

**LOUISIANA STATE UNIVERSITY
LOUISIANA STATE UNIVERSITY 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

March 1, 2004
(Reissued on)



DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

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**LOUISIANA STATE UNIVERSITY
LOUISIANA STATE UNIVERSITY 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.

March 1, 2004
(Reissued on)

**LOUISIANA STATE UNIVERSITY
LOUISIANA STATE UNIVERSITY 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 19, 2003, except for note 8
as to which the date is February 27, 2004

Independent Auditor's Report
on the Financial Statements

LOUISIANA STATE UNIVERSITY
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of Louisiana State University (LSU), a university comprised of the three campuses described in the notes introduction, within the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003. These financial statements are the responsibility of management of LSU. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in note 1-B, the accompanying financial statements of LSU are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the Louisiana State University System that is attributable to the transactions of LSU. They do not purport to, and do not, present fairly the financial position of the Louisiana State University System or the State of Louisiana as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of LSU as of June 30, 2003, and its changes in financial position, including cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LEGISLATIVE AUDITOR

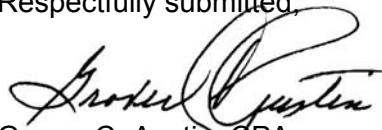
LOUISIANA STATE UNIVERSITY
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Audit Report, June 30, 2003

As discussed in note 8 to the financial statements, the potential liability reported in the previously issued June 30, 2003, Notes to the Financial Statements was incorrect. This error was discovered subsequent to the issuance of the auditor's report on the financial statements. Accordingly, the affected note to the financial statements has been corrected to remove this amount.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003, on our consideration of LSU'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 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. However, management did not include this information in its financial statements for the fiscal year ended June 30, 2003.

Respectfully submitted,



Grover C. Austin, CPA
First Assistant Legislative Auditor

CGEW:ES:PEP:ss

[LSUA&M03]

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

Statement of Net Assets, June 30, 2003

ASSETS

Current Assets:

Cash and cash equivalents (note 2)	\$114,912,166
Investments (note 3)	2,444,179
Receivables, net (note 4)	39,870,373
Due from state treasury (note 13)	624,674
Due from other campuses (note 14)	1,909,143
Inventories	7,120,514
Deferred charges and prepaid expenses	2,230,255
Notes receivable	2,563,659
Other current assets	952,872
Total current assets	<u>172,627,835</u>

Noncurrent Assets:

Restricted assets:

Cash and cash equivalents (note 2)	28,617,766
Investments (note 3)	69,757,941
Accounts receivable (note 4)	3,000
Notes receivable	11,154,463
Other	10,007,678
Capital assets, net (note 5)	442,860,763
Total noncurrent assets	<u>562,401,611</u>
Total assets	<u>735,029,446</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	23,913,395
Due to other campuses (note 14)	39,974,338
Deferred revenues	38,373,386
Amounts held in custody for others	2,298,026
Compensated absences (note 9)	2,257,451
Capital lease obligations (note 12)	65,603
Notes payable (note 12)	2,546,558
Contracts payable (note 12)	374,535
Bonds payable (note 12)	3,039,000
Other current liabilities	952,872
Total current liabilities	<u>113,795,164</u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY
 LOUISIANA STATE UNIVERSITY SYSTEM
 STATE OF LOUISIANA
 Statement of Net Assets, June 30, 2003

LIABILITIES (Cont.)

Noncurrent Liabilities:

Compensated absences (note 9)	\$29,769,813
Capital lease obligations (note 12)	1,373,006
Notes payable (note 12)	15,110,832
Contracts payable (note 12)	337,554
Bonds payable (note 12)	89,518,000
Other noncurrent liabilities	1,203,066
Total noncurrent liabilities	<u>137,312,271</u>
Total liabilities	<u>251,107,435</u>

NET ASSETS

Investment in capital assets, net of related debt	348,484,659
Restricted for:	
Nonexpendable	47,518,117
Expendable	70,104,241
Unrestricted	<u>17,814,994</u>
Total net assets	<u><u>\$483,922,011</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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

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

OPERATING REVENUES

Student tuition and fees	\$136,412,372
Less scholarship allowances	(17,129,055)
Net student tuition and fees	<u>119,283,317</u>
Federal appropriations	10,584,992
Federal grants and contracts	83,148,861
State and local grants and contracts	35,601,126
Nongovernmental grants and contracts	13,519,941
Sales and services of educational departments	11,737,049
Auxiliary enterprise revenues (including revenues pledged to secure debt per note 19)	86,996,091
Less scholarship allowances	(3,239,669)
Net auxiliary revenues	<u>83,756,422</u>
Other operating revenues	6,675,692
Total operating revenues	<u><u>364,307,400</u></u>

OPERATING EXPENSES

Educational and general:	
Instruction	191,588,533
Research	142,454,424
Public service	57,677,124
Academic support	48,321,730
Student services	13,811,353
Institutional support	30,638,571
Operation and maintenance of plant	57,727,491
Scholarships and fellowships	15,775,209
Auxiliary enterprises	76,911,812
Total operating expenses	<u><u>634,906,247</u></u>

Operating Loss (270,598,847)

NONOPERATING REVENUES (Expenses)

State appropriations	254,744,394
Gifts	10,983,783
Net investment income	4,138,371
Interest expense	(4,295,158)
Other nonoperating revenues	94,861
Net nonoperating revenues	<u><u>265,666,251</u></u>

(Continued)

The accompanying notes are an integral part of this statement.

