

NORTHWESTERN STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



ACCOUNTANT'S REVIEW REPORT

ISSUED OCTOBER 18, 2006

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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September 19, 2006

Accountant's Review Report
on the Financial Statements

NORTHWESTERN STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Natchitoches, Louisiana

We have reviewed the accompanying basic financial statements as listed in the table of contents of Northwestern State University, a university within the University of Louisiana System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of management of Northwestern State University.

A review consists principally of inquiries of Northwestern State University personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted 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, the objective of which is the expression of an opinion regarding the basic financial statements. Accordingly, we do not express such an opinion.

As discussed in note 1-C to the basic financial statements, the accompanying financial statements of Northwestern State University are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the University of Louisiana System that is attributable to the transactions of Northwestern State University. They do not purport to, and do not, present fairly the financial position of the University of Louisiana System or the State of Louisiana as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.


Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-Q to the basic financial statements, Northwestern State University implemented Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Governmental Accounting Standards Board Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and Governmental Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits*, for the year ended June 30, 2006. However, Statements No. 42 and No. 47 have no impact on the financial statements for fiscal year 2006.

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 exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While Northwestern State University did not directly suffer any major effects of these two hurricanes, the long-term effects of these events directly on Northwestern State University cannot be determined at this time.

Management's discussion and analysis on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

BAC:WJR:THC:dl

NWSU06

Management's Discussion and Analysis of Northwestern State University's financial performance presents a narrative overview and analysis of Northwestern State University's financial activities for the year ended June 30, 2006. 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 section in conjunction with Northwestern State University's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Northwestern State University's net assets overall changed from \$67,027,170 to \$72,699,413 or 8.46% from June 30, 2005, to June 30, 2006. The overall reasons for this change included:

- Increased state funding
- New endowments
- Increase in fees and tuition
- Increase in capital assets funded by Facility Planning

Enrollment changed from 10,546 to 9,847 from June 30, 2005, to June 30, 2006, a change of (6.63%). The reason for this change is attributed to:

- Student decline because of selective admissions

Northwestern State University's operating revenues changed from \$55,588,254 to \$55,011,643 or (1.04%) from June 30, 2005, to June 30, 2006. Operating expenses, however, changed by (2.18%) to \$83,994,134 for the year ended June 30, 2006. The changes in enrollment as discussed above and increased tuition and fees are the primary reasons for this change.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$30,872,544 in 2006 from \$30,823,182 in 2005 is attributed to an increase in state appropriations, an increase in investment income and a decrease in other operating revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following illustrates the minimum requirements for Special-Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplementary information.

Basic Financial Statements

The basic financial statements present information for Northwestern State University 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 Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (page 11) 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 Northwestern State University is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (page 13) presents information showing how Northwestern State University'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 (pages 15-16) presents information showing how the university's cash changed as a result of current year operations. The Statement of Cash Flows 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 GASB 34.

The financial statements provide both long-term and short-term information about the university's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

Northwestern State University's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the university are included in the Statement of Net Assets.

FINANCIAL ANALYSIS

**Statement of Net Assets
As of June 30, 2006, and June 30, 2005
(in thousands)**

	Total	
	2006	2005
Current and other assets	\$35,859	\$32,007
Capital assets	49,517	48,501
Total assets	85,376	80,508
Other liabilities	7,052	7,626
Long-term debt outstanding	5,625	5,855
Total liabilities	12,677	13,481
Net assets:		
Invested in capital assets, net of debt	43,661	42,431
Restricted	16,511	15,068
Unrestricted	12,527	9,528
Total net assets	\$72,699	\$67,027

This schedule is prepared from the university's Statement of Net Assets as shown on page 11, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant Statement of Net Asset changes from 2005 include:

- Current and other assets increased primarily because of a surplus from current operations in restricted funds.
- Other liabilities decrease is primarily because of decrease of deferred revenues, operating payables and current year reductions of long-term debt.
- Unrestricted net assets increased because of a surplus from current operations.

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. Restricted net assets represent those assets that are not available for spending as a result of legislative requirements, donor agreements, or grant requirements. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be spent.

