McNeese State University
University of Louisiana System
State of Louisiana

Louisiana Legislative Auditor

Accountant's Review Report

Issued October 18, 2006

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

LEGISLATIVE AUDIT ADVISORY COUNCIL

SENATOR J. "TOM" SCHEDLER, CHAIRMAN
REPRESENTATIVE CEDRIC RICHMOND, VICE CHAIRMAN

SENATOR ROBERT J. BARHAM
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
REPRESENTATIVE RICK FARRAR
REPRESENTATIVE HENRY W. "TANK" POWELL
REPRESENTATIVE T. TAYLOR TOWNSEND
REPRESENTATIVE WARREN J. TRICHE, JR.

LEGISLATIVE AUDITOR

STEVE J. THERIOT, CPA

DIRECTOR OF FINANCIAL AUDIT

PAUL E. PENDAS, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Nine copies of this public document were produced at an approximate cost of $15.80. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 3481 or Report ID No. 06901604 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

October 2, 2006

Accountant's Review Report
on the Financial Statements

MCNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Lake Charles, Louisiana

We have reviewed the accompanying basic financial statements as listed in the table of contents of McNeese 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 McNeese State University. We did not review the financial statements of the McNeese State University Foundation, a component unit of the university, whose financial activity is discretely presented in these basic financial statements. We also did not review the financial statements of Cowboy Facilities Inc., a blended component unit of the university, whose statements reflect total assets, liabilities, and revenues of 19%, 67%, and 3%, respectively, of the related university totals. Those component units' financial statements were audited by other auditors whose reports thereon have been furnished to us, and the results of our review expressed herein, insofar as it relates to the amounts included for those component units, is based solely upon the reports of the other auditors.

A review consists principally of inquiries of McNeese 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 McNeese 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 McNeese 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 changes in its financial position and its 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 and the reports of the other auditors discussed previously, 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 to the basic financial statements, and as required by Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*, McNeese State University discretely presented the financial statements and other required note disclosures for the McNeese State University Foundation, a component unit of the university, as of and for the year ended June 30, 2006. Those amounts were audited by other auditors.

As discussed in note 1-Q to the basic financial statements, McNeese State University implemented 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.

As discussed in note 22, 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 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. Both the University of Louisiana System and McNeese State University were significantly impacted as a result of the hurricanes.

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 GASB. 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

CDH:EFS:PEP:dl

MSU06

This section of McNeese State University's annual financial report presents a discussion and analysis of the financial performance and a narrative overview of the university's financial activities during the fiscal year ended June 30, 2006. Please read this document in conjunction with the university's financial statements, which follow this section.

For compliance with Statement No. 39 of the Governmental Accounting Standards Board (GASB), this report includes the audited financial statements and accompanying notes of the McNeese State University Foundation for the fiscal year ended June 30, 2006. The Foundation is a 501(c)(3) corporation organized to solicit, receive, hold, invest, and transfer funds for the benefit of the university.

FINANCIAL HIGHLIGHTS

The university's net assets overall increased from $60,934,658 to $81,242,218 or 33% from June 30, 2005, to June 30, 2006. The overall reasons for this change include:

- Increase in Grants and Contracts due to Hurricane Rita
- Insurance recoveries received and receivable at June 30, 2006, because of Hurricane Rita damages

Enrollment increased from 19,840 to 19,955 from June 30, 2005, to June 30, 2006, a change of 0.58%. The reason for this change is attributed to a small increase in enrollment that was offset by a slight decrease in enrollment because of Hurricane Rita.

The university's operating revenues changed from $45,082,846 to $48,391,740 or 7.3% from June 30, 2005, to June 30, 2006. The slight changes in enrollment as discussed above and increases in grants and contracts are the primary reasons for this change. Operating expenses, however, changed by 3% to $73,427,503 for the year ended June 30, 2006. This change is attributed primarily to increases Operations and Maintenance of Plant for additional expenditures because of Hurricane Rita.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to $34,188,661 in 2006 from $27,997,226 in 2005 is attributed to the recognition of the insurance payments from Office of Risk Management on behalf of the university.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These financial statements consist of three sections - Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the financial statements), and other required supplementary information, of which there is none.

Basic Financial Statements

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

The Statement of Net Assets (pages 11-12) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the university is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets (pages 15-16) presents information showing how the 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 19-20) 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 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 governmental 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	Restated 2005
Current and other assets	$60,552	$38,795
Capital assets, net	54,668	55,290
Total assets	115,220	94,085
Current liabilities	7,850	6,071
Noncurrent liabilities	26,128	27,079
Total liabilities	33,978	33,150
Net assets:		
Invested in capital assets, net of debt	31,681	31,301
Restricted	20,355	20,694
Unrestricted	29,206	8,940
Total net assets	$81,242	$60,935

This schedule is prepared from the university's Statement of Net Assets as shown on pages 11-12, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant Statement of Net Asset changes from 2006 include:

- An increase in current and other assets due to the recognition of the Office of Risk Management's receivable for insurance recovery because of Hurricane Rita.
- A decrease in capital assets due to an impairment loss reported on buildings considered impaired during Hurricane Rita.