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

Loss Before Other Revenues, Expenses, Gains and Losses	(\$4,932,596)
Capital appropriations	22,308,988
Capital gifts and grants	22,037,335
Additions to permanent endowments	1,208,156
Other additions, net	<u>258,058</u>
Increase in Net Assets	40,879,941
Net Assets at Beginning of Year	<u>443,042,070</u>
Net Assets at End of Year	<u><u>\$483,922,011</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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

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

Cash Flows From Operating Activities:

Student tuition and fees	\$118,862,248
Federal appropriations	11,304,446
Grants and contracts	128,673,378
Sales and services of educational departments	11,726,295
Auxiliary enterprise receipts	84,738,219
Payments for employee compensation	(337,747,496)
Payments for benefits	(70,911,132)
Payments for utilities	(16,157,887)
Payments for supplies and services	(156,171,651)
Payments for scholarships and fellowships	(15,885,066)
Loans to students	(3,831,766)
Collection of loans to students	3,119,436
Other receipts	29,064,952
Net cash used by operating activities	<u>(213,216,024)</u>

Cash Flows From Noncapital Financing Activities:

State appropriations	253,964,966
Gifts and grants for other than capital purposes	10,826,992
Private gifts for endowment purposes	(514,115)
TOPS receipts	41,966,109
TOPS disbursements	(41,842,403)
Other receipts	94,861
Net cash provided by noncapital financing sources	<u>264,496,410</u>

Cash Flows From Capital Financing Activities:

Proceeds from capital debt	12,947,741
Capital appropriations received	17,289,790
Capital grants and gifts received	22,405,988
Purchase of capital assets	(84,674,497)
Principal paid on capital debt and leases	(6,309,680)
Interest paid on capital debt and leases	(4,278,203)
Other sources	297,177
Net cash used by capital financing activities	<u>(42,321,684)</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA STATE UNIVERSITY
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows
For the Year Ended June 30, 2003**

Cash Flows From Investing Activities:

Proceeds from sales and maturities of investments	\$16,195,936
Interest received on investments	4,653,684
Purchase of investments	(8,311,784)
Net cash provided by investing activities	<u>12,537,836</u>

Net increase in cash and cash equivalents 21,496,538

Cash at the beginning of the year 122,033,394

Cash at the end of the year \$143,529,932

Reconciliation of Operating Loss to Net Cash**Used by Operating Activities:**

Operating loss	(\$270,598,847)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	33,036,795
Changes in assets and liabilities:	
Increase in accounts receivable	(1,579,420)
Increase in inventories	(123,126)
Decrease in deferred charges and prepaid expenses	468,389
Increase in notes receivable	(563,571)
Increase in other assets	(2,456,135)
Increase in accounts payable and accrued liabilities	2,136,273
Decrease in deferred revenue	(329,434)
Increase in amounts held in custody for others	37,909
Increase in compensated absences	1,258,415
Increase in other liabilities	25,496,728
Net cash used by operating activities	<u><u>(\$213,216,024)</u></u>

Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets

Cash and cash equivalents classified as current assets	\$114,912,166
Cash and cash equivalents classified as noncurrent assets	<u>28,617,766</u>
Cash at the end of the year	<u><u>\$143,529,932</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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

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

INTRODUCTION

For the purposes of this report, LSU includes LSU and Agricultural and Mechanical College, the LSU Agricultural Center, and the Paul M. Hebert Law Center campuses. LSU is a publicly supported institution of higher education. LSU is a part of the Louisiana State University System, which is a component unit of the State of Louisiana, within the executive branch of government. LSU is under the management and supervision of the LSU Board of Supervisors; however, certain items like the annual budget of LSU and changes to the degree programs and departments of instruction require the approval of the Board of Regents for Higher Education. As a state university, operations of LSU's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

LSU's campus is located in Baton Rouge, Louisiana. Student enrollment for LSU for the 2002 fall semester totaled 31,582. During September 2002, LSU had approximately 3,459 full-time and part-time faculty members, including associates and affiliated faculty.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. LSU has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board statements.

B. REPORTING ENTITY

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

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

The accompanying financial statements present information only as to the transactions of the programs of LSU.

