

LOUISIANA UTILITIES RESTORATION CORPORATION
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2019
ISSUED JANUARY 30, 2020

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 29, 2020

Independent Auditor's Report

LOUISIANA UTILITIES RESTORATION CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying 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, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the 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, 2019, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2020, 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,

A handwritten signature in blue ink, appearing to read "Thomas H. Cole".

Thomas H. Cole, CPA
First Assistant Legislative Auditor

LMF:CRV:RR:EFS:ch

LURC 2019

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, 2019. 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, 2019, the main financial activities of the Corporation were as follows:

- The Corporation collected \$87,240,338 in system restoration charges for the Entergy Louisiana, LLC (ELL) Program and \$37,867,333 in system restoration charges for the Entergy Gulf States Louisiana, L.L.C. (EGSL) Program.
- The Corporation paid \$13,684,958 in interest and \$102,014,145 in principal obligations on the Series 2008-ELL Program, Series 2010-ELL Program, and Series 2014-ELL Program System Restoration Bonds.
- The Corporation paid \$5,824,976 in interest and \$44,070,540 in principal obligations on the Series 2008-EGSL Program, Series 2010-EGSL Program, and Series 2014-EGSL Program System Restoration Bonds.
- The Corporation paid \$773,805 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 8) 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 9) presents information showing how the Corporation's assets changed as a result of operations during the year ended June 30, 2019. 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 10-11) presents information showing how the Corporation's cash changed as a result of operations during the year ended June 30, 2019. 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, 2019, and 2018, are as follows:

Statements of Net Position June 30, 2019, and 2018				
	2019	2018	Increase (Decrease)	Percentage Change
Current Assets	\$59,098,776	\$128,576,462	(\$69,477,686)	(54.04%)
Total Assets	59,098,776	128,576,462	(69,477,686)	(54.04%)
Current Liabilities	96,930,632	155,709,673	(58,779,041)	(37.75%)
Noncurrent Liabilities	354,542,961	444,627,832	(90,084,871)	(20.26%)
Total Liabilities	451,473,593	600,337,505	(148,863,912)	(24.80%)
Net Position - Unrestricted (Deficit)	(\$392,374,817)	(\$471,761,043)	\$79,386,226	16.83%

The decrease in current assets resulted from the system restoration charges related to the Series 2008 System Restoration Bonds being fully collected, and, therefore, the collections of the charges related to these bonds ceased effective July 31, 2018, when the Series 2008 System Restoration Bonds matured. Also, cash remaining in the collection accounts associated with the system restoration charges for the Series 2008 Restoration Bonds were returned to Entergy customers. The Corporation's Articles of Incorporation requires the remaining funds to be distributed to the Louisiana Public Service Commission (LPSC) for disposition. The Corporation and the LPSC permitted the funds to be refunded beginning with the April 2019 billing cycle.

The decrease in current and noncurrent liabilities resulted from the maturity of the Series 2008 System Restoration Bonds effective August 1, 2018, and the required principal payments on the Series 2008, Series 2010, and Series 2014 System Restoration Bonds.

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, 2019, and 2018, are as follows:

**Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2019 and 2018**

	2019	2018	Increase (Decrease)	Percentage Change
Operating Revenues - System Restoration Charges (Net)	\$117,886,290	\$242,831,350	(\$124,945,060)	(51.45%)
Nonoperating Revenues - Interest Income	1,344,804	1,086,468	258,336	23.78%
Total Revenues	<u>119,231,094</u>	<u>243,917,818</u>	<u>(124,686,724)</u>	(51.12%)
Operating Expenses	22,955,658	1,883,414	21,072,244	1,118.83%
Nonoperating Expenses - Interest Expense	16,889,210	25,656,450	(8,767,240)	(34.17%)
Total Expenses	<u>39,844,868</u>	<u>27,539,864</u>	<u>12,305,004</u>	44.68%
Change in Net Position	<u><u>\$79,386,226</u></u>	<u><u>\$216,377,954</u></u>	<u><u>(\$136,991,728)</u></u>	(63.31%)

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 decrease in operating revenues resulted from the system restoration charges related to the Series 2008 System Restoration Bonds being fully collected, and, therefore, the collections of the charges related to these bonds ceased effective July 31, 2018, when the Series 2008 System Restoration Bonds matured.

Funds remained in collection accounts associated with the system restoration charges for the Series 2008 Restoration Bonds. In accordance with the Corporation's Articles of Incorporation, these remaining funds were distributed to the LPSC for disposition causing the increase in operating expenses. The Corporation and LPSC permitted the funds to be refunded to Entergy's customers beginning with the April 2019 billing cycle.

