

LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



ACCOUNTANT'S REVIEW REPORT

ISSUED FEBRUARY 22, 2006

REVISED
8:20 am, 3/8/06

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STEVE J. THERIOT, CPA

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December 7, 2005

Accountant's Review Report
on the Financial Statements

LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Ruston, Louisiana

We have reviewed the accompanying basic financial statements as listed in the table of contents of Louisiana Tech 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, 2005, 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 Louisiana Tech University. We did not review the financial statements of the Louisiana Tech University Foundation, Inc., 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 Innovative Student Facilities Inc., a blended component unit of the university, whose statements reflect total assets and revenues of 12.8% and 0.4%, respectively, of the related university totals. These component unit financial statements were audited by other auditors whose report thereon has been furnished to us, and the results of our review expressed herein, insofar as it relates to the amounts included for these component units, is based solely upon the report of the other auditors.

A review consists principally of inquiries of Louisiana Tech 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 Louisiana Tech 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 Louisiana Tech 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, 2005, 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 report 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 Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*, Louisiana Tech University discretely presented the financial statements and other required note disclosures for the Louisiana Tech University Foundation, Inc., a component unit of the university, as of and for the year ended June 30, 2005. Those amounts were audited by other auditors.

As discussed in note 1-Q to the basic financial statements, Louisiana Tech University implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, for the year ended June 30, 2005.

Management's discussion and analysis on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

CJ:WJR:THC:dl

LTU05

This section of Louisiana Tech University's (University) 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, 2005. 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, this report includes the audited financial statements and accompanying notes of the Louisiana Tech University Foundation for the fiscal year ended June 30, 2005. 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 changed from \$117,417,916 to \$120,624,946 or 2.7% from June 30, 2004, to June 30, 2005. The overall reasons for this change included:

- Completion and occupancy of 162 new apartments in University Park through a 501(c)(3) Corporation
- Construction-in-progress for the new Biomedical Engineering Building
- Increase in fees and tuition
- Acquisition of new instructional and research equipment
- Addition of new endowed professorships

Enrollment decreased from 11,975 to 11,710 from June 30, 2004, to June 30, 2005, a change of 2.2%. The reasons for this change is attributed to the impact of undergraduate selective admissions criteria upon the University and offset by a small increase in graduate enrollment.

The University's operating revenues changed from \$76,423,052 to \$78,185,595 or 2.3 % from June 30, 2004, to June 30, 2005. Operating expenses, however, increased by 2.4% to \$123,720,077 for the year ended June 30, 2005. Increased tuition and fee revenues along with the increased cost of operations and employee benefit costs are the primary reasons for this change.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$47,383,135 in 2005 from \$44,906,289 in 2004 is attributed to a small decrease in state appropriation, a large increase in gift income and an increase in investment income.

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*.

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 required supplementary information.

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 13-14) 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 17-18) 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 21-23) 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.

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 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, 2005, and June 30, 2004
(in thousands)

	Total	
	2005	2004
Current and other assets	\$60,682	\$68,748
Capital assets	110,790	102,843
Total assets	<u>171,472</u>	<u>171,591</u>
Other liabilities	12,612	15,496
Long-term debt outstanding	38,235	38,677
Total liabilities	<u>50,847</u>	<u>54,173</u>
Net assets:		
Invested in capital assets, net of debt	74,594	73,320
Restricted	37,484	36,672
Unrestricted	<u>8,547</u>	<u>7,426</u>
Total net assets	<u>\$120,625</u>	<u>\$117,418</u>

This schedule is prepared from the University's Statement of Net Assets as shown on pages 13-14, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant Statement of Net Asset changes from 2005 include:

- An increase in capital assets of \$7,947,216 from the completion of 162 student housing units and the start of a new Biomedical Engineering building and net additions of instruction and research equipment and library materials
- A decrease in long-term debt from the defeasance of the 1995 Revenue Refunding Bonds in May 2005 and other debt repayments
- A decrease in investments from Innovative Student Facilities, Inc., use of invested bond proceeds for the completions of its housing units and an increase in investments for Endowed Chairs and Professorships

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, 2005, and June 30, 2004
(in thousands)**

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Student tuition and fees, net	\$34,545	\$32,720
Grants and contracts	18,571	19,006
Auxiliary	23,018	22,554
Other	2,052	2,143
Total operating revenues	<u>78,186</u>	<u>76,423</u>
Operating expenses:		
Education and general:		
Instruction	36,806	35,224
Research	14,784	14,060
Public service	1,241	1,105
Academic support	7,116	7,489
Student services	5,491	5,255
Institutional support	9,182	9,149
Operations and maintenance of plant	8,557	8,127
Depreciation	7,177	6,667
Scholarships and fellowships	5,250	5,777
Other operating expenses	28,116	27,969
Total operating expenses	<u>123,720</u>	<u>120,822</u>
Operating loss	<u>(45,534)</u>	<u>(44,399)</u>
Nonoperating revenues:		
State appropriations	43,634	43,697
Gifts	3,347	1,207
Other nonoperating revenues	402	2
Net nonoperating revenues	<u>47,383</u>	<u>44,906</u>
Income before other revenues, expenses, gains, losses	1,849	507
Capital appropriations	2,735	10,967
Capital grants and gifts	122	144
Additions to permanent endowments	1,087	2,502
Other additions, net	<u>(2,586)</u>	<u>(7,015)</u>
Change in Net Assets	3,207	7,105
Net assets at the beginning of the year, restated	<u>117,418</u>	<u>110,313</u>
Net assets at the end of the year	<u>\$120,625</u>	<u>\$117,418</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating revenues increased by 5.5% to \$47,383,135 primarily attributable to an increase in gifts and investment income and a decrease in interest expense.

State appropriations changed from \$43,697,036 to \$43,633,634 while capital appropriations decreased from \$10,967,487 to \$2,734,670 because of the completion of 162 student housing units through Innovative Student Facilities, Inc., and the start of construction of a new Biomedical Engineering building.

The University's total revenues (operating and nonoperating) increased by \$4,239,389 or 3.5%.