**Statement of Revenues, Expenses,
and Changes in Net Assets
For the Years Ended June 30, 2006, and June 30, 2005
(in thousands)**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Student tuition and fees, net	\$29,405	\$28,210
Grants and contracts	18,093	20,045
Auxiliary, net	4,255	4,434
Other	<u>3,259</u>	<u>2,899</u>
Total operating revenues	<u>55,012</u>	<u>55,588</u>
Operating expenses:		
Education and general:		
Instruction	31,158	30,687
Research	1,413	1,613
Public service	2,184	2,262
Academic support	6,196	5,835
Student services	6,039	6,379
Institutional support	8,506	8,269
Operations and maintenance of plant	6,464	8,187
Depreciation	3,629	3,396
Scholarships and fellowships	10,112	10,853
Other operating expenses	<u>8,293</u>	<u>8,389</u>
Total operating expenses	<u>83,994</u>	<u>85,870</u>
Operating loss	<u>(28,982)</u>	<u>(30,282)</u>
Nonoperating revenues:		
State appropriations	29,595	29,529
Other nonoperating revenues, net	<u>1,277</u>	<u>1,294</u>
Net nonoperating revenues	<u>30,872</u>	<u>30,823</u>
Income before other revenues, expenses, gains, losses	1,890	541
Capital grants and gifts	2,682	605
Additions to permanent endowments	<u>1,100</u>	<u>100</u>
Change in net assets	5,672	1,246
Net assets at the beginning of the year	<u>67,027</u>	<u>65,781</u>
Net assets at the end of the year	<u><u>\$72,699</u></u>	<u><u>\$67,027</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

State appropriations changed from \$29.5 to \$29.6 million because of an increased funding for retirement, group insurance, and merits.

The university's total net assets increased by \$5.7 million or 8.46%.

The university's total revenues (operating and nonoperating) increased by \$2,550 or 3%.

BUDGET ANALYSIS

The variation between the original and final amended budgets for fiscal year 2005-06 was a 3.5% reduction mandated by Executive Order KBB2005-82 and Act 67 of the First Extraordinary Session of 2005 for \$1,063,425 and the receipt of \$275,000 for performance incentives distributed to the University of Louisiana System institutions as approved by the Board of Regents for a net budget reduction of \$788,425. The variance between budget and actual of \$1,093,773 represents that portion of budgeted unrealizable revenue contingencies that was necessary to balance the executive budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2006, the university had invested \$49,516,595 in capital assets, net of accumulated depreciation. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$1,015,662 or 2.09% over the previous fiscal year. More detailed information about the university's capital assets is presented in note 6 to the financial statements.

Capital Assets at Year-end (Net of Depreciation, in thousands)

	<u>2006</u>	<u>2005</u>
Land	\$1,333	\$1,333
Land improvements	809	866
Construction-in-progress	38	7,323
Buildings	42,443	34,052
Equipment	3,464	3,667
Live stock	34	36
Library materials	1,396	1,224
Total	<u>\$49,517</u>	<u>\$48,501</u>

This year's major additions included:

- Increase in construction of Wellness, Recreation and Activity Center of \$1,201,649 and Physical Plant Complex of \$1,457,303.

Debt

The university had \$5,855,000 in university's bonds and reimbursement contracts outstanding at year-end, compared to \$6,070,000 last year, a decrease of 3.54% as shown in the table below.

**Outstanding Debt at Year-end
(in thousands)**

	<u>2006</u>	<u>2005</u>
Revenue bonds	\$5,625	\$5,820
Reimbursement contracts payable	<u>230</u>	<u>250</u>
Total	<u><u>\$5,855</u></u>	<u><u>\$6,070</u></u>

Northwestern State University had no new debt.

See note 14 for details relating to changes in and the composition of long-term liabilities.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

There are no known facts, decisions or conditions that are expected to have a significant effect in financial position or results of operations.

CONTACTING THE UNIVERSITY'S MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of Northwestern State University's finances and to show the university's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Affairs' Office at Northwestern State university at (318) 357-4254.

**NORTHWESTERN STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

Statement of Net Assets, June 30, 2006

ASSETS

Current assets:	
Cash and cash equivalents (note 2)	\$19,422,008
Accounts receivable, net (note 4)	4,313,957
Inventories	631,676
Deferred charges and prepaid expenses	228,194
Notes receivable, net (note 5)	98,432
Other current assets	227,459
Total current assets	<u>24,921,726</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (note 2)	3,196,644
Investments (note 3)	5,875,646
Accounts receivable, net (note 4)	69,734
Notes receivable, net (note 5)	1,795,916
Capital assets, net (note 6)	49,516,595
Total noncurrent assets	<u>60,454,535</u>
Total assets	<u>85,376,261</u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued liabilities (note 10)	2,391,908
Deferred revenues (note 11)	2,324,109
Compensated absences payable (note 12)	245,858
Amounts held in custody for others	23,821
Reimbursement contracts payable (note 14)	25,000
Bonds payable (note 14)	205,000
Total current liabilities	<u>5,215,696</u>
Noncurrent liabilities	
Compensated absences payable (note 12)	1,815,505
Reimbursement contracts payable (note 14)	205,000
Bonds payable (note 14)	5,420,000
Other noncurrent liabilities	20,647
Total noncurrent liabilities	<u>7,461,152</u>
Total liabilities	<u>12,676,848</u>

NET ASSETS

Invested in capital assets, net of related debt	43,661,595
Restricted for:	
Nonexpendable (note 15)	6,397,292
Expendable (note 15)	10,113,223
Unrestricted	<u>12,527,303</u>
TOTAL NET ASSETS	<u>\$72,699,413</u>

See accompanying notes and accountant's review report.

