

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

February 11, 2004



DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

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UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

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

February 11, 2004

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

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December 10, 2003

Independent Auditor's Report
on the Financial Statements

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the University of Louisiana System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University of Louisiana System's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Ragin' Cajun Facilities, Inc.; University Facilities, Inc.; and Cowboy Facilities, Inc., Louisiana nonprofit corporations which are blended component units. These corporations represent 6.13%, 0.16%, and 0.80% of the University of Louisiana System's total assets, net assets, and revenues, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these corporations, is based solely upon the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Louisiana System as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

LEGISLATIVE AUDITOR

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Audit Report, June 30, 2003

As discussed in note 1-B, the Ragin' Cajun Facilities, Inc.; University Facilities, Inc.; and Cowboy Facilities, Inc., have been blended into the University of Louisiana System's basic financial statements for the year ended June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2003, on our consideration of the University of Louisiana System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 4 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. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Grover C. Austin, CPA
First Assistant Legislative Auditor

BB:STD:THC:ss

[ULS03]

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the University of Louisiana System's (System) annual financial report presents a discussion and analysis of the System's financial performance during the fiscal year that ended June 30, 2003. Please read this section in conjunction with the System's financial statements, which follow this section. The System is comprised of the following entities:

- Grambling State University
- Louisiana Tech University
- McNeese State University
- Nicholls State University
- Northwestern State University
- Southeastern Louisiana University
- University of Louisiana at Lafayette
- University of Louisiana at Monroe
- Board of Supervisors

FINANCIAL HIGHLIGHTS

The System's net assets overall changed from \$736,880,978 to \$765,965,613, a 3.9% increase from June 30, 2002, to June 30, 2003. The overall reasons for this change included:

- Increases in state funding
- Increases in fees and tuition
- Increases in capital appropriations

Enrollment changed from approximately 74,000 to approximately 81,000 from June 30, 2002, to June 30, 2003, an overall increase of 9.4%. The System's operating revenues increased by approximately 8.5% to \$447,971,519 from June 30, 2002, to June 30, 2003, due to tuition/fee increases and various grant/contract programs. Operating expenses increased by 3.9% to \$746,585,563 for the year ended June 30, 2003. The primary reasons for this change include faculty salary increases, institutional support increases and general increases in operations.

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$297,144,020 in 2003 from \$290,144,660 in 2002 is primarily attributed to an increase in state appropriations, which increased by \$12,678,058.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the notes to the financial statements. The basic financial statements present information for the System as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (pages 12-13) 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 System is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (pages 14-15) presents information showing how the System'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 System'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 Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the System are included in the Statements of Net Assets.

FINANCIAL ANALYSIS

Net Assets

The System's total net assets at June 30, 2003, changed by approximately \$29.1 million, a 3.9% increase over June 30, 2002 (see Table A-1). Total assets increased 8.7% to \$945.6 million, and total liabilities increased 35.3% to \$179.7 million because of the issuance of new bonds payable.

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Table A-1
University of Louisiana System
Statement of Net Assets
(in millions of dollars)

	2003	2002 (Restated)	Variance	Percent Variance
Current and other assets	\$353	\$315	\$38	12.1%
Capital assets	593	555	38	6.8%
Total assets	<u>946</u>	<u>870</u>	<u>76</u>	8.7%
Current liabilities	59	54	5	9.3%
Noncurrent liabilities	121	79	42	53.2%
Total liabilities	<u>180</u>	<u>133</u>	<u>47</u>	35.3%
Net assets:				
Invested in capital assets, net of debt	493	496	(3)	(0.6%)
Restricted	232	220	12	5.5%
Unrestricted (deficit)	<u>41</u>	<u>21</u>	<u>20</u>	95.2%
Total net assets	<u>\$766</u>	<u>\$737</u>	<u>\$29</u>	3.9%

This schedule is prepared from the System's statement of net assets as shown on pages 12-13, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Significant statement of net asset changes from 2002 include:

- Current assets increased as a result of an increase in cash from grants and contracts, auxiliary receipts and increased tuition and fees.
- Restricted assets increased as a result of increased endowments.
- Other assets decreased as a result of the decrease in notes payable.
- Current liabilities increased because of an increase in accounts payable and deferred revenue.
- Long-term liabilities decreased primarily because of a decrease of compensated absences payable.
- Unrestricted net assets increased primarily as a result of an increase of the net assets of auxiliary enterprises.

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

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 increased by 5.5% from 2002 because of increases in expendable net assets restricted for plant projects (as a result of bonds payable) and grants, contracts, and student fees.

Changes in Net Assets

The change in net assets at June 30, 2003, is approximately \$29 million or 6.5% less than at June 30, 2002. The changes in net assets are detailed in Table A-2; education and general expenses are detailed in Table A-3.

The System's total operating revenues increased by 8.7% to approximately \$448 million, and total operating expenses increased 3.9% to approximately \$746 million. These changes are the result of several factors, including:

- Operating revenues increased because of increases in federal grants and contracts.
- Operating expenses increased because of increases primarily from faculty salary adjustments, auxiliary expenses, and increases in general operations of the system.

Nonoperating revenues increased by 2.4% to \$297 million, which is primarily attributable to increased state appropriations. Capital and operating state appropriations changed from \$301 million to \$318 million because of an increase in appropriations.

Total education and general expenses changed from \$601 in 2002 to \$638 in 2003. The change is primarily attributable to:

- Faculty and staff salary increases
- Group insurance increases
- General increases in operating the university system

Depreciation expense was consistent with the prior year.

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Table A-2
University of Louisiana System
Statement of Changes in Net Assets
(in millions of dollars)

	2003	2002 (Restated)	Variance	Percent Variance
Operating revenues:				
Student tuition and fees, net	\$171	\$160	\$11	6.9%
Auxiliary	82	80	2	2.5%
Other	195	172	23	13.4%
Total operating revenues	<u>448</u>	<u>412</u>	<u>36</u>	8.7%
Operating expenses:				
Education and general	638	601	37	6.2%
Other	108	117	(9)	(7.7%)
Total operating expenses	<u>746</u>	<u>718</u>	<u>28</u>	3.9%
Operating loss	<u>(298)</u>	<u>(306)</u>	<u>8</u>	2.6%
Nonoperating revenues (expenses):				
State appropriations	291	279	12	4.3%
Gifts	4	6	(2)	(33.3%)
Other	2	5	(3)	(60.0%)
Total nonoperating revenues	<u>297</u>	<u>290</u>	<u>7</u>	2.4%
Capital appropriation	27	22	5	22.7%
Capital grants and gifts	6	12	(6)	(50.0%)
Additions to permanent endowments	2	14	(12)	(85.7%)
Other additions, net	<u>(5)</u>	<u>(1)</u>	<u>(4)</u>	400.0%
Change in net assets	29	31	(2)	(6.5%)
Net assets, beginning of the year	<u>737</u>	<u>706</u>	<u>31</u>	4.4%
Total net assets	<u>\$766</u>	<u>\$737</u>	<u>\$29</u>	3.9%

The amounts shown previously for fiscal year 2002 were restated for prior period adjustments. These adjustments affected current and other assets; capital assets; net assets invested in capital assets, net of debt; other operating expenses; and beginning net assets.

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Table A-3
University of Louisiana System
Education and General Expenses
(in millions of dollars)

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>Percent Variance</u>
Instruction	\$244	\$232	\$12	5.2%
Research	64	58	6	10.3%
Public service	15	14	1	7.1%
Academic support	55	53	2	3.8%
Student services	39	40	(1)	(2.5%)
Institutional support	72	64	8	12.5%
Operations and plant maintenance	56	53	3	5.7%
Depreciation	36	36		
Scholarships and fellowships	57	51	6	11.8%
Total	<u>\$638</u>	<u>\$601</u>	<u>\$37</u>	6.2%

Statement of Cash Flows

Another way to assess the financial health of the System is to look at the Statement of Cash Flows. The Statement of Cash Flows assets users assess:

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

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

As summarized in Table A-4, major sources of funds in operating activities include tuition and fees of \$176,407,428, auxiliary enterprises of \$65,062,399, and grants and contracts of \$178,679,468.