STATEMENT OF CASH FLOWS

Another way to assess the financial health of the University is to look at the Statement of Cash Flows. The Statement of Cash Flows assists readers of this statement to assess:

- The ability to generate future cash flows
- The ability to meet obligations as they come due
- A need for external financing

Statement of Cash Flows
For the Years Ended June 30, 2005, and June 30, 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents provided (used) by:		
Operating activities	(\$41,893)	(\$37,783)
Capital financing activities	(17,786)	(139)
Noncapital financing activities	48,923	48,633
Investing activities	<u>8,525</u>	<u>(11,889)</u>
Net decrease in cash and cash equivalents	(2,231)	(1,178)
Cash and cash equivalents:		
Beginning of year	<u>21,368</u>	<u>22,546</u>
End of year	<u><u>\$19,137</u></u>	<u><u>\$21,368</u></u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, the University had invested approximately \$110,790,297 in capital assets, net of accumulated depreciation. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$7,947,216 or 7.7% 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)**

	2005	2004
Land	\$6,070	\$4,667
Land improvements	1,158	1,002
Construction-in-progress	2,393	19,199
Buildings	88,077	64,708
Equipment	10,771	11,064
Library materials	2,321	2,203
Total	\$110,790	\$102,843

This year's major additions included:

- Completion of 162 student housing units for Innovative Student Facilities
- Construction-in-progress for a new Biomedical Engineering building
- Equipment and library acquisitions
- Land acquisition for parking and campus expansion

Debt

The University had \$36,671,000 in bonds and notes outstanding at year-end, compared to \$37,217,000 last year, a decrease of 1.5% as shown in the table below.

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

	2005	2004
General obligation bonds	\$2,360	\$2,580
Revenue bonds and notes	34,311	34,637
Total	\$36,671	\$37,217

The Series 1995 Revenue Refunding Bonds were defeased and the 1999 Revenue Refunding Bonds were refunded at a lower interest rate and extended by three years with the issuance of the Series 2005 Revenue Refunding Bonds.

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

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:

- List any significant factors such as:
 - The University's base state appropriation for FY 2005-2006 will increase to \$44,701,780. Most of the additional funding is dedicated to increased costs to the University from the state. Self-generated funds are projected to increase by approximately \$.6 million from a 3% fee increase approved for University of Louisiana System. The University is in its thirteenth year of selective admissions with new tougher standards to be imposed beginning in the Fall of 2005. Based on these increased admission standards, the University's enrollment for the upcoming year is projected to decrease from 2% to 2.5%.
 - The University has opened 162 new student apartments (approximately 448 beds) constructed from \$21,840,000 in bonds issued through Innovative Student Facilities, Inc., a 501(c)(3) Corporation.
 - On September 30, 2004, through a current refunding, the University re-financed at a lower interest rate and extended by three years its Series 1999 Revenue Refunding Bonds by issuance of Series 2004 Revenue Refunding Bonds as part of repair and replacement efforts for its housing system. The refunding achieved a lower interest rate and will generate approximately \$2.9 million in the first five years. The University used a public offering with the bonds being rated AAA through the purchase of bond insurance.

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 Louisiana Tech 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 Louisiana Tech University at (318) 257-4325.

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**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Net Assets
June 30, 2005**

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$12,143,930
Receivables, net (note 4)	6,632,852
Inventories	1,974,022
Deferred charges and prepaid expenses	1,030,001
Notes receivable, net (note 5)	1,119,420
Other current assets	122,606
Total current assets	<u>23,022,831</u>

Noncurrent assets:

Restricted assets:

Cash and cash equivalents (note 2)	6,992,593
Investments (note 3)	24,471,647
Accounts receivable, net (note 4)	113,401
Notes receivable, net (note 5)	5,843,066
Other	238,043
Capital assets, net (note 6)	<u>110,790,297</u>
Total noncurrent assets	<u>148,449,047</u>
Total assets	<u><u>171,471,878</u></u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities (note 10)	4,679,896
Deferred revenues (note 11)	3,470,490
Compensated absences payable (note 12)	274,706
Capital lease obligations (note 13)	264,275

(Continued)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2005**

LIABILITIES (CONT.)

Current liabilities: (Cont.)

Amounts held in custody for others	\$481,293
Notes payable (note 14)	67,877
Bonds payable (note 14)	1,352,655
Other current liabilities	22,786
Total current liabilities	10,613,978

Noncurrent liabilities:

Compensated absences payable (note 12)	3,241,935
Capital lease obligations (note 13)	1,299,328
Notes payable (note 14)	70,361
Bonds payable (note 14)	35,180,549
Other noncurrent liabilities	440,781
Total noncurrent liabilities	40,232,954
Total liabilities	50,846,932

NET ASSETS

Invested in capital assets, net of related debt	74,594,234
Restricted for:	
Nonexpendable (note 15)	25,959,138
Expendable (note 15)	11,523,930
Unrestricted	8,547,644
Total net assets	120,624,946
Total liabilities and net assets	\$171,471,878

(Concluded)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA****Louisiana Tech University Foundation, Inc.
Statement of Financial Position
June 30, 2005****ASSETS**

Cash and cash equivalents	\$3,690,687
Accounts receivable	996,718
Contributions receivable, net	247,002
Accrued interest receivable	77,997
Investments (note 3)	16,546,352
Fixed assets, net (note 6)	4,646,488
Other assets	74,901
Restricted assets - investments (note 3)	<u>24,403,725</u>
Total assets	<u><u>\$50,683,870</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$462,884
Accrued interest payable	17,952
Annuities liability	143,777
Deferred revenues	711,672
Deferred compensation	28,633
Notes payable (note 14)	1,125,000
Bonds payable (note 14)	2,254,899
Due to Louisiana Tech University (note 17)	<u>24,054,255</u>
Total liabilities	<u><u>28,799,072</u></u>

(Continued)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
LOUISIANA TECH UNIVERSITY FOUNDATION, INC.
Statement of Financial Position, June 30, 2005**

NET ASSETS

Unrestricted:

For current operations	\$581,631
Designated for fixed assets	1,085,599
Designated for funds functioning as endowments	<u>2,671,571</u>
	4,338,801

Temporarily restricted - for specific purposes	5,127,252
Permanently restricted - endowment	<u>12,418,745</u>
Total net assets	<u>21,884,798</u>

Total liabilities and net assets	<u><u>\$50,683,870</u></u>
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(Concluded)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Revenues, Expenses,
and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005**

OPERATING REVENUES

Student tuition and fees	\$44,657,356
Less scholarship allowances	(10,112,635)
Net student tuition and fees	34,544,721
Federal appropriations	50,292
Federal grants and contracts	14,738,665
State and local grants and contracts	3,170,045
Nongovernmental grants and contracts	661,852
Sales and services of educational departments	724,172
Auxiliary enterprise revenues	24,235,403
Less scholarship allowances	(1,217,546)
Net auxiliary revenues	23,017,857
Other operating revenues	1,277,991
Total operating revenues	78,185,595

OPERATING EXPENSES

Education and general:	
Instruction	36,806,195
Research	14,783,590
Public service	1,241,280
Academic support	7,115,954
Student services	5,490,656
Institutional support	9,182,424
Operations and maintenance of plant	8,557,002
Depreciation	7,176,596
Scholarships and fellowships	5,249,884

(Continued)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2005**

OPERATING EXPENSES (CONT.)