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

C. BASIS OF ACCOUNTING

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

D. BUDGET PRACTICES

The appropriation made for the General Fund of LSU is an annual lapsing appropriation established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated, but are recognized in the succeeding year; and (4) inventories in the General Fund are recorded as expenditures at the time of purchase.

The budget amounts for fiscal year 2002-2003 include the original approved budget and subsequent amendments approved as follows:

Original approved budget	\$410,227,608
Amendments:	
State General Fund	3,661,323
Interagency transfers	166,536
Interim Emergency Board	298,436
Other	<u>161,318</u>
Final budget	<u>\$414,515,221</u>

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

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

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

Cash includes cash on hand and interest-bearing demand deposits. Cash equivalents include amounts in time deposits and money market funds. Under state law, LSU 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.

LSU may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. In accordance with Louisiana Revised Statute (R.S.) 49:327(C), LSU is authorized to invest funds in direct United States Treasury obligations and, in addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are United States Treasury securities, mutual funds, and investments held by private foundations and are reported at fair value on the balance sheet. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. Investments in open-end mutual funds are reported by LSU as cash equivalents on the Statement of Net Assets.

The three campuses comprising LSU for this report use an accounting system shared by seven LSU System campuses. Cash for the seven campuses is pooled. LSU's cash is allocated among the categories of credit risk in accordance with GASB 3 based on the deposit type and is based on the proportion of the cash balance at each campus compared to the total cash for the seven campuses.

F. INVENTORIES

Inventories are valued at cost or replacement cost, except for livestock at LSU. These inventories are valued at current market prices. LSU uses periodic and perpetual inventory systems and values its various other inventories using the first-in, first-out and weighted-average valuation methods. LSU accounts for its inventories using the consumption method.

G. NONCURRENT RESTRICTED ASSETS

Cash and cash equivalents, investments, receivables, and other assets that are externally restricted for grants, endowments, debt service payments, maintenance of sinking or reserve funds, and to purchase or construct capital assets are classified as noncurrent restricted assets in the Statement of Net Assets.

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

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. Construction in progress and related debt interest costs are capitalized during construction. For movable property, LSU'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. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property. Depreciation expense is charged directly to the various functional categories of operating expenses on the Statement of Revenues, Expenses, and Changes in Net Assets.

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. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences; and (3) other liabilities that will not be paid within the next fiscal year.

K. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. Faculty with 12-month appointments who have over 10 years of state service, non-classified employees with over 10 years of state service, and classified employees regardless of years of state service accumulate leave without limitation. According to the LSU leave schedule, faculty with 12-month appointments who have less than 10 years of state service and non-classified employees with less than 10 years of state service can only accumulate 176 hours of annual leave; sick leave is accumulated without limitation. Effective January 1, 1994, academic and unclassified employees were given the opportunity to elect to remain under the LSU leave schedule or change to the Louisiana State Civil Service annual leave accrual schedule under which there is no limit on the accumulation of annual leave. Nine-month faculty members accrue sick leave but do not accrue annual leave; however, they are granted faculty leave during holiday periods when students are not in classes. Upon separation

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

of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and unclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

L. NET ASSETS

LSU's net assets are classified as follows:

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

This represents LSU's total investment in capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds or other borrowings attributable to the acquisition, construction, or improvement of those assets.

RESTRICTED NET ASSETS - NONEXPENDABLE

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

RESTRICTED NET ASSETS - EXPENDABLE

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

UNRESTRICTED NET ASSETS

Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of LSU 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, LSU's policy is to first apply the expense toward unrestricted resources, and then toward restricted resources.

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

M. CLASSIFICATION OF REVENUES

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

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

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

N. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

O. ELIMINATING INTERFUND ACTIVITY

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

2. CASH AND CASH EQUIVALENTS

At June 30, 2003, LSU has cash and cash equivalents (book balances) totaling \$143,529,932. Of this amount, LSU has \$317,945 of cash on hand and in interest-bearing demand deposits. Cash equivalents include \$72,500,134 in time deposits, \$2,566,937 in money market funds, and \$68,144,916 in open-end mutual funds. These deposits are stated at cost, which approximates market.

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At June 30, 2003, LSU has \$75,322,197 in deposits (collected bank balances) as follows:

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

<u>Risk Category</u>	<u>Cash Demand Deposits</u>	<u>Certificates of Deposit</u>	<u>Other</u>	<u>Total</u>
1. Insured by federal deposit insurance or collateralized with securities held by the entity or its agent in the entity's name	\$104,934	\$455,999		\$560,933
2. Collateralized with securities held by the pledging institution's trust department or agent in the entity's name	150,192	72,044,135	\$2,566,937	74,761,264
Total	<u>\$255,126</u>	<u>\$72,500,134</u>	<u>\$2,566,937</u>	<u>\$75,322,197</u>

In addition to the collected bank balances at June 30, 2003, LSU has excess cash totaling \$68,144,916 deposited in open-end mutual funds consisting of federated securities. In accordance with GASB Codification Section 150.126, investments in open-end mutual funds do not require categorization because they are evidenced by securities that exist in physical or book entry form.

