or are lawfully residing in the United States and have valid Social Security numbers.
- 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 account is opened.
- An authorized representative of a legal entity must open the account 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 accounts in the name of the minor.

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. Account owners who withdraw deposits for other than qualified higher education expenses are responsible for any resulting income tax liability.

The START Programs' disclosure statements and participation agreements can be obtained at the START Programs' website, [www.startsaving.la.gov](http://www.startsaving.la.gov), or by calling the START Programs' 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. The START Programs are private-purpose trust funds of the state of Louisiana. The activity of the postsecondary education savings plan is reported in the Louisiana Education Tuition and Savings Fund (LETSF) and the activity of the Kindergarten Through Grade Twelve Savings Plan is reported in the K12 Fund. The

state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) LATTA's members include all members of the Board, the commissioner of higher education, a representative of the banking community, the State Treasurer, a representative from the Louisiana House of Representatives, and a representative from the Louisiana Senate; and (2) the state has control and exercises authority because the START Programs' are administered by LOSFA, a program under the Board.

The accompanying financial statements present information only as to the balances of the START Programs. 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 the START Programs 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, the START Programs 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. The START Programs provide 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. The START Programs' permissible investments are limited to the investment options selected by the State Treasurer. The 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 in fixed earnings investment options are invested by the State Treasurer, and deposits in variable earnings investment options 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 the START Programs, but do not own shares of the underlying Vanguard funds.

The Postsecondary Education Savings Plan 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 the Vanguard LifeStrategy Moderate Growth Fund and automatically moved to the 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 the Vanguard LifeStrategy Growth Fund and automatically moved to the Vanguard LifeStrategy Moderate Growth Fund on the beneficiary's sixth birthday, then to the Vanguard LifeStrategy Conservative Growth 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. 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 the Vanguard LifeStrategy Growth Fund and automatically moved to the Vanguard LifeStrategy Moderate Growth Fund on the beneficiary's ninth birthday, then to the Vanguard LifeStrategy Conservative 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, Institutional 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 Institutional Total Stock Market Index Fund, Institutional Plus Shares - Seeks to track the performance of a benchmark index that measures the investment return of the overall stock market. 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, Institutional Shares - This fund provides broad exposure to the small-capitalization U.S. equity market. The fund seeks to track an index of small-sized companies. One of the fund's primary risks is its focus on the small-cap arena, which is an often-volatile segment of the market. Investors looking to add a small-cap equity allocation to an already diversified portfolio may wish to consider this option.
- Vanguard Mid-Cap Index Fund, Institutional Shares - This fund employs an indexing investment approach designed to track the performance of the CRSP US Mid Cap Index, a broadly diversified index of stocks of mid-size U.S. companies. The Fund 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, Institutional Shares - This fund seeks to track the investment performance of the CRSP US Large Cap Index, an unmanaged benchmark representing predominantly large U.S. firms. Using full replication, the portfolio holds each index stock in approximately the same proportion as its weighting in the index.

The K12 Plan currently offers the following investment options:

- Vanguard Federal Money Market Fund - seeks to provide current income and preserve shareholders' principal investment by maintaining a share price of \$1. As such it is considered one of the most conservative investment options offered by Vanguard. Although the fund invests in short-term U.S. government securities, the amount of income that a shareholder may receive will be largely dependent on the current interest rate environment.
- Vanguard Short-Term Bond Index Fund, Admiral Shares - diversified approach to bond investing, providing broad exposure to U.S. investment-grade bonds with maturities from one to five years. Reflecting this goal, the fund invests about 30% of assets in corporate bonds and 70% in U.S. government bonds within that maturity range. A key risk of the fund is the fact that changes in interest rates can eventually lead to a decrease in income for the fund.