Table A-4
University of Louisiana System
Statement of Cash Flows
(in millions of dollars)

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>Percent Variance</u>
Cash and cash equivalents provided (used) by:				
Operating activities	(\$262)	(\$249)	(\$13)	5.2%
Noncapital financing activities	294	299	(5)	(1.7%)
Capital financing activities	(6)	(21)	15	100.0%
Investing activities	<u>8</u>	<u>(10)</u>	<u>18</u>	<u>(180.0%)</u>
Net increase in cash and cash equivalents	34	19	15	78.9%
Cash and cash equivalents:				
Beginning of year	<u>132</u>	<u>113</u>	<u>19</u>	16.8%
End of year	<u><u>\$166</u></u>	<u><u>\$132</u></u>	<u><u>\$34</u></u>	25.8%

The largest source of cash flows from noncapital financing activities is from state appropriations of \$287,919,600. The increase in cash flow from appropriations in 2003 was offset by a reduction of approximately \$12 million in the cash flow from private gifts received for endowment purposes.

Cash flows used in capital financing activities primarily result from capital appropriations of \$26,201,037, capital grants and gifts of \$5,650,889, purchases of capital assets of (\$71,459,254), and principal and interest payments of (\$8,885,874). Cash used in capital financing activities was less than in 2002 as the 2003 amounts were offset by proceeds from capital debt issued by the System and/or its universities totaling \$45,361,217.

Cash flows from investing activities result primarily from interest received on investments of \$5,550,358, proceeds from sales and maturities of investments of \$53,774,965, and purchases of investments of (\$51,454,345). The increase in cash flow from investing activities is a result of reduced purchases of investments in 2003.

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Concluded)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2003 and 2002, the System's cost of capital assets exceeded \$1 billion. Net of accumulated depreciation, the System's net capital assets at June 30, 2003, total approximately \$593 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$38 million or 6.8% over June 30, 2002. The increases were primarily in buildings and equipment, financed through long-term obligations.

Debt Administration

Under the terms of its capital leases, the System will make annual minimum lease payments in 2004 of \$199,220 including principal and interest.

All lease covenants have been met.

See notes 13 and 14 to the financial statements for details relating to changes in and the composition of capital leases and long-term liabilities.

**CURRENTLY KNOWN FACTS, DECISIONS,
OR CONDITIONS**

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

- Changes in tuition or fees
- Changes in state appropriations
- Changes in federal grant programs
- Significant new or additional capital appropriations
- New revenue bonds
- Renovations and new constructions to facilities

**CONTACTING UNIVERSITY OF LOUISIANA
SYSTEM'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our legislature, state officials, the Louisiana Legislative Auditor's Office, patrons, and other interested parties with a general overview of the University of Louisiana System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the comptroller at (225) 342-6950.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Net Assets
June 30, 2003**

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$101,116,905
Receivables (net) (note 4)	36,345,297
Due from state treasury	3,619,532
Due from federal government	1,176,338
Inventories	6,463,264
Deferred charges and prepaid expenses	9,381,332
Notes receivable (net) (note 5)	4,176,616
Other current assets	2,375,392
Total current assets	<u>164,654,676</u>

Noncurrent assets:

Restricted:

Cash and cash equivalents (notes 2 and 3)	64,767,234
Investments (note 3)	94,384,548
Receivables (net) (note 4)	652,126
Notes receivable (net) (note 5)	25,228,747
Capital assets (net) (note 6)	593,127,658
Other noncurrent assets	2,820,192
Total noncurrent assets	<u>780,980,505</u>
Total assets	<u>945,635,181</u>

LIABILITIES

Current liabilities:

Accounts payable and accruals (note 10)	26,967,221
Due to state treasury	56,643
Deferred revenues (note 11)	16,807,999
Amounts held in custody for others	3,288,884
Compensated absences payable (note 12)	2,725,579
Capital lease obligations (note 13)	128,151
Notes payable (note 14)	635,300
Bonds payable (note 14)	4,940,221
Other current payable	2,942,478
Total current liabilities	<u>58,492,476</u>

(Continued)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, 2003**

Noncurrent liabilities:	
Compensated absences payable (note 12)	\$24,994,909
Capital lease obligations (note 13)	1,017,285
Notes payable (note 14)	4,195,228
Bonds payable (note 14)	90,594,696
Other noncurrent liabilities	374,974
Total noncurrent liabilities	<u>121,177,092</u>
Total liabilities	<u>179,669,568</u>
NET ASSETS	
Invested in capital assets, net of related debt	493,279,707
Restricted for:	
Nonexpendable (note 15)	97,101,093
Expendable (note 15)	134,282,328
Unrestricted	<u>41,302,485</u>
Total net assets	<u><u>\$765,965,613</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2003**

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$60,083,348)	\$170,763,202
Federal appropriations	182,099
Federal grants and contracts	129,444,017
State and local grants and contracts	30,626,809
Nongovernmental grants and contracts	18,214,524
Sales and services of educational departments	3,369,139
Auxiliary enterprise revenues (net of scholarship allowances of \$5,529,732; \$55,163,876 of revenues are used as security for revenue bonds)	82,347,515
Other operating revenues	13,024,214
Total operating revenues	<u>447,971,519</u>

OPERATING EXPENSES

Educational and general:	
Instruction	243,809,821
Research	64,263,459
Public service	15,425,015
Academic services	54,790,938
Student services	39,189,210
Institutional support	72,290,784
Operations and maintenance of plant	56,228,536
Depreciation	35,673,246
Scholarships and fellowships	56,622,334
Auxiliary enterprises	103,256,237
Other operating expenses	5,035,983
Total operating expenses	<u>746,585,563</u>

OPERATING LOSS

(298,614,044)

NONOPERATING REVENUES (EXPENSES)

State appropriations	291,184,357
Gifts	3,841,235
Investment income (net of investment expense of \$311,470)	4,989,783
Interest expense	(3,544,187)
Other nonoperating revenues	672,832
Net nonoperating revenues	<u>297,144,020</u>

LOSS BEFORE OTHER REVENUES AND EXPENSES

(1,470,024)

(Continued)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses, and
Changes in Net Assets, 2003**

Capital appropriations	\$26,945,228
Capital grants and gifts	5,650,889
Additions to permanent endowment	2,458,854
Other	<u>(4,500,311)</u>
INCREASE IN NET ASSETS	29,084,636
NET ASSETS - BEGINNING OF YEAR (RESTATED) (note 16)	<u>736,880,977</u>
NET ASSETS - END OF YEAR	<u><u>\$765,965,613</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$176,407,428
Grants and contracts	178,679,468
Payments to suppliers	(137,345,787)
Payments for utilities	(29,449,323)
Payments to employees	(366,301,994)
Payments for benefits	(72,528,330)
Payments for scholarships and fellowships	(71,220,408)
Interest earned on loans to students	343,653
Loans issued to students and employees	(5,895,030)
Collection of loans to students and employees	4,830,538
Auxiliary enterprise charges	65,062,399
Sales and services of educational departments	3,361,599
Other payments	(8,029,292)
Net cash used by operating activities	<u>(262,085,079)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	287,919,600
Gifts and grants for other than capital purposes	4,145,240
Private gifts for endowment purposes	2,458,853
TOPS receipts	39,382,973
TOPS disbursements	(39,497,901)
Federal Family Education Loan program receipts	158,596,740
Federal Family Education Loan program disbursements	(158,607,697)
Student organization agency transactions	(6,532)
Other payments	(601,443)
Net cash provided by noncapital financing sources	<u>293,789,833</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Proceeds from capital debt	45,361,217
Capital appropriations received	26,201,037
Capital grants and gifts received	5,650,889
Proceeds from sale of capital assets	1,546,882
Purchases of capital assets	(71,459,254)
Principal paid on capital debt and leases	(5,356,574)
Interest paid on capital debt and leases	(3,529,300)
Deposit with trustees	22,780
Other payments	(4,389,934)
Net cash used by capital financing activities	<u>(5,952,257)</u>

(Continued)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2003**

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	\$53,774,965
Interest received on investments	5,550,358
Purchase of investments	(51,454,345)
Net cash provided by investing activities	<u>7,870,978</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 33,623,475

CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR 132,260,664

CASH AND CASH EQUIVALENTS AT END OF THE YEAR \$165,884,139

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES:**

Operating loss	(\$298,614,044)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	35,673,246
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(3,365,545)
Decrease in notes receivable, net	111,786
Decrease in inventories	273,756
Decrease in prepaid expenses	1,607,939
(Increase) in other assets	(150,788)
Increase in accounts payable	3,394,456
(Decrease) in deferred revenue	(98,229)
Increase in amounts held in custody for others	575,321
Increase in compensated absences	1,686,444
(Decrease) in loans to students and employees	(706,512)
(Decrease) in other liabilities	<u>(2,472,909)</u>
Net cash used by operating activities	<u><u>(\$262,085,079)</u></u>

**SCHEDULE OF NONCASH INVESTING, CAPITAL,
AND FINANCING ACTIVITIES:**

Capital asset appropriations	\$4,330,861
Capital assets donated to NSU	\$26,000

(Concluded)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 2003

INTRODUCTION

The University of Louisiana System is a publicly supported institution of higher education. The system is a component unit of the State of Louisiana, within the executive branch of government. The universities that comprise the system are under the management and supervision of the University of Louisiana System Board of Supervisors; however, the annual budget of the system and changes to the degree programs, departments of instruction, et cetera, of the individual institutions require the approval of the Board of Regents for Higher Education. The board of supervisors is comprised of 15 members appointed for staggered six-year terms by the governor, with the consent of the Senate, and one student member appointed for a one-year term by a council composed of the student body presidents of the universities within the system. As state universities, operations of the universities' instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature. The chief executive officer of the system is the president.