3. INVESTMENTS

At June 30, 2003, LSU has investments reported at fair market value totaling \$72,202,120 as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
United States government securities		\$189,196	\$4,648,918	\$4,838,114
Repurchase agreements			1,450,492	1,450,492
Stock	\$5,263,751			5,263,751
Total categorized investments	<u>\$5,263,751</u>	<u>\$189,196</u>	<u>\$6,099,410</u>	<u>\$11,552,357</u>
Investments not categorized:				
Funds held by private foundation				\$42,387,895
GNMAs				129,465
Mutual funds				15,993
Trustee project accounts				17,988,985
Other				127,425
Total investments not categorized				<u>60,649,763</u>
Total investments				<u>\$72,202,120</u>

The credit risk of GASB Codification Section 150.125-126 was applied to LSU's investments. Descriptions of these categories are as follows:

Category 1 - Insured or registered in LSU's name or securities held by the entity or its agent in LSU's name

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Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in LSU's name

Category 3 - Unsecured and unregistered with securities held by the counterparty or by its trust department or agent but not in LSU's name

The investments are reported at fair value as required by GASB Statement No. 31. Investments held by private foundations in external investment pools are managed in accordance with the terms outlined in management agreements executed between LSU and the foundations. Each university is a voluntary participant.

4. ACCOUNTS RECEIVABLE

Accounts receivable, which are scheduled for collection within one year, are shown on Statement A net of an allowance for doubtful accounts as follows:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Student tuition and fees	\$6,939,280		\$6,939,280
Auxiliary enterprises	4,133,134		4,133,134
Contributions and gifts	138,931		138,931
Federal, state, and private grants and contracts	25,142,387		25,142,387
Federal appropriations	413,281		413,281
Sales and services	3,108,811	\$2,451	3,106,360
Total	<u>\$39,875,824</u>	<u>\$2,451</u>	<u>\$39,873,373</u>

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

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Notes to the Financial Statements (Continued)

	Balance June 30, 2002	Additions	Transfers	Retirements	Balance June 30, 2003
Capital assets not being depreciated:					
Land	\$3,695,320				\$3,695,320
Construction in progress	53,414,543	\$29,389,607	(\$3,772,841)		79,031,309
Total capital assets not being depreciated	\$57,109,863	\$29,389,607	(\$3,772,841)	NONE	\$82,726,629
Other capital assets:					
Infrastructure	\$29,649,388				\$29,649,388
Less accumulated depreciation	(5,976,397)	(\$741,234)			(6,717,631)
Total infrastructure	23,672,991	(741,234)	NONE	NONE	22,931,757
Land improvements	29,825,827	1,033,829	\$276,879		31,136,535
Less accumulated depreciation	(22,239,954)	(781,989)			(23,021,943)
Total land improvements	7,585,873	251,840	276,879	NONE	8,114,592
Buildings	466,257,519	21,880,780	3,495,962		491,634,261
Less accumulated depreciation	(222,797,507)	(10,930,508)			(233,728,015)
Total buildings	243,460,012	10,950,272	3,495,962	NONE	257,906,246
Equipment	182,333,959	24,014,669		(\$9,555,950)	196,792,678
Less accumulated depreciation	(129,541,928)	(15,816,844)		9,555,950	(135,802,822)
Total equipment	52,792,031	8,197,825	NONE	NONE	60,989,856
Library books	98,088,000	5,328,509		(485,692)	102,930,817
Less accumulated depreciation	(88,458,606)	(4,766,220)		485,692	(92,739,134)
Total library books	9,629,394	562,289	NONE	NONE	10,191,683
Total other capital assets	\$337,140,301	\$19,220,992	\$3,772,841	NONE	\$360,134,134
Capital asset summary:					
Capital assets not being depreciated	\$57,109,863	\$29,389,607	(\$3,772,841)		\$82,726,629
Other capital assets, at cost	806,154,693	52,257,787	3,772,841	(\$10,041,642)	852,143,679
Total cost of capital assets	863,264,556	81,647,394	NONE	(10,041,642)	934,870,308
Less accumulated depreciation	(469,014,392)	(33,036,795)		10,041,642	(492,009,545)
Capital assets, net	\$394,250,164	\$48,610,599	NONE	NONE	\$442,860,763

6. PENSION PLANS

Plan Description. Substantially all employees of LSU are members of two statewide, public employee retirement systems. Academic employees are generally members of the Teachers Retirement System of Louisiana (TRSLA), 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. TRSLA and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time

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Notes to the Financial Statements (Continued)

employees are eligible to participate in the systems, with employee benefits vesting after 5 years of service for TRSLA and 10 years of service for LASERS. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446, and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of employee plan members and LSU 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% (TRSLA) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.1% of covered salaries to TRSLA and 14.1% of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to LSU. The employer contributions to TRSLA for the years ended June 30, 2003, 2002, and 2001, were \$10,428,362, \$9,832,777, and \$9,997,966, respectively, and to LASERS for the years ended June 30, 2003, 2002, and 2001, were \$9,102,616, \$8,217,051, and \$8,260,312, respectively, equal to the required contributions for each year.

