

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
A COMPONENT UNIT OF THE STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
ISSUED JUNE 27, 2007

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May 16, 2007

Independent Auditor's Report
on the Financial Statements

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of the University of Louisiana System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management of the University of Louisiana System. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ragin' Cajun Facilities, Inc.; University Facilities, Inc.; Innovative Student Facilities, Inc.; University of Louisiana at Monroe Facilities, Inc.; and Cowboy Facilities, Inc., which are nonprofit corporations included as blended component units in the basic financial statements representing approximately 16.2% of total assets, 62% of total liabilities, 1% of net assets, and 2.2% of total revenues of the University of Louisiana System. We also did not audit the financial statements of the Louisiana Tech University Foundation, Inc.; the McNeese State University Foundation; the University of Louisiana at Lafayette Foundation, Inc.; and the University of Louisiana at Monroe Foundation, which are all of the discretely presented component units in the basic financial statements of the University of Louisiana System. The financial statements of the blended and discretely presented component units were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts reported for these component units, are 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 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. The financial statements of the McNeese State University Foundation; the University of Louisiana at Monroe Foundation; the University of Louisiana at Monroe Facilities, Inc.; and the University Facilities, Inc., which were audited by other auditors upon whose reports we are relying, were not audited in accordance with *Government Auditing Standards*. 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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the University of Louisiana System as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-P to the basic financial statements, the University of Louisiana System implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, for the year ended June 30, 2006.

During August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown what economic impact recovery efforts will have on state and local governmental operations in Louisiana. Both the University of Louisiana System and McNeese State University were significantly impacted as a result of Hurricane Rita.

During the fiscal year ended June 30, 2006, the Louisiana Legislative Auditor (LLA) provided certain nonaudit services for the State of Louisiana directed toward assisting the state Department of Military Affairs and the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) relative to their administration of the Federal Emergency Management Agency's (FEMA) Public Assistance program. The LLA provided the Department of Military Affairs and GOHSEP with assistance in reviewing documents submitted by applicants and reviewing the application and payment process to provide recommendations to those agencies for meeting their responsibilities for compliance with FEMA and state regulations. To maintain independence for audit purposes while providing these nonaudit services, the LLA has met the criteria and requirements set forth in *Government Auditing Standards: Temporary Exemptions and Guidance in Response to Hurricanes Katrina and Rita*, issued by the Government Accountability Office in November 2005.

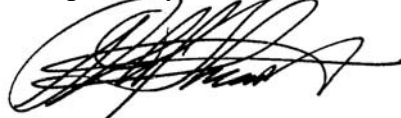
In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2007, on our consideration of the University of Louisiana System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

Management's discussion and analysis on pages 7 through 14 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of Louisiana System's basic financial statements. The accompanying supplemental information schedules, including the combining schedule of net assets, the combining schedule of revenues, expenses, and changes in net assets, and the combining schedule of cash flows, on pages 72 through 83, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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INTRODUCTION

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, 2006. Please read this section in conjunction with the System's financial statements, which follows 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 \$843,366,901 (restated) to \$923,721,269, a 9.5% increase from June 30, 2005, to June 30, 2006. The overall reasons for this change included:

- Increases in state funding
- Increases in fees and tuition
- Increases in capital appropriations
- Increases in endowment gifts
- Insurance recoveries and extraordinary gains from impairment of capital assets at McNeese State University as a result of Hurricane Rita

Enrollment changed from approximately 84,400 to approximately 85,550 from June 30, 2005, to June 30, 2006, an overall increase of 1.4%. The System's operating revenues increased by approximately 5.4% to \$545,455,912 from June 30, 2005, to June 30, 2006, because of tuition/fee increases and various grant/contract programs. Operating expenses increased by 2.9% to \$845,533,967 for the year ended June 30, 2006. The primary reasons for this change include faculty salary increases, student service increases, and general increases in operations.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$331,515,625 in 2006 from \$315,452,953 in 2005 is primarily attributed to an increase in state appropriations, increases in investment income, and insurance recoveries at McNeese State University as a result of Hurricane Rita. Gifts increased by \$503,136; investment income increased by \$7,582,938; interest expense increased by \$4,765,592; insurance recoveries received totaled \$5,931,747; and other nonoperating revenues increased by \$2,594,161. State appropriations increased by \$4,200,883, which along with the increase in interest expense attribute to the overall increase.

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 15-16) 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 19-20) 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 Statement of Cash Flows (pages 23-25) presents information showing how the System's cash changed as a result of current year operations. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

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

The System has four foundations that are discretely presented in its basic financial statements. These are the Louisiana Tech University Foundation, Inc.; the McNeese State University Foundation; the University of Louisiana at Lafayette Foundation, Inc.; and the University of Louisiana at Monroe Foundation. The financial data of each of these foundations are presented separately in a Statement of Financial Position (page 17) and a Statement of Activities (pages 21-22). Additional information about the foundations is contained in the notes to the financial statements.

FINANCIAL ANALYSIS

Net Assets

The System's total net assets at June 30, 2006, changed by approximately \$81 million, a 9.6% increase over June 30, 2005 (see Table A-1). Total assets increased 7.5% to \$1,266 million and total liabilities increased 2.1% to \$343 million.

