

LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2010
ISSUED DECEMBER 15, 2010

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	Page
Independent Auditor's Report	3
Management’s Discussion and Analysis	5
Statement	
Basic Financial Statements:	
Statement of Net Assets..... A	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets..... B	11
Statement of Cash Flows	C 13
Notes to the Financial Statements	15
Exhibit	
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
Appendix	
Management’s Corrective Action Plan and Response to the Finding and Recommendation	A



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

November 19, 2010

Independent Auditor's Report

**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the accompanying basic financial statements of the Louisiana Transportation Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 2010. These financial statements are the responsibility of management of the Louisiana Transportation Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Transportation Authority as of June 30, 2010, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010, on our consideration of the Louisiana Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Daryl G. Purpera".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

JRH:JR:EFS:THC:dl

LTA10

Management's Discussion and Analysis of the Louisiana Transportation Authority's (Authority) financial performance presents a narrative overview and analysis of the Authority's financial activities for the year ended June 30, 2010. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's assets exceeded its liabilities at the close of fiscal year 2010 by \$157,335,022.
- On July 8, 2009, Phase 1A of the LA 1 toll road was opened, and the Authority began collecting tolls on August 3, 2009. The Authority's operating income increased by \$3,018,821 to \$2,412,256 in fiscal year 2010 from an operating loss of \$606,565 in fiscal year 2009 before capital contributions. Capital contributions totaled \$37,732,060 and \$75,249,754 in fiscal year 2010 and 2009, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of three sections - Management's Discussion and Analysis (this section), the basic financial statements, and the notes to the financial statements.

Basic Financial Statements

The basic financial statements present information for the Authority 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 Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information showing how the Authority's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the Authority's cash changed as a result of current year operations. The cash flows statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by Governmental Accounting Standards Board Statement No. 34.

FINANCIAL ANALYSIS**Net Assets**

The Authority's total net assets at June 30, 2010, changed by approximately \$40 million, a 34.3% increase over June 30, 2009 (see Table A-1). Total assets increased 18.3% to approximately \$335 million, and total liabilities increased 7% to \$178 million.

Table A-1
Louisiana Transportation Authority
Statement of Net Assets
(in thousands of dollars)

	2010	2009 (Reclassified)
Current assets	NONE	NONE
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	\$57	
Investments	20,774	\$25,683
Due from other entities	646	
Accounts receivable	50	21
Construction-in-progress	310,243	253,930
Other	3,291	3,628
Total assets	<u>335,061</u>	<u>283,262</u>
Current liabilities	10,657	67,506
Noncurrent liabilities	167,069	98,565
Total liabilities	<u>177,726</u>	<u>166,071</u>
Net Assets:		
Invested in capital assets, net of related debt	145,678	90,255
Restricted for capital projects	8,366	23,308
Unrestricted	3,291	3,628
Total net assets	<u>\$157,335</u>	<u>\$117,191</u>

This schedule is prepared from the Authority's statement of net assets as shown on page 9, which is prepared on an accrual basis of accounting.

Significant statement of net asset changes from 2009 include the following:

- Noncurrent assets - restricted investments decreased because bond proceeds were spent on construction of the LA Highway 1 project.
- Construction-in-progress increased from continuing construction of the LA Highway 1 project, which is being funded from bond proceeds and from capital contributions received from the Department of Transportation and Development (DOTD).
- Net assets increased primarily as a result of DOTD's capital contributions for the LA Highway 1 project.

Changes in Net Assets

The change in net assets at June 30, 2010, is approximately \$40 million or 34.3% more than at June 30, 2009. The changes in net assets are detailed in Table A-2. These changes are primarily the result of capital contributions totaling \$37,732,060 received from DOTD. The Authority is progressing on the LA Highway 1 project and this is the first year of revenues with the opening of the highway and toll collection that began in August 2009.