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**NORTHWESTERN STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

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

OPERATING REVENUES

Student tuition and fees	\$37,004,181
Less scholarship allowances	(7,599,505)
Net student tuition and fees	<u>29,404,676</u>
Federal grants and contracts	14,021,444
State and local grants and contracts	3,175,286
Nongovernmental grants and contracts	895,948
Sales and services of educational departments	<u>1,101,790</u>
Auxiliary enterprise revenues	4,715,878
Less scholarship allowances	(461,171)
Net auxiliary revenues	<u>4,254,707</u>
Other operating revenues	<u>2,157,792</u>
Total operating revenues	<u><u>55,011,643</u></u>

OPERATING EXPENSES

Education and general:	
Instruction	31,158,210
Research	1,413,401
Public service	2,183,812
Academic support	6,195,644
Student services	6,039,309
Institutional support	8,505,748
Operations and maintenance of plant	6,464,335
Depreciation	3,629,395
Scholarships and fellowships	10,111,922
Auxiliary enterprises	8,286,286
Other operating expenses	6,072
Total operating expenses	<u>83,994,134</u>
Operating loss	<u><u>(28,982,491)</u></u>

NONOPERATING REVENUES (Expenses)

State appropriations	29,595,157
Net investment income	1,449,592
Interest expense	(298,409)
Other nonoperating revenues	126,204
Net nonoperating revenues	<u>30,872,544</u>
Income before other revenues, expenses, gains and losses	1,890,053
Capital grants and gifts	2,682,190
Additions to permanent endowments	<u>1,100,000</u>
Increase in Net Assets	5,672,243
Net Assets at the Beginning of Year	<u>67,027,170</u>
Net Assets at the End of Year	<u><u>\$72,699,413</u></u>

See accompanying notes and accountant's review report.

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**NORTHWESTERN STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

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

Cash flow from operating activities:	
Tuition and fees	\$29,237,650
Grants and contracts	18,092,678
Sales and services of educational departments	1,101,790
Auxiliary enterprise disbursements, net	(4,031,579)
Payments for employee compensation	(39,375,894)
Payments for benefits	(11,192,252)
Payments for utilities	(3,519,931)
Payments for supplies and services	(8,028,987)
Payments for scholarships and fellowships	(10,111,922)
Loans to students	(40,031)
Collections of loans to students	67,958
Other receipts	2,073,709
Net cash used by operating activities	(25,726,811)
Cash flows from noncapital financing activities:	
State appropriations	29,776,475
Private gifts for endowment purposes	1,100,000
TOPS receipts	4,656,496
TOPS disbursements	(4,656,496)
Federal Family Education Loan Program receipts	31,471,268
Federal Family Education Loan Program disbursements	(31,471,268)
Other receipts	126,204
Net cash provided by noncapital financing activities	31,002,679
Cash flows from capital financing activities:	
Capital grants and gifts received	2,682,190
Purchases of capital assets	(4,645,057)
Principal paid on capital debt and leases	(215,000)
Interest paid on capital debt and leases	(298,409)
Net cash used by capital financing activities	(2,476,276)
Cash flows from investing activities:	
Interest received on investments	1,449,592
Purchase of investments	(1,387,629)
Net cash provided by investing activities	61,963
Net increase in cash and cash equivalents	2,861,555
Cash at beginning of the year	19,757,097
Cash at the end of the year	\$22,618,652

(Continued)

See accompanying notes and accountant's review report.

**NORTHWESTERN STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2006**

**Reconciliation of operating loss to net cash
used by operating activities:**

Operating loss	(\$28,982,491)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	3,629,395
Changes in assets and liabilities:	
Decrease in accounts receivable, net	65,412
Decrease in inventories	22,405
Decrease in deferred charges and prepaid expenses	167,508
(Increase) in notes receivable	(32,751)
(Increase) in other assets	(7,280)
(Decrease) in accounts payable and accrued liabilities	(322,528)
(Decrease) in deferred revenue	(237,903)
Increase in amounts held in custody for others	5,465
Increase in compensated absences	66,208
(Decrease) in other liabilities	(100,251)
	(100,251)
Net Cash Used by Operating Activities	(\$25,726,811)

(Concluded)

See accompanying notes and accountant's review report.