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

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>Percent</u> <u>Variance</u>
Current and other assets	\$508	\$464	\$44	9.5%
Capital assets	758	714	44	6.2%
Total assets	<u>1,266</u>	<u>1,178</u>	<u>88</u>	7.5%
Current liabilities	71	65	6	9.2%
Noncurrent liabilities	272	271	1	0.4%
Total liabilities	<u>343</u>	<u>336</u>	<u>7</u>	2.1%
Net assets:				
Invested in capital assets, net of debt	530	512	18	3.5%
Restricted	285	258	27	10.5%
Unrestricted	<u>109</u>	<u>73</u>	<u>36</u>	49.3%
Total net assets	<u><u>\$924</u></u>	<u><u>\$843</u></u>	<u><u>\$81</u></u>	9.6%

This schedule is prepared from the System's statement of net assets as shown on pages 15-16, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Significant statement of net asset changes from 2005 include the following:

- Current assets increased because of an increase in cash from investment maturities, increased tuition and fees, and receivables for insurance recoveries at McNeese State University.
- Restricted assets in total remained essentially unchanged. Restricted cash and cash equivalents decreased from bond proceeds spent for construction projects, and restricted investments increased from additional endowment gifts.
- Capital asset increases reflect current year additions and improvements.
- Current liabilities increased because of an increase in accounts payable, deferred revenue, and an increase in amounts due within one year for bonds payable.
- Long-term liabilities increased from the long-term portion of bonds payable resulting from the issuance of bonds by the NSU Facilities Corporation (at Nicholls State University) during fiscal 2006.
- Invested in capital assets, net of related debt, increased from current year capital asset additions.
- Restricted net assets increased from increased endowment gifts and earnings on endowments.
- Unrestricted net assets increased from increased tuition and fees and from insurance recoveries at McNeese State University as a result of damages from Hurricane Rita.

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets.

Changes in Net Assets

The change in net assets at June 30, 2006, is approximately \$81 million or 9.6% more than at June 30, 2005. The changes in net assets are detailed in Table A-2; education and general expenses are detailed in Table A-3.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The System's total operating revenues increased by 5.2% to approximately \$545 million and total operating expenses increased 2.9% to approximately \$845 million. These changes are the result of several factors, including the following:

- Operating revenues increased because of increases in enrollment, student tuition and fees, auxiliary revenues, and grants and contracts.
- Operating expenses increased primarily because of increases from faculty salary adjustments, auxiliary expenses, and increases in general operations of the System.

Nonoperating revenues, net, increased by 5.4% to \$332 million, which is primarily attributable to increased gifts, investment income, insurance recoveries at McNeese State University, and other nonoperating revenue. Capital appropriations and capital grants and gifts increased by 47.4% to \$28 million, additions to permanent endowments increased 450% to \$11 million, and other revenues increased by 466.7% to \$11 million as a result of an extraordinary gain on impaired assets at McNeese State University.

Total education and general expenses changed from \$701 in 2005 to \$718 in 2006. The change is primarily attributable to the following:

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

Depreciation expense increased by 7.7% to \$42 million from depreciable capital assets placed in service during fiscal 2006.

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

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>Percent Variance</u>
Operating revenues:				
Student tuition and fees, net	\$243	\$225	\$18	8.0%
Auxiliary	95	92	3	3.3%
Other	207	201	6	3.0%
Total operating revenues	<u>545</u>	<u>518</u>	<u>27</u>	5.2%
Operating expenses:				
Education and general	718	701	17	2.4%
Other	127	120	7	5.8%
Total operating expenses	<u>845</u>	<u>821</u>	<u>24</u>	2.9%
Operating loss	<u>(300)</u>	<u>(303)</u>	<u>3</u>	(1.0%)
Nonoperating revenues (expenses):				
State appropriations	307	303	4	1.3%
Gifts	7	7	0	0.0%
Other	18	5	13	260.0%
Total nonoperating revenues	<u>332</u>	<u>315</u>	<u>17</u>	5.4%
Capital appropriations	25	18	7	38.9%
Capital grants and gifts	3	1	2	200.0%
Additions to permanent endowments	11	2	9	450.0%
Other expenses, net	(1)	(3)	2	(66.7%)
Extraordinary item - gain on impairment of capital assets	<u>11</u>	<u> </u>	<u>11</u>	
Change in net assets	81	30	51	170.0%
Net assets, beginning of the year (restated)	<u>843</u>	<u>813</u>	<u>30</u>	3.7%
Total net assets	<u>\$924</u>	<u>\$843</u>	<u>\$81</u>	9.6%

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

	2006	2005	Variance	Percent Variance
Instruction	\$271	\$264	\$7	2.7%
Research	69	69		
Public service	21	18	3	16.7%
Academic support	60	60		
Student services	54	53	1	1.9%
Institutional support	79	77	2	2.6%
Operations and plant maintenance	66	65	1	1.5%
Depreciation	42	39	3	7.7%
Scholarships and fellowships	56	56		
Total	\$718	\$701	\$17	2.4%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2006 and 2005, the System's cost of capital assets totaled approximately \$1.5 billion and \$1.4 billion, respectively. Net of accumulated depreciation, the System's capital assets at June 30, 2006, total approximately \$758 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$43 million or 6% over June 30, 2005. The increases were primarily in buildings and equipment financed through long-term obligations.

Debt Administration

During fiscal 2006, NSU Facilities Corporation (at Nicholls State University), a blended component unit of Nicholls State University, issued bonds totaling \$8,320,000 for the improvement and construction of streets and parking facilities and the student union and cafeteria.