Auxiliary enterprises	\$27,727,018
Other operating expenses	389,478
Total operating expenses	<u>123,720,077</u>
Operating loss	<u>(45,534,482)</u>

NONOPERATING REVENUES (Expenses)

State appropriations	43,633,634
Gifts	3,347,225
Net investment income	442,888
Interest expense	(687,774)
Other nonoperating revenues	647,162
Net nonoperating revenues	<u>47,383,135</u>
Income before other revenues, expenses, gains and losses	<u>1,848,653</u>
Capital appropriations	2,734,670
Capital grants and gifts	122,349
Additions to permanent endowments	1,087,389
Other additions, net	<u>(2,586,031)</u>

Increase in Net Assets 3,207,030

Net Assets at the Beginning of Year 117,417,916

Net Assets at the End of Year \$120,624,946

(Concluded)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Louisiana Tech University Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2005**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Revenues, gains, and other support:				
Contributions	\$527,279	\$3,324,391	\$894,590	\$4,746,260
Contributed services	602,204			602,204
Interest and dividends and lease income	76,658	585,721	91	662,470
Service charges	663,490			663,490
Realized and unrealized gains (losses) on investments, net	(41,596)	365,274	11,040	334,718
Other	88,351	767,427		855,778
Total	1,916,386	5,042,813	905,721	7,864,920
Net assets released from restrictions	4,148,301	(4,092,123)	(56,178)	NONE
Total revenues, gains, and other support	6,064,687	950,690	849,543	7,864,920
Expenses:				
Instructional support	391,300			391,300
Academic support	32,944			32,944
Research	14,155			14,155
Institutional support	2,044,235			2,044,235
Student financial aid	144,159			144,159
Student services	67,710			67,710
Auxiliary	934,574			934,574
General administrative services	893,787			893,787
Fund raising	909,931			909,931
Total expenses	5,432,795	NONE	NONE	5,432,795
Assets dedicated to Louisiana Tech University, net	NONE	(741)	NONE	(741)
Change in net assets	631,892	949,949	849,543	2,431,384
Net assets at the beginning of year	3,706,909	4,177,303	11,569,202	19,453,414
Net assets at the end of year	\$4,338,801	\$5,127,252	\$12,418,745	\$21,884,798

See accompanying notes and accountant's review report.

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**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

Cash flows from operating activities:

Tuition and fees	\$34,628,881
Federal appropriations	50,292
Grants and contracts	16,276,506
Payments to suppliers	(30,707,803)
Payments for utilities	(7,626,725)
Payments to employees	(58,080,225)
Payments for benefits	(14,885,166)
Payments for scholarships and fellowships	(6,191,468)
Loans issued to students	(1,580,685)
Collections of loans to students	1,334,124
Auxiliary enterprise charges	22,935,271
Sales and services of educational departments	716,383
Other receipts	1,237,457
Net cash used by operating activities	(41,893,158)

Cash flows from noncapital financing activities:

State appropriations	43,862,988
Gifts and grants for other than capital purposes	3,373,639
Private gifts for endowment purposes	1,087,389
TOPS receipts	10,011,593
TOPS disbursements	(10,016,219)
Federal Family Education Loan Program receipts	22,209,081
Federal Family Education Loan Program disbursements	(22,202,474)
Other receipts	596,572
Net cash provided by noncapital financing sources	48,922,569

(Continued)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2005**

Cash flows from capital financing activities:	
Proceeds from capital debt	\$7,220,472
Capital appropriations received	2,734,670
Capital grants and gifts received	9,000
Proceeds from sale of capital assets	3,537
Purchases of capital assets	(16,486,317)
Principal paid on capital debt and leases	(7,992,992)
Interest paid on capital debt and leases	(690,976)
Deposit with trustees	2,777
Other uses	(2,586,031)
Net cash used in capital financing activities	<u>(17,785,860)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	9,125,308
Interest received on investments	487,536
Purchase of investments	(1,087,389)
Net cash used by investing activities	<u>8,525,455</u>
Net decrease in cash and cash equivalents	(2,230,994)
Cash at the beginning of year	<u>21,367,517</u>
Cash at the end of year	<u><u>\$19,136,523</u></u>

(Continued)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2005**

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

Operating loss	(\$45,534,482)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	7,176,596
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(1,897,895)
Decrease in notes receivable, net	43,298
(Increase) in inventories	(87,117)
(Increase) in other assets	(238,965)
(Increase) in prepaid expenses	(159,457)
(Decrease) in accounts payable	(772,768)
(Decrease) in deferred revenues	(344,991)
(Decrease) in amounts held in custody for others	(33,405)
Increase in compensated absences	90,722
(Decrease) in other current payables	(134,694)

Net Cash Used by Operating Activities (\$41,893,158)

(Concluded)

See accompanying notes and accountant's report.

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**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Louisiana Tech University Foundation, Inc.
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

Cash flows from operating activities:	
Change in net assets	\$2,431,384
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	734,440
Net unrealized (gain) on long-term investments	(135,138)
Realized (gain) on sale of investments	(199,580)
Donated works of art	(377,900)
(Increase) decrease in assets:	
Accounts receivable	(710,504)
Contributions receivable, net	(21,239)
Accrued interest receivable	(5,380)
Other assets	101,582
Increase (decrease) in liabilities:	
Accounts payable	325,998
Accrued interest payable	(1,856)
Annuities liability	(11,904)
Deferred revenues	638,339
Deferred compensation	(691,833)
Contributions restricted for long-term investment	(894,590)
Net cash provided by operating activities	<u>1,181,819</u>
Cash flows from investing activities:	
Purchases of fixed assets	(216,498)
Purchases of investments	(3,750,532)
Proceeds on sale of investments	3,256,642
Increase in due to Louisiana Tech University	111,788
Net cash used by investing activities	<u>(598,600)</u>

(Continued)

See accompanying notes and accountant's report.

**LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Louisiana Tech University Foundation, Inc.
Statement of Cash Flows, 2005**

Cash flows from financing activities:	
Contributions restricted for investment in endowment	\$894,590
Payments of notes payable	(75,000)
Payments of bonds payable	<u>(358,605)</u>
Net cash provided by financing activities	<u>460,985</u>
Increase in cash and cash equivalents	1,044,204
Cash and cash equivalents - beginning of year	<u>2,646,483</u>
Cash and cash equivalents - end of year	<u><u>\$3,690,687</u></u>

(Concluded)

See accompanying notes and accountant's report.

INTRODUCTION

Louisiana Tech 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 like 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 Ruston, Louisiana. The university offers associate, baccalaureate, and selected masters, specialists, and doctorate degrees in various academic areas. Net enrollment at the university was 4,827; 11,710; 10,122; and 9,978, respectively, during the summer, fall, winter, and spring quarters of fiscal year 2005. At June 30, 2005, the university has approximately 1,261 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. The university has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board statements.

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.

The Innovative Student Facilities, Inc., is a Louisiana nonprofit corporation created on March 26, 2002. The purpose of the organization is to promote, assist, and benefit the mission of the university primarily through the development and construction of student housing facilities. Since its inception, the corporation developed plans, sold \$21,840,000 of revenue bonds, and has begun construction of 162 new student apartment style housing units. The proceeds from the student housing will be used to repay the bonds and maintain the facilities. 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 Innovative Student Facilities, Inc., for the years ended June 30, 2005 and 2004. To obtain a copy of the audit report, write to:

Innovative Student Facilities, Inc.,
c/o Dr. Jim King
Post Office Box 3164
Ruston, Louisiana 71272

The Louisiana Tech University Foundation, Inc., (Foundation) 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. In addition, the Foundation assists the university in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. The university and the Foundation are also in a management agreement related to endowed chairs and professorships. This agreement is in compliance with Board of Regents policy and allows the Foundation to manage funds on behalf of the university.

Other external auditors audited the Louisiana Tech University Foundation, Inc., for the years ended June 30, 2005 and 2004. To obtain a copy of the audit reports, write to:

Louisiana Tech University Foundation, Inc.
Post Office Box 3183
Ruston, Louisiana 71272

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.

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; (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 2005 include the original approved budget and subsequent amendments approved as follows:

Original approved budget	\$82,173,850
Amendments:	
State General Fund	(595,987)
Self-generated	(1,667)
Other	<u>5,714</u>
Final budget	<u><u>\$81,581,910</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 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.

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. Investments in repurchase agreements, common and preferred stocks, mutual funds, diamonds, and an external investment pool 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 cost or replacement cost. 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 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 (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations 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 of the plant fund 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 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

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 and federal appropriations.
- (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 PRINCIPLE

For the year ended June 30, 2005, the university implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. The implementation of this new accounting standard required additional disclosures but had no impact on the reported amounts of investments, net assets, or changes in net assets.

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

**ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

A. ORGANIZATION

The Foundation was organized to solicit, receive, hold, invest, and transfer funds for the benefit of the university. In addition, the Foundation assists the university in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. The university and the Foundation are also in a management agreement related to endowed chairs and professorships. This agreement is in compliance with the Board of Regents policy and allows the Foundation to manage funds on behalf of the university.

B. BASIS OF FINANCIAL STATEMENTS

The Foundation maintains its accounts in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. However, these assets may be designated by management for specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time. This classification includes gifts, annuities, and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to sell all of, or part of, the income earned on the related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

C. NET ASSETS RELEASED FROM RESTRICTIONS

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

D. CONTRIBUTIONS

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

E. INVESTMENT INCOME

Income and realized and unrealized net gains on investments of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income
- Increases in unrestricted net assets in all other cases

F. TEMPORARILY RESTRICTED NET ASSETS

With respect to temporarily restricted net assets, the Foundation has adopted the following accounting policies:

Contributions with Restrictions Met in the Same Year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of temporarily restricted net assets, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Building, and Equipment - Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment without such donor stipulations concerning the use of such long-lived assets are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

G. CASH AND CASH EQUIVALENTS

Cash and cash equivalents principally include cash and money market investments not held by trustees. For purposes of the cash flow statement, all highly liquid instruments with original maturities of three months or less are considered cash equivalents.

H. IN-KIND GIFTS

Gifts of investments, real estate, and other property contributed to the Foundation are recorded at estimated fair value at date of contribution.

I. ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts due from outside parties. Management evaluates the collectibility and aging of those accounts receivable in determining the need for an allowance for doubtful accounts.

J. INVESTMENTS

Investments are stated at fair value. Gains or losses on sales of investment securities are based upon the cost of the specific security sold.

K. DEPRECIATION

Depreciation is provided on the straight-line method based on the estimated useful lives of the depreciable assets which range from two to 30 years.

L. TAX STATUS

The Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3). Accordingly, no provision for income taxes has been made; however, should the Foundation engage in activities unrelated to its exempt purpose, taxable income could result. The Foundation had no material unrelated business income for the fiscal year ended June 30, 2005.

M. FUNDS FUNCTIONING AS ENDOWMENT

The Foundation has designated funds for which the income earned is designated for specific uses. Because there is no donor-imposed restriction, these funds are classified as unrestricted net assets; however, the Foundation restricts the use of the funds in the same manner as a donor would by creating an endowment.

N. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

2. CASH AND CASH EQUIVALENTS

At June 30, 2005, the university has cash and cash equivalents (book balances) of \$19,136,523 as follows:

NOTES TO THE FINANCIAL STATEMENTS

Petty cash	\$67,173
Demand deposits	(1,511,707)
Interest-bearing demand deposits	7,236,800
Money market accounts	13,339,564
Certificates of deposit	<u>4,693</u>
 Total	 <u><u>\$19,136,523</u></u>

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

Current assets	\$12,143,930
Noncurrent assets	<u>6,992,593</u>
 Total	 <u><u>\$19,136,523</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 must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the university or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

As of June 30, 2005, \$1,977,451 of the university's total bank balance of \$20,374,758 was uninsured and collateralized with securities held by pledging institutions and therefore exposed to custodial credit risk. The \$1,977,451 consists of money market funds belonging to Innovative Student Facilities, Inc.