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)

	2006	Restated 2005
Operating revenues:		
Student tuition and fees, net	$21,564	$21,391
Grants and contracts	15,789	11,991
Auxiliary	9,596	10,158
Other	1,443	1,543
Total operating revenues	48,392	45,083
Operating expenses:		
Education and general:		
Instruction	26,093	25,566
Research	1,086	1,357
Public service	1,290	1,216
Academic support	6,271	6,587
Student services	4,131	4,508
Institutional support	5,583	4,614
Operations and maintenance of plant	7,177	6,430
Depreciation	3,958	3,895
Scholarships and fellowships	6,667	6,171
Other operating expenses	11,172	10,880
Total operating expenses	73,428	71,224
Operating loss	(25,036)	(26,141)
Nonoperating revenues:		
State appropriations	27,163	26,785
Gifts	1,288	956
Other nonoperating revenues	5,738	256
Net nonoperating revenues	34,189	27,997
Income before other revenues, expenses, gains, losses	9,153	1,856
Capital appropriations		244
Capital grants and gifts	24	15
Extraordinary item - net gain after insurance recovery	11,130	
Change in Net Assets	20,307	2,115
Net assets at the beginning of the year, restated	60,935	58,820
Net assets at the end of the year	$81,242	$60,935

Nonoperating revenues increased by 22% to $34.2 million, primarily attributable to the recognition of insurance payments by the Office of Risk Management on behalf of the university. Investment income decreased from $1.3 million to $1.2 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2006, the university had invested $54,668,302 in capital assets, net of accumulated depreciation. This amount represents a prior year adjustment increase of $806,666 and a net decrease (including additions and disposals, net of depreciation) of $621,460 or 1.1% less than 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)

	2006	2005
Land, CIP and land improvements	$5,525	$4,901
Infrastructure	2,089	2,205
Buildings	44,399	45,053
Equipment	1,466	1,335
Library materials	1,189	1,796
Total	$54,668	$55,290

Debt

The university had $24,645,000 in bonds payable outstanding at year-end, compared to $25,615,000 last year, a decrease of 3.9%. See note 14 for details relating to changes in and the composition of long-term liabilities.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The following currently known facts, decisions, or conditions are expected to have a significant effect on financial position or results of operations:

- Fluctuation in current enrollment
- Increase in investment income
- Major repairs to campus resulting from Hurricane Rita
- Receipt of governmental hurricane-related grants

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 the 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 Comptroller's Office at McNeese State University at (337) 475-5501.

MCNEESE 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)	$20,390,252
Receivables, net (note 4)	21,975,984
Inventories	1,329,357
Notes receivable, net (note 5)	330,606
Deferred charges	219,954
Total current assets	44,246,153
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (note 2)	2,175,798
Investments (note 3)	10,201,830
Notes receivable, net (note 5)	2,371,376
Other	7,267
Capital assets, net (note 6)	54,668,302
Other noncurrent assets	1,549,797
Total noncurrent assets	70,974,370
Total assets	115,220,523
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities (note 10)	4,222,903
Deferred revenues (note 11)	1,508,717
Compensated absences payable (note 12)	206,851
Amounts held in custody for others (note 14)	289,799
Bonds payable (note 14)	1,010,000
Other current liabilities	611,900
Total current liabilities	7,850,170

(Continued)

See accompanying notes and accountant's report.

MCNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2006

LIABILITIES (CONT.)	
Noncurrent liabilities:	
Compensated absences payable (note 12)	$2,493,135
Bonds payable (note 14)	23,635,000
Total noncurrent liabilities	26,128,135
Total liabilities	33,978,305
NET ASSETS	
Invested in capital assets, net of related debt	31,681,192
Restricted for:	
Nonexpendable (note 15)	9,142,035
Expendable (note 15)	11,213,247
Unrestricted	29,205,744
Total net assets	$81,242,218

(Concluded)

See accompanying notes and accountant's report.

MCNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

McNeese State University Foundation
Statement of Financial Position
June 30, 2006

ASSETS	
Cash and cash equivalents (note 2)	$2,832,379
Unconditional promises to give (note 4)	157,957
State matching receivable	160,000
Investments (note 3)	39,354,181
Donated property (note 6)	489,954
Total assets	$42,994,471
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$30,760
Funds held in custody	3,238,814
Total liabilities	3,269,574
Net Assets:	
Unrestricted	4,473,888
Temporarily restricted (note 15)	11,104,335
Permanently restricted (note 15)	24,146,674
Total net assets	39,724,897
Total liabilities and net assets	$42,994,471

See accompanying notes and accountant's report.

This page is intentionally blank.

MCNEESE 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	$28,348,479
Less scholarship allowances	(6,784,759)
Net student tuition and fees	21,563,720
Federal grants and contracts	11,536,678
State and local grants and contracts	2,284,106
Nongovernmental grants and contracts	1,968,381
Sales and services of educational departments	73,052
Auxiliary enterprise revenues	9,808,622
Less scholarship allowances	(212,751)
Net auxiliary revenues	9,595,871
Other operating revenues	1,369,932
Total operating revenues	48,391,740
OPERATING EXPENSES	
Education and general:	
Instruction	26,093,336
Research	1,085,850
Public service	1,290,242
Academic support	6,270,722
Student services	4,131,090
Institutional support	5,583,071
Operations and maintenance of plant	7,176,862
Depreciation	3,957,982
Scholarships and fellowships	6,666,717

(Continued)

See accompanying notes and accountant's report.

MCNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2006

OPERATING EXPENSES (CONT.)	
Auxiliary enterprises	$10,893,512
Other operating expenses	278,119
Total operating expenses	73,427,503
Operating loss	(25,035,763)
NONOPERATING REVENUES (Expenses)	
State appropriations	27,162,866
Gifts	1,288,354
Net investment income	1,209,971
Interest expense	(1,404,277)
Nonoperating revenues - insurance recovery	5,931,747
Net nonoperating revenues	34,188,661
Income before other revenues, expenses, gains and losses	9,152,898
Capital grants and gifts	24,026
Extraordinary gain - impairment gain after insurance recovery	11,130,636
Increase in Net Assets	20,307,560
Net Assets at the Beginning of Year, Restated (note 16)	60,934,658
Net Assets at the End of Year	$81,242,218

(Concluded)

See accompanying notes and accountant's report.

MCNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

McNeese State University Foundation
Statement of Activities
For the Year Ended June 30, 2006

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Revenue and support:				
Contributions	$295,730	$2,253,591	$562,773	$3,112,094
Investment earnings, net of fees of $147,511		2,759,330	413,018	3,172,348
Rent	13,200			13,200
Fund raising	12,000			12,000
Other	743			743
Net assets released from restrictions - transfer to unrestricted net assets	2,284,930	(2,284,930)		
Total revenue and support	2,606,603	2,727,991	975,791	6,310,385
Expenses:				
Grants paid to benefit McNeese State University for:				
Projects specified by donors	1,726,413			1,726,413
Dedicated scholarships	362,881			362,881
Freshman awards	33,700			33,700
Professorship awards	71,000			71,000
Named honor awards	10,000			10,000
Excellence awards	4,000			4,000
Early admissions scholarships	2,850			2,850
Graduate scholarships	12,088			12,088
Endowment distributions	1,123			1,123
Total grants paid	2,224,055	NONE	NONE	2,224,055
Supporting services:				
Management and general	39,333			39,333
Fund raising	49,355			49,355
Total support services	88,688	NONE	NONE	88,688
Total expenses	2,312,743	NONE	NONE	2,312,743
Change in net assets	293,860	2,727,991	975,791	3,997,642
Net assets at beginning of year	4,180,028	8,376,344	23,170,883	35,727,255
Net assets at end of year	$4,473,888	$11,104,335	$24,146,674	$39,724,897

See accompanying notes and accountant's report.

This page is intentionally blank.

MCNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

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

Cash flows from operating activities:	
Tuition and fees	$22,343,442
Grants and contracts	15,119,700
Payments to suppliers	(12,138,287)
Payments for utilities	(3,275,013)
Payments to employees	(32,688,241)
Payments for benefits	(10,271,329)
Payments for scholarships and fellowships	(7,946,374)
Loans to students	(337,728)
Auxiliary enterprise charges	9,465,062
Sales and services of educational departments	52,825
Other disbursements	(1,027,670)
Net cash used by operating activities	(20,703,613)
Cash flows from noncapital financing activities:	
State appropriations	27,162,866
Gifts and grants for other than capital purposes	1,288,354
TOPS receipts	5,113,821
TOPS disbursements	(5,113,821)
Federal Family Education Loan Program receipts	20,644,687
Federal Family Education Loan Program disbursements	(20,644,687)
Other receipts	570,596
Net cash provided by noncapital financing sources	29,021,816
Cash flows from capital financing activities:	
Capital grants and gifts received	24,026
Purchases of capital assets	(3,883,288)
Principal paid on capital debt and leases	(970,000)
Interest paid on capital debt and leases	(1,404,277)
Net cash used in capital financing activities	(6,233,539)
Cash flows from investing activities:	
Interest received on investments	1,209,971
Purchase of investments	(659,507)
Net cash used by investing activities	550,464
Net increase in cash and cash equivalents	2,635,128
Cash and cash equivalents at the beginning of year	19,930,922
Cash and cash equivalents at the end of year	$22,566,050

(Continued)

See accompanying notes and accountant's report.

MCNEESE 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	($25,035,763)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	3,957,982
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(561,816)
(Increase) in loans to students and employees	(337,728)
(Increase) in inventories	(49,179)
Decrease in deferred charges	19,124
Increase in accounts payable	670,914
Increase in deferred revenues	579,526
(Decrease) in amounts held in custody for others	(58,489)
Increase in compensated absences	111,816
Net Cash Used by Operating Activities	($20,703,613)

(Concluded)

See accompanying notes and accountant's report.

INTRODUCTION

McNeese State 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 Lake Charles, Louisiana. The university offers baccalaureate and selected master's degrees in various academic areas. Net enrollment at the university was 3,055, 8,992, and 7,908, respectively, during the summer, fall, and spring semesters of fiscal year 2006. At June 30, 2006, the university has approximately 749 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 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 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.

Cowboy Facilities, Inc., is a Louisiana nonprofit corporation [Section 501(c)(3) of the Internal Revenue Code] created in 1996. The purpose of the organization is to promote, assist, and benefit the mission of the university primarily through acquiring, constructing, developing, managing, leasing, mortgaging, or conveying student housing and other facilities on the campus of the university. Although the facility corporation is legally separate, it is considered a blended component unit of the university because it is fiscally dependent on the university.