Table A-2
Louisiana Transportation Authority
Statement of Changes in Net Assets
(in thousands of dollars)

	2010	2009
Operating revenues	\$2,772	NONE
Operating expenses	360	\$607
	2,412	(607)
Operating income (loss)		
Nonoperating revenues (expenses)	NONE	NONE
Capital contributions	37,732	75,250
Change in net assets	40,144	74,643
Net assets, beginning of the year	117,191	42,548
Total net assets	\$157,335	\$117,191

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the Authority reported capital assets totaling \$310,242,714, which represents an increase of \$56,312,606, or 22.2%, from fiscal year 2009 and which consists entirely of construction-in-progress for the LA Highway 1 project (see note 5).

DEBT ADMINISTRATION

The Authority issued \$195,800,000 in bonds and notes in 2005 (see note 6). Standard & Poor's has given the Authority's Series 2005A Senior Lien Toll Revenue Bonds and Series 2005B Senior Lien Toll Revenue Capital Appreciation Bonds a rating of A+/Stable. Fitch and Moody continue to rate these bonds at BBB and Aa3, respectively. The Authority has no outstanding claims and judgments at fiscal year-end. The Authority has entered into a Secured Loan Agreement with the U.S. Department of Transportation (USDOT) to borrow \$66,000,000 to pay or reimburse the Authority for "Eligible Project Costs" of Phase I by refinancing the Series 2005 Subordinate Lien Bond Anticipation Notes (BANS).

ECONOMIC FACTORS AND NEXT YEAR'S ACTIVITIES

Construction is continuing for Phase 1 of the LA Highway 1 project. The Authority is generating revenues from operations of toll collections. Interest earnings on the investment of bond proceeds are reported as required in the official statement. Continuing expenses paid by DOTD on the project will be recorded by the Authority as contributed capital, which will increase net assets over the next year.

CONTACTING THE LOUISIANA TRANSPORTATION AUTHORITY'S MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Michael Bridges, Undersecretary of Management and Finance, Department of Transportation and Development, Post Office Box 94245, Baton Rouge, Louisiana 70804-9245.

**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

**Statement of Net Assets
June 30, 2010**

ASSETS

Noncurrent assets

Restricted assets:

Cash (note 2)	\$56,766
Investments (note 3)	20,774,205
Due from other entities (note 8)	645,908
Accounts receivable (note 4)	50,006
Construction-in-progress (note 5)	310,242,714
Unamortized bond issuance cost	3,291,319
Total assets	<u>335,060,918</u>

LIABILITIES

Current liabilities:

Accounts payable	9,312,251
Deferred revenue	327,075
Due to other entities (note 8)	750,048
Accrued interest on bonds payable	267,987
Total current liabilities	<u>10,657,361</u>

Noncurrent liabilities - bonds payable

net of unamortized discount	167,068,535
Total liabilities	<u>177,725,896</u>

NET ASSETS

Invested in capital assets, net of related debt	145,677,845
Restricted for capital projects	8,365,858
Unrestricted	3,291,319
Total net assets	<u><u>\$157,335,022</u></u>

The accompanying notes are an integral part of this statement.

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**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

**Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Year Ended June 30, 2010**

OPERATING REVENUES

Toll fees	<u>\$2,772,181</u>
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OPERATING EXPENSES

Administrative expenses	23,000
Amortization of bond issuance costs	<u>336,925</u>
Total operating expenses	<u>359,925</u>

OPERATING INCOME	2,412,256
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NONOPERATING REVENUES (EXPENSES)	<u>NONE</u>
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INCOME BEFORE CAPITAL CONTRIBUTIONS	2,412,256
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Capital contributions	<u>37,732,060</u>
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CHANGE IN NET ASSETS	40,144,316
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NET ASSETS AT BEGINNING OF YEAR	<u>117,190,706</u>
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NET ASSETS AT END OF YEAR	<u><u>\$157,335,022</u></u>
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The accompanying notes are an integral part of this statement.