- Vanguard Intermediate-Term Bond Index Fund, Admiral Shares - diversified approach to bond investing, providing broad exposure to U.S. investment-grade bonds with maturities from five to ten years. Reflecting this goal, the fund invests about 50% of assets in corporate bonds and 50% in U.S. government bonds within that maturity range. Risks of the fund include the fact that changes in interest rates, both up and down, can affect the fund by resulting in lower bond prices or an eventual decrease in income for the fund.
- Vanguard Institutional Total Stock Market Index Fund, Institutional Plus Shares - designed to provide investors with exposure to the entire U.S. equity market, including small-, mid-, and large-cap growth and value stocks. The fund's key attributes are its low costs, broad diversification, and the potential for tax efficiency.
- Vanguard Total International Stock Index Fund, Institutional Shares - 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.

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 twice each calendar year.

#### **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.

#### **F. ADOPTION OF NEW ACCOUNTING PRINCIPLES**

For the year ended December 31, 2019, the following statement was implemented: GASB Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria for identifying fiduciary activities of all state and local governments. The implementation of GASB 84 affected the START Programs' financial statements by removing the Savings Enhancement Fund and the Variable Earnings Transaction Fund. Based on criteria contained in GASB 84, these activities are not considered fiduciary in nature. Additionally, the K12 Plan was added to the financial statements. The cumulative effect

of applying this statement is reported as a restatement of beginning net position at December 31, 2018, and is disclosed more fully in note 8.

## **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. The START Programs' 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), the START Programs have deposits (cash) totaling \$75,807,883 at December 31, 2019. 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, the START Programs' deposits may not be recovered. Under state law, the START Programs' 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 \$964,996,194, as presented on Statement A, are reported at fair value. The following table itemizes the investments, the range of maturity dates, and fair market value of investments at December 31, 2019, and the change in investments during the year.



<u>Investment Securities</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>
Corporate bonds	\$40,279,736		\$29,898,976	\$10,380,760
Federal Home Loan Bank Bonds	28,982,730	\$5,011,250	18,971,480	5,000,000
Federal National Mortgage Association Notes	36,184,895	15,478,425	20,706,470	
Federal Farm Credit Bank Bonds	34,888,900	5,018,000	29,870,900	
U.S. Treasury Notes	81,692,565	50,005,450	31,687,115	
Total Investment Securities	<u>\$222,028,826</u>	<u>\$75,513,125</u>	<u>\$131,134,941</u>	<u>\$15,380,760</u>
Vanguard Mutual Funds	<u>742,967,368</u>			
Total Investments	<u>\$964,996,194</u>			

Change in Investments - Fair Market Value

Balance, beginning (restated)	<u>\$826,052,682</u>
Add:	
Investment purchases	288,869,575
Market value adjustment	<u>129,492,932</u>
Total	<u>418,362,507</u>
Less investment sales/redemptions	<u>(279,418,995)</u>
Balance, ending	<u>\$964,996,194</u>

Unrealized investment gains exceeded unrealized investment losses by \$129,492,932 at year-end. This net unrealized investment gain is reflected in the year-end investments since they are reported at fair market value.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the START Programs will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The START Programs' investments are a part of the state's total investment portfolio. Funds invested in the Louisiana Principal Protection Option, 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 the START Programs' 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 the START Programs to invest its funds in any investments in which public retirement boards are authorized by law to invest, provided that up to 100% of deposits to an account 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. Ratings issued by Standard and Poor's, which indicate the level of credit risk for the START Programs' investments as of December 31, 2019, follow:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$15,397,850
AA+	101,675,741
AA-	14,100,860
A	7,133,010
BBB+	<u>2,028,800</u>
Total	<u><u>\$140,336,261</u></u>

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The START Programs' account owners have several options from which to choose for investment of their deposits. For the Postsecondary Education Savings Plan, 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.) Investment options for the K12 Plan are limited to equity investments only. Investment options may be changed twice 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 the START Programs' investments.

GASB Statement No. 72, *Fair Value Measurement and Application*, requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1 inputs – The valuation is based on quoted market prices for identical assets or liabilities traded in active markets;
- Level 2 inputs – The valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability;

- Level 3 inputs – The valuation is determined by using the best information available under the circumstances and might include the government’s own data. In developing unobservable inputs, a government may begin with its own data but should adjust those data if (a) reasonably available information indicates that other market participants would use different data or (b) there is something particular to the government that is not available to other market participants.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment’s risk.