The system is comprised of eight universities in eight cities, which includes Grambling State University at Grambling, Louisiana Tech University at Ruston, McNeese State University at Lake Charles, Nicholls State University at Thibodaux, Northwestern State University at Natchitoches, Southeastern Louisiana University at Hammond, University of Louisiana at Lafayette, and University of Louisiana at Monroe. The universities had approximately 76,047 students enrolled during the 2003 spring semester and employ approximately 9,412 employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The University of Louisiana System 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) the majority of the members of the governing boards 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

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Notes to the Financial Statements (Continued)

universities within the system primarily serve state residents. The accompanying financial statements present information only as to the transactions of the programs of the University of Louisiana System as authorized by Louisiana statutes and administrative regulations.

Annually, the State of Louisiana issues basic financial statements, which include the activity contained in the accompanying financial statements. The financial statements are audited by the Louisiana Legislative Auditor.

The Ragin' Cajun Facilities, Inc., at the University of Louisiana at Lafayette; the University Facilities, Inc., at Southeastern Louisiana University; and the Cowboy Facilities, Inc., at McNeese State University are Louisiana nonprofit corporations and are considered blended component units of three of the universities included in the system. These component units are included in the reporting entity because they are fiscally dependent on the universities. The purpose of these organizations is to promote, assist, and benefit the mission of the universities through the acquisition, construction, development, management, leasing or otherwise assisting in the acquisition, construction, development, management or leasing of student housing or other facilities on behalf of the universities. Although these facility corporations are legally separate, they are reported as a part of the University of Louisiana System because the majority of their revenue comes from the leasing of facilities to the university.

Other external auditors audited the Ragin' Cajun Facilities, Inc.; University Facilities, Inc.; and Cowboy Facilities, Inc., which are included in the University of Louisiana System's basic financial statements for the year ended June 30, 2003. To obtain the corporations' latest audit report, write to:

- Ragin' Cajun Facilities, Inc., c/o Mr. Ronald P. Lajaunie, University of Louisiana at Lafayette, P.O. Box 42651, Lafayette, Louisiana 70504
- University Facilities, Inc., c/o Mr. Stephen Smith, Southeastern Louisiana University, P.O. Box 10709, Hammond, Louisiana 70402
- Cowboy Facilities, Inc., c/o Mr. Eddie Meche, McNeese State University, 4205 Royal Street, Lake Charles, Louisiana 70609

C. BASIS OF ACCOUNTING

For financial reporting purposes, the system is considered a special-purpose government engaged only in business-type activities. All activities of the system are accounted for within a single proprietary (enterprise) fund. Accordingly, the University of Louisiana System'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.

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Notes to the Financial Statements (Continued)

The system has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The system has elected to not apply FASB pronouncements issued after the applicable date. However, in the current fiscal year, the system has included three non-governmental, blended component units that follow FASB 117.

D. BUDGET PRACTICES

The State of Louisiana's appropriation 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 branches 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 are recorded as expenditures at the time of purchase.

**E. CASH AND CASH EQUIVALENTS
AND INVESTMENTS**

Cash includes cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include certificates of deposit and all highly liquid investments with a maturity of three months or less when purchased. Under state law, the system 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 system 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 system is authorized to invest funds in direct United States Treasury obligations, United States 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 from unrealized gains and losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. For purposes of the Statement of Cash Flows, the system

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Notes to the Financial Statements (Continued)

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 the lower of cost or market. The system uses periodic and perpetual inventory systems and values its various other inventories using the first-in, first-out and weighted-average valuation methods. Adjustments are made at fiscal year-end to account for 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. For movable property, the system's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if they exceed \$100,000. 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 and infrastructure, 20 years for depreciable land improvements, and 3 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.

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Notes to the Financial Statements (Continued)

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 and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

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

The system provides certain continuing health care and life insurance benefits for its retired employees. The system 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 system'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

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Notes to the Financial Statements (Continued)

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 system 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 system 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 system's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

N. CLASSIFICATION OF REVENUES

The system has classified its revenues as either operating or nonoperating 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 services (tuition and fees) provided by the system and the amount that is paid by students and/or third parties making payments on the students' behalf.

2. CASH AND CASH EQUIVALENTS

At June 30, 2003, the system has cash and cash equivalents (book balances) of \$158,399,976 as follows:

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Notes to the Financial Statements (Continued)

Petty cash	\$345,612
Demand deposits	87,718,248
Certificates of deposit	49,091,074
Cash with fiscal agents	6,344,106
Cash with foundation	10,558
Cash with state treasurer	316,810
Cash in trustee accounts	<u>14,573,568</u>
Total	<u><u>\$158,399,976</u></u>

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

Current assets	\$101,116,905
Noncurrent assets	<u>57,283,071</u>
Total	<u><u>\$158,399,976</u></u>

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the system or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2003, the system has \$178,237,226 in deposits (collected bank balances) that were secured from risk in the following manner:

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Notes to the Financial Statements (Continued)

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Other</u>	<u>Total</u>
Bank balances (collected balances):				
Insured or collateralized with securities held by the entity or its agent in the entity's name - GASB Category 1	\$53,431,046	\$18,765,089	\$6,344,106	\$78,540,241
Collateralized with securities held by the pledging institution's trust department or agent in the entity's name - GASB Category 2	42,702,186	27,799,583		70,501,769
Uncollateralized, including any securities held for the entity but not in the entity's name - GASB Category 3	<u>26,697,615</u>	<u>2,497,601</u>		<u>29,195,216</u>
Total bank balances	<u>\$122,830,847</u>	<u>\$49,062,273</u>	<u>\$6,344,106</u>	<u>\$178,237,226</u>

Included in cash and cash equivalents is cash available to the system within the state treasury totaling \$316,810. Securities pledged for cash in the state treasury are not included in the previously mentioned computations as these amounts are secured by fiscal agent banks established by the state treasury independent of the system.

3. INVESTMENTS

At June 30, 2003, the system has investments totaling \$101,868,711, which includes \$7,484,163 of short-term investments reported on the Statement of Net Assets as cash and cash equivalents. A summary of the system's investments follows:

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Notes to the Financial Statements (Continued)

	<u>Reported Amount</u>	<u>Fair Value</u>
Category 1:		
U.S. government securities	\$13,266,773	\$13,266,773
Common and preferred stock	1,600,216	1,600,216
Corporate bonds	1,364,537	1,364,537
Other:		
Cash and money markets	17,490	17,490
Mortgage backed securities	176,580	176,580
Municipal bonds	3,740	3,740
Other	<u>262,076</u>	<u>262,076</u>
Total categorized investments	16,691,412	16,691,412
Investments not categorized:		
Investments held by private foundation in external investment pool	84,876,699	84,876,699
Other - corporate bonds	<u>300,600</u>	<u>300,600</u>
Total investments	<u>\$101,868,711</u>	<u>\$101,868,711</u>

These investments are reported on the Statement of Net Assets as follows:

Noncurrent assets:	
Restricted cash and cash equivalents	\$7,484,163
Restricted investments	<u>94,384,548</u>
Total	<u>\$101,868,711</u>

The categorized investments are considered to be Category 1 in applying the credit risk of GASB Codification Section I50.164. Investments held by private foundations in an external investment pool are managed in accordance with the terms outlined in management agreements executed between the system universities and their respective foundations. The system universities are voluntary participants. These investments totaling \$84,876,699 were not categorized.