Other external auditors audited the Cowboy Facilities, Inc., for the year ended June 30, 2006. To obtain a copy of the audit report, write to:

Cowboy Facilities, Inc.,
c/o Richard Rhoden
Post Office Box 90460
Lake Charles, Louisiana 70609

The McNeese State University Foundation is a not-for-profit organization [Section 501(c)(3) of the Internal Revenue Code]. It is being included as a discretely presented component unit of the university in the university's financial statements, in accordance with the criteria outlined in paragraph 40a of GASB Statement 14, as amended by GASB Statement 39. The foundation is a legally separate, tax-exempt organization supporting the university. The foundation was organized to solicit, receive, hold, invest, and transfer funds for the benefit of the university. During the year ended June 30, 2006, the Foundation made distributions of $2,224,055 to or on behalf of the university for both restricted and unrestricted purposes.

Other external auditors audited the McNeese State University Foundation, for the years ended June 30, 2006, and June 30, 2005. To obtain a copy of the audit report, write to:

McNeese State University Foundation
Post Office Box 91989
Lake Charles, Louisiana 70609

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-agency transactions have been eliminated. The university has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board statements.

D. BUDGET PRACTICES

The appropriation made for the General Fund of the university is an annual lapsing appropriation established by legislative action and by 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 budget amounts for fiscal year 2006 include the original approved budget and subsequent amendments approved as follows:

Original approved budget	$ 53,471,455
Amendments:	
State General Fund	(977,955)
Other	199,256
Final budget	$52,692,756

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

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 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. Cash equivalents reported on the Statement of Net Assets include all negotiable certificates of deposit, regardless of maturity.

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 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 CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets 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.

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. In addition, investments are maintained in investment accounts in external foundations 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.

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, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if they exceed $100,000. 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 three to 10 years for most movable property. Library collections regardless of age, with a total acquisition value of $5,000,000 or more will be capitalized and depreciated.

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 non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified 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 principal amounts of revenue bonds payable with contractual maturities greater than one year and estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

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

(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 AND EXPENSES

The university has classified its revenues as either operating or nonoperating revenues according to the following criteria: (1) Operating revenue includes activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and most federal, state, and local grants and contracts and federal appropriations. (2) Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

The university has classified its expenses as either operating or nonoperating according to the following criteria: (1) Operating expenses generally include transactions resulting from providing goods or services, such as payments to vendors for goods or services;

payments to employees for services; and payments for employee benefits. (2) Nonoperating expenses include transactions resulting from financing activities, capital acquisitions, and investing activities.

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*. Statement No. 47 had no impact on reporting for the university.

MCNEESE STATE UNIVERSITY FOUNDATION

NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

The McNeese State University Foundation (the Foundation) is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed to promote the educational and cultural welfare of McNeese State University by accepting gifts for the purpose of providing scholarships for students, professorships for educational research, or such other designated projects for the benefit of the university. The principal sources of support are from alumni of McNeese State University as well as businesses located in southwest Louisiana.

B. BASIS OF ACCOUNTING

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

C. BASIS OF PRESENTATION

The Foundation presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

D. CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets from endowment fund contributions are restricted to investment in perpetuity, the income from which is considered temporarily restricted until donor-imposed restrictions are met.

Certain gifts are subject to the terms of acts of donation whereby the Foundation and/or the university agrees to certain requirements such as providing information regarding how such gifts are invested and how earnings thereon are spent.

E. PROMISES TO GIVE

Unconditional promises to give are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

F. DONATED PROPERTY

Donated property is reflected as a contribution in the accompanying statements at its estimated value at date of receipt.

G. FUNDS HELD IN CUSTODY

The Foundation participates in a program with the State of Louisiana (the Eminent Scholars/Endowed Professorships Program sponsored by the Louisiana Board of Regents) whereby the state contributes matching funds which, together with donations received by the Foundation, establishes endowment funds, which are accumulated in accounts segregated from other Foundation funds. The state match constitutes 40% of the total endowment. The earnings on these funds are to be used for professorships. The Foundation considers donations received from donors into this fund to be permanently restricted net assets and all state matching funds as funds held in custody. The liability "Funds held in custody" represents the lesser of 40% of the fair value of the segregated accounts or the original state match amount plus required increases to cover inflation. The Foundation has received matching funds of $2,840,000 from the State of Louisiana as of June 30, 2006, under the professorship program.

2. CASH AND CASH EQUIVALENTS

At June 30, 2006, the university has cash and cash equivalents (book balances) of $22,566,050 as follows:

Petty cash	$34,489
Demand deposits	118,005
Interest-bearing demand deposits	19,744,953
Money market accounts	1,487,833
Certificates of deposit	1,112,770
Cash in State Treasury	68,000
Total	$22,566,050

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

Current assets	$20,390,252
Noncurrent assets	2,175,798
Total	$22,566,050

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 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.