Assets classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Assets classified in Level 3, due to lack of an independent pricing source, are valued using an internal fair value as provided by the investment manager.

Fair values of assets measured on a recurring basis at December 31, 2019, are as follows:

	Fair Market Value	Quoted Prices In Active Markets for Identical Assets Level 1	Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt securities:				
Corporate bonds	\$40,279,736		\$40,279,736	
Federal Home Loan Bank Bonds	28,982,730		28,982,730	
Federal National Mortgage Association Notes	36,184,895		36,184,895	
Federal Farm Credit Bank Bonds	34,888,900		34,888,900	
U.S. Treasury Notes	81,692,565		81,692,565	
Total Debt Securities	222,028,826	NONE	222,028,826	NONE
Equity securities:				
Vanguard Mutual Funds	742,967,368	\$742,967,368		
Total Investments	\$964,996,194	\$742,967,368	\$222,028,826	NONE

Fair values for investments categorized in Level 2 have been obtained from the State Treasury, which obtains fair values from various external sources and are based on other observable inputs.

#### 4. SECURITIES LENDING

As explained in note 1D, the State Treasurer manages the START Programs' investments. In accordance with its authority under R.S. 49:321.1, the State Treasurer (on behalf of the state of Louisiana) has entered into a securities lending agreement that functions as a reverse repurchase/repurchase arrangement, with Morgan Stanley acting as principal. Under the arrangement, Morgan Stanley purchases (or borrows) on an overnight basis that portion of the state's pool of U.S. Treasury and Agency securities, which the state from time to time makes available for such purposes, with a simultaneous agreement to resell or repurchase such securities at the termination of the transaction. The reverse repurchase and repurchase transactions are executed pursuant to the terms of a paired repurchase agreement among the state and Morgan Stanley, with the Bank of New York acting as an independent third party custodian. The state receives U.S. Government Sponsored Entity, or "agency," collateral in addition to other eligible security collateral in return for the securities that it reverses to Morgan Stanley under the terms of the reverse repurchase transaction on a fixed-spread basis.

In each transaction, Morgan Stanley delivers collateral from its account at the Bank of New York to the state's custodial account at the Bank of New York. The Bank of New York monitors the movement of the collateral to ensure it is sufficient (equal to at least 102% of the value of the securities borrowed) and in compliance with the terms of the reverse repurchase/repurchase agreement. The market value principal of the repurchase transaction can be modified on any given day for purchased, sold, or matured securities. Morgan Stanley then receives any excess collateral, or delivers additional collateral, against the new principal market value of the state's investment securities on loan through the repurchase transaction. During the term of any particular transaction, the state's right to receive or sell the collateral is determined pursuant to the terms of the repurchase agreement, which provides for such rights upon borrower default, and in accordance with other applicable state and federal laws. The state has experienced no losses on securities lending transactions, and loss indemnification is provided in the contract with Morgan Stanley.

The Postsecondary Education Savings Plan's U.S. Government securities are included in the State Treasurer's securities lending program. At December 31, 2019, the fair market value of the Postsecondary Education Savings Plan's securities on loan totaled \$158,217,000, and the fair market value of the collateral totaled \$162,486,517. The Postsecondary Education Savings Plan had limited credit risk exposure because the value of the collateral securities pledged exceeded the value of the securities on loan by \$4,269,517.

#### 5. INVESTMENT INCOME

Investment income is recognized when earned using the full accrual method of accounting. The investments in the START Programs 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.