Optional Retirement System

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

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

Total contributions by LSU 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 TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the actuarial committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to

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Notes to the Financial Statements (Continued)

participants are not the obligations of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$16,086,052 and \$9,823,617, respectively, for the year ended June 30, 2003.

**7. POSTRETIREMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

LSU provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of LSU's employees become eligible for these benefits if they reach normal retirement age while working for LSU. 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 LSU. LSU recognizes the cost of providing these benefits to retirees (LSU's portion of premiums) as an expense when paid during the year. These retiree benefits totaled \$9,006,877 for the year ended June 30, 2003.

**8. CONTINGENT LIABILITIES
AND RISK MANAGEMENT**

Losses arising from judgments, claims, and similar contingencies are paid by either private insurance companies or through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by General Fund appropriation. LSU is involved in 208 lawsuits at June 30, 2003, of which nine lawsuits are handled by contract attorneys. After the issuance of the audit report dated December 19, 2003, it came to our attention that an estimate of potential liability for lawsuits applicable to other campuses of the LSU System at June 30, 2003, was reported in error in note 8 of that report. There is no estimated potential liability for the LSU lawsuits reported herein, and this note has been corrected.

9. COMPENSATED ABSENCES

At June 30, 2003, employees of LSU have accumulated and vested annual, sick, and compensatory leave benefits of \$19,211,021, \$12,654,374, and \$161,869, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

10. OPERATING LEASES

For the year ended June 30, 2003, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed, is \$709,662. The following is a schedule by years of future minimum annual rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year as of June 30, 2003:

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Notes to the Financial Statements (Continued)

Nature of Operating Lease	2004	2005	2006	2007	2008	Total Minimum Payments Required
Office space	\$150,173	\$94,993	\$94,993	\$94,993	\$23,748	\$458,900
Equipment	386,826	200,179	136,778	124,200	93,150	941,133
Other	1,500	1,500				3,000
Total	<u>\$538,499</u>	<u>\$296,672</u>	<u>\$231,771</u>	<u>\$219,193</u>	<u>\$116,898</u>	<u>\$1,403,033</u>

The lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period.

11. LESSOR LEASES

LSU's leasing operations consist primarily of the leasing of property for the purposes of providing food services to students; bookstore operations; office space for postal services, banking services, and LSU affiliated organizations; space on rooftops for communication towers; and mineral leases.

The following schedule provides an analysis of the cost and carrying amount of LSU's investment in property on operating leases and property held for lease as of June 30, 2003:

Nature of Lease	Cost	Accumulated Depreciation	Carrying Amount
Office space	\$12,742,138	(\$6,681,108)	\$6,061,030

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

Nature of Operating Lease	2004	2005	2006	2007	2008	2009-2013	2014-2018	Total Minimum Future Rentals
Office space	\$1,661,540	\$1,499,126	\$373,984	\$312,829	\$120,323	\$127,694		\$4,095,496
Other	72,701	72,700	71,700	71,600	71,600	97,000	\$31,750	489,051
Total	<u>\$1,734,241</u>	<u>\$1,571,826</u>	<u>\$445,684</u>	<u>\$384,429</u>	<u>\$191,923</u>	<u>\$224,694</u>	<u>\$31,750</u>	<u>\$4,584,547</u>

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Notes to the Financial Statements (Continued)

Minimum future rentals do not include contingent rentals, which may be received as stipulated in the lease contracts. These contingent rental payments occur as a result of sales volume, customer usage of services provided, or as a result of the drilling operations on mineral leases. Contingent rentals amounted to \$1,086,193 for the year ended June 30, 2003.

12. LONG-TERM LIABILITIES

Notes Payable

LSU has entered into a number of installment purchase agreements for the purchase of computer equipment, copiers, vehicles, et cetera. These agreements require scheduled payments either on a monthly, semiannual, or annual basis and have interest rates ranging from zero to 9.55%. The following is a summary of installment notes payable by LSU for the year ended June 30, 2003:

Balance at July 1, 2002	\$5,002,073
Installment payments in 2003	<u>(1,397,662)</u>
Installment notes payable at June 30, 2003	<u><u>\$3,604,411</u></u>

The following is a summary of future minimum installment payments as of June 30, 2003:

<u>Fiscal Year Ending June 30:</u>	
2004	\$1,107,639
2005	829,050
2006	768,722
2007	646,346
2008	<u>646,346</u>
Total minimum installment payments	3,998,103
Less - amount representing interest	<u>(393,692)</u>
Total	<u><u>\$3,604,411</u></u>

The majority of the installment purchase agreements have non-appropriation exculpatory clauses that allow for cancellation if the Louisiana Legislature does not make an appropriation for its continuation during any future fiscal period.