FOUNDATION CASH AND CASH EQUIVALENTS

For accounting and reporting purposes, cash and cash equivalents of the Foundation includes cash on hand, cash in bank, and all highly liquid investments with original maturities of three months or less. The Foundation maintains deposit accounts with large, multi-state financial institutions. As of June 30, 2006, the Foundation's collected bank balances exceeded federally insured limits by approximately $950,000. The Foundation began participation in the Louisiana Asset Management Pool (LAMP), a state-wide external investment pool, during the year ended June 30, 2004. Deposits with LAMP totaled $2,038,554 at June 30, 2006. Such deposits are secured by an interest in the underlying investment pool, consisting of U.S. Treasury and agency securities, held by LAMP. The Foundation also has money-market holdings as part of its managed investment accounts. Such balances totaled $292,015 at June 30, 2006, and are not secured.

The carrying amounts reported in the statement of financial position for cash and cash equivalents approximate fair values because of the short maturities of those instruments.

3. INVESTMENTS

At June 30, 2006, the university has restricted investments totaling $10,201,830.

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:

		Investment Maturities in Years			
	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	Percentage of Investments
Type of investment:					
U.S. Government obligations	$346,195		$346,195		3.39%
Mortgage backed securities	745,083	$299,406	455,677		7.30%
Other:					
Investments held by foundations	7,694,940				75.43%
Guaranteed investment contracts	1,415,612				13.88%
Total investments	$10,201,830	$299,406	$801,872	NONE	100.00%

The university's investments are reported at fair value as required by GASB Statement No. 31. Investments held by the Foundation are in an external investment pool and managed in accordance with the terms outlined in management agreement executed between the university and the Foundation. The university is a voluntary participant in the agreement. At June 30, 2006, external pool investments total $7,694,940 and are not categorized.

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 by type as described previously. The university does not have policies to further limit credit risk.

Of the university's $10,201,830 in investments, $1,415,612 belongs to Cowboy Facilities, Inc. In accordance with GASB, the investment in Guaranteed Investment Contracts is not categorized as subject to credit risk as provided by GASB because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. Also, the Corporation does not have a policy for custodial credit risk or interest rate 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 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.

FOUNDATION INVESTMENTS

Investments consist of U.S. Government securities and obligations, marketable debt and equity securities, mutual funds, and money market funds. The Foundation accounts for its investments in accordance with SFAS No. 124, *Accounting for Certain Investments by Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40. Accordingly, investments in these securities are reported at fair value.

At June 30, 2006, the Foundation's investments, carried at fair value, consisted of the following:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Market Value
Certificates of deposit	$79,578			$79,578
Mutual funds	10,802,543	$3,853,291	($153,347)	14,502,487
Corporate stock	22,940,916	2,593,961	(786,630)	24,748,247
Other	23,869			23,869
Total investments	$33,846,906	$6,447,252	($939,977)	$39,354,181

The carrying values of investments are equal to the estimated fair values of those investments. The fair value of investments are based on quoted market prices for those or similar investments.

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:

Type	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Student tuition and fees	$2,306,799	($1,131,770)	$1,175,029
Auxiliary enterprises	1,296,492	(436,734)	859,758
Contributions and gifts	160,000		160,000
Federal, state, and private grants and contracts	2,172,048		2,172,048
Insurance recoveries	17,609,149		17,609,149
Total	$23,544,488	($1,568,504)	$21,975,984

FOUNDATION PROMISES TO GIVE

Unconditional promises to give are considered collectible; therefore, no allowance for doubtful accounts has been recorded. The total amount of unconditional promises to give at June 30, 2006, is expected to be collected as follows:

Less than one year	$52,406
One to five years	57,815
More than five years	47,736
Total unconditional promises to give	$157,957

Certain donors have stipulated in their wills to make donations to the Foundation upon death. The total amount of such conditional promises to give is $1,373,773 at June 30, 2006. As the donors have placed a condition on the donation, these amounts have not been recorded in the financial statements.

The fair value of unconditional promises to give is not considered to be significantly different from carrying value because of the small carrying value.

5. NOTES RECEIVABLE

Notes receivable are comprised of loans to students under the Federal Perkins Loan Program and Nursing Student Loans. The university administers the loan programs. 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. Loans are no longer issued under the Nursing Student Loan program, but collections are still made on outstanding loans. 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:

Type	Notes Receivable	Allowance for Doubtful Accounts	Notes Receivable (Net)	Noncurrent Portion
Federal Perkins Loans	$2,912,205	($210,552)	$2,701,653	$2,371,047
Nursing Student Loans	4,471	(4,142)	329	329
Total	$2,916,676	($214,694)	$2,701,982	$2,371,376