4. RECEIVABLES

Receivables are shown on the Statement of Net Assets, net of an allowance for doubtful accounts at June 30, 2003. These receivables are composed of the following:

UNIVERSITY OF LOUISIANA SYSTEM
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Notes to the Financial Statements (Continued)

<u>Type</u>	<u>Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>	<u>Noncurrent Portion</u>
Student tuition and fees	\$15,529,456	(\$7,428,354)	\$8,101,102	\$365,151
Auxiliary enterprises	3,903,583	(707,319)	3,196,264	64,668
Contributions and gifts	654,520		654,520	
Federal, state, and private grants and contracts	21,157,654		21,157,654	163,229
Other	3,906,334	(18,451)	3,887,883	59,078
Total	<u>\$45,151,547</u>	<u>(\$8,154,124)</u>	<u>\$36,997,423</u>	<u>\$652,126</u>

5. NOTES RECEIVABLE

Notes receivables are comprised of loans to students under the Federal Perkins Loan, Health Profession Loan, Nursing Student Loan, and short-term student loan programs. The university administers the Perkins, Health Profession, and Nursing Student Loan programs. Restricted federal and state contributions and interest on the loans provide the funding for the Perkins and Health Profession Loan programs. The Perkins 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. Health Profession (Pharmacy) loans are awarded to students enrolled in the pharmacy curriculum. There are no qualifying cancellation entitlements and loans determined to be uncollectible may be requested for write-off approval through the U.S. Department of Health and Human Services. Loans are no longer issued under the Nursing Student Loan program, but collections are still made on outstanding loans. Short-term student loans are funded from self-assessed student fees and are available to qualified students for limited personal and emergency financial needs. The sorority promissory notes represent promissory notes of sororities to construct buildings on the certain campuses.

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Notes to the Financial Statements (Continued)

Notes receivable are shown on the Statement of Net Assets, net of an allowance for doubtful accounts at June 30, 2003. These receivables are composed of the following:

<u>Type</u>	<u>Notes Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Notes Receivable (Net)</u>	<u>Noncurrent Portion</u>
Federal Perkins Loans	\$31,489,488	(\$3,742,946)	\$27,746,542	\$24,013,863
Health Profession (Pharmacy) Loans	1,282,647	(27,962)	1,254,685	1,066,482
Nursing Student Loans	377,536	(195,742)	181,794	142,689
Short-term student loans	124,171	(20,941)	103,230	5,713
Sorority promissory notes	119,112		119,112	
Total	<u>\$33,392,954</u>	<u>(\$3,987,591)</u>	<u>\$29,405,363</u>	<u>\$25,228,747</u>

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal years ended June 30, 2003, follows:

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Notes to the Financial Statements (Continued)

	Balance July 1, 2002	Prior Period Adjustment	Adjusted Balance July 1, 2002
Capital assets not being depreciated:			
Land	\$29,882,495	\$6,450	\$29,888,945
Capitalized collections	234,502		234,502
Livestock	116,155	(90,270)	25,885
Construction in progress	38,220,112		38,220,112
	<u>38,220,112</u>		<u>38,220,112</u>
Total capital assets not being depreciated	<u>\$68,453,264</u>	<u>(\$83,820)</u>	<u>\$68,369,444</u>
Other capital assets:			
Infrastructure	\$4,643,069		\$4,643,069
Less accumulated depreciation	(2,089,381)		(2,089,381)
Total infrastructure	<u>2,553,688</u>	NONE	<u>2,553,688</u>
Land improvements	31,032,916	(\$18,919,679)	12,113,237
Less accumulated depreciation	(10,794,556)	3,915,166	(6,879,390)
Total land improvements	<u>20,238,360</u>	<u>(15,004,513)</u>	<u>5,233,847</u>
Buildings	839,480,747	13,418,847	852,899,594
Less accumulated depreciation	(414,100,545)	(2,110,030)	(416,210,575)
Total buildings	<u>425,380,202</u>	<u>11,308,817</u>	<u>436,689,019</u>
Equipment	114,172,315	(7,786,221)	106,386,094
Less accumulated depreciation	(75,770,002)	(1,205,037)	(76,975,039)
Total equipment	<u>38,402,313</u>	<u>(8,991,258)</u>	<u>29,411,055</u>
Library books	108,154,871		108,154,871
Less accumulated depreciation	(94,820,045)	23,170	(94,796,875)
Total library books	<u>13,334,826</u>	<u>23,170</u>	<u>13,357,996</u>
Total other capital assets	<u>\$499,909,389</u>	<u>(\$12,663,784)</u>	<u>\$487,245,605</u>
Capital Asset Summary:			
Capital assets not being depreciated	\$68,453,264	(\$83,820)	\$68,369,444
Other capital assets, at cost	<u>1,097,483,918</u>	<u>(13,287,053)</u>	<u>1,084,196,865</u>
Total cost of capital assets	<u>1,165,937,182</u>	<u>(13,370,873)</u>	<u>1,152,566,309</u>
Less accumulated depreciation	<u>(597,574,529)</u>	<u>623,269</u>	<u>(596,951,260)</u>
Capital assets, net	<u>\$568,362,653</u>	<u>(\$12,747,604)</u>	<u>\$555,615,049</u>

Additions	Transfers	Retirements	Balance June 30, 2003
\$391,850		(\$104,146)	\$30,176,649
		(6,000)	228,502
3,050		(4,200)	24,735
<u>47,222,500</u>	<u>(37,492,483)</u>	<u>(4,567,450)</u>	<u>43,382,679</u>
<u>\$47,617,400</u>	<u>(\$37,492,483)</u>	<u>(\$4,681,796)</u>	<u>\$73,812,565</u>
			\$4,643,069
(\$116,077)			(2,205,458)
<u>(116,077)</u>	<u>NONE</u>	<u>NONE</u>	<u>2,437,611</u>
199,112			12,312,349
<u>(446,004)</u>			<u>(7,325,394)</u>
<u>(246,892)</u>	<u>NONE</u>	<u>NONE</u>	<u>4,986,955</u>
8,876,876	\$41,984,838	(\$5,398,089)	898,363,219
<u>(20,819,508)</u>		<u>4,958,825</u>	<u>(432,071,258)</u>
<u>(11,942,632)</u>	<u>41,984,838</u>	<u>(439,264)</u>	<u>466,291,961</u>
12,156,215		(6,353,729)	112,188,580
<u>(8,562,052)</u>		<u>5,703,320</u>	<u>(79,833,771)</u>
3,594,163	NONE	(650,409)	32,354,809
6,664,482		(1,379,914)	113,439,439
<u>(5,729,605)</u>		<u>330,798</u>	<u>(100,195,682)</u>
934,877	NONE	(1,049,116)	13,243,757
<u>(\$7,776,561)</u>	<u>\$41,984,838</u>	<u>(\$2,138,789)</u>	<u>\$519,315,093</u>
\$47,617,400	(\$37,492,483)	(\$4,681,796)	\$73,812,565
<u>27,896,685</u>	<u>41,984,838</u>	<u>(13,131,732)</u>	<u>1,140,946,656</u>
75,514,085	4,492,355	(17,813,528)	1,214,759,221
<u>(35,673,246)</u>		<u>10,992,943</u>	<u>(621,631,563)</u>
<u>\$39,840,839</u>	<u>\$4,492,355</u>	<u>(\$6,820,585)</u>	<u>\$593,127,658</u>

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The system does not capitalize collections. These collections include the following: the Louisiana Room, the Rare Book Room, and the Southwestern Archives and Manuscripts Collection at the University of Louisiana at Lafayette; the Thomas Gilhula War Collection, the Friends of the Library Louisiana Collection, the James A. Noe Collection, the Otto E. Pressman Collection, an African Artifacts Collection, a Geosciences collection, an Herbarium Collection, and artifacts in the Natural History Museum at the University of Louisiana at Monroe; and various works of art and artifacts at Southeastern Louisiana University.

The system does not capitalize the collections because they meet the following requirements for exclusion from capitalization in accordance with the requirements of GASB 34; i.e., they are (1) held for public exhibition, education, or research in furtherance of public service rather than financial gain; (2) protected, kept unencumbered, cared for, or preserved; and (3) subject to an organizational policy that requires the proceeds from sales of the items to be used to acquire other items for the collection.

7. PENSION PLANS

Plan Description. Substantially all employees of the system are members of two statewide, public employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans 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 retirement systems; employee benefits vest with TRS after five years of service and with LASERS after ten years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The retirement systems issue annual publicly available financial reports that include financial statements and required supplementary information for the retirement 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, or by calling (225) 922-0600.