The START Programs' objectives include providing safety of principal and daily liquidity with a competitive rate of return to account owners by pooling monies. The following table shows the START Programs' annual return for the one-year, three-year, and five-year periods ended December 31, 2019:

<u>Portfolio</u>	<u>Average Annual Return</u>		
	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
<u>Postsecondary Education Savings Plan Investments:</u>			
Vanguard:			
LifeStrategy Moderate Growth Fund	19.37%	9.83%	7.21%
LifeStrategy Conservative Growth Fund	15.68%	7.88%	5.89%
LifeStrategy Income Fund	12.05%	5.99%	4.56%
LifeStrategy Growth Fund	23.13%	11.81%	8.52%
Total World Stock Index Fund, Institutional Shares	26.78%	13.77%	9.64%
Institutional Total Stock Market Index Fund, Institutional Plus Shares	30.88%	15.62%	12.02%
Total International Stock Index Fund, Institutional Shares	21.56%	11.57%	7.04%
Small-Cap Index Fund, Institutional Shares	27.40%	11.44%	9.80%
Mid-Cap Index Fund, Institutional Shares	31.04%	13.70%	10.20%
Large-Cap Index Fund, Institutional Shares	31.39%	16.32%	12.34%
Louisiana Fixed Return Investments (Louisiana Principal Protection Fund)	2.190%	1.820%	1.750%
<u>K12 Plan Investments:</u>			
Vanguard:			
Federal Money Market Fund	2.14%	1.58%	1.01%
Short-Term Bond Index Fund, Admiral Shares	4.86%	2.46%	1.96%
Intermediate-Term Bond Index Fund, Admiral Shares	10.18%	4.62%	3.59%
Institutional Total Stock Market Index Fund, Institutional Plus Shares	30.88%	15.62%	12.02%
Total International Stock Index Fund, Institutional Shares	21.56%	11.57%	7.04%

## 6. 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 Postsecondary Education Savings Plan account 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 appropriated by the Legislature to the Postsecondary Education Savings Plan for the current year totaled \$1,900,000. The activity of the savings enhancement fund is recorded in the state of Louisiana's General Fund. This activity is not reported in the START Programs' fiduciary fund financial statements. The K12 Plan does not receive earnings enhancements.

## 7. ADMINISTRATIVE CHARGES

The Vanguard Group charges investment fees to the START Programs for the funds it manages and invests. These investment fees vary for each mutual fund and are subject to change at any time without notice. Earnings credited to the accounts invested in Vanguard mutual funds are net of these investment fees. For 2019, the maximum fee charged was 0.14% for the Postsecondary Education Savings Plan's mutual funds and 0.11% for the K12 Plan's mutual funds. Costs incurred by LATTA, LOSFA, and the State Treasurer to administer the START Programs are paid by those agencies and are not charged to the accounts.

## 8. RESTATEMENT OF BEGINNING NET POSITION

The beginning net position as reflected on Statement B has been restated to reflect the following changes:

Net position at December 31, 2018	\$864,822,327
Removal of the Savings Enhancement Fund	(21,587,981)
Removal of the Variable Earnings Transaction Fund	(478,374)
Addition of the K12 Fund	<u>22,381</u>
Net position at December 31, 2018, restated	<u><u>\$842,778,353</u></u>

The restatements decreased the START Programs' beginning net position to \$842,778,353. As explained in Note 1, the implementation of GASB 84, *Fiduciary Activities*, required that (1) the Savings Enhancement Fund and the Variable Earnings Transaction Fund be removed and (2) the K12 Fund be added to the START Programs' fiduciary fund financial statements. Therefore, the Savings Enhancement Fund's and Variable Earnings Transaction Fund's net position balance totaling \$22,066,355 has been removed, and the K12 Fund's net position balance totaling \$22,381 have been added to the START Programs' December 31, 2018, net position.



## SUPPLEMENTAL INFORMATION SCHEDULES

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### **Combining Schedule of Fiduciary Net Position, December 31, 2019**

Schedule 1 presents the Combining Schedule of Fiduciary Net Position for the Louisiana Education Tuition and Savings Fund and the K12 Fund.

### **Combining Schedule of Changes in Fiduciary Net Position, for the Year Ended December 31, 2019**

Schedule 2 presents the Combining Schedule of Changes in Fiduciary Net Position for the Louisiana Education Tuition and Savings Fund and the K12 Fund.

### **Schedule of Investments, December 31, 2019**

Schedule 3 presents the face amount, maturity date, and yield (where applicable), and the fair value of investments held by the START Programs at December 31, 2019.