Under the terms of its capital leases, the System will make annual minimum lease payments in 2007 of approximately \$344,000 including principal and interest. All lease covenants have been met. See notes 11 and 12 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 construction to facilities
- Impact of Hurricanes Katrina and Rita

**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 Vice President for Facilities and Operations at (225) 342-6950.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Net Assets
June 30, 2006**

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$145,549,818
Investments (note 3)	16,750,554
Receivables, net (note 4)	63,422,047
Due from federal government (note 4)	632,569
Inventories	7,316,905
Deferred charges and prepaid expenses	7,554,628
Notes receivable, net	4,198,013
Other current assets	4,698,631
Total current assets	<u>250,123,165</u>

Noncurrent assets:

Restricted:

Cash and cash equivalents (notes 2 and 3)	70,939,675
Investments (note 3)	153,571,915
Receivables, net (note 4)	1,354,738
Notes receivable, net	24,711,849
Other	7,267
Investments	1,316,632
Notes receivable	18,174
Capital assets (net) (note 5)	758,142,553
Other noncurrent assets	6,233,520
Total noncurrent assets	<u>1,016,296,323</u>
Total assets	<u>1,266,419,488</u>

LIABILITIES

Current liabilities:

Accounts payable and accruals (note 6)	35,663,450
Due to state treasury	6,889
Deferred revenues	20,904,097

(Continued)

The accompanying notes are an integral part of this statement.

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

LIABILITIES (CONT.)

Current liabilities: (Cont.)	
Compensated absences payable (note 10)	\$3,057,602
Capital lease obligations (note 11)	279,210
Amounts held in custody for others (note 12)	4,028,251
Notes payable (note 12)	535,655
Reimbursement contracts payable (note 12)	25,000
Bonds payable (note 12)	5,001,000
Other current liabilities	1,374,040
Total current liabilities	<u>70,875,194</u>
Noncurrent liabilities:	
Compensated absences payable (note 10)	26,269,488
Capital lease obligations (note 11)	1,022,594
Notes payable (note 12)	2,942,927
Reimbursement contracts payable (note 12)	205,000
Bonds payable (note 12)	240,995,000
Other noncurrent liabilities	388,016
Total noncurrent liabilities	<u>271,823,025</u>
Total liabilities	<u>342,698,219</u>
NET ASSETS	
Invested in capital assets, net of related debt	529,669,294
Restricted:	
Nonexpendable (note 15)	128,712,942
Expendable (note 15)	156,335,326
Unrestricted	<u>109,003,707</u>
Total net assets	<u><u>\$923,721,269</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

COMPONENT UNITS

Statement of Financial Position, June 30, 2006

	LOUISIANA TECH UNIVERSITY FOUNDATION, INC.	MCNEESE STATE UNIVERSITY FOUNDATION	UNIVERSITY OF LOUISIANA AT LAFAYETTE FOUNDATION, INC.	UNIVERSITY OF LOUISIANA AT MONROE FOUNDATION	TOTAL COMPONENT UNITS
ASSETS					
Cash and cash equivalents (note 2)	\$6,248,983	\$2,832,379	\$11,004,024	\$3,721,044	\$23,806,430
Investments (note 3)	18,465,519	39,354,181	93,539,725	32,821,551	184,180,976
Restricted assets - investments (note 3)	27,046,664				27,046,664
Accounts receivable, net	985,701				985,701
Due from state government		160,000	520,000		680,000
Contributions receivable, net	334,893		2,787,007	950,970	4,072,870
Unconditional promises to give		157,957			157,957
Pledges receivable				80,540	80,540
Accrued interest receivable	26,429				26,429
Notes receivable				134,342	134,342
Fixed assets, net (note 5)	5,892,763	489,954	11,972,615	6,944,236	25,299,568
Other assets	79,968		766,036	31,041	877,045
Total assets	\$59,080,920	\$42,994,471	\$120,589,407	\$44,683,724	\$267,348,522
LIABILITIES					
Accounts payable	\$1,461,080	\$30,760		\$130,352	\$1,622,192
Accrued interest payable	19,558				19,558
Gift annuity liability	157,236			264,761	421,997
Deferred compensation	90,645				90,645
Endowment funds held in custody	26,564,273	3,334,814	\$27,404,716	20,617,537	77,921,340
Deferred revenue	602,839				602,839
Notes payable (note 12)	1,125,000			278,236	1,403,236
Bonds payable (note 12)	1,875,412		8,180,000		10,055,412
Other liabilities			165,150	336,413	501,563
Total liabilities	31,896,043	3,365,574	35,749,866	21,627,299	92,638,782
NET ASSETS					
Unrestricted	4,296,686	4,473,888	4,748,062	4,933,911	18,452,547
Temporarily restricted	9,687,580	11,104,335	19,315,359	3,828,871	43,936,145
Permanently restricted	13,200,611	24,050,674	60,776,120	14,293,643	112,321,048
Total net assets	27,184,877	39,628,897	84,839,541	23,056,425	174,709,740
Total liabilities and net assets	\$59,080,920	\$42,994,471	\$120,589,407	\$44,683,724	\$267,348,522

The accompanying notes are an integral part of this statement.