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Funding Policy. The contribution requirements of plan members and the system 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 13.1% of covered salaries to TRS and 14.1% of covered salaries to LASERS. The State of Louisiana, through the annual appropriation to the system, funds the system's employer contribution. The system's employer contributions to TRS for the years ended June 30, 2003, 2002, and 2001 were \$13,953,178, \$14,581,132, and \$16,517,510, respectively, and to LASERS for the years ended June 30, 2003, 2002, and 2001 were \$11,863,861, \$9,928,679, and \$9,844,417, 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 the 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 system are 13.1% of the covered payroll. 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 \$14,884,657 and \$9,089,907, respectively, for the year ended June 30, 2003.

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Notes to the Financial Statements (Continued)

9. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The system provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the system's employees become eligible for these benefits if they reach normal retirement age while working for the system. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the system. The system recognizes the cost of providing these benefits to retirees (system's portion of premiums) as an expense when paid during the year. These retiree benefits, for 2,697 retirees, totaled \$13,686,624 for the year ended June 30, 2003.

10. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2003:

<u>Account Name</u>	
Vendor payables	\$10,002,588
Accrued salaries and payroll deductions	15,841,805
Other	<u>1,122,828</u>
Total payables	<u><u>\$26,967,221</u></u>

11. DEFERRED REVENUES

The following is a summary of deferred revenues at June 30, 2003:

<u>Account Name</u>	
Prepaid tuition and fees	\$11,762,097
Prepaid athletic ticket sales	1,205,952
Grants and contracts	3,093,759
Other	<u>746,191</u>
Total deferred revenues	<u><u>\$16,807,999</u></u>

12. COMPENSATED ABSENCES

At June 30, 2003, employees of the system have accumulated and vested annual, sick and compensatory leave of \$17,394,377, \$9,713,901, and \$612,210, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

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Notes to the Financial Statements (Continued)

13. LEASE OBLIGATIONS

Operating Leases

For the year ended June 30, 2003, the total rental expense for all operating leases is \$1,021,704. The following is a schedule by years of future minimum annual rental payments required under operating leases:

Nature of Operating Lease	2004	2005	2006	2007	2008	2009-2013	2014-2018	Total Minimum Payments Required
Office space	\$453,599	\$274,907	\$271,915	\$271,915	\$268,990	\$1,190,155	\$1,152,675	\$3,884,156
Equipment	234,801	155,500						390,301
Land	38,907	38,985	39,065	39,146	4,229	17,256	17,601	195,189
Other	625,443	621,406	621,081	619,681	620,156	3,110,863	3,101,663	9,320,293
Total	<u>\$1,352,750</u>	<u>\$1,090,798</u>	<u>\$932,061</u>	<u>\$930,742</u>	<u>\$893,375</u>	<u>\$4,318,274</u>	<u>\$4,271,939</u>	<u>\$13,789,939</u>

Capital Leases

The system records items under capital leases as assets and obligations in the accompanying financial statements. The system's capital leases at June 30, 2003, consist of various equipment leases. The following is a schedule of future minimum lease payments under these capital leases, together with the present value of minimum lease payments at June 30, 2003:

<u>Fiscal Year Ending June 30:</u>	
2004	\$199,220
2005	199,215
2006	189,148
2007	189,148
2008	189,148
2009-2013	438,124
Total minimum lease payments	<u>1,404,003</u>
Less - amount representing executory costs	<u>NONE</u>
Net minimum lease payments	<u>1,404,003</u>
Less - amount representing interest	<u>(258,567)</u>
Present value of net minimum lease payments	<u><u>\$1,145,436</u></u>

UNIVERSITY OF LOUISIANA SYSTEM
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Notes to the Financial Statements (Continued)

Lessor - Operating Lease

The system's leasing operations consist primarily of the leasing of property for the purposes of providing food services to students; bookstore operations; and office space for postal services, banking services, and vending operations.

The following schedule provides an analysis of the system's investment in property on operating leases and property held for lease by major classes as of June 30, 2003:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Office space	\$9,206,338	\$6,604,165	\$2,602,173
Equipment	144,961	19,860	125,101
Land	186,087		186,087
 Total	 <u>\$9,537,386</u>	 <u>\$6,624,025</u>	 <u>\$2,913,361</u>

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2003:

Nature of Operating Lease	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009-2013</u>	<u>Total Minimum Future Rentals</u>
Office space	\$1,322,460	\$1,255,793	\$1,214,960	\$1,028,780	\$1,007,000	\$3,557,000	\$9,385,993
Other	620,000	120,000	120,000	120,000			980,000
 Total	 <u>\$1,942,460</u>	 <u>\$1,375,793</u>	 <u>\$1,334,960</u>	 <u>\$1,148,780</u>	 <u>\$1,007,000</u>	 <u>\$3,557,000</u>	 <u>\$10,365,993</u>

Minimum future rentals do not include contingent rentals which may be received as stipulated in the lease contracts. These contingent rental payments occur as a result of sales volume or customer usage of services provided. Contingent rentals received from operating leases for the year ended June 30, 2003, were \$492,019 for office space and \$123,615 for other.

UNIVERSITY OF LOUISIANA SYSTEM
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Notes to the Financial Statements (Continued)

14. LONG-TERM LIABILITIES

The following is a summary of bond and other long-term debt transactions of the system for the year ended June 30, 2003:

	Balance July 1, 2002 (As Restated)	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Bonds payable	\$74,899,282	\$24,985,000	(\$4,349,365)	\$95,534,917	\$4,940,221
Notes payable	5,656,211		(825,683)	4,830,528	635,300
Capital lease obligations	1,326,962		(181,526)	1,145,436	128,151
Subtotal	<u>81,882,455</u>	<u>24,985,000</u>	<u>(5,356,574)</u>	<u>101,510,881</u>	<u>5,703,672</u>
Other liabilities:					
Accrued compensated absences payable	26,034,043	6,796,581	(5,110,136)	27,720,488	2,725,579
Subtotal	<u>26,034,043</u>	<u>6,796,581</u>	<u>(5,110,136)</u>	<u>27,720,488</u>	<u>2,725,579</u>
Total	<u>\$107,916,498</u>	<u>\$31,781,581</u>	<u>(\$10,466,710)</u>	<u>\$129,231,369</u>	<u>\$8,429,251</u>

The amounts shown above for fiscal year 2002 were restated to include McNeese State University's Cowboy Facilities, Inc., bonds payable of \$21,120,000 and to exclude other liabilities of \$145,002.

UNIVERSITY OF LOUISIANA SYSTEM
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Notes to the Financial Statements (Continued)

Details of all debt outstanding at June 30, 2003, follow:

Bonds Payable

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2002 (As Restated)</u>
University of Louisiana at Lafayette			
Ragin' Cajun Facilities, Inc. (blended component unit) - Lafayette Public Trust Financing Authority	October 1, 2002	\$19,065,000	
Southeastern Louisiana University			
University Facilities, Inc. (blended component unit):			
Louisiana Public Facilities Authorities Revenue Bonds - Series 2000	July 12, 2000	7,680,000	\$7,665,000
Louisiana Public Facilities Authorities Revenue Bonds - Series 2000	July 27, 2000	8,650,000	8,090,000
Revenue Refunding Bonds, Series 1998	March 12, 1998	2,400,000	910,000
Parking Revenue Bonds, Series 1996	April 26, 1996	1,180,000	560,000
Student Recreation and Activity Center Revenue Bonds	June 30, 1998	7,690,000	6,790,000
Louisiana Tech University			
Academic Facilities Extension			
Use Revenue Bonds - Series B	July 1, 1972	4,750,000	2,980,000
Intramural Complex General			
Obligation Bonds - Series C	September 1, 1978	450,000	62,195
Revenue Refunding Bonds:			
1995 Series	March 30, 1995	5,020,000	1,590,000
1996 Series	May 15, 1996	2,510,000	700,000
1999 Series	June 1, 1999	7,780,000	7,345,000
Revenue Bonds - 2002 Series	July 1, 2002	5,920,000	
University of Louisiana at Monroe			
Student Housing Facilities Bonds:			
Series 1963	April 1, 1963	1,200,000	60,000
Series 1964	April 1, 1964	1,800,000	175,000
Series 1965	April 1, 1965	3,000,000	420,000
Series 1966	April 1, 1966	3,700,000	1,280,000
Education Facilities Bonds -			
Series 1972-O	November 1, 1972	350,000	25,000
Physical Education Complex -			
Series 1992-A	March 1, 1992	2,650,000	1,765,000