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**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Year Ended June 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$3,180,428
Cash payment to suppliers for goods and services	(23,000)
Net cash provided (used) by operating activities	<u>3,157,428</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal paid on bonds	(66,000,000)
Proceeds from secured loan agreement	66,000,000
Acquisition/construction of capital assets	(8,008,162)
Net cash provided (used) by capital and related financing activities	<u>(8,008,162)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investment securities	(76,362,605)
Proceeds from sale of investment securities	81,270,105
Net cash provided (used) by investing activities	<u>4,907,500</u>

NET INCREASE (DECREASE) IN CASH 56,766

CASH AT BEGINNING OF YEAR (as reclassified - note 2) NONE

CASH AT END OF YEAR \$56,766

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	<u>\$2,412,256</u>
Adjustment to reconcile operating revenues to net cash provided by operating activities:	
Amortization expense	336,925
Increase in accounts receivable	(34,873)
Increase in due to DOTD	32,467
Increase in accounts payable	83,578
Increase in deferred revenues	327,075
Total adjustments	<u>745,172</u>
Net cash provided by operating activities	<u><u>\$3,157,428</u></u>

The accompanying notes are an integral part of this statement.

**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA
Statement of Cash Flows
For the Year Ended June 30, 2010**

Schedule of Noncash Capital and Financing Activities:

Additions to CIP from:	
Capital contributions	\$37,732,060
Capitalized net interest expense	4,192,550

The accompanying notes are an integral part of this statement.

INTRODUCTION

The Louisiana Transportation Authority (Authority) is a public corporation created within the Department of Transportation and Development (DOTD) of the State of Louisiana. The Louisiana Legislature created the Authority pursuant to Act No. 1209 of the 2001 Regular Session of the Louisiana Legislature for the purpose of pursuing alternative and innovative funding sources, including but not limited to public/private partnerships, tolls, and unclaimed property bonds to supplement public revenue sources and to improve Louisiana's transportation system. The Authority is governed by nine directors who shall be the governing body of the Authority with full power to promulgate rules and regulations for the maintenance and operation of the Authority, subject to the approval of the House and Senate committees on Transportation, Highways and Public Works. In accordance with the provisions of the Act, the Authority has the power to issue bonds for any purpose of the Authority and to pledge revenues for the payment of the principal and interest of such bonds. The Authority has no taxing power.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying basic financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting principles and financial reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The Authority applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected to follow GASB pronouncements issued after November 30, 1989, rather than FASB pronouncements.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Authority is considered a component unit of the State of Louisiana because the nine Authority directors are either members of the legislature or are appointed by the governor, and the state is able to impose its will on the Authority through its oversight responsibility. The accompanying financial statements present only the activity of the Authority. Annually, the State of Louisiana issues basic financial statements that include the activity contained in the accompanying financial statements. These basic financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Assets.

Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. BUDGET PRACTICES

The Authority does not adopt a formal budget on a fiscal basis.

F. CASH AND INVESTMENTS

Cash includes amounts on deposit with the fiscal agent bank and investments include amounts invested in money market funds and a repurchase agreement. Under state law, the Authority may deposit funds within 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 Master Indenture of Trust dated April 1, 2005, authorizes the trustee, as directed by the Authority, to invest in direct U.S. Treasury obligations; bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by federal agencies or by U.S. government instrumentalities, which are federally sponsored; direct security repurchase agreements of any federal book-entry only securities previously referenced with a financial institution rated not less than "A" by a rating agency and with collateral held by a third party; certificates of deposit; mutual or trust fund institutions

registered by the Securities and Exchange Commission under the Securities Act of 1933 and the Investment Act of 1940 and which have underlying investments consisting solely of and limited to securities of the U.S. government or its agencies; and investment grade commercial paper of domestic U.S. corporations.

Investments that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are reported as restricted investments.

G. CAPITAL ASSETS

The Authority follows the capitalization policies established by the Louisiana Division of Administration, Office of Statewide Accounting and Reporting Policy. Any infrastructure asset exceeding \$3 million is capitalized and depreciated using the straight-line method over 40 years.

H. COMPENSATED ABSENCES, PENSION BENEFITS, AND POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Authority has no employees. DOTD employees perform the administrative and accounting functions for the Authority. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the Authority.

I. NONCURRENT LIABILITIES

Bond issuance costs are reported and amortized over the life of the bonds using the straight-line method. Bond premium and discounts are amortized over the life of the bonds using the effective interest-rate method.

J. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net assets are generally classified in the following three components:

Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets subject to external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of all other net assets that are not included in the other categories previously mentioned.

2. CASH

As reflected on Statement A, the Authority has cash (book balances) totaling \$56,766 at June 30, 2010. Under state law, demand deposits with financial institutions must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The fair value of the pledge securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At June 30, 2010, the Authority has \$49,369 in deposits (collected bank balances) secured by federal deposit insurance.

The Authority has its funds deposited in two Chase bank accounts which total \$49,369. The authority has additional deposits totaling \$16,774,204 which are invested in the JP Morgan US Treasury Plus Money Market Fund. It has been determined that the JP Morgan US Treasury Plus Money Market Fund constitutes a mutual fund and thus should be classified as investments. These deposits, which were reported as cash at June 30, 2009, were reclassified as investments on Statement A at June 30, 2010. This reclassification also reduces Cash at Beginning of Year to NONE on Statement C.

3. INVESTMENTS

At June 30, 2010, the Authority has investments stated at cost, which approximates market, totaling \$20,774,205, which are composed of money market mutual funds totaling \$16,774,204 (81% of the total) that consist of shares in investments in direct obligations of the U.S. Department of the Treasury including Treasury bills, bonds, notes and other obligations issued or guaranteed by the U.S. Treasury, and a repurchase agreement totaling \$4,000,000 (19% of the total) backed by such obligations. The Authority's investments in the U.S. Treasury Plus Money Market Funds were rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service. The fund will only invest in securities that have the remaining maturities of 397 days or less. These funds are reflected as restricted assets in the Statement of Net Assets. At June 30, 2010, the repurchase agreement is collateralized by Government National Mortgage Association (Ginnie Mae) mortgage-backed securities, with a fair market value of \$4,200,000. The maturity of this investment held at June 30, 2010, is greater than 10 years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority limits its credit risk with the repurchase agreement by requiring the market value of the securities underlying repurchase agreements to equal at least 100%-105% of the value of the repurchased securities at all times, depending on the type of underlying security. The Authority further limits its credit risk by limiting collateral for repurchase agreements, to securities explicitly guaranteed by the U.S. government (U.S. Treasury, Government National Mortgage Association) and implicitly guaranteed by the U.S. government for government-sponsored entities (Fannie Mae, Freddie Mac, and Federal Home Loan Bank).

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Authority limits concentration of credit risk by investing in repurchase agreements of financial institutions rated not less than "A" by a rating agency and by requiring collateral of 100%-105% held by a third party.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority has no policies to limit its interest rate risk. Because the investment underlying the repurchase agreement is mortgage-backed securities, prepayment options cause them to be highly sensitive to changes in interest rates.

4. ACCOUNTS RECEIVABLE, RESTRICTED

The Authority has accounts receivable at June 30, 2010, of \$50,006. These amounts represent income from investments and tolls, \$15,133 and \$34,873, respectively, earned before the year-end, but not received by the Authority until after the applicable year-end.

5. CHANGES IN FIXED ASSETS

A summary of changes in fixed assets for the year ended June 30, 2010, follows:

	Balance June 30, 2009	Additions	Balance June 30, 2010
Construction-in-progress	\$253,930,108	\$56,312,606	\$310,242,714

6. LONG-TERM LIABILITIES

The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds payable	\$195,800,000	\$66,000,000	\$66,000,000	\$195,800,000	NONE
Interest accrued in capitalized interest period	NONE	2,503,663	NONE	2,503,663	NONE
Less deferred amounts:					
Unamortized bond discount	(32,361,674)	1,126,546	NONE	(31,235,128)	NONE
Unamortized bond premium	237,510	NONE	237,510	NONE	NONE
Unamortized bond discount, net	(32,124,164)	1,126,546	237,510	(31,235,128)	NONE
Total liabilities	\$163,675,836	\$69,630,209	\$66,237,510	\$167,068,535	NONE