3. INVESTMENTS

At June 30, 2005, the university has investments totaling \$24,471,647.

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			Percentage of Investments
	Fair Value	Less Than 1 Year	1-5 Years	
Type of investment:				
Repurchase agreements	\$402,373	\$402,373		1.64%
Common and preferred stock	31,712	31,712		0.13%
Money market mutual funds	12,226	12,226		0.05%
Diamonds	8,239			0.03%
Investments held by private foundations in external investment pools	24,017,097			98.14%
Total investments	\$24,471,647	\$446,311	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, 2005, external pool investments total \$24,017,097 and were 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.

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. Of the university’s \$24,471,647 of investments, \$402,373 of repurchase agreements of the Innovative Student Facilities, Inc., are held by the investment’s counterparty, not in the name of the entity.

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

The Foundation's investments totaling \$40,950,077, as shown on the Statement of Financial Position (Statement B), are reported under FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40.

A summary of the fair value of investments held by the Foundation at June 30, 2005, follows:

Held by investment custodians:	
Cash and cash equivalents	\$3,315,341
Certificates of deposit	285,000
Mutual funds	11,039,127
Government obligations and corporate bonds	13,024,593
Common stocks	11,170,409
Real estate held by Foundation	<u>2,115,607</u>
Total investments	<u><u>\$40,950,077</u></u>

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	\$893,081	(\$123,262)	\$769,819
Auxiliary enterprises	934,279	(37,235)	897,044
Contributions and gifts	31,720		31,720
Federal, state, and private grants and contracts	4,180,107		4,180,107
Federal and state appropriations	634,438		634,438
Other	<u>233,125</u>		<u>233,125</u>
Total	<u><u>\$6,906,750</u></u>	<u><u>(\$160,497)</u></u>	<u><u>\$6,746,253</u></u>

5. NOTES RECEIVABLE

Notes receivable are comprised of loans to students under the Federal Perkins Loan Program. 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, 2005:

Type	Notes Receivable	Allowance for Doubtful Accounts	Notes Receivable (Net)	Noncurrent Portion
Federal Perkins Loans	\$7,307,642	(\$345,156)	\$6,962,486	\$5,843,066

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2004	Transfers and Additions	Transfers and Retirements	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$4,667,011	\$1,403,063		\$6,070,074
Construction-in-progress	19,199,366	10,626,021	(\$27,432,233)	2,393,154
Total capital assets not being depreciated	\$23,866,377	\$12,029,084	(\$27,432,233)	\$8,463,228
Other capital assets:				
Land improvements	\$2,284,759	\$255,491		\$2,540,250
Less accumulated depreciation	(1,283,238)	(99,019)		(1,382,257)
Total land improvements	1,001,521	156,472	NONE	1,157,993
Buildings	141,437,814	26,954,694		168,392,508
Less accumulated depreciation	(76,729,536)	(3,586,383)		(80,315,919)
Total buildings	64,708,278	23,368,311	NONE	88,076,589
Equipment	27,096,206	2,092,442	(491,097)	28,697,551
Less accumulated depreciation	(16,032,342)	(2,381,811)	487,560	(17,926,593)
Total equipment	11,063,864	(289,369)	(3,537)	10,770,958
Library books	19,333,027	1,227,871	(16,145)	20,544,753
Less accumulated depreciation	(17,129,986)	(1,109,383)	16,145	(18,223,224)
Total library books	2,203,041	118,488	NONE	2,321,529
Total other capital assets	\$78,976,704	\$23,353,902	(\$3,537)	\$102,327,069
Capital asset summary:				
Capital assets not being depreciated	\$23,866,377	\$12,029,084	(\$27,432,233)	\$8,463,228
Other capital assets, at cost	190,151,806	30,530,498	(507,242)	220,175,062
Total cost of capital assets	214,018,183	42,559,582	(27,939,475)	228,638,290
Less accumulated depreciation	(111,175,102)	(7,176,596)	503,705	(117,847,993)
Capital assets, net	\$102,843,081	\$35,382,986	(\$27,435,770)	\$110,790,297

FOUNDATION FIXED ASSETS

A summary of the Foundation's fixed assets at June 30, 2005, follows:

	Depreciable Lives	
Automobiles	2-3	\$134,133
Furniture, fixtures, and equipment	3-10	1,517,469
Engineering equipment	3-10	666,682
Real estate and other		151,438
Leasehold improvements*	30	4,161,554
Total		<u>6,631,276</u>
Less accumulated depreciation		<u>(1,984,788)</u>
Total		<u><u>\$4,646,488</u></u>

Depreciation of \$55,775 was recorded for the year ended June 30, 2005.

*Leasehold improvements consist of renovations to Tolliver Hall and the Ropp Center. Renovations were completed on April 1, 2004, and will be donated to the university at the time the bonds are paid. Amortization of leasehold improvements was \$678,665 for the year ended June 30, 2005.

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 multiple-employer defined benefit pension plan and LASERS is a single-employer defined benefit pension plan. Both plans are administered by separate boards of trustees. 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 15.5% of covered salaries to TRS and 17.8% of covered salaries to LASERS for fiscal year 2005. 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, 2005, 2004, and 2003 were \$2,237,193, \$1,961,805, and \$1,819,224, respectively, and to LASERS for the years ended June 30, 2005, 2004, and 2003 were \$2,150,226, \$1,907,259, and \$1,688,410, 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 15.5% of the covered payroll for fiscal year 2005. 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 \$3,127,845 and \$1,626,480, respectively, for the year ended June 30, 2005.

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

NOTES TO THE FINANCIAL STATEMENTS

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 572 retirees totaled \$2,591,174 for the year ended June 30, 2005.

10. PAYABLES

The following is a summary of the university's payables and accrued expenses at June 30, 2005:

<u>Account Name</u>	
Vendor payables	\$1,745,230
Accrued salaries and payroll deductions	2,885,775
Other	<u>48,891</u>
Total	<u><u>\$4,679,896</u></u>

11. DEFERRED REVENUES

The following is a summary of the deferred revenues:

<u>Account Name</u>	
Prepaid tuition and fees	\$2,497,685
Prepaid athletic ticket sales	77,497
Grants and contracts	522,263
Other	<u>373,045</u>
Total	<u><u>\$3,470,490</u></u>

12. COMPENSATED ABSENCES

At June 30, 2005, employees of the university have accumulated and vested annual and sick leave benefits of \$2,598,594 and \$918,047, 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 \$534,221 for the year ended June 30, 2005.