Issued (Redeemed)	Outstanding June 30, 2003	Maturities	Interest Rates	Interest Outstanding June 30, 2003
\$19,065,000	\$19,065,000	2033	2.625-5.00%	\$17,899,121
(315,000)	7,350,000	2027	4.00%	4,182,617
(155,000)	7,935,000	2028	4.00%	4,928,863
(335,000)	575,000	2004	4.95%-6.75%	28,462
(125,000)	435,000	2006	6.50%	57,850
(250,000)	6,540,000	2020	4.25-5.0%	3,265,855
(195,000)	2,785,000	2013	6.125%-6.25%	959,132
(29,268)	32,927	2004	5.125%-5.2%	856
(575,000)	1,015,000	2005	6.45%-6.65%	101,921
(335,000)	365,000	2004	6.15%-6.2%	22,630
(230,000)	7,115,000	2009	3.85%-4.5%	1,110,516
5,920,000	5,920,000	2022	3.5%-4.9%	3,171,789
(60,000)		2003	3.75%	
(85,000)	90,000	2004	3.0%-5.0%	2,700
(135,000)	285,000	2005	3.88%	16,663
(250,000)	1,030,000	2006	4.9%-5.0%	103,145
(25,000)		2003	5.4%-7.4%	
(130,000)	1,635,000	2012	6.0%-8.0 %	574,205

UNIVERSITY OF LOUISIANA SYSTEM
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Notes to the Financial Statements (Continued)

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2002 (As Restated)</u>
Northwestern State Univeristy			
General Obligation Bonds, Series 1993-B	February 1, 1993	\$460,000	\$310,000
Wellness, Recreation, and Activity Center Bonds, Series 1999	April 1, 1999	6,850,000	6,365,000
McNeese State University			
Student Housing System Revenue Bonds - Refunding Bonds 2001	May 30, 2001	2,110,000	1,860,000
General Obligation Bonds - Series 1985-B	May 1, 1985	300,000	82,087
Stadium Project Series 1996	October 15, 1996	900,000	600,000
Parking Lot Series 1997	February 12, 1997	1,500,000	1,145,000
Student Facilities Program Building Bonds Cowboy Facilities, Inc. (blended component unit): University Student Lease Revenue Bond Series 2001	April 1, 1997	2,784,000	1,589,000
	May 31, 2001	21,120,000	21,120,000
Grambling State University			
Student Housing System Revenue Bonds:			
1965 Series B	October 1, 1965	4,000,000	675,000
1968 Series B	October 1, 1968	3,000,000	736,000
Total		<u>128,819,000</u>	<u>\$74,899,282</u>

All auxiliary enterprise revenues are available as security for the outstanding revenue bonds at June 30, 2003.

The annual requirements to amortize all bonds outstanding at June 30, 2003, including interest of \$62,470,844, are as follows:

Issued (Redeemed)	Outstanding June 30, 2003	Maturities	Interest Rates	Interest Outstanding June 30, 2003
(\$20,000)	\$290,000	2014	4.5%-7.0%	\$99,610
(175,000)	6,190,000	2024	4.0%-5.1%	3,922,855
(205,000)	1,655,000	2009	4.95%	282,026
(25,097)	56,990	2005	9.25%-9.3%	8,062
(60,000)	540,000	2012	8.00%	194,406
(85,000)	1,060,000	2012	6.25%	325,625
(285,000)	1,304,000	2007	5.75%	155,193
	21,120,000	2033	5.40%	20,981,764
(160,000)	515,000	2005	3.75%	23,513
(105,000)	631,000	2009	3%	51,465
<u>\$20,635,635</u>	<u>\$95,534,917</u>			<u>\$62,470,844</u>

UNIVERSITY OF LOUISIANA SYSTEM
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Notes to the Financial Statements (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$4,940,221	\$4,540,647	\$9,480,868
2005	4,744,696	4,285,346	9,030,042
2006	5,165,000	4,034,436	9,199,436
2007	4,674,000	3,802,458	8,476,458
2008	4,500,000	3,983,765	8,483,765
2009-2013	16,581,000	14,850,350	31,431,350
2014-2018	14,085,000	12,205,834	26,290,834
2019-2023	15,690,000	8,380,172	24,070,172
2024-2028	13,520,000	4,652,711	18,172,711
2029-2033	11,635,000	1,735,125	13,370,125
	<u>\$95,534,917</u>	<u>\$62,470,844</u>	<u>\$158,005,761</u>
Total			

The following is a summary of the debt service reserve requirements of the various bond issues outstanding at June 30, 2003:

<u>Bond Issue</u>	<u>Reserves Available</u>	<u>Reserve Requirement</u>	<u>Excess</u>
Southeastern Louisiana University			
Housing Revenue System Refunding Bonds - 1998	\$277,457	\$240,000	\$37,457
Parking Bonds - 1996	40,790		40,790
Student Recreational Center Bonds - 1998	578,751	578,750	1
University Facilities, Inc. (UFI) Refunding Bonds - 2000	352,354	352,354	
UFI Refunding Bonds - 2000	185,270	185,270	
Louisiana Tech University			
Academic Facilities Bonds	720,134	389,650	330,484
Intramural Complex Bonds	32,838	32,838	
University of Louisiana at Monroe			
Student Housing Facilities	1,066,471	972,000	94,471
Physical Education Complex	245,204	245,200	4
Northwestern State University			
General Obligation Bonds, Series 1993-B	38,250	38,250	
McNeese State University			
Expansion of Baseball Field	33,356	33,356	
Grambling State University			
Student Housing System Repair and Replacement Reserve Account	1,061,860	600,000	461,860
Student Housing System Revenue Bonds	511,700	511,700	
Academic Facilities Building Use Fee Revenue Bonds		81,420	(81,420)
	<u>\$5,144,435</u>	<u>\$4,260,788</u>	<u>\$883,647</u>
Total			

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Notes to the Financial Statements (Continued)

In prior years, the system defeased certain bond issues by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the defeased bonds are not included in the system's financial statements. On June 30, 2003, the following bonds remain outstanding, which are considered defeased:

<u>Bond Issue</u>	<u>Outstanding at June 30, 2003</u>
Southeastern Louisiana University:	
Housing System Revenue Bonds - (1961 and 1964)	\$300,000
Home Mortgage Authority Revenue Bonds (UFI) - Series 1998	8,190,000
McNeese State University - Housing System Revenue Bonds, Series 1961-B, Series 1965 and Series 1968	<u>2,080,000</u>
Total	<u><u>\$10,570,000</u></u>

Notes Payable

<u>Note</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2002</u>
Southeastern Louisiana University			
UFI Construction Loan	October 10, 1999	\$2,300,000	\$1,606,258
Louisiana Tech University			
1999 Intern. Truck	May 14, 1999	99,543	20,793
2001 Ford F450 Truck	February 16, 2001	46,430	27,925
Nicholls State University			
State of Louisiana	May 3, 2000	379,446	155,566
Grambling State University			
U.S. Department of Education	May 1, 1993	3,500,000	2,801,513
Ford Motor Credit Company	August 30, 2001	<u>1,165,931</u>	<u>1,044,156</u>
Total		<u><u>\$7,491,350</u></u>	<u><u>\$5,656,211</u></u>

<u>Issued (Redeemed)</u>	<u>Outstanding June 30, 2003</u>	<u>Maturities</u>	<u>Interest Rates</u>	<u>Interest Outstanding June 30, 2003</u>
(\$394,070)	\$1,212,188	Variable	Variable	\$123,884
(20,793)		2005	4.16%	
(8,944)	18,981	2005	4.04%	1,158
(155,566)		2004	5.60%	
(94,411)	2,707,102	2023	3.00%	936,856
(151,899)	<u>892,257</u>	2008	4.10%	<u>99,607</u>
<u>(\$825,683)</u>	<u>\$4,830,528</u>			<u>\$1,161,505</u>

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Notes to the Financial Statements (Continued)

The annual requirements to amortize all notes outstanding at June 30, 2003, including interest of \$1,161,505, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$635,300	\$161,500	\$796,800
2005	645,056	151,739	796,795
2006	665,865	120,863	786,728
2007	365,944	88,856	454,800
2008	296,056	73,672	369,728
2009-2013	631,399	289,367	920,766
2014-2018	695,819	192,950	888,769
2019-2023	895,089	82,558	977,647
	<u>\$4,830,528</u>	<u>\$1,161,505</u>	<u>\$5,992,033</u>
Total			

Grambling State University is required by the U.S. Department of Education note to establish a Retirement of Indebtedness Account and make semiannual deposits of \$22,250 until \$178,000 has been reached. Once the debt service reserve account balance is satisfied, the university is to establish a Repair and Replacement Reserve Account and make annual deposits of \$35,000 until \$350,000 has been accumulated. At June 30, 2003, the reserve requirements of \$353,000 have been met.