On June 9, 2005, the Authority issued Series 2005A Senior Lien Toll Revenue Bonds, Series 2005B Senior Lien Toll Revenue Capital Appreciation Bonds, and Series 2005 Subordinate Lien Toll Revenue Bond Anticipation Notes (BANS), in accordance with the Master Indenture of Trust, as supplemented by a First Supplemental Indenture of Trust and a Second Supplemental Indenture of Trust all dated as of April 1, 2005. The Series 2005A Senior Lien Toll Revenue

LOUISIANA TRANSPORTATION AUTHORITY

Bonds have a maturity of December 1, 2030, with interest rates of 3.5% to 4.5%. The Capital Appreciation Bonds are interest-free bonds issued at a deep discount. The Series 2005 Subordinate Lien Toll Revenue BANS matured on September 1, 2009.

In addition, the Authority has entered into a Secured Loan Agreement with the USDOT to borrow \$66,000,000 to reimburse the Authority for "Eligible Project Cost" of Phase 1 by refinancing the Series 2005 Subordinate Lien BANS. To evidence the Authority's obligations under the Secured Loan Agreement, the Authority issued the Series 2005 Transportation Infrastructure Finance and Innovation Act (TIFIA) Bond as a Subordinate Lien BAN. The TIFIA bond has a maturity of December 1, 2040, with an interest rate of 4.45%.

All principal and interest are funded in accordance with Article 7, Section 27 of the Louisiana Constitution of 1974. These bonds are not general obligations of the state or any political subdivision thereof, and the faith and credit of the state is not pledged to the payment of these bonds. The Series 2005 Senior Lien bonds are payable solely from a first lien on and pledge of toll revenues. The TIFIA Bond, which refinanced the Series 2005 Subordinate Lien BANS, is payable solely from a second lien on and pledge of toll revenues.

Details of all debt outstanding at June 30, 2010, follow:

	Date of Issue	Original Issue	Outstanding June 30, 2009	Issued (Redeemed)	Outstanding June 30, 2010	Maturities	Interest Rates	Future Interest Payments, June 30, 2010
Series 2005A Senior Lien Toll Revenue Bonds	June 9, 2005	\$78,350,000	\$78,350,000		\$78,350,000	2014-2031	3.5% - 4.5%	\$51,048,344
Series 2005B Senior Lien Toll Revenue Capital Appreciation Bonds	June 9, 2005	51,450,000	51,450,000		51,450,000	2025-2029	5.17% - 5.34%	
Series 2005 Subordinate Lien Toll Revenue Bond Anticipation Notes	June 9, 2005	66,000,000	66,000,000	(\$66,000,000)		2010	3.875% - 5.0%	
Series 2005 TIFIA Bonds	August 26, 2009	66,000,000		66,000,000	66,000,000	2041	4.45%	79,322,003
Total		<u>\$261,800,000</u>	195,800,000	<u>NONE</u>	195,800,000			<u>\$130,370,347</u>
Interest accrued in capitalized interest period					2,503,663			
Net premium (discounts)			<u>(32,124,164)</u>		<u>(31,235,128)</u>			
Bonds payable, net			<u>\$163,675,836</u>		<u>\$167,068,535</u>			

The annual requirements to amortize all bonds outstanding at June 30, 2010, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011		\$3,382,176	\$3,382,176
2012		3,382,176	3,382,176
2013		3,382,176	3,382,176
2014	\$1,605,000	6,820,059	8,425,059
2015	225,000	6,787,006	7,012,006
2016-2020	10,915,000	33,241,774	44,156,774
2021-2025	36,965,000	28,445,942	65,410,942
2026-2030	66,670,000	23,553,399	90,223,399
2031-2035	43,063,000	14,735,703	57,798,703
2036-2040	39,421,000	6,443,390	45,864,390
2041	8,833,535	196,546	9,030,081
Sub-total	<u>207,697,535</u>	<u>130,370,347</u>	<u>338,067,882</u>
Accreted interest on TIFIA Bonds			
August 26, 2009, to June 1, 2013	<u>(11,897,535)</u>	<u>NONE</u>	<u>NONE</u>
Total	<u><u>\$195,800,000</u></u>	<u><u>\$130,370,347</u></u>	<u><u>\$338,067,882</u></u>