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

**Combining Schedule of Fiduciary Net Position, December 31, 2019**

	LOUISIANA EDUCATION TUITION AND SAVINGS FUND	K12 FUND	TOTAL
<b>ASSETS</b>			
Cash	\$75,773,835	\$34,048	\$75,807,883
Investments	962,773,367	2,222,827	964,996,194
Interest receivable	279,069		\$279,069
	<u>1,038,826,271</u>	<u>2,256,875</u>	<u>1,041,083,146</u>
<b>LIABILITIES</b>			
Disbursements payable	2,703,585		2,703,585
	<u>2,703,585</u>		<u>2,703,585</u>
<b>NET POSITION - AMOUNTS HELD IN TRUST FOR START PARTICIPANTS</b>			
	<u>\$1,036,122,686</u>	<u>\$2,256,875</u>	<u>\$1,038,379,561</u>



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

**Combining Schedule of Changes in Fiduciary Net Position  
For the Year Ended December 31, 2019**

	LOUISIANA EDUCATION TUITION AND SAVINGS FUND	K12 FUND	TOTAL
<b>ADDITIONS</b>			
Participant deposits	\$101,080,736	\$2,493,992	\$103,574,728
Investment income:			
Interest and dividends	24,200,159	\$13,245	24,213,404
Net increase in the fair value of investments	<u>129,389,123</u>	<u>103,809</u>	<u>129,492,932</u>
Total additions	<u>254,670,018</u>	<u>2,611,046</u>	<u>257,281,064</u>
<b>DEDUCTIONS</b>			
Disbursements to participants	<u>(61,303,304)</u>	<u>(376,552)</u>	<u>(61,679,856)</u>
<b>CHANGE IN NET POSITION</b>	193,366,714	2,234,494	195,601,208
<b>NET POSITION, BEGINNING OF YEAR, Restated</b>	<u>842,755,972</u>	<u>22,381</u>	<u>842,778,353</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$1,036,122,686</u>	<u>\$2,256,875</u>	<u>\$1,038,379,561</u>



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

**Schedule of Investments, December 31, 2019**

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
<b>POSTSECONDARY EDUCATION SAVINGS PLAN FIXED EARNINGS INVESTMENTS</b>				
<b>Corporate Securities:</b>				
\$3,000,000	3M Co.	02/14/25	2.000%	\$2,983,890
4,000,000	3M Co.	06/26/22	2.000%	4,015,640
1,600,000	Apple	05/11/22	2.300%	1,619,216
4,000,000	Colgate-Palmolive Co.	05/03/22	2.300%	4,060,680
2,000,000	Walt Disney Co.	08/30/24	1.750%	1,984,820
3,000,000	Honeywell International Inc.	08/15/24	2.300%	3,036,870
2,000,000	International Business Machines Corp.	05/15/26	3.300%	2,111,320
2,000,000	McDonald's Corp.	01/15/22	2.625%	2,028,800
5,000,000	Microsoft Corp.	11/03/25	3.125%	5,285,550
10,000,000	Microsoft Corp.	11/15/22	2.125%	10,112,300
3,000,000	Proctor & Gamble Co.	02/06/22	2.300%	3,040,650
<u>\$39,600,000</u>	Total Corporate Securities			<u>\$40,279,736</u>
<b>Federal Agency Bonds and Notes:</b>				
Federal National Mortgage Association:				
\$7,500,000		10/15/20	1.500%	\$7,484,025
12,000,000		05/06/21	1.250%	11,943,480
8,500,000		02/05/24	2.500%	8,762,990
8,000,000		06/22/20	1.500%	7,994,400
<u>\$36,000,000</u>	Total Federal National Mortgage Association Notes			<u>\$36,184,895</u>
Federal Home Loan Bank:				
\$5,000,000		11/19/24	2.200%	\$5,001,500
10,000,000		04/22/21	1.760%	10,000,900
5,000,000		12/17/26	2.140%	5,000,000
4,000,000		08/15/24	1.500%	3,969,080
5,000,000		12/11/20	2.000%	5,011,250
<u>\$29,000,000</u>	Total Federal Home Loan Bank Bonds			<u>\$28,982,730</u>