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	2006	2007	2008	2009	2010	2011-2015	Total Minimum Payments Required
Equipment	\$331,494	\$310,187	\$307,899	\$302,275	\$283,606	\$23,634	\$1,559,095
Land	211,296	211,377	91,328	7,382			521,383
Total	<u>\$542,790</u>	<u>\$521,564</u>	<u>\$399,227</u>	<u>\$309,657</u>	<u>\$283,606</u>	<u>\$23,634</u>	<u>\$2,080,478</u>

Capital Leases

The university records items under capital leases as assets and obligations in the accompanying financial statements. The university's capital leases at June 30, 2005, consist of various equipment leases. The following are schedules of future minimum lease payments under these capital leases, together with the present value of minimum lease payments:

Fiscal Year Ending June 30,	
2006	\$342,165
2007	341,578
2008	335,119
2009	311,299
2010	239,840
2011-2015	281,580
Total minimum lease payments	<u>1,851,581</u>
Less - amount representing executory costs	<u>NONE</u>
Net minimum lease payments	<u>1,851,581</u>
Less - amount representing interest	<u>(287,978)</u>
Present value of net minimum lease payments	<u>\$1,563,603</u>

Lessor - Operating Lease

The leasing operations consist primarily of leasing property for the purposes of providing food services to students.

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, 2005:

	June 30, 2005		
	Cost	Accumulated Depreciation	Carrying Amount
Office space	\$2,075,860	(\$1,107,845)	\$968,015

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2005:

Nature of Operating Lease	2006	2007	2008	2009	2010-2014	Total Minimum Future Rentals
University - food service	\$250,000	\$250,000	\$250,000	\$250,000	NONE	\$1,000,000

FOUNDATION LEASE OBLIGATIONS

Lease Agreement

During fiscal year 2000, the university entered into a lease agreement with Aramark for Tolliver Hall and the Ropp Center in connection with providing food services on campus. As a condition of this agreement, the university required Aramark to enter into a sublease for the facilities with the Foundation. As a result, the Foundation entered into an agreement with Aramark to lease Tolliver Hall and the Ropp Center from Aramark for the purpose of renovating the structures. Upon completion, the sublease was terminated, and the improvements will be gifted back to the university by the Foundation once the bonds are paid in full. Notwithstanding the term of the lease agreement between the Foundation and Aramark, Aramark will pay the Foundation \$500,000 per year for 10 years to defray the costs of constructing the improvements. No lease payments are required to be paid by the Foundation, but the Foundation is required to construct the improvements of Tolliver Hall and the Ropp Center in accordance with building standards satisfactory to Aramark and the university. For the year ended June 30, 2005, the annual payments of \$500,000 have been recorded as temporarily restricted other revenue. Future minimum payments from Aramark are \$500,000 annually for June 30, 2006, through June 30, 2009.

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, 2005:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Bonds payable	\$37,208,160	\$7,007,268	(\$7,682,224)	\$36,533,204	\$1,352,655
Notes payable	9,676	213,204	(84,642)	138,238	67,877
Capital lease obligations	1,459,458	330,271	(226,126)	1,563,603	264,275
Subtotal	<u>38,677,294</u>	<u>7,550,743</u>	<u>(7,992,992)</u>	<u>38,235,045</u>	<u>1,684,807</u>
Other liabilities - accrued compensated absences payable	3,425,919	1,631,257	(1,540,535)	3,516,641	274,706
Subtotal	<u>3,425,919</u>	<u>1,631,257</u>	<u>(1,540,535)</u>	<u>3,516,641</u>	<u>274,706</u>
Total	<u>\$42,103,213</u>	<u>\$9,182,000</u>	<u>(\$9,533,527)</u>	<u>\$41,751,686</u>	<u>\$1,959,513</u>

Details of all debt outstanding for the year ending June 30, 2005 follows:

Bonds Payable, as of June 30, 2005

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2004</u>
Academic Facilities Extension			
Use Revenue Bonds - Series B	July 1, 1972	\$4,750,000	\$2,580,000
Revenue Refunding Bonds:			
1995 Series	March 30, 1995	5,020,000	525,000
1999 Series	June 1, 1999	7,780,000	6,765,000
Revenue Bonds - 2002 Series	July 1, 2002	5,920,000	5,920,000
Innovative Student Facilities, Inc.:			
2003 Series Revenue Bonds	July 1, 2003	21,840,000	21,840,000
Discount on 2003 Bonds amortize over life			(421,840)
Revenue Refunding Bonds:			
2004 Series	September 30, 2004	7,225,000	
Premium on 2004 Bonds amortized over life (1)			
Deferred loss on refunding of 1999 Bonds (2)			
Total		<u>\$52,535,000</u>	<u>\$37,208,160</u>

All of the university's auxiliary enterprise revenues are available as security for the outstanding revenue bonds at June 30, 2005.

- (1) Premium of \$32,172 less current year amortization of \$3,435.
- (2) Deferred loss of \$249,904 less current year amortization of \$46,665.

NOTES TO THE FINANCIAL STATEMENTS

Issued (Redeemed)	Outstanding June 30, 2005	Maturities	Interest Rates	Interest Outstanding June 30, 2005
(\$220,000)	\$2,360,000	2012	5.9% - 6.25%	\$637,879
(525,000)		2005	4.75% - 6.65%	
(6,765,000)		Refunded	3.25% - 4.5%	
(230,000)	5,690,000	2022	3.5% - 4.9%	2,653,061
	21,840,000	2034	2.00% - 4.50%	17,972,525
14,546	(407,294)			
7,225,000	7,225,000	2012	1.6% - 3.12%	715,788
28,737	28,737			
(203,239)	(203,239)			
<u>(\$674,956)</u>	<u>\$36,533,204</u>			<u>\$21,979,253</u>

Current Refunding of Bonds

In September 2004, the university, through the Board of Supervisors of the University of Louisiana System, issued \$7,225,000 in non-taxable revenue bonds. The purpose of the issue was to provide monies to refund all of the Revenue Fund Bonds, Series 1999, plus additional monies to cover the various costs of issuance including the cost of attorney fees, underwriter's discount, bond insurance premium, printing, and surety bond. To refund the Series 1999 Bonds, \$7,029,722 was deposited into the refunding trust account along with interest earnings to pay the outstanding principal of \$6,765,000, outstanding interest of \$145,322 and a redemption premium of \$119,400. The refunding resulted in extending the term of the bonds by three years, reducing the fiscal year 2005 debt service payments by \$968,201, will subsequently result in reduced debt service payments of approximately \$490,000 through fiscal year 2009, and will achieve lower interest rates over the life of the issue.