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2005	Prior Period Adjustment	Restated Balance June 30, 2005	Transfers and Additions	Transfers and Retirements	Balance June 30, 2006
Capital assets not being depreciated:						
Land	$2,070,652		$2,070,652			$2,070,652
Construction-in-progress	12,548		12,548	$888,890	($12,548)	888,890
Total capital assets not being depreciated	$2,083,200	NONE	$2,083,200	$888,890	($12,548)	$2,959,542
Other capital assets:						
Infrastructure	$4,643,069		$4,643,069			$4,643,069
Less accumulated depreciation	(2,437,612)		(2,437,612)	($116,077)		(2,553,689)
Total infrastructure	2,205,457	NONE	2,205,457	(116,077)	NONE	2,089,380
Land improvements	3,652,684	$255,225	3,907,909			3,907,909
Less accumulated depreciation	(1,074,310)	(16,930)	(1,091,240)	(251,805)		(1,343,045)
Total land improvements	2,578,374	238,295	2,816,669	(251,805)	NONE	2,564,864
Buildings	92,382,107	1,080,455	93,462,562	1,850,989	($546,766)	94,766,785
Less accumulated depreciation	(47,923,774)	(485,810)	(48,409,584)	(1,957,866)		(50,367,450)
Total buildings	44,458,333	594,645	45,052,978	(106,877)	(546,766)	44,399,335
Equipment	5,593,009	5,829	5,598,838	629,999	(204,488)	6,024,349
Less accumulated depreciation	(4,231,643)	(32,103)	(4,263,746)	(499,124)	204,488	(4,558,382)
Total equipment	1,361,366	(26,274)	1,335,092	130,875	NONE	1,465,967
Library books	12,713,191		12,713,191	525,958	(272,034)	12,967,115
Less accumulated depreciation	(10,916,825)		(10,916,825)	(861,076)		(11,777,901)
Total library books	1,796,366	NONE	1,796,366	(335,118)	(272,034)	1,189,214
Total other capital assets	$52,399,896	$806,666	$53,206,562	($679,002)	($818,800)	$51,708,760
Capital asset summary:						
Capital assets not being depreciated	$2,083,200		$2,083,200	$888,890	($12,548)	$2,959,542
Other capital assets, at cost	118,984,060	$1,341,509	120,325,569	3,006,946	(1,023,288)	122,309,227
Total cost of capital assets	121,067,260	1,341,509	122,408,769	3,895,836	(1,035,836)	125,268,769
Less accumulated depreciation	(66,584,164)	(534,843)	(67,119,007)	(3,685,948)	204,488	(70,600,467)
Capital assets, net	$54,483,096	$806,666	$55,289,762	$209,888	($831,348)	$54,668,302

FOUNDATION DONATED PROPERTY

A carrying value of donated property at June 30, 2006, consisted of the following:

650-acre farm	$350,000
Sampson Street property	139,954
Total Donated Property	$489,954

The Foundation has agreed that the farm would be used primarily by the Agriculture Department of McNeese State University and would never be sold. The property in Westlake was originally valued at $120,000 and after Hurricane Rita, the Foundation put capital improvements into the property for a total of $19,954.

7. PENSION PLANS

Plan Description. Substantially all employees of the university are members of three statewide, public employee retirement systems. Academic employees are generally members of the Teachers Retirement System (TRS), classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS), and the Louisiana School Employees Retirement System (LSERS) includes non-instructional personnel of the Louisiana Public School System. TRS and LSERS are multiple-employer defined benefit pension plans. LASERS is a single-employer defined benefit pension plan. All three plans are administered by separate boards of trustees. These plans 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 and LSERS. 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, the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600, and/or the Louisiana School Employees Retirement System, Post Office Box 44516, Baton Rouge, Louisiana 70804-4516.

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 and LSERS) of covered salaries. The state is required to contribute 15.9% of covered salaries to TRS, 19.1% of covered salaries to LASERS, and 18.4% of covered salaries to LSERS 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 $1,455,547, $1,408,939, and $1,159,471, respectively, to

LASERS for the years ended June 30, 2006, 2005, and 2004 were $1,338,735, $1,241,416, and $1,093,950, respectively, and to LSERS for the years ended June 30, 2006 and 2005 were $9,059 and $6,560, 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 $2,025,677 and $1,025,659, 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 316 retirees totaled $1,714,781 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:

Account Name	
Vendor payables	$1,641,713
Accrued salaries and payroll deductions	2,581,190
Total	$4,222,903

11. DEFERRED REVENUES

The following is a summary of the deferred revenues:

Account Name	
Prepaid tuition and fees	$735,356
Prepaid athletic ticket sales	497,448
Grants and contracts	275,913
Total	$1,508,717

12. COMPENSATED ABSENCES

At June 30, 2006, employees of the university have accumulated and vested annual leave, sick leave, and compensatory leave benefits of $1,333,883, $1,332,695, and $33,408, 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 $20,000 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:

Nature of Operating Lease	2007	2008	2009	Total Minimum Payments Required
Office space	$20,000	$20,000	$20,000	$60,000

The university has no capital leases.

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	$25,615,000		($970,000)	$24,645,000	$1,010,000
Other liabilities - accrued:					
Amounts held in custody for others	283,255	$238,847	(232,303)	289,799	289,799
Compensated absences payable	2,588,170	310,101	(198,285)	2,699,986	206,851
Total	$28,486,425	$548,948	($1,400,588)	$27,634,785	$1,506,650

Details of all debt outstanding for the year ending June 30, 2006, are as follows:

Bonds 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
Student Housing System Revenue Bonds -								
Auxiliary Revenue Refunding Bonds	May 1, 2001	$2,110,000	$1,220,000	($235,000)	$985,000	2009	4.95%	$84,769
Stadium Project Series 1996	October 15, 1996	900,000	420,000	(60,000)	360,000	2012	4.52%	48,816
Parking Lot Series 1997	February 12, 1997	1,500,000	875,000	(105,000)	770,000	2012	6.25%	153,125
University Student Lease Revenue Bonds Series 2001	May 31, 2001	21,120,000	20,450,000	(360,000)	20,090,000	2033	5.39%	17,819,361
University Stadium Parking Revenue Bonds Series 2004	February 1, 2004	820,000	750,000	(70,000)	680,000	2014	4.73%	151,124
University Scoreboard Project Bonds Series 2005	April 1, 2005	1,900,000	1,900,000	(140,000)	1,760,000	2015	6.50%	619,774
Total		$28,350,000	$25,615,000	($970,000)	$24,645,000			$18,876,969

All of the university's auxiliary enterprise revenues are available as security for the outstanding revenue bonds at June 30, 2006.