(Continued)

**STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAMS  
STATE OF LOUISIANA  
Schedule of Investments, December 31, 2019**

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
Federal Farm Credit Bank:				
\$5,000,000		05/15/20	2.550%	\$5,018,000
5,000,000		07/22/22	2.110%	5,004,600
10,000,000		07/24/23	2.200%	10,022,700
5,000,000		10/11/22	1.375%	4,968,300
10,000,000		10/16/24	1.500%	9,875,300
<u>\$35,000,000</u>	Total Federal Farm Credit Bank Bonds			<u>\$34,888,900</u>
U. S. Treasury Notes:				
\$8,500,000		05/15/23	1.750%	\$8,532,895
5,000,000		06/30/21	1.625%	5,001,950
15,000,000		05/31/20	2.500%	15,051,450
5,000,000		10/15/21	2.875%	5,112,100
15,000,000		09/30/20	1.375%	14,969,550
5,000,000		10/31/20	1.375%	4,988,500
13,000,000		11/30/21	1.750%	13,040,170
15,000,000		04/15/20	1.500%	14,995,950
<u>\$81,500,000</u>	Total U. S. Treasury Notes			<u>\$81,692,565</u>
<u>\$221,100,000</u>	<b>Total Postsecondary Education Savings Plan Fixed Earnings Investments</b>			<u>\$222,028,826</u>

(Continued)

**STUDENT TUITION ASSISTANCE AND  
REVENUE TRUST PROGRAMS  
STATE OF LOUISIANA  
Schedule of Investments, December 31, 2019**

FACE AMOUNT	DESCRIPTION	MATURITY DATE	COUPON RATE	FAIR VALUE
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**POSTSECONDARY EDUCATION SAVINGS PLAN VARIABLE EARNINGS INVESTMENTS**

The Vanguard Group (Mutual Funds):

LifeStrategy Moderate Growth	\$74,372,464
LifeStrategy Conservative Growth	70,002,877
LifeStrategy Income	79,110,308
LifeStrategy Growth	73,460,552
Total World Stock Index Fund, Institutional Shares	15,659,881
Institutional Total Stock Market Index Fund, Institutional Plus Shares	286,560,792
Total International Stock Index Fund, Institutional Shares	26,735,500
Small-Cap Index Fund, Institutional Shares	30,980,541
Mid-Cap Index Fund, Institutional Shares	32,147,954
Large-Cap Index Fund, Institutional Shares	51,713,672

**Total Postsecondary Education Savings Vanguard Mutual Funds** \$740,744,541

**Total Postsecondary Education Savings Investments** \$962,773,367

**K12 PLAN VARIABLE EARNINGS INVESTMENTS**

The Vanguard Group (Mutual Funds):

Federal Money Market Fund	\$377,992
Intermediate-Term Bond Index Fund, Admiral Shares	345,782
Institutional Total Stock Market Index Fund, Institutional Plus Shares	995,450
Short-Term Bond Index Fund, Admiral Shares	235,164
Total International Stock Index Fund, Institutional Shares	268,439

**Total K12 Plan Vanguard Mutual Funds** \$2,222,827

**Total K12 Plan Investments** \$2,222,827

**Total Postsecondary Education Savings Plan and K12 Plan Investments** \$964,996,194

(Concluded)





OTHER REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS*

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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

August 24, 2020

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 fiduciary fund activities of the Student Tuition Assistance and Revenue Trust Programs (START Programs), private-purpose trust funds of the state of Louisiana, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the START Programs' basic financial statements, and have issued our report thereon dated August 24, 2020. Our report was modified to include emphasis of matter paragraphs regarding financial statement comparability.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the START Program'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 the START Programs' internal control. Accordingly, we do not express an opinion on the effectiveness of the START Programs' 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify the following deficiency in the START Programs' internal control that we consider to be a material weakness.