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**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

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

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$67,814,125)	\$242,878,655
Federal grants and contracts	133,730,488
State and local grants and contracts	33,853,158
Nongovernmental grants and contracts	20,466,977
Sales and services of educational departments	3,999,626
Auxiliary enterprise revenues (net of scholarship allowances of \$6,272,372, including revenues used as security for revenue bonds)	94,891,298
Other operating revenues	15,635,710
Total operating revenues	545,455,912

OPERATING EXPENSES

Educational and general:	
Instruction	271,179,879
Research	68,903,859
Public service	20,832,090
Academic services	60,156,694
Student services	53,779,574
Institutional support	79,092,736
Operations and maintenance of plant	65,785,506
Depreciation	42,081,938
Scholarships and fellowships	55,692,137
Auxiliary enterprises	124,472,069
Other operating expenses	3,557,485
Total operating expenses	845,533,967

OPERATING LOSS (300,078,055)

(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, June 2006**

NONOPERATING REVENUES (Expenses)	
State appropriations	\$307,145,370
Gifts	7,105,340
Investment income, net	16,235,414
Interest expense	(8,910,376)
Payments to or on behalf of the university	34,281
Nonoperating revenues - insurance recovery	5,931,747
Other nonoperating revenues	3,973,849
Net nonoperating revenues	<u>331,515,625</u>
INCOME BEFORE OTHER REVENUES AND EXPENSES	31,437,570
Capital appropriations	25,185,570
Capital grants and gifts	2,932,925
Additions to permanent endowments	10,383,746
Other expenses, net	(716,079)
Extraordinary item - gain on impairment of capital assets	<u>11,130,636</u>
CHANGE IN NET ASSETS	80,354,368
NET ASSETS - BEGINNING OF YEAR, Restated (note 14)	<u>843,366,901</u>
NET ASSETS - END OF YEAR	<u><u>\$923,721,269</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**COMPONENT UNITS
Statement of Activities
For the Year Ended June 30, 2006**

	LOUISIANA TECH UNIVERSITY FOUNDATION, INC.	MCNEESE STATE UNIVERSITY FOUNDATION	UNIVERSITY OF LOUISIANA AT LAFAYETTE FOUNDATION, INC.	UNIVERSITY OF LOUISIANA AT MONROE FOUNDATION	TOTAL COMPONENT UNITS
Changes in unrestricted net assets:					
Contributions and contributed services	\$779,163	\$295,730	\$182,295	\$279,949	\$1,537,137
Investment earnings			950,704		950,704
Management and service fees	616,955			168,857	785,812
Rental income		13,200			13,200
Interest, dividends, royalties, and lease income	189,486			372,058	561,544
Realized and unrealized gain (loss) on investments and marketable securities, net	(93,885)			96,500	2,615
Change in value of split-interest agreements				10,996	10,996
Fund raising		12,000			12,000
Other	85,827	743	82,017	12,278	180,865
Total unrestricted revenues	1,577,546	321,673	1,215,016	940,638	4,054,873
Net assets released from restrictions - satisfaction of program expenses	4,190,723	2,284,930	5,627,832	1,488,853	13,592,338
Transfer to funds held as agent				(79,602)	(79,602)
Total unrestricted revenues and other support	5,768,269	2,606,603	6,842,848	2,349,889	17,567,609
Expenses - amounts paid to benefit University of Louisiana System for:					
Projects specified by donors		1,726,413	3,313,706		5,040,119
Scholarships and awards	393,367	496,519		419,865	1,309,751
Instructional, academic, institutional, and other support	1,972,623			202,262	2,174,885
Student services	57,772				57,772
Auxiliary	1,350,011				1,350,011
Departmental expenses				696,761	696,761
Endowment distributions		1,123			1,123
Total program expenses	3,773,773	2,224,055	3,313,706	1,318,888	10,630,422
Supporting services:					
Management and general	1,087,724	39,333	49,827	646,268	1,823,152
Fund raising	948,887	49,355	367,692	171,711	1,537,645
Insurance			41,592		41,592
Office operations			51,841		51,841
Travel			9,851		9,851
Professional services			22,556		22,556
Dues and subscriptions			162		162
Meetings and development			587		587
Investment management fee			360,757		360,757
Interest			370,101		370,101
Depreciation			291,410		291,410
Bad debt expense			1,703,986		1,703,986
Other			10,630	11,751	22,381
Total supporting services	2,036,611	88,688	3,280,992	829,730	6,236,021
Total expenses	5,810,384	2,312,743	6,594,698	2,148,618	16,866,443
Increase/(decrease) in unrestricted net assets	(\$42,115)	\$293,860	\$248,150	\$201,271	\$701,166

(Continued)

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
COMPONENT UNITS
Statement of Activities
For the Year Ended June 30, 2005**

	LOUISIANA TECH UNIVERSITY FOUNDATION, INC.	MCNEESE STATE UNIVERSITY FOUNDATION	UNIVERSITY OF LOUISIANA AT LAFAYETTE FOUNDATION, INC.	UNIVERSITY OF LOUISIANA AT MONROE FOUNDATION	TOTAL COMPONENT UNITS
Changes in temporarily restricted net assets:					
Contributions	\$5,502,668	\$2,253,591	\$2,349,791	\$875,156	\$10,981,206
Investment earnings		2,759,330	910,291		3,669,621
Interest, dividends, and lease income	599,026			26,951	625,977
Realized and unrealized gain (loss) on investments and marketable securities, net	427,402		1,588,700	1,842	2,017,944
Change in value of split-interest agreements				44,589	44,589
Other	2,145,121		1,274,039	219,882	3,639,042
Total temporarily restricted revenues	8,674,217	5,012,921	6,122,821	1,168,420	20,978,379
Net assets released from restrictions - satisfaction of program expenses	(4,113,889)	(2,284,930)	(5,627,832)	(824,272)	(12,850,923)
Investment income paid to endowment principal			(2,280,295)		(2,280,295)
Foundation funds added to endowment principal			(216,570)		(216,570)
Increase/(decrease) in temporarily restricted net assets	\$4,560,328	\$2,727,991	(\$2,001,876)	\$344,148	\$5,630,591
Changes in permanently restricted net assets:					
Contributions	\$1,929,895	\$562,773	\$2,559,526	\$225,727	\$5,277,921
Investment earnings		317,018	44,607		361,625
Interest, dividends, and lease income	89			204,950	205,039
Realized and unrealized gains on investments, net	(3,634)		(1,871,427)	831,535	(1,043,526)
Other	14,739			2,422	17,161
Net assets released from restrictions	(76,834)		2,496,865	(664,581)	1,755,450
Assets dedicated to universities	(1,082,389)				(1,082,389)
Increase in permanently restricted net assets	\$781,866	\$879,791	\$3,229,571	\$600,053	\$5,491,281
Increase in net assets	\$5,300,079	\$3,901,642	\$1,475,845	\$1,145,472	\$11,823,038
Net assets at beginning of year	21,884,798	35,727,255	83,363,696	21,910,953	162,886,702
Net assets at end of year	\$27,184,877	\$39,628,897	\$84,839,541	\$23,056,425	\$174,709,740