In addition to the installment purchase agreements, LSU has entered into loan agreements with the Louisiana Public Facilities Authority (LPFA) on October 31, 1988. The LPFA loan agreement is for financing, refinancing, or reimbursing the cost of facilities; improvements and expansions of the LSU Athletic Department; construction of

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Notes to the Financial Statements (Continued)

the Student Recreation Sports Center for LSU, improvements for parking and safety at LSU, and improvements to residential life facilities (\$26,200,000). The loan repayments are payable from the fees, rates, rentals, charges, grants, or other receipts or income derived by or in connection with the facilities, equipment, and improvements. According to terms of the loan agreement, LSU is to repay principal and interest on the obligation on the 28th day of each month for 20 years commencing August 28, 1991. LSU made principal payments during the year totaling \$1,495,815. At June 30, 2003, the outstanding balance is \$14,052,979.

Notes payable totaling \$17,657,390 are reflected on Statement A.

Bonds and Contracts Payable

Detailed summaries, by issues, of all bond and reimbursement contract debt outstanding at June 30, 2003, including future interest payments of \$70,148,046 follow:

Bonds Payable

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding July 1, 2002</u>
Student Housing System Bonds:			
1964:			
Series A	July 1, 1964	\$900,000	\$75,000
Series B	July 1, 1964	3,790,000	336,000
Building Bonds of 1965 -			
Series B	July 1, 1965	1,545,000	158,000
Student Housing System Bonds:			
1966:			
Series B	July 1, 1966	2,175,000	355,000
Series C	July 1, 1966	1,250,000	165,000
1968 - Series B	July 1, 1968	1,275,000	205,000
Auxiliary Revenue Bonds 1994	June 15, 1994	26,290,000	19,420,000
1996 Revenue Bonds	September 5, 1996	33,485,000	31,085,000
1997 Auxiliary Revenue Bonds	December 1, 1997	6,500,000	5,540,000
2000 Auxiliary Revenue Bonds	June 28, 2000	27,000,000	26,600,000
2002 Auxiliary Revenue Bonds	October 3, 2002	11,435,000	
Total Bonds Payable		<u>\$115,645,000</u>	<u>\$83,939,000</u>

During the year ended June 30, 2003, auxiliary revenue bonds in the amount of \$11,435,000 were issued, the proceeds of which will be used for construction and renovation projects at the University Lab School, construction of residential housing, and construction of sports fields.

<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding June 30, 2003</u>	<u>Maturities</u>	<u>Interest Rates</u>	<u>Future Interest Payments June 30, 2003</u>
	\$42,000	\$33,000	2004	3.625%	\$1,196
	170,000	166,000	2004	3.625%	6,018
	60,000	98,000	2004-2005	3%	4,080
	85,000	270,000	2004-2006	3%	16,500
	50,000	115,000	2004-2006	3%	5,850
	45,000	160,000	2004-2007	3%	10,050
	1,185,000	18,235,000	2004-2014	5.3% - 5.75%	6,825,684
	665,000	30,420,000	2004-2027	4.3% - 5.5%	23,865,165
	265,000	5,275,000	2004-2017	4.3% - 5%	2,152,030
	250,000	26,350,000	2004-2030	Variable	26,124,000
<u>\$11,435,000</u>		<u>11,435,000</u>	2004-2032	Variable	<u>11,137,473</u>
<u>\$11,435,000</u>	<u>\$2,817,000</u>	<u>\$92,557,000</u>			<u>\$70,148,046</u>

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 Notes to the Financial Statements (Continued)

Reimbursement Contracts Payable

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding July 1, 2002</u>
LSU Union Additions Bonds, Series 1984-B	July 31, 1984	\$2,700,000	\$904,419
Student Recreation Sports Center Bonds, Series 1984-A	April 1, 1984	750,000	140,374
LSU Union Additions Bonds, Series 1983-A	March 1, 1983	<u>300,000</u>	<u>29,710</u>
Total Reimbursement Contracts Payable		<u>\$3,750,000</u>	<u>\$1,074,503</u>

The annual requirements to amortize all bonds and reimbursement contracts outstanding at June 30, 2003, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$3,413,535	\$5,165,772	\$8,579,307
2005	3,685,554	4,991,384	8,676,938
2006	3,420,000	4,810,590	8,230,590
2007	3,450,000	4,623,265	8,073,265
2008	3,655,000	4,429,013	8,084,013
2009-2013	21,010,000	18,884,866	39,894,866
2014-2018	16,180,000	13,208,633	29,388,633
2019-2023	15,755,000	9,096,076	24,851,076
2024-2028	16,130,000	4,266,399	20,396,399
2029-2033	<u>6,570,000</u>	<u>718,342</u>	<u>7,288,342</u>
Total	<u>\$93,269,089</u>	<u>\$70,194,340</u>	<u>\$163,463,429</u>