The annual requirements to amortize the university's bonds outstanding at June 30, 2006, including interest of $18,876,969 are as follows:

	Principal	Interest	Total
2007	$1,010,000	$1,276,833	$2,286,833
2008	1,055,000	1,611,494	2,666,494
2009	1,356,000	1,055,237	2,411,237
2010	896,000	1,017,842	1,913,842
2011	921,000	990,972	1,911,972
2012-2016	3,945,000	4,487,703	8,432,703
2017-2021	3,281,000	3,733,780	7,014,780
2022-2026	4,251,000	2,774,310	7,025,310
2027-2031	5,506,000	1,533,682	7,039,682
2032-2033	2,424,000	395,116	2,819,116
Total	$24,645,000	$18,876,969	$43,521,969

The following is a summary of the debt service reserve requirements of the various bond issues outstanding at June 30, 2006:

Bond Issue	Reserves Available	Reserve Requirement	Excess
Auxiliary Revenue Refunding Bonds 2001	$226,940	$211,000	$15,940
University Student Lease Revenue Bonds Series 2001	1,415,613	1,409,558	6,055
Total	$1,642,553	$1,620,558	$21,995

15. RESTRICTED NET ASSETS

The university has the following restricted net assets:

Nonexpendable - endowments	$9,142,035
Expendable:	
General fund	$14,687
Restricted funds	4,454,089
Student Loan funds	2,910,723
Unexpended Plant funds	2,129,971
Retirement of Indebtedness funds	130,271
Cowboy Facilities, Inc.	1,573,506
Total expendable	$11,213,247

FOUNDATION NET ASSETS

TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

	2006
Projects specified by donors	$1,726,413
Dedicated scholarships	362,881
Freshman awards	33,700
Professorship awards	71,000
Named honor awards	10,000
Excellence awards	4,000
Early admissions scholarships	2,850
Graduate scholarships	12,088
Endowment distributions	1,123
Total	$2,224,055

PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2006:

	2006
Eminent Scholars/Endowed Professorships	$4,858,221
Scholarships	8,198,092
H.C. Drew Institute	6,000,000
Other university projects	5,090,361
Total	$24,146,674

16. RESTATEMENT OF NET ASSETS

The following adjustment was made to restate beginning net assets as reflected on the Statement of Revenues, Expenses, and Change in Net Assets:

Net Assets July 1, 2005, previously reported	$60,127,992
Capital assets adjustment	806,666
Beginning Net Assets, July 1, 2005, as restated	$60,934,658

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 has no other contingent liabilities.

18. REVENUE USED AS SECURITY FOR REVENUE BONDS

The revenues of certain auxiliary enterprises are restricted by terms in the covenants of certain debt instruments. The revenues reported on the Statement of Revenues, Expenses, and Changes in Net Assets include all auxiliary enterprise revenues, but exclude sales to other university departments, in accordance with accounting principles generally accepted in the United States of America. The following represents those restricted auxiliary enterprise revenues of certain auxiliary enterprises at the university that are used as security for revenue bonds; however, these amounts do include sales to other university departments for the year ended June 30, 2006:

Auxiliary Enterprises	
Residential life	$601,199
Student union services, including bookstore	4,317,187
Athletics	4,379,148
Cowboy Facilities, Inc.	2,595,722
Total	$11,893,256

19. FOUNDATIONS

As indicated previously, the accompanying financial statements include the accounts of the McNeese State University Foundation and the Cowboy Facilities, Inc. These organizations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

The university contracted with the Foundation to invest the university's Endowed Chairs for Eminent Scholars endowment funds and Endowed Professorship Program endowment funds, which were created in accordance with R.S. 17:3384. The Endowed Chairs for Eminent Scholars endowment funds are established for $1,000,000 each, with $600,000 of private contributions and $400,000 of state matching portion allocated by the Board of Regents for Higher Education. The Endowed Professorship Program endowment funds are established for $100,000 each, with $60,000 of private contributions and $40,000 of state matching portion allocated by the Board of Regents for Higher Education.

Funds representing the Eminent Scholars/Endowed Professorships program are segregated. The fair value of these funds is $7,937,035 at June 30, 2006, compared to $7,100,000 in donations/ state matching.

20. COOPERATIVE ENDEAVOR AGREEMENTS

In 2005, the university entered into two cooperative endeavor agreements with Louisiana State University at Eunice and Lamar State College, Orange, Texas, for the purposes of recruiting in science, technology, engineering and mathematics fields. The cooperative endeavor agreements expire on August 31, 2006.

21. 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, $905,931 is restricted by enabling legislation.

22. IMPAIRMENT OF CAPITAL ASSETS

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.

On September 24, 2005, the university was struck by Hurricane Rita. The hurricane caused considerable damage to building roofs, which allowed rain water to enter into the buildings. This resulted in water and mold damage to the buildings' interiors. The university was closed for five weeks while remediation and repair was conducted. On October 27, 2005, the university resumed the fall 2005 semester.