Capital Lease Obligations

Capital lease obligations at June 30, 2003, for \$1,145,436 are detailed in note 13.

Accrued Compensated Absences Payable

Accrued compensated absences payable at June 30, 2003, for \$27,720,488 are detailed in note 12.

15. RESTRICTED NET ASSETS

The system has the following restricted net assets at June 30, 2003:

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Nonexpendable:	
Endowments	\$92,595,248
Student loans	<u>4,505,845</u>
Total nonexpendable	<u><u>\$97,101,093</u></u>
Expendable:	
Auxiliary and other	\$1,695,537
Grants, contracts, and student fees	23,688,666
Instruction, scholarships, fellowships, and other	4,366,760
Restricted for use by donors	14,678,174
Student loans	30,494,790
Plant projects	53,058,189
Debt service	<u>6,300,212</u>
Total expendable	<u><u>\$134,282,328</u></u>

16. RESTATEMENT OF NET ASSETS

The following adjustments were made to restate beginning net assets as reflected on Statement B:

Net assets at June 30, 2002	\$750,260,956
Bond issuance cost for Southeastern Louisiana University for University Facilities, Inc., that were included but subsequently written off	(782,375)
Capital assets below the capitalization policy written off by McNeese University	(12,747,604)
Cowboy Facilities, Inc., (a component unit) asset that was previously unrecorded by McNeese University	<u>150,000</u>
Net assets at June 30, 2002, restated	<u><u>\$736,880,977</u></u>

17. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies such as guarantor of mortgage loans on sorority and fraternity houses are considered state liabilities and paid upon appropriation by the legislature and not the university. During fiscal year 2003, Grambling State University notified the U.S. Department of Education (DOE) of its intent to close out the Perkins Loan Program. The university may be liable for any non-performing loans not assigned to the DOE. The extent of the liability cannot be determined at this time. Therefore, the System, through its respective universities' legal advisors, estimates that potential claims not covered by insurance would not materially affect the financial statements. In addition, the System had not incurred any claims and/or litigation cost in the current year. Other losses of the system arising

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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 Office of Risk Management insures all of these lawsuits.

18. FOUNDATIONS

The accompanying financial statements do not include the accounts of the following foundations:

- The University of Louisiana at Lafayette Foundation
- The University of Louisiana at Lafayette Alumni Foundation
- Southeastern Athletics Association
- Southeastern Development Foundation
- Southeastern Louisiana University Alumni Association
- Louisiana Tech University Foundation
- Louisiana Tech University Alumni Association
- The University of Louisiana at Monroe Foundation
- The University of Louisiana at Monroe Athletic Scholarship Foundation
- The University of Louisiana at Monroe Alumni Association
- Northwestern State University Alumni Association
- Northwestern State University Athletic Association
- Northwestern State University Foundation
- McNeese State University Foundation
- McNeese State University Alumni Association
- Nicholls State University Foundation
- Nicholls Alumni Federation
- Grambling University National Alumni Association
- Grambling University Athletic Foundation

These foundations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

Certain universities of the system have contracted with their respective foundations to invest the universities' 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, 2003, the foundations hold in custody \$84,876,699 of Endowed Chairs for Eminent Scholars and Endowed Professorship Program funds. Amounts invested by private foundations for the system are included as investments not categorized in the disclosures in note 3.

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Notes to the Financial Statements (Continued)

19. 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 system.

The amount of on-behalf payments for salaries and fringe benefits included in the accompanying financial statements for the fiscal year ended June 30, 2003, is \$1,049,527.

20. SEGMENT INFORMATION

Three of the System's universities, University of Louisiana at Lafayette, Southeastern Louisiana University, and McNeese State University, have facility corporations which are blended component units. These facility corporations issue revenue bonds to finance certain of its auxiliary enterprises. The revenues generated by the auxiliary enterprise are used to pay the principal and interest of these revenue bonds. Condensed financial information for these segments follows:

Condensed Statement of Net Assets

	Cowboy Facilities, Inc.	University Facilities, Inc.	Ragin' Cajun Facilities, Inc.	Total
Assets:				
Current assets	\$2,409,340	\$674,030	\$13,598,249	\$16,681,619
Capital assets	17,264,075	14,513,492	6,700,811	38,478,378
Other assets	1,662,796	263,129	893,783	2,819,708
Total Assets	<u>21,336,211</u>	<u>15,450,651</u>	<u>21,192,843</u>	<u>57,979,705</u>
Liabilities:				
Current liabilities	637,739	1,413,937	2,127,843	4,179,519
Long-term liabilities	20,795,000	15,154,487	19,065,000	55,014,487
Total Liabilities	<u>21,432,739</u>	<u>16,568,424</u>	<u>21,192,843</u>	<u>59,194,006</u>
Net Assets:				
Invested in capital assets, net of related debt	(2,193,129)		(12,364,189)	(14,557,318)
Restricted net assets - expendable	2,096,601		12,364,189	14,460,790
Unrestricted net assets		(1,117,773)		(1,117,773)
Total Net Assets	<u>(\$96,528)</u>	<u>(\$1,117,773)</u>	<u>NONE</u>	<u>(\$1,214,301)</u>

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

**Condensed Statement of Revenues,
Expenses, and Changes in Net Assets**

	Cowboy Facilities, Inc.	University Facilities, Inc.	Ragin' Cajun Facilities, Inc.	Total
Operating revenues (expenses):				
Operating revenue	\$2,003,000	\$1,604,537		\$3,607,537
Operating expenses	(1,522,290)	(848,426)		(2,370,716)
Depreciation expense		(943,120)		(943,120)
Net operating income	<u>480,710</u>	<u>(187,009)</u>	NONE	<u>293,701</u>
Nonoperating revenues (expenses):				
Investment income	169,680	8,441		178,121
Interest expense	(896,918)			(896,918)
Changes in net assets	<u>(246,528)</u>	<u>(178,568)</u>	NONE	<u>(425,096)</u>
Net assets - beginning of year	<u>150,000</u>	<u>(939,205)</u>	NONE	<u>(789,205)</u>
Net assets - end of year	<u>(\$96,528)</u>	<u>(\$1,117,773)</u>	NONE	<u>(\$1,214,301)</u>

Condensed Statement of Cash Flows

	Cowboy Facilities, Inc.	University Facilities, Inc.	Ragin' Cajun Facilities, Inc.	Total
Net cash flows provided (used) by:				
Operating activities	\$726,887	\$722,203		\$1,449,090
Capital and related financing		(864,070)		(864,070)
Investing activities	169,680	(29,543)	\$13,598,249	13,738,386
Net increase (decrease) in cash	<u>896,567</u>	<u>(171,410)</u>	13,598,249	<u>14,323,406</u>
Cash - beginning of year	<u>78,752</u>	<u>657,153</u>	NONE	<u>735,905</u>
Cash - end of year	<u>\$975,319</u>	<u>\$485,743</u>	<u>\$13,598,249</u>	<u>\$15,059,311</u>

21. DEFERRED COMPENSATION PLAN

Certain employees of the system 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.

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

22. ALTERNATIVE FINANCING AGREEMENTS

McNeese State University (McNeese)

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

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

Southeastern Louisiana University (SLU)

University Facilities, Inc., entered into a reimbursement agreement with Hibernia National Bank regarding borrowing funds from the Louisiana Public Facilities Authority. On June 1, 2000, the Louisiana Public Facilities Authority agreed to two issuances of its Equipment and Capital Facilities Pooled Loan Program Revenue Bonds, Series 2000 totaling \$16,330,000 for the purpose of financing the acquisition of new equipment and the construction of new capital improvements for the Board of Supervisors of the University of Louisiana System at SLU.

Pursuant to the terms of the Ground Lease agreements, the corporation will lease the land from the board. The new facilities will be leased by the corporation to the board in accordance with the provisions of an agreement to lease (facilities lease). In accordance with the facilities lease, the corporation will construct and equip student housing facilities and lease back the facilities to the board for use by students, faculty, and staff of SLU. The board's right to obtain title to the facilities is set forth in the facilities lease. The rental income derived from the facilities lease will be used to pay the bonds.

University of Louisiana at Lafayette (ULL)

On October 1, 2002, the Lafayette Public Trust Financing Authority agreed to issue revenue bonds totaling \$19,065,000 for the Rajun' Cajun Facilities, Inc., for the construction of a student apartment complex, food service facility, and child care facility including parking and other infrastructure on land owned by the Board of Supervisors of the University of Louisiana System on behalf of ULL.