(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, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$249,174,121
Grants and contracts	187,488,211
Sales and services of educational departments	4,093,500
Auxiliary enterprise receipts	76,314,441
Payments for employee compensation	(401,138,532)
Payments for benefits	(103,477,807)
Payments for utilities	(38,127,782)
Payments for supplies and services	(166,786,711)
Payments for scholarships and fellowships	(72,861,257)
Loans issued to students and employees	(5,915,497)
Collection of loans to students and employees	6,670,349
Other receipts	4,334,623
Net cash used by operating activities	<u>(260,232,341)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	308,250,760
Gifts and grants for other than capital purposes	5,530,463
Private gifts for endowment purposes	9,283,746
TOPS receipts	50,301,496
TOPS disbursements	(50,498,483)
Federal Family Education Loan program receipts	223,502,189
Federal Family Education Loan program disbursements	(223,505,793)
Other receipts	3,664,095
Net cash provided by noncapital financing sources	<u>326,528,473</u>

(Continued)

The accompanying notes are an integral part of this statement.

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

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Proceeds from capital debt	\$7,989,605
Capital appropriations received	22,403,407
Capital grants and gifts received	3,436,734
Proceeds from sale of capital assets	69,679
Purchases of capital assets	(81,606,538)
Principal paid on capital debt and leases	(5,097,662)
Interest paid on capital debt and leases	(7,770,553)
Deposit with trustees	(625,427)
Other sources	(1,125,812)
Net cash used by capital financing activities	(62,326,567)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	112,597,552
Interest received on investments	17,171,835
Purchase of investments	(119,419,049)
Net cash provided by investing activities	10,350,338

NET INCREASE IN CASH AND CASH EQUIVALENTS 14,319,903

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 202,169,590

CASH AND CASH EQUIVALENTS AT END OF YEAR \$216,489,493

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

Operating loss	(\$300,078,055)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	42,081,938

(Continued)

The accompanying notes are an integral part of this statement.

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

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES: (CONT.)**

Adjustments to reconcile operating loss to net cash used by operating activities: (Cont.)	
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(\$4,925,976)
(Increase) in inventories	(247,368)
(Increase) in deferred charges and prepaid expenses	(288,171)
Decrease in notes receivable, net	733,851
(Increase) in other assets	(92,255)
Increase in accounts payable and accrued liabilities	854,092
Increase in deferred revenue	1,427,736
(Decrease) in amounts held in custody for others	(56,425)
Increase in compensated absences	382,180
(Decrease) in other liabilities	(23,888)
	<hr/>
Net cash used by operating activities	(\$260,232,341)
	<hr/> <hr/>

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

Gain on impairment of capital assets at McNeese State University (note 23)	\$11,130,636
Capital assets donated to Nicholls State University	\$70,950
Capital appropriations for University of Louisiana at Lafayette	\$2,782,163
Capital assets appropriated for Board of Supervisors	\$19,897

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO THE STATEMENT OF NET ASSETS:**

Cash and cash equivalents classified as current assets	\$145,549,818
Cash and cash equivalents classified as noncurrent assets	70,939,675
	<hr/>
	\$216,489,493
	<hr/> <hr/>

(Concluded)

The accompanying notes are an integral part of this statement.

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INTRODUCTION

The University of Louisiana System (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 include 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 85,550 students enrolled during the fall semester of the 2006 academic year and employed approximately 10,404 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 board is 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 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.

Blended Component Units

Ragin' Cajun Facilities, Inc., at the University of Louisiana at Lafayette; University Facilities, Inc., at Southeastern Louisiana University; Innovative Student Facilities, Inc., at Louisiana Tech University; University of Louisiana at Monroe Facilities, Inc., at the University of Louisiana at Monroe; Cowboy Facilities, Inc., at McNeese State University; and NSU Facilities Corporation at Nicholls State University are Louisiana nonprofit corporations and are considered blended component units of six 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. To obtain the corporations' latest audit reports, 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, SLU Box 10709, Hammond, Louisiana 70402
- Innovative Student Facilities, Inc., c/o Mr. Joseph Thomas, Louisiana Tech University, P.O. Box 3151, Ruston, Louisiana 71272
- University of Louisiana at Monroe Facilities, Inc., c/o Mr. Dave Nicklas, University of Louisiana at Monroe, 700 University Avenue, Monroe, Louisiana 71209
- Cowboy Facilities, Inc., c/o Mr. Eddie Meche, McNeese State University, 4205 Ryan Street, Lake Charles, Louisiana 70609

- NSU Facilities Corporation, c/o Mr. Lionel Naquin, Nicholls State University, P.O. Box 2003, Thibodaux, Louisiana 70310

Discretely Presented Component Units

The following legally separate, tax-exempt organizations are reported within the System as discrete component units: the Louisiana Tech University Foundation, Inc.; the McNeese State University Foundation; the University of Louisiana at Lafayette Foundation, Inc.; and the University of Louisiana at Monroe Foundation. These foundations act primarily as fund-raising organizations to supplement the resources that are available to the universities in support of their programs. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources or income that the foundations hold and invest are restricted to the activities of the university by the donors. Because these restricted resources held by the foundations can only be used by or for the benefit of the universities, the foundations are considered component units of the universities and are discretely presented in the financial statements.