INTRODUCTION

Northwestern State University (the university) is a publicly supported institution of higher education. The university is a part of the University of Louisiana System, which is a component unit of the State of Louisiana, within the executive branch of government. The university is under the management and supervision of the University of Louisiana System Board of Supervisors; however, certain items such as the annual budget of the university 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 university's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

The university is located in Natchitoches, Louisiana. The university offers associate, baccalaureate, and selected masters, specialists, and doctorate degrees in various academic areas. Net enrollment at the university was 4,869; 9,847; and 8,973, respectively, during the summer, fall, and spring semesters of fiscal year 2006. At June 30, 2006, the university has approximately 832 full-time faculty and staff 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 university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. However, the university has elected to follow GASB statements issued after November 30, 1989, rather than the FASB statements and 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 university is part of the University of Louisiana System (ULS), 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 ULS governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest single percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the system primarily serves state residents. The accompanying university financial statements present information only as to the transactions of the programs of the university.

Annually, the State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying financial statements within the ULS amounts. The Louisiana Legislative Auditor audits the basic financial statements of the system.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the university’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-university transactions have been eliminated.

D. BUDGET PRACTICES

The appropriation made for the General Fund of the university 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; (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; and (4) inventories in the General Fund are recorded as expenditures at the time of purchase.

The budget amounts for fiscal year 2006 include the original approved budget and subsequent amendments approved as follows:

Original approved budget	\$62,186,987
Amendments:	
State General Fund	<u>(788,425)</u>
Final budget	<u><u>\$61,398,562</u></u>

The other funds of the university, 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 money market funds. Under state law, the university 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. Furthermore, the university 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 university is authorized to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, and money market funds. 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 university's investments are maintained in investment accounts as authorized by policies and procedures established by the Board of Regents and are reported at fair value in accordance with GASB Statement 31. 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. Investments in U.S. Treasury obligations, U.S. government agency obligations, corporate bonds, common stock, and mutual funds are reported by the university as investments on the Statement of Net Assets. For purposes of the Statement of Cash Flows, the university considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. INVENTORIES

Inventories are valued at lower of cost or market. The university uses periodic and perpetual inventory systems and values its various inventories using the first-in, first-out and weighted-average valuation methods. The university accounts for its inventories using the consumption method.

G. RESTRICTED CASH AND INVESTMENTS

Cash that is externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets is reported as restricted cash. Restricted investments consist of endowments and similar type accounts for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity.

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. Construction-in-progress costs are capitalized during construction.

For movable property, the university'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 and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if they exceed \$100,000. Any infrastructure exceeding \$3 million must be 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, 20 years for depreciable land improvements, and three to 10 years for most movable property.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities 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.

J. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation; however, nine-month faculty members do not accrue annual leave but are granted faculty leave during holiday periods when students are not in classes. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation of employment, both classified and nonclassified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and nonclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

Upon termination or transfer, a classified employee will be paid for any one and one-half hour compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the classified employee's hourly rate of pay at termination or transfer.

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and reimbursement contracts payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not

be paid within the next fiscal year; and (3) other liabilities whose liquidation is not expected to require the use of existing current assets.

**L. POSTEMPLOYMENT HEALTH CARE
 AND LIFE INSURANCE BENEFITS**

The university provides certain continuing health care and life insurance benefits for its retired employees. The university recognizes the cost of providing these retiree benefits as an expense when paid during the year.

M. NET ASSETS

Net assets of the university are classified as follows:

- (a) Invested in capital assets, net of related debt consists of the university's total investment in capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted - nonexpendable consists of endowments and similar type funds for which donors or other outside sources have stipulated that, as a condition of the gift instrument, 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.
- (c) Restricted - expendable consists of resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (d) Unrestricted consists of resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university 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 university's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

N. CLASSIFICATION OF REVENUES

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

- (a) 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 auxiliary enterprises, net of scholarship discounts and allowances; and (3) most federal, state, and local grants and contracts.
- (b) Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

O. 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 university and the amount that is paid by students and/or third parties making payments on the student’s behalf.

P. ELIMINATING INTERFUND ACTIVITY

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

Q. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2006, the university implemented GASB Statements No. 42, *Accounting and Financial 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 have no impact on reporting for the university and are not addressed elsewhere in the financial statements. Statement 46 does affect the reporting of net assets and is addressed in the financial statements and the accompanying notes.

