PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

LOUISIANA
LEGISLATIVE
AUDITOR

FINANCIAL STATEMENT AUDIT
ISSUED APRIL 11, 2007

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

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OFFICE OF
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March 29, 2007

Independent Auditor's Report
on the Financial Statements

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Paul M. Hebert Law Center, a campus within the Louisiana State University System, which is a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of management of the Paul M. Hebert Law Center. 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.

As discussed in note 1-B, the accompanying financial statements of the Paul M. Hebert Law Center are intended to present the financial position and the respective changes in financial position and cash flows of only that portion of the business-type activities of the Louisiana State University System that is attributable to the transactions of the Paul M. Hebert Law Center. They do not purport to, and do not, present fairly the financial position of the Louisiana State University System or the State of Louisiana as of June 30, 2006, and the respective 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 our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the Paul M. Hebert Law Center as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-O to the financial statements, the Paul M. Hebert Law Center implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation;* and GASB Statement No. 47, *Accounting for*

Termination Benefits, for the year ended June 30, 2006. However, Statement No. 42 and Statement No. 47 had no impact on the financial statements for fiscal year 2006.

As discussed in note 13 to the financial statements, during August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown what economic impact recovery efforts will have on state and local governmental operations in Louisiana. While the Paul M. Hebert Law Center did not directly suffer any major effects of these two hurricanes, the Louisiana State University System lost significant assets and operational functionality. However, the long-term effects of these events directly on the Paul M. Hebert Law Center cannot be determined at this time.

During the fiscal year ended June 30, 2006, the Louisiana Legislative Auditor (LLA) provided certain nonaudit services for the State of Louisiana directed toward assisting the state Department of Military Affairs and the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) relative to their administration of the Federal Emergency Management Agency's (FEMA) Public Assistance program. The LLA provided the Department of Military Affairs and GOHSEP with assistance in reviewing documents submitted by applicants and reviewing the application and payment process to provide recommendations to those agencies for meeting their responsibilities for compliance with FEMA and state regulations. To maintain independence for audit purposes while providing these nonaudit services, the LLA has met the criteria and requirements set forth in *Government Auditing Standards: Temporary Exemptions and Guidance in Response to Hurricanes Katrina and Rita,* issued by the Government Accountability Office in November 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2007, on our consideration of the Paul M. Hebert Law Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, 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 is not a required part of the basic financial statements but is supplementary information required by the GASB. However, management did not include this information in the financial statements for the fiscal year ended June 30, 2006.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Net Assets, June 30, 2006

ASSETS	
Current Assets:	
Cash and cash equivalents (note 2)	$1,983,946
Investments (note 3)	144,085
Receivables (note 4)	205,166
Due from state treasury	687
Deferred charges and prepaid expenses	14,890
Total current assets	2,348,774
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents (note 2)	195,314
Investments (note 3)	1,989,874
Other	63,359
Capital assets, net (note 5)	16,880,497
Total noncurrent assets	19,129,044
Total assets	21,477,818
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities (note 7)	494,093
Deferred revenues	139,605
Amounts held in custody for others	122,007
Compensated absences (note 10)	54,353
Total current liabilities	810,058
Noncurrent Liabilities -	
compensated absences (note 10)	907,799
Total liabilities	1,717,857
NET ASSETS	
Investment in capital assets	16,880,497
Restricted for:	
Nonexpendable (note 11)	2,247,822
Expendable (note 11)	442,557
Unrestricted	189,085
Total net assets	$19,759,961

The accompanying notes are an integral part of this statement.

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PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Revenues, Expenses,
and Changes in Net Assets
For the Year Ended June 30, 2006

OPERATING REVENUES	
Student tuition and fees	$10,187,648
Less scholarship allowances	(1,365,506)
Net student tuition and fees	8,822,142
Federal grants and contracts	435,351
State and local grants and contracts	2,457
Nongovernmental grants and contracts	136,605
Sales and services of educational departments	182,353
Other operating revenues	6,296
Total operating revenues	9,585,204
OPERATING EXPENSES	
Educational and general:	
Instruction	8,190,887
Research	711,205
Public service	98,946
Academic support	3,163,781
Student services	1,003,438
Institutional support	2,375,232
Operation and maintenance of plant	2,077,473
Scholarships and fellowships	1,121,808
Total operating expenses	18,742,770
Operating Loss	(9,157,566)
NONOPERATING REVENUES	
State appropriations	7,864,155
Gifts	556,522
Investment income, net	147,407
Nonoperating revenues	8,568,084

(Continued)

The accompanying notes are an integral part of this financial statement.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2006

Loss Before Other Revenues, Expenses, Gains and Losses	($589,482)
Capital appropriations	349,536
Capital gifts and grants	12,162
Additions to permanent endowments	80,000
Other deductions, net	(10,724)
Decrease in Net Assets	(158,508)
Net Assets at Beginning of Year	19,918,469
Net Assets at End of Year	$19,759,961