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:

Mr. David Guerry
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, 2019

	Enterprise Funds		
	ELL	EGSL	
	Program	Program	Total
Assets			
Current Assets - Restricted			
Cash Equivalents (Note 2)	\$36,888,846	\$15,417,372	\$52,306,218
Receivables, Net (Note 3)	4,753,660	2,038,898	6,792,558
Total Current Assets	41,642,506	17,456,270	59,098,776
Total Assets	41,642,506	17,456,270	59,098,776
Liabilities			
Current Liabilities - Restricted			
Accounts Payable	172,331	174,744	347,075
Accrued Interest Payable	4,603,113	1,895,571	6,498,684
Current Portion of Bonds Payable, Net (Note 4)	62,326,874	27,757,999	90,084,873
Total Current Liabilities	67,102,318	29,828,314	96,930,632
Noncurrent Liabilities - Restricted			
Bonds Payable, Net (Note 4)	254,694,561	99,848,400	354,542,961
Total Liabilities	321,796,879	129,676,714	451,473,593
Net Position - Unrestricted (Deficit)	(\$280,154,373)	(\$112,220,444)	(\$392,374,817)

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, 2019

	Enterprise Funds		
	ELL Program	EGSL Program	Total
Operating Revenues			
System Restoration Charges	\$81,949,602	\$35,890,373	\$117,839,975
Decrease in Allowance for Uncollectible Accounts	33,861	12,454	46,315
Total Operating Revenues (Note 5)	81,983,463	35,902,827	117,886,290
Operating Expenses			
Non-Shareholder Capital Contributions	15,732,896	5,765,529	21,498,425
Servicing Fees	307,862	310,380	618,242
Professional Services	340,829	338,329	679,158
Ongoing Financing Costs	84,083	75,750	159,833
Total Operating Expenses	16,465,670	6,489,988	22,955,658
Operating Income	65,517,793	29,412,839	94,930,632
Nonoperating Revenues (Expenses)			
Interest and Dividend Income	959,482	385,322	1,344,804
Interest Expense	(11,898,914)	(4,990,296)	(16,889,210)
Total Nonoperating Revenues (Expenses), Net	(10,939,432)	(4,604,974)	(15,544,406)
Change in Net Position	54,578,361	24,807,865	79,386,226
Net Position, Beginning of Year	(334,732,734)	(137,028,309)	(471,761,043)
Net Position, End of Year	(\$280,154,373)	(\$112,220,444)	(\$392,374,817)

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, 2019

	Enterprise Funds		
	ELL Program	EGSL Program	Total
Cash Flows from Operating Activities			
System Restoration Charges Received	\$87,240,338	\$37,867,333	\$125,107,671
Non-Shareholder Capital Contributions	(15,732,896)	(5,765,529)	(21,498,425)
Servicing Fees Paid	(393,825)	(379,980)	(773,805)
Professional Services Paid	(352,299)	(349,799)	(702,098)
Ongoing Financing Costs Paid	(74,083)	(65,750)	(139,833)
Net Cash Provided by Operating Activities	70,687,235	31,306,275	101,993,510
Cash Flows from Non-Capital Financing Activities			
Bond Principal Obligations Paid	(102,014,145)	(44,070,540)	(146,084,685)
Interest Paid on Bonds	(13,684,958)	(5,824,976)	(19,509,934)
Net Cash Used in Non-Capital Financing Activities	(115,699,103)	(49,895,516)	(165,594,619)
Cash Flows from Investing Activities			
Interest and Dividends Received	959,482	385,322	1,344,804
Net Cash Provided by Investing Activities	959,482	385,322	1,344,804
Net Decrease in Cash Equivalents	(44,052,386)	(18,203,919)	(62,256,305)
Cash Equivalents, Beginning of Year	80,941,232	33,621,291	114,562,523
Cash Equivalents, End of Year	\$36,888,846	\$15,417,372	\$52,306,218

(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, 2019

	Enterprise Funds		
	ELL Program	EGSL Program	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$65,517,793	\$29,412,839	\$94,930,632
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Decrease in Allowance for Uncollectible Accounts	(33,861)	(12,454)	(46,315)
Changes in Assets and Liabilities			
Decrease in Receivables	5,290,736	1,976,960	7,267,696
Decrease in Accounts Payable	(87,433)	(71,070)	(158,503)
Net Cash Provided by Operating Activities	\$70,687,235	\$31,306,275	\$101,993,510

(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.