The annual requirements to amortize the university's bonds outstanding at June 30, 2005, including interest of \$21,979,253 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$1,425,000	\$1,496,449	\$2,921,449
2007	1,720,000	1,441,689	3,161,689
2008	1,795,000	1,381,720	3,176,720
2009	1,885,000	1,321,951	3,206,951
2010	1,965,000	1,259,533	3,224,533
2011-2015	6,915,000	5,355,043	12,270,043
2016-2020	5,085,000	4,309,366	9,394,366
2021-2025	5,355,000	3,044,477	8,399,477
2026-2030	5,545,000	1,866,938	7,411,938
2031-2034	<u>5,425,000</u>	<u>502,087</u>	<u>5,927,087</u>
Total	37,115,000	21,979,253	59,094,253
Unamortized discount	(407,294)	NONE	(407,294)
Unamortized premium	28,737	NONE	28,737
Unamortized deferred loss	<u>(203,239)</u>	<u>NONE</u>	<u>(203,239)</u>
Total	<u>\$36,533,204</u>	<u>\$21,979,253</u>	<u>\$58,512,457</u>

NOTES TO THE FINANCIAL STATEMENTS

The following is a summary of the debt service reserve requirements of the various bond issues outstanding at June 30, 2005:

<u>Bond Issue</u>	<u>Reserves Available</u>	<u>Reserve Requirement</u>	<u>Excess</u>
Academic Facilities Bonds	\$476,341	\$389,650	\$86,691
Innovative Student Facilities Bonds	1,499,153	1,485,475	13,678
Revenue Refunding Bonds	<u>722,500</u>	<u>722,500</u>	<u>NONE</u>
Total	<u>\$2,697,994</u>	<u>\$2,597,625</u>	<u>\$100,369</u>

FOUNDATION BONDS PAYABLE

Bonds payable of the Foundation at June 30, 2005, are as follows:

Revenue bonds payable at 5.7%, due quarterly installments through August 15, 2010	<u>\$2,254,899</u>
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In August 2000, the Foundation issued \$3,791,183 in revenue bonds to fund renovations to Tolliver Hall and the Ropp Center as required under the lease agreement with Aramark described in note 13. The bonds were issued with a 10-year term at an interest rate of 5.7% and with payments of \$125,000 due quarterly.

Maturities of the Foundation's revenue bonds, by year, at June 30, 2005, are as follows:

Year Ending June 30:	
2006	\$379,487
2007	401,584
2008	424,969
2009	449,714
2010	475,901
2011 and thereafter	<u>123,244</u>
Total	<u>\$2,254,899</u>

Interest paid for the year ended June 30, 2005, on the revenue bonds was \$141,395. Amounts capitalized related to this interest for the year ended June 30, 2005, were \$0.

Notes Payable as of June 30, 2005

<u>Note</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2005</u>
<u>Louisiana Tech University</u>			
Farm equipment	August 6, 2004	\$200,824	\$130,087
Cannon IRS 3220 color copier	May 13, 2005	<u>12,380</u>	<u>8,151</u>
Total		<u>\$213,204</u>	<u>\$138,238</u>

The annual requirements to amortize the notes outstanding at June 30, 2005, are as follows:

<u>Louisiana Tech University</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$67,877	\$5,057	\$72,934
2007	<u>70,361</u>	<u>2,575</u>	<u>72,936</u>
Total	<u>\$138,238</u>	<u>\$7,632</u>	<u>\$145,870</u>

FOUNDATION NOTES PAYABLE

Notes payable of the Foundation consist of the following at June 30, 2005:

Notes payable to bank at floating rate, secured by depository accounts, due March 2007	<u>\$1,125,000</u>
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Two notes payable to a bank originally issued for \$750,000 each were issued to fund the improvements to the university Athletic Fieldhouse. These notes were refinanced in March 2002. The new combined note will be repaid with annual installments of \$75,000 in 2006 and a final payment of \$1,050,000 in 2007. The interest rate for the new note is floating at 1/2% under the bank's Financial Corporation Commercial Base Rate - Daily (the Index). The rate for the note was 5.5% at June 30, 2005.

Under the terms of the note, the Foundation is required to comply with restrictive covenants related to its financial records, financial statements, insurance, and additional information.

NOTES TO THE FINANCIAL STATEMENTS

Aggregate principal payments required on the note payable are as follows:

Year Ending June 30:	
2006	\$75,000
2007	<u>1,050,000</u>
Total	<u><u>\$1,125,000</u></u>

Interest paid for the year ended June 30, 2005, was \$55,643.

Capital Lease Obligations

The university's capital lease obligations at June 30, 2005, for \$1,571,754 are detailed in note 13.

Accrued Compensated Absences Payable

The university's accrued compensated absences payable at June 30, 2005, totaling \$3,516,641 are detailed in note 12.

15. RESTRICTED NET ASSETS

The university has the following restricted net assets:

Nonexpendable - endowments	<u><u>\$25,959,138</u></u>
Expendable:	
Restricted for use by donors	\$2,365,944
Student loans	7,583,056
Plant projects	<u>1,574,930</u>
Total expendable	<u><u>\$11,523,930</u></u>

16. 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 two lawsuits at June 30, 2005. The attorneys have estimated a potential liability of \$22,500 relating to the lawsuits. This amount is not included in the accompanying financial statements. Furthermore, this does not include any lawsuits filed with the university system or the Office of Risk Management, the agency responsible for the state's risk management program.

17. FOUNDATIONS

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

The university contracted with its 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. At June 30, 2005, the Foundation held in custody Endowed Chairs for Eminent Scholars and Endowed Professorship Program funds, totaling \$24,054,255.

FOUNDATION DISCLOSURE

Transactions With the University

The university provides to the Foundation, without cost, services for the administration of the Foundation in the form of personnel. In addition, the university provides, without cost, certain other operating services associated with the Foundation. These services are valued at their actual cost to the university. For the year ended June 30, 2005, contributed personnel costs and operating services were determined to be \$600,073 and \$2,131, respectively. The amounts for these services have been reflected as contributed services revenue and corresponding general administrative services and fundraising expenses in the accompanying financial statements.