(Concluded)

The accompanying notes are an integral part of this financial statement.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2006

Cash flows from operating activities	
Student tuition and fees	$8,772,295
Grants and contracts	588,305
Sales and services of educational departments	175,141
Payments for employee compensation	(9,659,251)
Payments for benefits	(2,282,430)
Payments for utilities	(518,147)
Payments for supplies and services	(3,576,920)
Payments for scholarships and fellowships	(1,121,809)
Other receipts	11,816
Net cash used by operating activities	(7,611,000)
Cash flows from noncapital financing activities	
State appropriations	7,883,592
Gifts and grants for other than capital purposes	544,004
Private gifts for endowment purposes	10,724
Net cash provided by noncapital financing sources	8,438,320
Cash flows from capital financing activities	
Capital appropriations received	423,966
Capital grants and gifts received	12,162
Purchase of capital assets	(1,052,151)
Other uses	(10,724)
Net cash used by capital financing activities	(626,747)
Cash flows provided by investing activities	
Interest received on investments	240,455
Net increase in cash and cash equivalents	441,028
Cash and cash equivalents at the beginning of the year	1,738,232
Cash and cash equivalents at the end of the year	$2,179,260

(Continued)

The accompanying notes are an integral part of this financial statement.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2006

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($9,157,566)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	1,440,471
Changes in assets and liabilities:	
Decrease in accounts receivable	5,145
Decrease in deferred charges and prepaid expenses	15,843
Increase in accounts payable and accrued liabilities	28,806
Decrease in deferred revenue	(45,917)
Increase in amounts held in custody for others	3,525
Increase in compensated absences	99,401
Decrease in other liabilities	(708)
Net cash used by operating activities	($7,611,000)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and cash equivalents classified as current assets	$1,983,946
Cash and cash equivalents classified as noncurrent assets	195,314
Cash and cash equivalents at the end of the year	$2,179,260

(Concluded)

The accompanying notes are an integral part of this financial statement.

INTRODUCTION

The Paul M. Hebert Law Center, a campus within the Louisiana State University (LSU) System, which is a component unit of the State of Louisiana, is a publicly supported institution of higher education under the management and supervision of the LSU Board of Supervisors; however, certain items such as the annual budget and changes to the degree programs and departments of instruction require the approval of the Board of Regents for Higher Education. As a state university, operations of the Law Center's instructional programs are primarily funded through annual lapsing appropriations made by the Louisiana Legislature. The chief executive officer of the Law Center is the chancellor.

Student enrollment for the Law Center for the 2005 fall semester totaled 836. During fiscal year 2005-2006, the Law Center had approximately 172 full-time and part-time faculty members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Law Center is part of the LSU System, which is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide a significant percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the university system primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of the Law Center.

Annually, the State of Louisiana issues a comprehensive financial report, which includes the activity contained in the accompanying financial statements within the LSU System amounts. The Louisiana Legislative Auditor audits the basic financial statements of the LSU System and the state.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the Law Center is considered a special-purpose government engaged only in business-type activities and accounted for in a single proprietary fund. Accordingly, the Law Center's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-campus transactions have been eliminated.

The Law Center has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Law Center has elected to not apply FASB pronouncements issued after the applicable date.

D. BUDGET PRACTICES

The state appropriation made for the General Fund of the Law Center is an annual lapsing appropriation established by legislative action and Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; and (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated but are recognized in the succeeding year.

The original approved budgets and subsequent amendments approved are as follows:

Original approved budget	$17,958,395
Increase - self generated	976,612
Decrease - state appropriations (direct)	(285,228)
Final budget	$18,649,779

The other funds of the Law Center, although subject to internal budgeting, are not required to submit budgets for approval through the legislative budget process.

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in time deposits and money market funds. Under state law, the Law Center 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 Law Center may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. In accordance with Louisiana Revised Statute (R.S.) 49:327, the Law Center is authorized to invest funds in direct U.S. government obligations, direct security repurchase agreements, and time certificates of deposit. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are held by a private foundation and are reported at fair value on the balance sheet. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. The Law Center's investments maintained by the foundation are authorized by policies and procedures established by the Board of Regents.

The Law Center uses an accounting system shared by seven LSU System campuses. Cash for the seven campuses is pooled. The Law Center's cash is allocated among the categories of deposits, credit risk, and collected bank balances proportionally based on its cash balance compared to the total cash for the seven campuses.

F. NONCURRENT RESTRICTED ASSETS

Cash and investments that are externally restricted for grants and endowments are classified as noncurrent restricted assets in the Statement of Net Assets.

G. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the Law Center's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements, which total $100,000 or more and which significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property. Depreciation expense is charged directly to the various functional categories of operating expenses on the Statement of Revenues, Expenses, and Changes in Net Assets. The Law Center uses the group or composite method for library book depreciation if the books are considered to have a useful life of greater than one year.

H. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees prior to the end of the fiscal year but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

I. NONCURRENT LIABILITIES

Noncurrent liabilities include estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

J. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. Faculty with 12-month appointments who have over 10 years of state service, non-classified employees with over 10 years of state service, and classified employees regardless of years of state service accumulate leave without limitation. According to the LSU System leave schedule, faculty with 12-month appointments who have less than 10 years of state service and non-classified employees with less than 10 years of state service can only accumulate 176 hours of annual leave; sick leave is accumulated without limitation. Effective January 1, 1994, academic and unclassified employees were given the opportunity to elect to remain under the LSU System leave schedule or change to the Louisiana State Civil Service annual leave accrual schedule under which there is no limit on the accumulation of annual leave. Nine-month faculty members accrue sick leave but do not accrue annual leave; however, they are granted faculty leave during holiday periods when students are not in classes. Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and unclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

K. NET ASSETS

The Law Center's net assets are classified as follows:

Invested in Capital Assets

Invested in capital assets represents the total investment in capital assets, net of accumulated depreciation.

Restricted Net Assets - Nonexpendable

Restricted nonexpendable net assets consist of endowment and similar type funds that donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted Net Assets - Expendable

Restricted expendable net assets include resources that the university system is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets

Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the Law Center and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Law Center's policy is to first apply the expense toward unrestricted resources and then toward restricted resources.

L. CLASSIFICATION OF REVENUES

The Law Center has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenue - Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of educational departments; and (3) most federal, state, and local grants and contracts.

Nonoperating Revenue - Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

M. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Law Center and the amount that is paid by students and/or third parties making payments on the students' behalf.

N. ELIMINATING INTERFUND ACTIVITY

All activities among departments of the Law Center are eliminated for purposes of preparing the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

O. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2006, the Law Center implemented GASB Statements No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*; No. 46, *Net Assets Restricted by Enabling Legislation*; and No. 47, *Accounting for Termination Benefits*. Statements 42 and 47 had no impact on reporting for the Law Center for fiscal year 2006.

2. CASH AND CASH EQUIVALENTS

At June 30, 2006, the Law Center's petty cash and cash and cash equivalents (allocated book balances) of $2,179,260 are as follows:

Petty cash	$150
Certificates of deposit	1,326,555
Open-end mutual fund	852,555
Total	$2,179,260

Custodial credit risk is the risk that in the event of a bank failure, the Law Center's deposits may not be recovered. Under state law, the Law Center's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the system by a holding or custodial bank that is mutually acceptable to both parties.

Of the Law Center's allocated share of collected bank balances of $2,532,892 at June 30, 2006, no amounts are unsecured and uncollateralized.

Disclosures required for the open-end mutual fund reported as cash equivalents are included in note 3.

3. INVESTMENTS

At June 30, 2006, the Law Center has investments totaling $2,133,959, all of which are investments held by the LSU Foundation, a private foundation whose financial statements are subject to audit by an independent certified public accountant.

Investments held by the private foundation in an external investment pool are managed in accordance with the terms outlined in management agreements executed between the LSU System and the foundation. The Law Center is a voluntary participant. The foundation holds and manages funds received by the Law Center as state matching funds for the Eminent Scholars Endowed Chairs and Endowed Professorship programs.

The LSU System's established investment policy follows the state law (R.S. 49:327), which authorizes the system to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. R.S. 49:327 limits credit risk with the types of investments allowed. The LSU System does not have policies to further limit credit risk.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Law Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For U.S. Treasury obligations and U.S. government agency obligations, the LSU System's investment policies generally require that issuers must provide the universities with safekeeping receipts, collateral agreements, and custodial agreements.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State law as applicable to institutions of higher education does not address interest rate risk. The LSU System does not have policies to limit concentration of credit risk or interest rate risk.

The open-end mutual fund amount of $852,555, included in cash and cash equivalents, consists of funds invested in the Federated Investors Government Obligations Fund, which is rated Aaa by Moody's. The fund's holdings consist primarily of short-term U.S. Treasury and U.S. government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. The fund minimizes interest rate risk with the purchase of short-term securities.