Section 9 of the Secured Loan Agreement provides that no payment of the principal or interest is required during the capitalized interest period, which was defined as the period beginning on August 12, 2009, and ending on June 1, 2013. The agreement requires on each June 1 and December 1 occurring during the capitalized interest period that the interest accrued shall be capitalized and added to the outstanding secured loan balance. In the schedule above, the \$11,897,535 represents total interest in the capitalized interest period of which a portion due each fiscal year will be added to the outstanding principal amount through fiscal year 2013. For fiscal year 2010, the amount added to the outstanding principal amount was \$2,503,663.

7. PLEDGED REVENUES

The Authority issued toll revenue bonds of \$195,800,000 in 2005 to finance a highway project in the lower portion of Lafourche Parish. The project will create elevated highways that run parallel to Highway 1 with a bridge over Bayou Lafourche. The bonds are secured by a pledge of toll revenues on the southbound lane of the new highway from Leeville to Port Fourchon and are payable through 2041. The Authority has committed the toll revenues to cover the principal and interest requirements until the bonds are fully paid and discharged. Toll revenues reported on Statement B were \$2,772,181. For fiscal year 2010, \$66,000,000 of principal was paid on the bonds as well as \$4,192,550 in related interest. The total principal and interest remaining on the bonds are presented in note 6.

8. DUE FROM/TO OTHER ENTITIES

The following is a summary of due from/to other entities at June 30, 2010:

Due from:	
Crescent City Connection Division (CCCD) -	
LA 1 Prepaid Tolls collected by CCCD	\$595,695
DOTD - LA 1 Tolls in GeauxPass Account	<u>50,213</u>
Total due from other entities	<u><u>\$645,908</u></u>
Due to:	
CCCD - Tolls from accounts of LA 1 customers who	
used the CCCD bridge	\$20,183
DOTD - Tag sales, administrative fees and late charges	
collected on behalf of DOTD	<u>729,865</u>
Total due to other entities	<u><u>\$750,048</u></u>

9. COOPERATIVE ENDEAVORS

Louisiana Revised Statute 33:9022 defines cooperative endeavors as any form of economic development assistance between and among the state of Louisiana, its local governmental subdivisions, political corporations, public benefit corporations, the United States government or its agencies, or any public or private association, corporation, or individual. The term cooperative endeavor includes cooperative financing, cooperative development, or any form of cooperative economic development activity. The state of Louisiana has entered into cooperative endeavor agreements with certain entities aimed at developing the economy of the state.

The Authority entered into two cooperative endeavors, one with DOTD and the other with the State of Louisiana through the Division of Administration and the Louisiana Department of Economic Development (DED) in April 2005 to enhance the feasibility of financing Phase I of the LA 1 Project.

DOTD’s obligations under the agreement are as follows: (1) align funding agreements with the Federal Highway Administration (FHWA) for advance construction; (2) guarantee the payment of costs overruns of Phase I; and (3) pay future operating and maintenance expenses from available DOTD funding subject to appropriation. The guarantee of funding from DOTD is to ensure that the owners of the Series 2005 bonds will be granted a gross revenue pledge on any tolls generated by Phase I. At June 30, 2010, the Authority did not have a liability to DOTD based on the cooperative endeavor agreement.

DED’s obligations under the agreement are limited to \$18,000,000 per fiscal year, given that the Louisiana Legislature appropriates funds to cover this amount, to supplement the Debt Service Reserve for the Senior Lien Bond Debt if insufficient funds are on deposit to make payment obligations. The Authority must reimburse all amounts paid under this agreement before any additional bonds can be issued. At June 30, 2010, there are no outstanding liabilities with DED based on the cooperative endeavor agreement.

10. SUBSEQUENT EVENTS

On January 15, 2010, Electronic Transaction Consultants Corporation (ETC) filed a claim against DOTD in the amount of \$3,681,072, of which \$428,827 is attributed to the Authority toll road (LA1) system. However, DOTD is liable for the LA1 portion, not the Authority. Therefore, there is no monetary liability to the Authority. However, a claim for lost tolls attributed to late completion and current system failures is still viable and being evaluated on behalf of the Authority.