2. CASH AND CASH EQUIVALENTS

At June 30, 2006, the university has cash and cash equivalents (book balances) of \$22,618,652 as follows:

Interest-bearing demand deposits	\$22,584,488
Demand deposits	11,537
Money market accounts	13,872
Petty cash	<u>8,755</u>
Total	<u><u>\$22,618,652</u></u>

NOTES TO THE FINANCIAL STATEMENTS

These cash and cash equivalents are reported as follows on the Statement of Net Assets:

Current assets	\$19,422,008
Noncurrent assets	<u>3,196,644</u>
Total	<u><u>\$22,618,652</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the university's deposits may not be recovered. Under state law, the university's deposits (or the resulting bank balances) 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. As of June 30, 2006, the university had bank balances of \$24,449,045 that was exposed to custodial credit risk. The securities pledged for these deposits are held by a custodial bank that is mutually acceptable to both parties but the securities are not in the name of the university.

3. INVESTMENTS

At June 30, 2006, the university has investments totaling \$5,875,646, which is reported on the Statement of Net Assets as restricted investments. The university follows state law (R.S. 49:327) as applicable to institutions of higher education in establishing investment policy. State law authorizes the university 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. A summary of the university's investments follows:

	Percentage of Investments	Credit Quality Rating*	Fair Value
Type of investment:			
U.S. government securities:			
U.S. Treasury Notes (1)	0.26%		\$15,078
Federal Home Loan Mortgage Corporation (2)	3.30%		194,120
Federal National Mortgage Association (2)	3.52%		206,947
Federal Home Loan Bank	0.75%	Aaa	43,855
Corporate Bonds:			
BellSouth Corp	0.16%	A	9,534
General Electric Cap Corp	0.09%	Aaa	5,254
Household Fin Corp	0.17%	Aa-	10,177
Washington Mutual Inc	0.23%	A-	13,445
WPS Resources Corp	0.09%	A	5,184
Goldman Sachs Group Inc	0.08%	A+	4,951
John Deere 5.	0.16%	A-	9,614
PSEG Power LLC	0.39%	Bbb	22,827
Mutual Funds (3)	90.56%		5,320,801
Common stock (3)	0.24%		13,859
Total investments	100.00%		\$5,875,646

* Credit quality rating obtained from Standards and Poors Rating.

1. Credit quality ratings are not required for U.S. government and agency securities that are explicitly guaranteed by the U.S. government.
2. Securities are implicitly guaranteed by the U.S. government but are not rated by Standards and Poors.
3. Credit quality ratings are not required or available for these investments.

NOTES TO THE FINANCIAL STATEMENTS

	Investment Maturities in Years				Percentage of Investments
	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	
Type of investment:					
U.S. Government obligations	\$444,922		\$194,656	\$250,266	7.57%
U.S. Treasury obligations	15,078		15,078		0.26%
Corporate bonds	80,986		80,986		1.38%
Mutual funds - open ended	5,320,801	\$5,320,801			90.56%
Common stock	13,859	13,859			0.23%
Total investments	\$5,875,646	\$5,334,660	\$290,720	\$250,266	100.00%

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the university's investments to 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. The university has a policy to further limit credit risk by investing only in certain types of investments allowed by state law.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university's investments are in the entity's name in broker accounts. The university has \$5,320,801 in open-ended mutual funds and \$460,000 in U.S. Government and Treasury obligations that are not subject to custodial credit risk. The remaining \$80,986 in corporate bonds and \$13,859 in stocks are subject to custodial credit risk but are protected by the Securities Investor Protection Corporation. The university does not have policies to further limit credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. State law requires that at no time shall the funds invested in U.S. government agency obligations exceed 60% of all monies invested with maturities of 30 days or longer. In addition, state law limits the investment in commercial paper and corporate notes and bonds to 20% of all investments. The university does not have policies to further limit concentration of credit risk.

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 university does not have policies to limit interest rate risk.

4. ACCOUNTS RECEIVABLE

Receivables as shown on the university's Statement of Net Assets, net of an allowance for doubtful accounts, are composed of the following:

<u>Type</u>	<u>Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>
Student tuition and fees	\$3,220,793	(\$893,762)	\$2,327,031
Auxiliary enterprises	706,082	(129,359)	576,723
Federal, state, and private grants and contracts	1,159,395		1,159,395
Other	342,240	(21,698)	320,542
Total	<u>\$5,428,510</u>	<u>(\$1,044,819)</u>	<u>\$4,383,691</u>