During the year ended June 30, 2006, the foundations made distributions of \$10,630,422 to or on behalf of the universities for both restricted and unrestricted purposes.

To obtain the foundations' latest audit reports, write to:

- University of Louisiana at Lafayette Foundation, Inc., c/o Mr. Ronald P. Lajaunie, University of Louisiana at Lafayette, P.O. Box 42651, Lafayette, Louisiana 70504
- Louisiana Tech University Foundation, Inc., c/o Mr. Joseph Thomas, Louisiana Tech University, P.O. Box 3151, Ruston, Louisiana 71272
- University of Louisiana at Monroe Foundation, c/o Mr. Dave Nicklas, University of Louisiana at Monroe, 700 University Avenue, Monroe, Louisiana 71209
- McNeese State University Foundation, c/o Mr. Eddie Meche, McNeese State University, 4205 Ryan Street, Lake Charles, Louisiana 70609

These blended and discretely presented component units are private nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria, presentation, and disclosure requirements are different from GASB revenue recognition criteria and presentation features. With the exception of presentation adjustments, no

modifications have been made to these component units' financial information in the University of Louisiana System's report for these differences. Accordingly, the financial data of the discretely presented component units are shown on a statement of financial position and a statement of activities.

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-system transactions have been eliminated.

Discrete Component Units

The component units follow the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, which establishes external financial reporting for not-for-profit organizations, and includes the financial statements and the classifications of resources into three separate classes of net assets as follows:

- Unrestricted - net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- Temporarily Restricted - net assets whose use by the component unit is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the foundation pursuant to those stipulations.
- Permanently Restricted - net assets whose use by the component unit is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions by the component unit.

The System has the option to apply all 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 five non-governmental, blended component units that follow SFAS 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 (petty cash), 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 U.S. Treasury obligations, U.S. government agency obligations, and money market funds. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. 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 No. 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 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. NONCURRENT RESTRICTED ASSETS

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

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. 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 three to 10 years for most movable property.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

J. COMPENSATED ABSENCES

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

Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified personnel or their heirs are compensated for

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

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

K. NONCURRENT LIABILITIES

Noncurrent liabilities include principal amounts of revenue bonds payable, reimbursement contracts payable, notes payable, and capital lease obligations with contractual maturities greater than one year and 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

The System's net assets are classified as follows:

- (1) Invested in Capital Assets, Net of Related Debt
This represents the System's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations related to acquisition, construction, or improvement of those capital assets.
- (2) Restricted Net Assets - Expendable
Restricted expendable net assets include resources that the System is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (3) 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.

(4) 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 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, and 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.

P. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2006, the System implemented GASB Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; No. 46, *Net Assets Restricted by Enabling Legislation*; and No. 47, *Accounting for Termination Benefits*. However, Statement No. 47 had no impact on reporting for the System.

2. CASH AND CASH EQUIVALENTS

At June 30, 2006, the System has cash and cash equivalents (book balances) of \$216,489,493 as follows:

Petty cash	\$408,238
Demand deposits	119,007,336
Certificates of deposit	70,326,034
Cash with state treasurer	245,204
Money market funds	243,183
Cash in trustee accounts	5,454,864
Cash equivalents (note 3)	<u>20,804,634</u>
Total	<u><u>\$216,489,493</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. Under state law, the System's deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. 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.

As of June 30, 2006, \$12,585,819 of the System's bank balance of \$214,657,616 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$3,397,709
Uninsured and collateralized with securities held by the pledging institution	2,431,635
Uninsured and collateralized with securities held by the pledging institution's trust department or agent but not in the System's name	<u>6,756,475</u>
Total	<u><u>\$12,585,819</u></u>

Cash and cash equivalents of the component units totaling \$23,806,430, as shown on the Statement of Net Assets, are reported under FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

3. INVESTMENTS

At June 30, 2006, the System has investments totaling \$192,443,735, which includes \$20,804,634 of short-term investments reported on the Statement of Net Assets as restricted cash equivalents. Each university within the System follows state law (R.S. 49:327) as applicable to

institutions of higher education in establishing investment policy. State law authorizes the System universities to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds. A summary of the System's investments follows:

Type of Investment:	Percentage of Investments	Credit Quality Rating	Fair Value
Repurchase agreements ⁵	0.24%		\$460,000
U.S. government securities:			
U.S. Treasury Notes ¹	0.18%		346,194
Federal Home Loan Mortgage Corporation ²	1.46%	Aaa	2,808,590
Federal National Mortgage Association ²	9.69%	Aaa	18,641,580
Federal Home Loan Bank ²	8.30%	Aaa	15,976,087
Federal Farm Credit Bank ³	1.01%	AAA	1,954,380
Mutual funds:			
Money market mutual funds ⁵	3.50%		6,732,588
Vanguard Inflation - Protected Securities Fund ²	0.30%	Aaa	586,231
Vanguard Federal Money Market Fund ²	0.46%	Aaa	888,522
Vanguard Wellesley Fund ²	1.22%	Aa3	2,339,130
Vanguard Wellington Fund ²	1.10%	Aa2	2,118,399
Investments held by foundations ⁴	59.28%		114,089,474
Common and preferred stock ⁴	0.03%		48,731
Certificates of deposit ⁴	0.61%		1,181,431
Corporate bonds	0.53%		1,023,866
Held by blended component units:			
University Facilities, Inc.:			
Hypo Real Estate Bank International Fund ²	3.58%	A2	6,880,482
XL Asset Funding	2.74%	Unrated	5,265,838
University of Louisiana at Monroe Facilities, Inc. ⁵	2.42%		4,661,041
Cowboy Facilities, Inc. ⁵	0.74%		1,415,612
NSU Facilities Corporation (Nicholls State University) ⁵	2.61%		5,017,319
Other ⁴	0.00%		8,240
	<u>100.00%</u>		<u>\$192,443,735</u>

¹Credit quality ratings not required - U.S. Treasury Notes are explicitly guaranteed by the U.S. Government and have no credit risk.

²Credit quality ratings obtained from Moody's Investor Service.

³Credit quality ratings obtained from Standard and Poor's.

⁴Credit quality ratings are not required for these investments.

⁵Credit quality ratings are not available.

NOTES TO THE FINANCIAL STATEMENTS

	Investment Maturities in Years						
	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	11-20 Years	21-30 Years	Over 30 Years
Type of Investment:							
Repurchase agreements	\$460,000	\$460,000					
U.S. government securities:							
U.S. Treasury Notes	346,194		\$346,194				
Federal Home Loan Mortgage Corporation	2,808,590	299,406	2,233,081	\$276,103			
Federal National Mortgage Association	18,641,580	15,864,252	1,213,419	1,541,795	\$22,114		
Federal Home Loan Bank	15,976,087	14,859,798	586,686	529,603			
Federal Farm Credit Bank	1,954,380		1,954,380				
Mutual funds:							
Money market mutual funds	6,732,588	6,732,588					
Vanguard Inflation - Protected Securities Fund	586,231	586,231					
Vanguard Federal Money Market Fund	888,522	888,522					
Vanguard Wellesley Fund	2,339,130	2,339,130					
Vanguard Wellington Fund	2,118,399	2,118,399					
Other:							
Investments held by foundations:							
Common and preferred stock	50,962,830						
U.S. Treasury Notes	9,698,716	1,272,802	5,583,353	2,467,152	242,819	\$132,590	
Federal Home Loan Mortgage Corporation	5,506,722		1,363,013	1,567,302	1,025,845	1,098,729	\$451,833
Federal National Mortgage Association	8,474,683	335,628	2,215,839	2,122,395	1,790,329	1,427,141	583,351
Government National Mortgage Association	531,407			50,295	49,935	34,171	397,006
Federal Home Loan Bank	3,057,677	491,051	2,262,651	303,975			
Federal Farm Credit Bank	963,083		669,813	293,270			
Mortgages, notes, and other	5,593,918	595,971		165,145		89,008	4,743,794
Mutual funds	9,440,112	8,316,435					
Money market accounts	2,750,890	2,160,792					
Equity funds	1,259,281	1,259,281					
Corporate bonds/obligations	3,216,447	175,909	1,894,299	698,036	253,304	194,899	
Certificates of deposit	60,000	60,000					
Other	12,573,708						
Common and preferred stock	48,731						
Certificates of deposit	1,181,431	608,547	485,580	87,304			
Corporate bonds	1,023,866	942,880	80,986				
Held by blended component units:							
University Facilities, Inc.	12,146,320	6,880,482		5,265,838			
University of Louisiana at Monroe Facilities, Inc.	4,661,041						
Cowboy Facilities, Inc.	1,415,612						
NSU Facilities Corporation (Nicholls State University)	5,017,319		5,017,319				
Other	8,240						
	<u>\$192,443,735</u>	<u>\$67,248,104</u>	<u>\$25,906,613</u>	<u>\$15,368,213</u>	<u>\$3,384,346</u>	<u>\$2,976,538</u>	<u>\$6,175,984</u>

Investments held by private foundations in external investment pools 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. This investment totaling \$114,089,474 has no credit quality rating. The foundations hold and manage funds received by the university as state matching funds for the Eminent Scholars Endowed Chairs and Endowed Professorship Programs. Of the \$114,089,474 reported as investments held by foundations, the amounts held by its discretely presented component units total \$107,306,760.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the System's investments to U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds. Individual system universities do not have policies to further limit credit risk.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the System's \$460,000 in investment in repurchase agreements, \$460,000 of underlying securities are held by the investment's counterparty, not in the name of the System. For U.S. Treasury obligations and U.S. government agency obligations, the System universities' investment policies generally require that issuers must provide the universities with safekeeping receipts, collateral agreements, and custodial agreements.

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State law as applicable to institutions of higher education does not address interest rate risk. In addition, individual system universities do not have policies to limit interest rate risk.