### **INADEQUATE CONTROLS OVER FINANCIAL REPORTING**

The Louisiana Office of Student Financial Assistance (LOSFA) does not have adequate controls over the Student Tuition Assistance and Revenue Trust Programs to ensure accurate financial reporting, causing the financial statements, related note disclosures, and supplementary information to have errors requiring audit adjustments. Failure to establish adequate controls over financial reporting increases the risk material misstatements and inaccurate disclosures may occur and remain undetected.

Based on our audit procedures, the following financial statement errors and inaccurate disclosures were identified:

#### Financial Statements

- Participant contributions (additions) and cash were overstated by \$2.8 million because the contributions were received in fiscal year 2020 but recorded in fiscal year 2019.
- Disbursements to participants (deductions) and disbursements payable at December 31, 2019, were understated by \$1.3 million because LOSFA failed to identify and record the payables in the financial statements.

#### Notes and Supplementary Information to the Financial Statements

- The Supplementary Schedule of Investments and various investments disclosures (notes 1 and 3) included inaccurate names and/or descriptions of the START Programs' investment options.
- The increase in the fair market value of investments within note 3 did not agree to the financial statement amount; the value in the note was overstated by \$392,000.

- The securities lending disclosure (note 4) was not updated for current-year activity, resulting in overstatements of the securities on loan and collateral by approximately \$70 million.
- The investments income disclosure (note 5) included incorrect average annual rates of return for the three-year and five-year periods ended December 31, 2019.
- The administrative charges disclosure (note 7) was not updated for the current maximum investment fee charged.

Good internal controls over financial reporting should include adequate procedures to record, process, and compile financial data needed to prepare accurate and complete financial statements and an effective review of the financial statements, including the notes and supplementary information to the financial statements, so that errors can be detected and corrected. LOSFA did not have an effective reconciliation between its general ledger and the system used to maintain participant accounts. LOSFA also lacked an adequate review over its financial statements, including the notes and supplementary information, to ensure accurate financial reporting.

Management should establish and implement an effective reconciliation process between the general ledger and the system used to maintain participant accounts. Additionally, management should implement an effective review process over the prepared financial statements, including the notes and related supplementary information, to ensure they are accurately presented. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the START Programs' 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*.

### **Management's Response to Finding**

Management's response to the finding identified in our audit is attached in Appendix A. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 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,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

AM:CR:BH:EFS:aa

START 2019

## APPENDIX A

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### Management's Corrective Action Plan and Response to the Finding and Recommendation







*A Program of the Board of Regents*  
 602 North Fifth Street  
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August 20, 2020

Daryl G. Purpera, CPA, CFE  
 Legislative Auditor  
 P.O. Box 94397  
 Baton Rouge, LA 70804-9397

RE: INADEQUATE CONTROLS OVER FINANCIAL REPORTING

Dear Mr. Purpera:

The Louisiana Office of Student Financial Assistance (LOSFA) concurs with the finding titled “Inadequate controls over financial reporting” for the audit period ending December 31, 2019.

Two events caused the issues addressed in the finding:

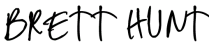
First, there are 2 different systems that record and report START transactions for different reasons. There is a fiscal system that records financial data and an operations system that records the account holders’ data. Due to the timing of certain transactions, these 2 systems have never matched at year end. Because the variances were more significant this year and resulted in audit adjustments, LOSFA has started to reconcile the 2 systems daily. This should correct any issues and allow us to substantiate any material year-end variances in the future.

Secondly, there was a lack of adequate review for the START financial statements and notes this year. This was mostly due to COVID-related events causing LOSFA to be later than normal in completing the financial statements. We are in the process of developing comprehensive review procedures, which will result in a more thorough review of all components of the financial statements in the future.

The staff member responsible for the implementation of these corrective actions is Brett Hunt, Director of Fiscal and Administrative Services. This corrective action was implemented August 15, 2020.

We appreciate the cooperation and diligence of your staff during the conduct of this audit. If you have any questions or require additional information, please contact me.

Sincerely,

DocuSigned by:  
  
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Brett G. Hunt  
 Director of Fiscal and Administrative Services, LOSFA