5. NOTES RECEIVABLE

Notes receivables are comprised of loans to students under the Nursing Student Loan and Federal Perkins Loan programs. Loans are no longer issued under the Nursing Student Loan program, but collections are still being made on outstanding loans. Restricted federal and state contributions and interest on the loans provide the funding for the Perkins Loan Program. This program provides for the cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. If loans are determined to be uncollectible and not eligible for reimbursement by the federal government, the loans can be written off and assigned to the U.S. Department of Education. These receivables are shown on the Statement of Net Assets, net of allowance for doubtful accounts. These receivables are composed of the following for the year ended June 30, 2006:

<u>Type</u>	<u>Notes Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Notes Receivable (Net)</u>	<u>Noncurrent Portion</u>
Nursing Loans	\$21,297	\$14,013	\$7,284	\$6,905
Federal Perkins Loans	2,828,917	941,853	1,887,064	1,789,011
Total Notes Receivable	<u>\$2,850,214</u>	<u>\$955,866</u>	<u>\$1,894,348</u>	<u>\$1,795,916</u>

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Balance June 30, 2005	Transfers and Additions	Transfers and Retirements	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$1,333,355			\$1,333,355
Livestock	35,625	\$4,200	(\$6,455)	33,370
Construction-in-progress	7,322,636	1,271,377	(8,555,702)	38,311
	<u>\$8,691,616</u>	<u>\$1,275,577</u>	<u>(\$8,562,157)</u>	<u>\$1,405,036</u>
Total capital assets not being depreciated				
Other capital assets:				
Land improvements	\$2,552,853	\$22,500		\$2,575,353
Less accumulated depreciation	(1,686,197)	(80,082)		(1,766,279)
Total land improvements	866,656	(57,582)	NONE	809,074
Buildings	81,517,387	10,267,016		91,784,403
Less accumulated depreciation	(47,464,897)	(1,876,781)		(49,341,678)
Total buildings	34,052,490	8,390,235	NONE	42,442,725
Equipment	10,494,851	847,366	(\$534,212)	10,808,005
Less accumulated depreciation	(6,828,316)	(1,019,742)	504,084	(7,343,974)
Total equipment	3,666,535	(172,376)	(30,128)	3,464,031
Library books	10,330,127	824,883	(662,171)	10,492,839
Less accumulated depreciation	(9,106,491)	(652,790)	662,171	(9,097,110)
Total library books	1,223,636	172,093	NONE	1,395,729
	<u>\$39,809,317</u>	<u>\$8,332,370</u>	<u>(\$30,128)</u>	<u>\$48,111,559</u>
Total other capital assets				
Capital asset summary:				
Capital assets not being depreciated	\$8,691,616	\$1,275,577	(\$8,562,157)	\$1,405,036
Other capital assets, at cost	104,895,218	11,961,765	(1,196,383)	115,660,600
Total cost of capital assets	113,586,834	13,237,342	(9,758,540)	117,065,636
Less accumulated depreciation	(65,085,901)	(3,629,395)	1,166,255	(67,549,041)
Capital assets, net	<u>\$48,500,933</u>	<u>\$9,607,947</u>	<u>(\$8,592,285)</u>	<u>\$49,516,595</u>

7. PENSION PLANS

Plan Description. Substantially all employees of the university are members of two statewide, public employee retirement systems. Academic employees are generally members of the Teachers Retirement System (TRS), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). TRS is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is a single-employer plan because the material portion of its activity is with one employer--the State of Louisiana. TRS and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems 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 five years of service for TRS 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 plan members and the university 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% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 15.9% of covered salaries to TRS and 19.1% of covered salaries to LASERS for fiscal year 2006. The State of Louisiana, through the annual appropriation to the university, funds the university's employer contribution. The university's employer contributions to TRS for the years ended June 30, 2006, 2005, and 2004 were \$2,199,043, \$2,244,205, and \$1,906,000, respectively, and to LASERS for the years ended June 30, 2006, 2005, and 2004 were \$1,341,627, \$1,301,378, and \$1,111,031, respectively, equal to the required contributions for each year.

8. 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 was designed to aid universities in recruiting employees who may not be expected to remain in TRS 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 TRS and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the university are 15.9% of the covered payroll for fiscal year 2006. The participant's contribution (8%) 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 TRS 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 TRS 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 TRS. 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 \$2,058,422 and \$1,035,686, respectively, for the year ended June 30, 2006.

9. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The university provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university's employees become eligible for these benefits if they reach normal retirement age while working for the university. 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 university. The university recognizes the cost of providing these benefits to retirees (university's portion of premiums) as an expense when paid during the year. These retiree benefits for 333 retirees totaled \$1,746,707 for the year ended June 30, 2006.