4. RECEIVABLES

Receivables, all of which are considered collectible and scheduled for collection within one year, are shown on Statement A as follows:

Student tuition and fees	$59,908
Contributions and gifts	35,981
Federal, state, and private grants and contracts	99,511
Sales and services/other	9,766
Total	$205,166

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Capital assets:				
Buildings	$20,117,132	$455,440		$20,572,572
Less accumulated depreciation	(5,215,164)	(487,484)		(5,702,648)
Total buildings	14,901,968	(32,044)	NONE	14,869,924
Equipment	1,077,394	300,931	($104,936)	1,273,389
Less accumulated depreciation	(856,311)	(129,796)	104,936	(881,171)
Total equipment	221,083	171,135	NONE	392,218
Library books	6,887,409	490,093	(578,515)	6,798,987
Less accumulated depreciation	(4,935,956)	(823,191)	578,515	(5,180,632)
Total library books	1,951,453	(333,098)	NONE	1,618,355
Total capital assets	$17,074,504	($194,007)	NONE	$16,880,497
Capital asset summary:				
Capital assets, at cost	$28,081,935	$1,246,464	($683,451)	$28,644,948
Less accumulated depreciation	(11,007,431)	(1,440,471)	683,451	(11,764,451)
Capital assets, net	$17,074,504	($194,007)	NONE	$16,880,497

6. PENSION PLANS

Plan Description. Substantially all employees of the Law Center are members of two statewide, public employee retirement systems. Academic and unclassified employees are generally members of the Teachers' Retirement System of Louisiana (TRSLA), and classified state employees are members of the Louisiana State Employees' Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSLA is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer plan because the material portion of its activity is with one employer--the State of Louisiana. TRSLA and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 5 years of service for TRSLA and 10 years of service for LASERS. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446, and/or the Louisiana State Employees' Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of employee plan members and the Law Center are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.0% (TRSLA) and 7.5% (LASERS) of covered salaries. In fiscal year 2006, the state contributed 15.9% of covered salaries to TRSLA and 19.1% of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to the university system. The Law Center's employer contributions to TRSLA for the years ended June 30, 2006, 2005, and 2004, were $533,195; $497,489; and $439,487, respectively, and to LASERS for the years ended June 30, 2006, 2005, and 2004, were $150,626; $151,144; and $149,477, respectively, equal to the required contributions for each year.

Optional Retirement System

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program, which is administered by TRSLA, was designed to aid universities in recruiting employees who may not be expected to remain in TRSLA for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRSLA and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the Law Center are 15.9% of the covered payroll. The participant's contribution (8.0%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the actuarial committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligations of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled $693,960 and $349,163, respectively, for the year ended June 30, 2006.

7. DISAGGREGATION OF ACCOUNTS PAYABLE

Accounts payable at June 30, 2006, were as follows:

Activity	Amount
Vendors	$493,395
Salaries and benefits	698
Total	$494,093

8. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Law Center provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the Law Center's employees become eligible for these benefits if they reach normal retirement age while working for the Law Center. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the Law Center. The Law Center recognizes the cost of providing these benefits to retirees (Law Center's portion of premiums) as an expense when paid during the year. These retiree benefits totaled $135,950 for the year ended June 30, 2006.

9. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are paid by either private insurance companies or through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by General Fund appropriation. The Law Center is not involved in any lawsuits at June 30, 2006.

10. COMPENSATED ABSENCES

At June 30, 2006, employees of the Law Center have accumulated and vested annual and sick leave benefits of $385,430 and $576,722, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

The following is a summary of the increases and decreases in compensated absences for the year ended June 30, 2006:

Balance, July 1, 2005	$862,751
Additions	207,875
Reductions	(108,474)
Balance, June 30, 2006	$962,152
Amount due within one year	$54,353

11. RESTRICTED NET ASSETS

The Law Center had the following restricted expendable net assets as of June 30, 2006:

Account Title	Amount
Student fees	$208,535
Gifts	15,505
Endowment earnings	217,792
Other	725
Total	$442,557

The Law Center's restricted nonexpendable net assets of $2,247,822 as of June 30, 2006, are comprised entirely of endowment funds.

Of the total restricted net assets reported on Statement A for the year ended June 30, 2006, $159,019 is restricted by enabling legislation.

12. DEFERRED COMPENSATION PLAN

Certain employees of the Law Center participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

13. HURRICANES KATRINA AND RITA

During August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these events and the resulting damages sustained by the state, it is unknown exactly what economic impact recovery efforts will have on state and local government operations or the Law Center. While the Law Center did not suffer major damage, the Louisiana State University System did incur significant damage to its assets.

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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 with laws and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.

OFFICE OF
LEGISLATIVE AUDITOR
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March 29, 2007

<u>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*</u>

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the basic financial statements of the Paul M. Hebert Law Center, a campus within the Louisiana State University System, which is a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, and have issued our report thereon dated March 29, 2007. 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 Paul M. Hebert Law Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Paul M. Hebert Law Center's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

This report is intended solely for the information and use of the Paul M. Hebert Law Center and its management 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,

Steve J. Theriot, CPA
Legislative Auditor

ETM:ES:PEP:dl

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