On July 15, 2010, a suit was instituted by DOTD against ETC. ETC countersued DOTD and requested the Court enjoin the use of the collection system for LA1. The lower Court issued the order, but DOTD immediately sought emergency relief from the higher appeals Court. The First Circuit Court of Appeals issued a stay prohibiting the lower Court's order pending decision.

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain our report on internal control over financial reporting and on compliance 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

November 19, 2010

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*

**LOUISIANA TRANSPORTATION AUTHORITY
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA**

Baton Rouge, Louisiana

We have audited the basic financial statements of the Louisiana Transportation Authority (Authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the following deficiencies to be material weaknesses.

Lack of Adequate Toll Collection System

The Integrated Electronic Toll Collection System (IETCS II), implemented by the Louisiana Department of Transportation and Development (DOTD) on behalf of the Authority, has not functioned properly for the Authority since being placed in operation on August 3, 2009. The IETCS II is used for electronic toll collection for vehicles crossing the Louisiana 1 (LA1) Bridge in Leesville. The Crescent City Connection Division (CCCD) oversees toll collections. IETCS II was designed and developed by Electronic Transaction Consultants (ETC) Corporation. ETC ceased working on the project on January 15, 2010, and is currently in litigation with DOTD.

During the audit period, major IETCS II problems included, but are not limited to, the following:

- The IETCS II's Image Capture Review Subsystem is not working as intended, so employees are unable to view images of all potential toll violators and identify and bill for actual violations. From May 1, 2010, to October 6, 2010, CCCD was unable to view any LA1 violation images.
- The IETCS II frequently produces erroneous violation notices to drivers who have properly paid tolls.
- The IETCS II's LA1 VPS (Violation Processing Subsystem) fails to properly identify all valid trailer toll violations.
- The IETCS II's Customer Service Center (CSC) auto-replenishment function is not working as designed; therefore, CSC managers have to manually review and verify these auto-replenishments for their customers' toll accounts.
- Since April 2010, the IETCS II system no longer sends notifications to the state's Office of Motor Vehicles (OMV) after the violators' third late notice so that OMV can place the matter on record and not renew the registration of the vehicle.
- There is a lack of system documentation, resulting in a lack of understanding of how the system works and greater cost to develop alternate procedures.
- A memo from Gulf Engineers and Consultant on September 2, 2009, noted that major problems with high-priority issues were being encountered on a weekly or even daily basis.

Some of the possible causes to this problem include (1) lack of an understanding by the vendor of the business processes/rules of the Authority; (2) inadequate communication between the ETC and the Authority; and (3) lack of specific detailed system requirements in the initial planning phase.

After all of these difficulties and expenses, DOTD may still have to replace the entire system pending the outcome of the department's current litigation with ETC. The estimated cost to replace the system exceeds \$10 million. Since revenue from LA1 toll collections goes to service the bonds issued by the Authority, decreased toll collections caused by system problems reduce the amount being accumulated to meet the financial obligations related to these bonds.

Good business practices require that when implementing a new information technology system, the software should be developed in accordance with business processes, contract requirements, development standards, quality assurance requirements and approval standards and a project management plan should be implemented to ensure that these standards and practices are satisfied.

Management of DOTD should (1) take the necessary action to keep the current system operating and develop alternate procedures to limit lost revenue and resolve system failures; (2) perform an assessment regarding whether the continual usage of this system is in the best interest of the state; (3) evaluate its project implementation policies and procedures to avoid similar problems in the future; and (4) continue to pursue the resolution of current litigation. Management concurred in part with the finding and provided a corrective action plan. Management did not concur with certain wording in the original draft of the finding; however, the final version of the finding was revised accordingly (see Appendix A).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's response to the finding identified in our audit is attached in Appendix A. We did not audit the Authority's response, and, accordingly, we express no opinion on it.