10. PAYABLES

The following is a summary of the university's payables and accrued expenses at June 30, 2006:

<u>Account Name</u>	
Vendor payables	\$476,749
Accrued salaries and payroll deductions	<u>1,915,159</u>
Total	<u><u>\$2,391,908</u></u>

11. DEFERRED REVENUES

The following is a summary of the deferred revenues:

<u>Account Name</u>	
Prepaid tuition and fees	\$2,019,914
Prepaid athletic ticket sales	24,713
Grants and contracts	120,647
Other	<u>158,835</u>
Total	<u><u>\$2,324,109</u></u>

12. COMPENSATED ABSENCES

At June 30, 2006, employees of the university have accumulated and vested annual, sick, and compensatory leave benefits of \$1,768,885, \$254,498, and \$37,980, respectively. These amounts were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

13. LEASE OBLIGATIONS

Operating Leases

The university's total rental expense for all operating leases is \$8,700 for the year ended June 30, 2006.

The university's lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period. Following are schedules by years of future minimum annual rental payments required under operating leases:

<u>Nature of Operating Lease</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total Minimum Payments Required</u>
Office space	\$3,900	\$975		\$4,875
Airport	4,800	4,800	\$1,600	11,200
Total	<u>\$8,700</u>	<u>\$5,775</u>	<u>\$1,600</u>	<u>\$16,075</u>

Capital Leases

The university has no capital leases.

Lessor - Operating Lease

The university's leasing operations consist primarily of property leasing for the purposes of providing food services to students and bookstore operations, land for student housing, agricultural and mineral leases, and office space for postal and banking services.

The following schedule provides an analysis of the university's investment in property on operating leases and property held for lease by major classes as of June 30, 2006:

	<u>June 30, 2006</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Property leasing	\$1,825,531	(\$1,257,505)	\$568,026
Equipment	135,187	(29,725)	105,462
Land	188,673		188,673
Total	<u>\$2,149,391</u>	<u>(\$1,287,230)</u>	<u>\$862,161</u>

NOTES TO THE FINANCIAL STATEMENTS

The following is a schedule by years of minimum future rentals on operating leases as of June 30, 2006:

For Fiscal Year Ending June 30:	
2007	\$794,157
2008	31,607
2009	16,001
2010	16,001
2011	16,001
2012-2016	80,005
2017-2021	80,005
2022-2026	80,005
2027-2031	80,005
2032-2036	78,003
2037-2041	75,005
2042-2044	<u>45,003</u>
Total minimum future rentals	<u><u>\$1,391,798</u></u>

Minimum future rentals do not include contingent rentals, which may be received as stipulated in the lease contracts. These contingent rental payments occur as a result of sales volume, customer usage of services provided, or drilling operations on mineral leases. Contingent rentals amounted to \$2,168 for the year ended June 30, 2006.

14. LONG-TERM LIABILITIES

The following is a summary of the university's bond and other long-term debt transactions for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds payable	\$5,820,000		(\$195,000)	\$5,625,000	\$205,000
Other liabilities:					
Accrued compensated absences payable (note 12)	1,995,155	\$1,993,902	(1,927,694)	2,061,363	245,858
Reimbursement contracts payable	250,000		(20,000)	230,000	25,000
Total	<u>\$8,065,155</u>	<u>\$1,993,902</u>	<u>(\$2,142,694)</u>	<u>\$7,916,363</u>	<u>\$475,858</u>

Details of the outstanding bond issue and reimbursement contract for the year ending June 30, 2006, follows:

Bonds and Reimbursement Contracts Payable, as of June 30, 2006

Issue	Date of Issue	Original Issue	Outstanding June 30, 2005	Issued (Redeemed)	Outstanding June 30, 2006	Maturities	Interest Rates	Interest Outstanding June 30, 2006
Bonds Payable								
Wellness, Recreation, and Activity Center Bonds - Series 1999								
	April 1, 1999	<u>\$6,850,000</u>	<u>\$5,820,000</u>	<u>(\$195,000)</u>	<u>\$5,625,000</u>	2024	4.35%-5.1%	<u>\$3,045,440</u>
Reimbursement Contracts Payable								
General Obligation Bonds - Series 1993-B								
	February 1, 1993	<u>\$460,000</u>	<u>\$250,000</u>	<u>(\$20,000)</u>	<u>\$230,000</u>	2014	5.5%-5.625%	<u>\$54,802</u>

Revenues from the Wellness, Recreation, and Activity Center totaling \$479,815 are available as security for the outstanding revenue bonds at June 30, 2006. Vehicle registration revenues totaling \$33,594 are available as security for the outstanding general obligation bonds.