<u>Redeemed</u>	<u>Outstanding June 30, 2003</u>	<u>Maturities</u>	<u>Interest Rates</u>	<u>Future Interest Payments June 30, 2003</u>
\$265,383	\$639,036	2004-2005	4.67% - 6.01%	\$39,354
67,321	73,053	2004	9.5%	6,940
<u>29,710</u>				
<u>\$362,414</u>	<u>\$712,089</u>			<u>\$46,294</u>

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Notes to the Financial Statements (Continued)

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

<u>Bond Issue</u>	<u>Cash/ Investment Reserves Available</u>	<u>Reserve Requirement</u>	<u>Excess</u>
Auxiliary Plant - LSU	\$6,037,313	\$6,014,162	\$23,151

As permitted by the Bond Resolution for the Auxiliary Revenue Bonds, Series 2000, LSU obtained a surety bond issued by an insurance company as a substitute for the reserve requirement for the bonds. The surety bond meets the definition as a "Reserve Fund Investment" and guarantees payment of principal and interest on the bonds when they are due in the event of nonpayment.

As permitted by the Bond Resolution for the Auxiliary Revenue Bonds, Series 2002, LSU obtained a letter of credit issued by the trustee bank as a substitute for the reserve requirement for the bonds. The letter of credit meets the definition as a "Reserve Fund Investment" and guarantees payment of an amount not to exceed \$11,833,502 in the aggregate.

Capital Leases

LSU records items under capital leases as assets and obligations in the accompanying financial statements. Assets under capital lease are included as capital assets in note 5. The following is a schedule of future minimum lease payments under capital leases, together with the present value of minimum lease payments at June 30, 2003:

<u>Fiscal Year Ending June 30:</u>	
2004	\$148,263
2005	148,263
2006	148,263
2007	148,263
2008	148,263
2009-2013	741,315
2014-2018	667,183
Total minimum lease payments	<u>2,149,813</u>
Less - amounts representing interest	<u>(711,204)</u>
Present value of net minimum lease payments	<u><u>\$1,438,609</u></u>

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Notes to the Financial Statements (Continued)

13. DUE FROM STATE TREASURY

As shown on Statement A, LSU has a total of \$624,674 due from the state treasury (net) at June 30, 2003. This amount consists of the following:

<u>Description</u>	<u>Due from/(to)</u>
Received from state treasury after year-end	\$756,339
Return of appropriations	(128,099)
Miscellaneous refunds	<u>(3,566)</u>
Total	<u><u>\$624,674</u></u>

14. DUE TO/FROM OTHER CAMPUSES

As shown on Statement A, LSU reported amounts due to and from other campuses as follows:

<u>Campus</u>	<u>Due from</u>	<u>Due to</u>
LSU Health Sciences Center - Shreveport	\$1,901,616	\$1,260,540
LSU Health Sciences Center - New Orleans		38,713,798
University of New Orleans	<u>7,527</u>	
Total	<u><u>\$1,909,143</u></u>	<u><u>\$39,974,338</u></u>

15. FOUNDATIONS

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

LSU Foundation
LSU Property Foundation
Tiger Athletic Foundation
LSU Alumni Association

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

**LOUISIANA STATE UNIVERSITY
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Notes to the Financial Statements (Continued)

16. DEFERRED COMPENSATION PLAN

Certain employees of LSU 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.

17. ON-BEHALF PAYMENTS

On-behalf payments for fringe benefits and salaries 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. The amount of on-behalf payments for fringe benefits and salaries included in Statement B for fiscal year ended June 30, 2003, is \$480,000. There were no on-behalf payments made as contributions to a pension plan for which LSU is not legally responsible.

**18. IMPROVEMENTS TO PLANT
ON BEHALF OF UNIVERSITY**

Expansion of Tiger Stadium

The Tiger Athletic Foundation, a separate corporation created in behalf of LSU's intercollegiate athletics program, issued in March 1999, long-term debt instruments for the expansion of Tiger Stadium, located on the grounds of LSU. The expansion, with an estimated value of \$50 million, was completely financed by the Tiger Athletic Foundation through the sale of bonds through the Louisiana Public Facilities Authority and a bank loan. The bonds financed 75% of the cost of the project and the bank loan financed the remaining balance. Commencing in January 1999 and for a term of 50 years, LSU agrees to lease the land to the Tiger Athletic Foundation for the stadium improvements. Until the bonds are paid for by the Tiger Athletic Foundation, the rent paid is \$1,000 per year. After the bonds are paid for in full, the rent is increased to \$2 million per year. In turn, LSU agrees to lease the completed stadium improvements for 35 years from the Tiger Athletic Foundation for \$2 million per year with payments being due in September of each year. In addition, LSU has granted the foundation certain rights to purchase tickets in the existing and newly expanded section of the stadium. The stadium improvements are owned by the Tiger Athletic Foundation, but upon payment of the bonds and expiration of the lease, the Tiger Athletic Foundation intends to donate the stadium improvements to LSU. Revenues of the Tiger Athletic Foundation from the sale of the ticket premiums related to the stadium improvements are pledged to finance the debt service.