For the year ended June 30, 2005, expenses totaling approximately \$2,209,496 were paid directly to or for the benefit of the university.

Funds administered by the Foundation on behalf of the university are not commingled with funds belonging to the Foundation. Classified as amounts due to the university at June 30, 2005, is \$24,054,255 related to certain endowed chairs and professorships matched by the State of Louisiana. Initially, the donor portion of these funds is recorded as contributions to the Foundation. Once the state matching is received, the donor portion is deducted from the permanently restricted, temporarily restricted, and unrestricted net assets of the Foundation and reflected as due to the university.

The Foundation has leases with the university to provide parking for the campus. For the year ended June 30, 2005, total lease income of \$189,556 was received by the Foundation. Future minimum payments due from the university are as follows:

Year Ending June 30:	
2006	\$210,668
2007	210,668
2008	119,702
2009	50,692
2010	50,692
Thereafter	202,768

Various other services and facilities are contributed to the Foundation, the values of which are not readily determinable and, therefore, are not reflected as contributions or expenses in the accompanying financial statements.

**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 amount of on-behalf payments for salaries and fringe benefits included in the university's accompanying financial statements for the fiscal year ended June 30, 2005, total \$255,845.

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.

FOUNDATION

The Foundation provides additional compensation to the president of the university. Pursuant to an agreement between the Foundation and the president, such compensation is being deferred. The deferred compensation is deposited by the Foundation in a trust for the president's benefit. At January 1, 2005, the balance of the deferred compensation was paid to the president according to the terms of the agreement, and a new agreement became effective with generally the same terms as the old agreement. Total deferred compensation at June 30, 2005, is \$28,633.

20. SUBSEQUENT EVENTS

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 exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the university did not directly suffer any major effects of these two hurricanes, ULS lost significant assets and operational functionality. However, as noted, the long-term effects of these events directly on the university cannot be determined at this time.

Management Letter



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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December 7, 2005

LOUISIANA TECH UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Ruston, Louisiana

We have reviewed the financial statements of Louisiana Tech University, as of and for the year ending June 30, 2005, and have issued our accountant's review report thereon dated December 7, 2005. Louisiana Tech 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 an opinion. 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 Louisiana Tech University Foundation, Inc., a discretely presented component unit of the university or the Innovative Student 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, 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 Louisiana Tech 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 one significant matter requiring communication to management concerning

internal control deficiencies. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2005.

Unlocated Movable Property

Louisiana Tech University (the university) identified unlocated movable property items totaling \$701,845 as a result of its annual property inventory certification procedures. Of that amount, items totaling \$169,726 were removed from the property records because they had not been located for three consecutive years. Of the unlocated property reported on the university's property inventory certification, the amount of unlocated computers and computer-related equipment totaled \$497,751 and the amount of lab and audio visual equipment totaled \$167,033. The university's certification of annual property inventory, submitted to LPAA on March 11, 2005, disclosed \$41,580,332 in total movable property. In addition, a test of movable property acquisitions for fiscal year 2005 revealed five of 30 (17%) acquisitions tested were not timely reported to the Louisiana Property Assistance Agency (LPAA). The items were tagged timely and entered into the university's internal property management system but not posted to LPAA's Protégé system. A late additions report for fiscal year 2005 generated from the LPAA system indicated 195 items that were reported from two to 255 days after the required 60-day reporting period.

Louisiana Revised Statute 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated items to LPAA. Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted.

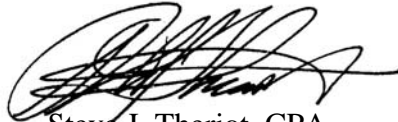
Management of the university has not enforced and consistently applied its existing policies and procedures for reporting movable property acquisitions timely, tracking the movement of property across campus, and conducting the annual inventory. According to the property control officer, a major problem occurs when the personnel responsible for safeguarding property items fail to report items received, missing, or moved to other locations in a timely manner. Furthermore, once the annual inventory is taken and items are identified as unlocated, the property control officer either does not perform an extensive search or does not always receive timely assistance from university personnel to locate the items.

Failure to enforce existing policies and procedures and put forth additional effort to locate unlocated items subjects the university's movable property to increased risk of loss and/or unauthorized use and subjects the university to noncompliance with movable property laws and regulations. Furthermore, because of the nature of the services provided by the university, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

Management of the university should enforce and consistently apply its existing policies and procedures for reporting movable property acquisitions timely, tracking the movement of property items, and conducting the annual property inventory. In addition, management should strengthen its procedures to require more extensive searches for unlocated items and require university personnel to immediately respond to the property control officer's requests concerning unlocated property. Finally, management needs to devote additional efforts to locating movable property reported as unlocated in previous years and comply with all applicable requirements of LPAA. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A).

This management letter is intended solely for the information and use of Louisiana Tech 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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LTU05

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Management's Corrective Action
Plans and Responses to the
Finding and Recommendations



LOUISIANA TECH UNIVERSITY

OFFICE OF THE PRESIDENT

September 23, 2005

Mr. Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
Baton Rouge, LA 70804-9397

RE: Movable Property Compliance

Dear Mr. Theriot:

In response to the Legislative Auditor finding regarding compliance with movable property regulations, the University agrees with the finding and has taken the necessary steps to ensure that unlocated property items are identified and counted. I feel it is imperative that the University be in full compliance with property regulations, however, it must be noted that over 70% of unlocated items as of June 30, 2005 appear to fall into the surplus, obsolete and unusable category. Additionally, effective July 1, 2005, property acquisitions are being manually entered into the State Protégé System in order to ensure meeting the State's reporting time frame. However, the Protégé System continues to suffer from a lack of acceptance of electronic updates and we feel that our method of tagging, updating, and reconciling property items is a superior control process.

Please be assured that Louisiana Tech University is committed to ensuring full compliance with all State regulations and policies and procedures including all State property regulations. Notification of the importance of our upcoming campus-wide inventory has been communicated to all campus departments who are responsible for conducting this annual review. I have also made all members of the Administrative Council aware of the need for accurate, timely reporting of all equipment with a special emphasis on locating missing items for each department. The University will continue to work with members of your staff to ensure compliance with these property regulations.

Sincerely,

A handwritten signature in black ink that reads "Daniel D. Reneau".

Daniel D. Reneau
President

A MEMBER OF THE UNIVERSITY OF LOUISIANA SYSTEM

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