The annual requirements to amortize the university's bonds and reimbursement contracts outstanding at June 30, 2006, including interest of \$3,100,242 are as follows:

	Principal	Interest	Total
2007	\$230,000	\$288,734	\$518,734
2008	240,000	278,429	518,429
2009	250,000	267,462	517,462
2010	265,000	255,792	520,792
2011	275,000	243,647	518,647
2012-2016	1,495,000	1,013,418	2,508,418
2017-2021	1,790,000	616,845	2,406,845
2022-2024	<u>1,310,000</u>	<u>135,915</u>	<u>1,445,915</u>
Total	<u>\$5,855,000</u>	<u>\$3,100,242</u>	<u>\$8,955,242</u>

The following is a summary of the debt service reserve requirements of the reimbursement contract for the General Obligation Bond issue outstanding at June 30, 2006:

Reserves Available	Reserve Requirement	Excess
<u>\$38,250</u>	<u>\$38,250</u>	<u>NONE</u>

15. RESTRICTED NET ASSETS

The university has the following restricted net assets:

Nonexpendable - endowments	<u><u>\$6,397,292</u></u>
Expendable:	
Student technology fees	\$3,219,414
Restricted for use by donors	2,892,256
Student loans	2,815,574
Building and facility preventative maintenance program	192,472
Plant projects:	
Vehicle registration fees	955,257
Retirement of indebtedness	<u>38,250</u>
Total expendable	<u><u>\$10,113,223</u></u>

16. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Of the total net assets reported in the Statement of Net Assets for the year ended June 30, 2006, the following are restricted by enabling legislation:

Student technology fee - restricted by Louisiana Revised Statute 17:3351.1	\$3,219,414
Vehicle registration fee - restricted by Louisiana Revised Statute 17:1804	955,257
Building and facility preventative maintenance program - restricted by Louisiana Revised Statute 17:3386	192,472
Endowed Chairs - restricted by Louisiana Revised Statute 17:3801	<u>6,397,292</u>
Total	<u><u>\$10,764,435</u></u>

17. CONTINGENT LIABILITIES

Losses arising from judgments, claims, and similar contingencies are paid 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 appropriation from the state's General Fund. The university is involved in 11 lawsuits at June 30, 2006, in which the plaintiffs are seeking claims for an undetermined amount. In the opinion of university's legal counsel, any potential losses from these lawsuits are covered by the Office of Risk Management.

**18. ON-BEHALF PAYMENTS FOR SALARIES
AND FRINGE BENEFITS**

On-behalf payments for salaries and fringe benefits are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. For example, a nongovernmental fund-raising foundation affiliated with a governmental university may supplement salaries of certain university employees. Those payments constitute on-behalf payments for purposes of reporting by the university. The university had no on-behalf payments for salaries and fringe benefits for the fiscal year ended June 30, 2006.

19. DEFERRED COMPENSATION PLAN

Certain employees of the university 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.

20. FOUNDATION

The accompanying financial statements do not include the accounts of the Northwestern State University Foundation or Northwestern State University Athletic Association. These affiliated organizations are not included because they do not meet criteria established by the Division of Administration, Office of Statewide Reporting and Accounting Policy, for determining component units included in the university system's financial statement in accordance with GASB Statement 14, as amended by GASB Statement 39. These organizations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

Management Letter



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
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September 19, 2006

NORTHWESTERN STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Natchitoches, Louisiana

We have reviewed the financial statements of Northwestern State University, as of and for the year ending June 30, 2006, and have issued our accountant's review report thereon dated September 19, 2006. Northwestern State University is a university within the University of Louisiana System, a component unit of the State of Louisiana. The university's accounts are an integral part of the University of Louisiana System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions. A review is substantially less in scope than an audit conducted 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, the objective of which is the expression of an opinion regarding the basic financial statements. Accordingly, we did not express such an opinion in our accountant's review report referred to previously.

Our review of the financial statements did not disclose any transactions entered into by the university during the year that were both significant and unusual or transactions for which there is a lack of authoritative guidance.

For purposes of this letter, a disagreement with management is defined as a matter, whether or not resolved to our satisfaction, concerning a financial accounting or reporting matter that could be significant to the university's financial statements or the accountant's report. No such disagreements arose during our review procedures.

Because our review procedures were substantially less in scope than an audit in accordance with *Government Auditing Standards*, identifying matters affecting Northwestern State University's internal control, compliance with applicable laws and regulations, and operational efficiencies was not an objective of our procedures. Accordingly, our review procedures cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, during our review procedures, we noted no significant matters requiring recommendations to management concerning internal control, compliance, or operational efficiencies.

This management letter is intended solely for the information and use of Northwestern State University and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under state law, this letter is a public record.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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