OTHER REPORTS

On September 22, 2010, a Compliance Audit report titled Crescent City Connection Division (CCCD) was issued by the Louisiana Legislative Auditor. The report presents the results of procedures performed on CCCD's records, which included related Authority operations that involved lack of adequate toll collection system, contracts in possible violation of state law, use of administrative building for non-CCCD project, CCCD resources used for LA1 operations, and CCCD personnel used for LA1 toll operations. The report, including recommendations for improvement and management's responses, can be found at the Louisiana Legislative Auditor's Web sit at www.lla.la.gov.

This report is intended solely for the information and use of the Authority, DOTD and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

JRH:JR:EFS:THC:dl

LTA10

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



BOBBY JINDAL
GOVERNOR

**STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT**

P.O. Box 94245
Baton Rouge, Louisiana 70804-9245
www.dotd.la.gov
(225) 379-1200



SHERRI H. LEBAS, P.E.
SECRETARY

October 13, 2010

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

RE: Louisiana Transportation Authority
Single Audit Finding FY 10
Lack of Adequate Toll Collection System

RECEIVED
LEGISLATIVE AUDITOR
2010 OCT 15 PM 10:35

Dear Mr. Pupera:

The Louisiana Transportation Authority was created by statute within the Department of Transportation and Development and as such is dependent on the LADOTD to provide support services. Furthermore, the cooperative endeavor agreement dated May 31, 2005 between the Louisiana Transportation Authority and the Department of Transportation and Development assigns the responsibility and cost for operation of the LA 1 Toll Road to the LADOTD. To that end, the Management Response letter will be from the Department of Transportation and Development (Department).

Response to Finding: Lack of Adequate Toll Collection System

The Department concurs in part with the finding. The most critical issue related to the LA 1 Toll Road that we are dealing with at this time is the incomplete and partially working electronic toll system. ETCC, the contractor that developed the system, abandoned the project in early 2010. Although we are taking significant action through litigation and planning for a new system, neither of these matters will be resolved in the short term. We have an emergency toll systems support contract in place with Diversified Technology Services, LLC to help us keep the system running.

In addition to litigation, the Department has awarded a contract to a consultant with expertise in toll collection systems to assist in the development of an RFP for the outsourcing of the toll collection operation, which at the option of the contractor, could include the replacement of the electronic toll system. The task order should be executed within two to three weeks. The development of the RFP procurement process should take approximately 3 to 6 months.

Daryl G. Purpera
October 13, 2010
Page 2 of 2

The Department does not agree with bullet 2 in the second paragraph. The IETCS-II system does not "send" notices. It produces notices that are manually reviewed by staff and then sent to violators.

The Department does not agree with bullet 5 in the second paragraph. Although the IETCS II system stopped generating notices after the violator's third late notice, the flagging of driver's licenses was never part of the process. It is only the vehicle registrations that are flagged by OMV.

The Department does not agree with the statement that the administrative fees and fines are toll revenue. The MOU between the LTA and the LADOTD assigns all responsibility for toll collections to the LADOTD, therefore all administrative fines attributed to collection of violations belong to the LADOTD. Our bond attorney agrees with this assessment of the bond covenants.

Please be assured that the Department is taking appropriate action as recommended in your letter. (1) We are taking the necessary actions to keep the current system operating and are developing alternate procedures to limit lost revenue and resolve system failures. This is being done through the emergency contract with Diversified Technology Services, LLC. (2) We will perform an assessment regarding whether the continual usage of this system is in the best interest of the State. A consultant has been retained to assist in the preparation of an RFP to outsource the toll collection operations, which may include the replacement of the tolling system. (3) We will evaluate our project implementation policies and procedures to avoid similar problems in the future. (4) We are continuing to pursue the resolution of current litigation.

Thank you for the opportunity to respond to this single audit finding and to have this Management Response letter included in the final audit report. Please feel free to contact me or Michael Bridges, Undersecretary, should you have any questions.

Sincerely,



Sherri H. LeBas, P.E.
Secretary

cc: Mr. David Miller
Mr. Rhett Desselle
Mr. Michael Bridges
Mrs. Cheryl Duvieilh
Mr. John Lyon
Mrs. Beverly Hodges