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

Pursuant to the terms of the Ground Lease agreements, the corporation will lease the land from the board. The new facilities will be leased by the corporation to the board in accordance with the provisions of an agreement to lease (facilities lease). In accordance with the facilities lease, the corporation will construct and equip student housing facilities and lease back the facilities to the board for use by students, faculty, and staff of ULL. The rental income derived from the facilities lease will be used to pay the bonds.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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



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

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

December 10, 2003

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Basic Financial Statements
Performed in Accordance With *Government Auditing Standards*

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the basic financial statements of the University of Louisiana System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 10, 2003. We did not audit a portion of the basic financial statements related to the operations of the Ragin' Cajun Facilities, Inc., at the University of Louisiana at Lafayette; University Facilities, Inc., at Southeastern University; and Cowboy Facilities, Inc., at McNeese State University. These are each a separate private nonprofit corporation that is considered a blended component unit of three of the universities included in the system. These amounts were audited by another auditor whose report has been furnished to us. This report, insofar as it relates to the Ragin' Cajun Facilities, Inc., University Facilities, Inc., and Cowboy Facilities, Inc., is based solely upon the reports of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University of Louisiana System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, while performing audit procedures at various campuses within the University of Louisiana System, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant

LEGISLATIVE AUDITOR

UNIVERSITY OF LOUISIANA SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

December 10, 2003

Page 2

deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the system's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings in Exhibit B.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions disclosed in Exhibit B are material weaknesses.

Other Reports

Other external auditors audited the Ragin' Cajun Facilities, Inc.; University Facilities, Inc.; and Cowboy Facilities, Inc., which are included in the University of Louisiana System's basic financial statements for the year ended June 30, 2003. To obtain the corporations' latest audit report, write to:

- Ragin' Cajun Facilities, Inc., c/o Mr. Ronald P. Lajaunie, University of Louisiana at Lafayette, P.O. Box 42651, Lafayette, Louisiana 70504
- University Facilities, Inc., c/o Mr. Stephen Smith, Southeastern Louisiana University, P.O. Box 10709, Hammond, Louisiana 70402
- Cowboy Facilities, Inc., c/o Mr. Eddie Meche, McNeese State University, 4205 Royal Street, Lake Charles, Louisiana 70609

As a part of our audit of the University of Louisiana System's financial statements for the year ended June 30, 2003, we performed certain procedures on campuses within the University of Louisiana System. Our reports on those procedures for those campuses are dated as follows:

University of Louisiana at Lafayette	November 7, 2003
Southeastern Louisiana University	December 19, 2003
Louisiana Tech University	October 28, 2003
Northwestern State University	October 28, 2003
McNeese State University	December 11, 2003
Grambling State University	October 2, 2003

EXHIBIT A

LEGISLATIVE AUDITOR

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Compliance and Internal Control Report

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Page 3

These reports contained compliance and internal control findings related to these campuses. Management's responses are also included in those reports. Copies of those reports are available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor, and those reports can also be found on the Internet at www.la.state.la.us/f&c.shtml.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large initial "G" and "A".

Grover C. Austin, CPA
First Assistant Legislative Auditor

BB:STD:THC:ss

[ULS03]



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

1600 NORTH THIRD STREET
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December 10, 2003

Finding and Recommendations on Internal Control
Over Financial Reporting

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

GRAMBLING STATE UNIVERSITY

**Ineffective Collection Procedures
for Student Receivables**

For the second consecutive audit, Grambling State University has not established effective collection procedures governing its student receivables, valued at \$707,690 at June 30, 2003, which is reported net of an estimated allowance for doubtful accounts of \$4,214,983. Due diligence and fiscal responsibility require management to establish policies and procedures that enable the university to effectively manage its student receivables and make every effort legally available to collect amounts owed the university. Louisiana Administrative Code 4: XIII. Chapter 1, "Collection Policy and Procedure," requires each state agency to establish its own comprehensive collection policies and procedures, which should subsequently be approved by the Cash Management and Review Board. Our audit procedures indicate that the university:

- Has not developed and sent to the Cash Management Review Board formal written policies and procedures defining when student receivables are considered delinquent or the process to be used for handling such receivables.
- Does not have the capability of monitoring or reporting on a monthly basis student receivables that are 30, 60, or 90 days, and older.
- Does not turn over delinquent accounts to the attorney general or a collection agency for further processing.
- Does not periodically evaluate the methodology of estimating the allowance for doubtful accounts. The total amount of student receivables due to the university increased by \$839,251 during fiscal year 2003, while the estimated allowance for doubtful accounts increased by \$667,163. An allowance account that is not reasonably estimated could significantly misstate the financial statements. The Cash Management Review Board should also be asked to approve the university's method for estimating the allowance.

LEGISLATIVE AUDITOR

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

Finding and Recommendations on Internal Control

December 10, 2003

Page 2

Management was not aware of the requirements of the Louisiana Administrative Code. In addition, management has been unable to generate aging information needed for estimating its allowance for doubtful accounts from its accounting system. As a result, public assets may be lost since the university is not pursuing all possible avenues to collect amounts owed. Furthermore, the university is in noncompliance with the Louisiana Administrative Code.

Grambling State University should ensure that effective collection policies and procedures are developed and approved by the Cash Management Review Board. Once approved, the policies and procedures should be implemented to ensure that the university is making reasonable collection efforts relative to student receivables. Furthermore, management should ensure that its accounting system is capable of providing aged student receivables in the format required by the administrative code and that an allowance for doubtful accounts can reasonably be estimated and appropriately included in the financial statements. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 1-2).

Appendix A

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



Grambling State University

OFFICE OF THE PRESIDENT

Grambling, Louisiana 71245

P.O. DRAWER 607

(318) 274-6117

FAX: (318) 274-6172

September 12, 2003

Mr. Grover C. Austin
First Assistant Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

Management concurs with the finding on "Ineffective Collection Procedures for Student Receivables." Management was unaware of the requirements of the Louisiana Administrative Code (LAC) 4: XIII Chapter 1, "Collection Policy and Procedure." Management became aware when the Division of Administrative Services sent correspondence to the auditors in June and July, 2003. Additionally, management has been unable to generate aging information required by the code and needed for estimating its allowance for doubtful accounts from its Financial Accounting and Reporting System (Banner). SCT Banner ages payments by term (date of original charges). This system advances the charge without regards to when the payments are made.

Example: If a student registers in August with a \$500 balance and agrees to pay \$125 per month in September, October and November, an aging run in Banner for November will show the November balance (\$125) as 90 days and over past due. Most systems would show the balance as current because payments were made on schedule.

The Vice President for Finance has overall responsibility and the Associate Vice President for Finance/Controller and the Assistant Controller of Revenue/Director of Grants Management have direct responsibility for implementing policies and procedures and for collection of accounts receivable. Management will take the following actions to ensure compliance with the Louisiana Administrative Code.

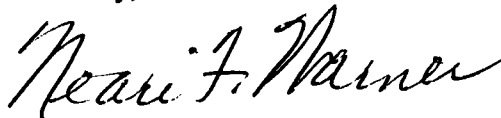
- Amend the Student Receivable Billing and Collections Policy and promissory note by September 15, 2003, to include other collections due diligence and requirements from the state's collections policy that are not already included in our policy. Additionally, the amended policy will be sent to the Cash Management Review Board.

Mr. Grover C. Austin
September 12, 2003
Page 2

- Consult with SCT Corporation (Banner) and GSU programmers to develop a program that will age receivables as prescribed in the Administrative Code. Until developed, management will continue to report its quarterly receivable aging (30, 60, 90 days) to the Division of Administration using the standard Banner report.
- Identify three collection agencies and sign contracts by September 20, 2003. The existing accounts that are one year past due will be turned over for collections. Future accounts will be turned over for collections when they are six months past due. Some accounts may be turned over to the state's Attorney General's Office.
- Continue monthly billings. Further enhance the collection process with follow-up telephone calls to individuals with delinquent accounts and using skip tracing software services to locate and correct bad addresses.
- Monitor its accounts receivable aging and make adjustments to the allowance for doubtful accounts as necessary. Management believes that the information generated from its Banner System is sufficient to establish a reasonable allowance for doubtful accounts.

The Vice President for Finance will ensure that reasonable policies and procedures are implemented to ensure collections from those owing the University.

Sincerely,



Neari F. Warner
Acting President

NFW:jj