Subsequent to the formation of the Corporation, ELL and EGSL submitted separate applications for Financing Orders to the LPSC for approval, which were granted on April 16, 2008. The funds for the non-shareholder capital contributions to ELL were obtained through the issuance of \$687,700,000 of Series 2008 System Restoration Bonds, dated July 29, 2008 (the 2008-ELL Program), in three tranches. The funds for the non-shareholder capital contributions to EGSL were obtained through the issuance of \$278,400,000 of Series 2008 System Restoration Bonds, dated August 26, 2008 (the 2008-EGSL Program), in three tranches. See Note 4 for more information on these obligations and others.

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.

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 DSRs 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 (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing 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 14 and amended by GASB Statement 61.

The state of Louisiana issues a comprehensive annual 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, investments in 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 2008 and 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, and bond issuance costs, 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. INVESTMENTS

At June 30, 2019, the Corporation's investments totaling \$52,306,218 consisted of twenty-four separate accounts held by the trustee, Bank of New York Mellon. 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 invests in the Dreyfus Government Cash Management Fund, which is a money market mutual fund rated "AAAm" by the Standard & Poor's Investor Services.

During the year ended June 30, 2019, the Series 2008 System Restoration Bonds related to hurricanes Katrina and Rita were paid off. Remaining balances, after paying off these bonds and related expenses, were transferred to Entergy Louisiana, LLC to be refunded to customers.

The total debt reserve balance in the 2010-ELL Program and 2010-EGSL Program and in the 2014-ELL Program and 2014-EGSL Program of \$5,325,726 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 Corporation met all reserve balance requirements at June 30, 2019.

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.

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, 2019, the Corporation received a total of \$87,240,338 and \$37,867,333 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, 2019, are as follows:

	ELL Program	EGSL Program	Total
System Restoration Charges Receivable	\$4,784,279	\$2,051,825	\$6,836,104
Less: Allowance for Uncollectible Accounts	(30,619)	(12,927)	(43,546)
Total	\$4,753,660	\$2,038,898	\$6,792,558

4. LONG-TERM OBLIGATIONS

The Series 2008 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 Katrina and Rita, as outlined in the Introduction section in the Notes. These bonds matured and were paid off during the year ended June 30, 2019. 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 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.

Long-term obligations as of June 30, 2019, consisted of the following:

	June 30, 2018	Additions	Reductions	June 30, 2019	Amounts Due Within One Year
Bonds Payable					
Series 2008-ELL Program	\$42,082,629		(\$42,082,629)		
Series 2008-EGSL Program	17,249,587		(17,249,587)		
Series 2010-ELL Program	193,868,659		(40,615,300)	\$153,253,359	\$42,399,744
Series 2010-EGSL Program	100,593,876		(21,057,244)	79,536,632	21,941,896
Series 2014-ELL Program	183,127,544		(19,316,216)	163,811,328	19,940,546
Series 2014-EGSL Program	53,870,658		(5,763,709)	48,106,949	5,826,015
Total Bonds Payable	590,792,953		(146,084,685)	444,708,268	90,108,201
Less: Discount on Bonds					
Series 2008-ELL Program	(2,069)		2,069		
Series 2008-EGSL Program	(387)		387		
Series 2010-ELL Program	(29,198)		9,880	(19,318)	(8,285)
Series 2010-EGSL Program	(36,393)		9,691	(26,702)	(8,432)
Series 2014-ELL Program	(30,523)		6,589	(23,934)	(5,131)
Series 2014-EGSL Program	(11,960)		1,480	(10,480)	(1,480)
Total Discount on Bonds	(110,530)		30,096	(80,434)	(23,328)
Total Bonds Payable, Net	\$590,682,423		(\$146,054,589)	\$444,627,834	\$90,084,873

Detailed summaries, by projects and tranches, of all bonded debt outstanding at June 30, 2019, are as follows:

	Date of Issue	Original Issue	Outstanding June 30, 2018	Issued (Redeemed)	Outstanding June 30, 2019	Final Payment Dates	Final Maturity Dates	Interest Rates
ELL Program								
Series 2008:								
Tranche A-1	July 29, 2008	\$160,000,000				Feb. 1, 2012	Feb. 1, 2014	4.50%
Tranche A-2	July 29, 2008	367,000,000				Feb. 1, 2017	Feb. 1, 2019	5.75%
Tranche A-3	July 29, 2008	160,700,000	\$42,082,629	(\$42,082,629)		Aug. 1, 2018	Aug. 1, 2020	6.20%
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	68,968,659	(40,615,300)	\$28,353,359	Feb. 1, 2020	Feb. 1, 2022	3.45%
Tranche A-4	July 22, 2010	124,900,000	124,900,000		124,900,000	Aug. 1, 2022	Aug. 1, 2024	3.96%
Series 2014:								
Tranche A-1	August 6, 2014	91,700,000	30,977,544	(19,316,216)	11,661,328	Feb. 1, 2020	Feb. 1, 2022	1.66%
Tranche A-2	August 6, 2014	152,150,000	152,150,000		152,150,000	Aug. 1, 2026	Aug. 1, 2028	3.24%
EGSL Program								
Series 2008:								
Tranche A-1	Aug. 26, 2008	103,000,000				Feb. 1, 2013	Feb. 1, 2015	4.95%
Tranche A-2	Aug. 26, 2008	90,000,000				Aug. 1, 2016	Aug. 1, 2018	5.88%
Tranche A-3	Aug. 26, 2008	85,400,000	17,249,587	(17,249,587)		Aug. 1, 2018	Aug. 1, 2020	6.55%
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	13,493,876	(13,493,876)		Feb. 1, 2019	Feb. 1, 2021	3.22%
Tranche A-3	July 22, 2010	87,100,000	87,100,000	(7,563,368)	79,536,632	Aug. 1, 2022	Aug. 1, 2024	3.99%
Series 2014:								
Tranche A-1	August 6, 2014	71,000,000	53,870,658	(5,763,709)	48,106,949	Aug. 1, 2026	Aug. 1, 2028	2.86%
		<u>\$1,993,950,000</u>	590,792,953	(146,084,685)	444,708,268			
Net Original Discounts			(855,901)		(855,901)			
Net Accumulated Amortization of Discounts			<u>745,371</u>	<u>30,096</u>	<u>775,467</u>			
Bonds Payable, Net			<u>\$590,682,423</u>	<u>(\$146,054,589)</u>	<u>\$444,627,834</u>			

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
2020	\$62,340,290	\$10,639,852	\$27,767,911	\$4,312,935	\$90,108,201	\$14,952,787
2021	63,902,945	8,509,807	28,764,229	3,261,606	92,667,174	11,771,413
2022	66,667,259	6,098,759	29,834,697	2,172,233	96,501,956	8,270,992
2023	43,300,577	3,590,474	17,690,911	1,041,826	60,991,488	4,632,300
2024	22,452,911	2,453,691	6,578,380	632,257	29,031,291	3,085,948
2025-2028	58,400,705	2,869,596	17,007,453	736,566	75,408,158	3,606,162
Total	<u>\$317,064,687</u>	<u>\$34,162,179</u>	<u>\$127,643,581</u>	<u>\$12,157,423</u>	<u>\$444,708,268</u>	<u>\$46,319,602</u>

Principal and interest payments are due semi-annually on August 1st and February 1st. 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-29203, U-30981, and U-32764. 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, and over the 12-year repayment period of all Series 2014 System Restoration Bonds is \$376,953,675, which represents all principal and interest obligations on the bonds totaling \$1,247,303,544. For the year ended June 30, 2019, the pledged revenues recognized were \$117,886,290, and the principal and interest requirements for the debt collateralized by those revenues were \$162,973,895.

6. RECENT ACCOUNTING PRONOUNCEMENTS

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in April 2018. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This Statement was implemented by the Corporation for the year ended June 30, 2019, and did not have a significant impact.

The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. This Statement will be effective for the Corporation for the fiscal year ending June 30, 2020, and is not anticipated to have a significant impact.

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. This Statement will be effective for the Corporation for the fiscal year ending June 30, 2021, and is not anticipated to have a significant impact.

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. This Statement will be effective for the Corporation for the fiscal year ending June 30, 2021, and is not anticipated to have a significant impact.

The GASB issued Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and 61*, in August 2018. This Statement establishes criteria designed to improve the consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations and to improve the relevance of financial statement information for certain component units. This Statement will be effective for the Corporation for the fiscal year ending June 30, 2020, and is not anticipated to have a significant impact.

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. This Statement will be effective for the Corporation for the fiscal year ending June 30, 2022, and is not anticipated to have a significant impact.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Exhibit A

The following pages contain a report on internal control over financial reporting, and on compliance with laws, 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

January 29, 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

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, 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, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated January 29, 2020.

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) to determine the 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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication 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,

A handwritten signature in blue ink, appearing to read "Thomas H. Cole".

Thomas H. Cole, CPA
First Assistant Legislative Auditor

LMF:CRV:RR:EFS:ch

LURC 2019