Three academic buildings remain closed for repair, and these closed buildings constitute approximately 120,000 square feet of academic space. The university is using temporary buildings to meet student classroom needs. In addition, one student housing facility remains closed. The students' housing facility is capable of housing 340 students. These facilities as well as other partially damaged facilities are being repaired based upon a state Office of Facility Planning and Control priority schedule. The time of completion of the buildings' repair is not certain.

GASB Statement No. 42 established accounting and financial reporting standards for impairment of capital assets. Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally should be considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. The state's Office of Statewide Reporting and Accounting Policy (OSRAP) provided guidance on impairment test criteria by stating that the greater of the capitalization threshold, $100,000, or 20% of the capitalized cost of the building impaired by physical damage be used as the test of whether the magnitude in the decline was significant. OSRAP also provided guidance that the impairment gain/loss should be reported as an extraordinary item. The university used the Current Restoration Cost Method to determine the amount of impairment loss before insurance recovery. Based on this method, university buildings that were physically damaged by Hurricane Rita and considered impaired had an impairment loss before insurance recovery of $546,766.

The carrying amount of impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is considered permanent or temporary. Buildings with a carrying value of $1,549,467 were idle at the end of the fiscal year. In addition, the amount of equipment that could not be inventoried for the fiscal year ended June 30, 2006, was $12,544. University personnel were prohibited from entering the buildings where the equipment was being housed.

23. INSURANCE RECOVERIES

In proprietary fund financial statements, the impairment loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same years. Insurance recoveries should be recognized only when realized or realizable. The Office of Risk Management has acknowledged coverage totaling $22,672,197 relating to the university. Of this amount, $5,063,048 represented expenses that were offset by insurance recoveries and are not shown in the financial statements. The remaining $17,609,149 was recorded as an accounts receivable. The accounts receivable for insurance recoveries on impaired buildings totaled $11,677,402 and with the impairment loss before insurance recovery of $546,766, resulted in an extraordinary gain of $11,130,636. Accounts receivable for insurance recoveries not associated with impaired buildings totaled $5,931,747 and was reported as nonoperating revenue.

24. 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.

25. ALTERNATIVE FINANCING AGREEMENTS

On May 31, 2001, Cowboy Facilities, Inc., entered into a loan agreement with the Calcasieu Parish Public Trust Authority to obtain financing for the construction of student housing facilities on the university campus. Financing for the project is through the issuance of $21,120,000 of University Student Lease Revenue Bonds, Series 2001.

Pursuant to the terms of a ground lease agreement, the Facilities Corporation will lease land that is now occupied by three new dormitories on the main campus from the Board of Supervisors of the University of Louisiana System. The university will lease the dormitories from Cowboy Facilities, Inc., for 33 years at which time the dormitories will become the university's property. The university has also contracted with Ambling, Inc., to manage the new dormitories. All of the rental income will be used first to pay the bonds, then maintenance of the building, and then the management fee.

On February 1, 2004, Cowboy Facilities, Inc., entered into a loan agreement with the Calcasieu Parish Public Trust Authority to obtain financing for the development of additional public parking on the university campus. Financing for the project is through the issuance of $820,000 of Revenue Bonds, Series 2004.

Pursuant to the terms of the ground lease agreement, the Facilities Corporation will lease land from the Board of Supervisors of the University of Louisiana System upon which the new public parking facilities will be built. The new parking will be leased by the corporation to the board in accordance with the provisions of the lease agreement. The board's right to obtain title to the facilities is set forth in the facilities lease agreement. The rental income derived from the facilities lease will be used to pay the bonds.

On April 1, 2005, Cowboy Facilities, Inc., entered into a loan agreement with the Calcasieu Parish Public Trust Authority to obtain financing for the purchase of scoreboards on the university campus. Financing for the project is through the issuance of $1,900,000 of Revenue Bonds, Series 2005.

Pursuant to the terms of the ground lease agreement, the corporation will lease the facilities from the Board of Supervisors of the University of Louisiana System upon which the scoreboards will be acquired and installed. The scoreboard improvements will be leased by the corporation to the board in accordance with the provisions of the lease agreement. The board's right to obtain title to the facilities is set forth in the facilities lease agreement. The rental income derived from the lease will be used to pay the bonds.

This page is intentionally blank.

Management Letter

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

October 2, 2006

McNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Lake Charles, Louisiana

We have reviewed the financial statements of McNeese State University, as of and for the year ended June 30, 2006, and have issued our accountant's review report thereon dated October 2, 2006. McNeese 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.

We did not review the financial statements of the McNeese State University Foundation, a discretely presented component unit of the university, or the Cowboy Facilities, Inc., a blended component unit of the university, both of which are included in the university's financial statements. The financial statements of these two component units were audited by other auditors whose reports thereon have been furnished to us, and the results of our review expressed herein, insofar as it relates to the amounts included for those component units, is based solely upon the reports of the other auditors.

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 McNeese 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 deficiencies.

Separate audit reports for McNeese State University Foundation and Cowboy Facilities, Inc., are available at the addresses listed in note 1.B to the financial statements.

This management letter is intended solely for the information and use of McNeese 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

CH:EFS:PEP:dl

MSU06