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Notes to the Financial Statements (Concluded)

19. REVENUE USED AS SECURITY FOR REVENUE BONDS

The revenues of certain auxiliary enterprises at LSU are restricted by terms in the covenants of certain debt instruments. The revenues reported on the Statement of Revenues, Expenses, and Changes in Net Assets include all auxiliary enterprise revenues of all campuses, but exclude sales to other LSU departments or campuses, in accordance with accounting principles generally accepted in the United States of America. The following represents those restricted auxiliary enterprise revenues of certain auxiliary enterprises at LSU that are used as security for revenue bonds; however, these amounts do include sales to other LSU departments and campuses for the year ended June 30, 2003.

Auxiliary Enterprises

Athletics	\$44,738,944
Contracted auxiliary services	1,193,643
Golf course	925,217
LSU Union	5,615,784
Miscellaneous	257,006
Parking, traffic and transportation	5,265,488
Procurement auxiliary services	14,803,722
Residential life	20,558,070
Student health center	5,640,338
Student media, LSU Press	<u>4,148,687</u>
Total	<u><u>\$103,146,899</u></u>

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Exhibit A contains a report on compliance with laws and regulations and on internal control over financial reporting 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.



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
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December 19, 2003

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

**LOUISIANA STATE UNIVERSITY
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA**
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana State University (LSU), a university comprised of the three campuses described in the notes introduction, within the Louisiana State University System, which is a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 19, 2003, except for note 8 as to which the date is February 27, 2004. 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 LSU's 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 the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Noncompliance With Established Internal Controls
Over Time and Attendance Certifications**

LSU has not fully enforced its established policies and procedures to ensure that time and attendance records are certified and approved and that leave taken is adequately supported by approved leave slips. Louisiana Revised Statute (R.S.) 3311.A(3) requires administrative, professional, and academic personnel to certify that they were either present or absent from their usual duty posts during the usual working day, and it further requires that the certification be signed and reported monthly. Civil Service Rule 15.2 requires classified employees and their supervisors to certify the number of hours of attendance or absence from duty on the time and attendance records. Furthermore, LSU has established formal policies that require certification and approval of time and that require that leave slips must be signed by employees and approved by their supervisors.

EXHIBIT A

LEGISLATIVE AUDITOR

LOUISIANA STATE UNIVERSITY LOUISIANA STATE UNIVERSITY SYSTEM STATE OF LOUISIANA

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In our test of 44 employee records, our audit procedures identified the following instances of noncompliance:

- Seventeen of the 44 (39%) employees' time certifications were not approved by their supervisors.
- Nine of the 44 (20%) employees did not certify their time.
- Leave taken by two of 21 (10%) employees was not supported by leave slips.

As a result, LSU has not complied with state laws and regulations and LSU's established policies and procedures. Furthermore, errors and/or fraud could occur and not be detected timely.

Management should develop procedures to ensure compliance with state, LSU, and civil service rules and regulations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LSU'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, we noted the noncompliance with established internal controls over time and attendance certifications, referred to previously, that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect LSU's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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 noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

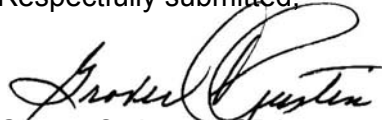
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This report is intended solely for the information and use of LSU and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed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

Respectfully submitted,

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

CGEW:ES:PEP:ss

[LSUA&M03]

Appendix A

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



LOUISIANA STATE UNIVERSITY
AND AGRICULTURAL AND MECHANICAL COLLEGE

Office of the Vice Chancellor for Finance and Administrative Services and Comptroller

December 10, 2003

Grover C Austin, CPA
First Assistant Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Grover,

In conjunction with the legislative audit of LSU for the fiscal year ended June 30, 2003, we wish to respond to the audit finding concerning internal controls over time and attendance records. We concur with the finding. While the Payroll and Human Resource Management (HRM) functions at the University are highly centralized, the time and attendance structure is decentralized, and ongoing communications are necessary to assure compliance with LSU's leave certification requirements. The following steps will be taken to improve the level of compliance with the time and attendance certification process:

- The Chancellor will send a directive to each dean, emphasizing the necessity for full compliance with the existing University policy.
- An annual meeting will be held for all LSU "leave keepers" to explain the procedures and to emphasize the need for full compliance. The first meeting will be held in January, 2004.
- Monthly reports will be sent to each dean, identifying all employees who have not electronically certified their time in accordance with the University's existing policy.
- The HRM department will make random departmental visits to monitor supervisor certification and compliance, and to answer questions about the University's policy.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: Chancellor Mark Emmert