INVESTMENTS - COMPONENT UNITS

Component units' investments totaling \$211,227,640, as shown on the Statement of Financial Position, are reported under FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The fair value of investments held by the component units at June 30, 2006, follows:

<u>Type of Investment</u>	<u>Louisiana Tech University Foundation</u>	<u>McNeese State University Foundation</u>	<u>University of Louisiana at Lafayette Foundation</u>	<u>University of Louisiana at Monroe Foundation</u>	<u>Total</u>
Cash and cash equivalents	\$4,205,112			\$1,325,729	\$5,530,841
Certificates of deposit	285,000	\$79,578	\$3,053,965		3,418,543
Mutual funds	11,211,907	14,502,487			25,714,394
Government obligations and corporate bonds	13,612,542		33,084,080	3,616,346	50,312,968
U.S. government obligations				4,097,834	4,097,834
Corporate obligations				2,569,151	2,569,151
Common stocks	12,841,897	24,748,247	57,401,680	21,212,491	116,204,315
Real estate	3,290,363				3,290,363
Other	65,362	23,869			89,231
Total	<u>\$45,512,183</u>	<u>\$39,354,181</u>	<u>\$93,539,725</u>	<u>\$32,821,551</u>	<u>\$211,227,640</u>

4. RECEIVABLES

Receivables are shown on the Statement of Net Assets, net of an allowance for doubtful accounts, at June 30, 2006. These receivables are composed of the following:

<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	\$24,635,596	(\$9,835,013)	\$14,800,583	\$147,683
Auxiliary enterprises	6,912,297	(1,000,746)	5,911,551	229,369
Private foundations	536,061		536,061	
Contributions and gifts	580,988		580,988	
Federal, state, and private grants and contracts	21,557,192	(30,340)	21,526,852	196,382
Insurance recoveries	17,609,149		17,609,149	
Other	<u>4,467,752</u>	<u>(23,582)</u>	<u>4,444,170</u>	<u>781,304</u>
Total	<u>\$76,299,035</u>	<u>(\$10,889,681)</u>	<u>\$65,409,354</u>	<u>\$1,354,738</u>

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2006, follows:

University of Louisiana System

	Balance July 1, 2005	Prior Period Adjustment	Restated Balance July 1, 2005
Capital assets not being depreciated:			
Land	\$32,483,502		\$32,483,502
Capitalized collections	205,002		205,002
Livestock	35,625		35,625
Construction-in-progress	90,581,721	\$598,476	91,180,197
	<u>\$123,305,850</u>	<u>\$598,476</u>	<u>\$123,904,326</u>
Other capital assets:			
Infrastructure	\$4,643,069		\$4,643,069
Less accumulated depreciation	(2,437,612)		(2,437,612)
Total infrastructure	<u>2,205,457</u>	NONE	<u>2,205,457</u>
Land improvements	14,703,469	\$527,462	15,230,931
Less accumulated depreciation	(8,380,905)	(85,094)	(8,465,999)
Total land improvements	<u>6,322,564</u>	<u>442,368</u>	<u>6,764,932</u>
Buildings	992,900,009	(471,481)	992,428,528
Less accumulated depreciation	(463,577,308)	28,811	(463,548,497)
Total buildings	<u>529,322,701</u>	<u>(442,670)</u>	<u>528,880,031</u>
Equipment	120,361,832	934,898	121,296,730
Less accumulated depreciation	(81,654,123)	(778,283)	(82,432,406)
Total equipment	<u>38,707,709</u>	<u>156,615</u>	<u>38,864,324</u>
Library books	124,462,289		124,462,289
Less accumulated depreciation	(109,429,992)		(109,429,992)
Total library books	<u>15,032,297</u>	NONE	<u>15,032,297</u>
	<u>\$591,590,728</u>	<u>\$156,313</u>	<u>\$591,747,041</u>
Capital Asset Summary:			
Capital assets not being depreciated	\$123,305,850	\$598,476	\$123,904,326
Other capital assets, at cost	<u>1,257,070,668</u>	<u>990,879</u>	<u>1,258,061,547</u>
Total cost of capital assets	1,380,376,518	1,589,355	1,381,965,873
Less accumulated depreciation	<u>(665,479,940)</u>	<u>(834,566)</u>	<u>(666,314,506)</u>
	<u>\$714,896,578</u>	<u>\$754,789</u>	<u>\$715,651,367</u>

The prior period adjustments represent corrections of errors in recorded capital assets from prior years as shown in note 14 and adjustments to classifications of capital assets by category.

NOTES TO THE FINANCIAL STATEMENTS

Additions	Transfers	Retirements	Balance June 30, 2006
\$2,310,000	\$2,791,647	(\$65,000)	\$37,520,149
			205,002
4,200		(6,455)	33,370
55,955,415	(70,335,303)	(101,687)	76,698,622
<u>\$58,269,615</u>	<u>(\$67,543,656)</u>	<u>(\$173,142)</u>	<u>\$114,457,143</u>
			\$4,643,069
(\$116,077)			(2,553,689)
(116,077)	NONE	NONE	2,089,380
37,580	\$515,551		15,784,062
(678,754)			(9,144,753)
(641,174)	515,551	NONE	6,639,309
9,344,871	66,705,094	(\$2,523,171)	1,065,955,322
(24,372,995)		2,097,476	(485,824,016)
(15,028,124)	66,705,094	(425,695)	580,131,306
12,170,793	310,463	(3,837,667)	129,940,319
(10,162,559)		3,757,231	(88,837,734)
2,008,234	310,463	(80,436)	41,102,585
5,455,252		(2,108,039)	127,809,502
(6,751,553)		2,094,873	(114,086,672)
(1,296,301)	NONE	(13,166)	13,722,830
<u>(\$15,073,442)</u>	<u>\$67,531,108</u>	<u>(\$519,297)</u>	<u>\$643,685,410</u>
\$58,269,615	(\$67,543,656)	(\$173,142)	\$114,457,143
27,008,496	67,531,108	(8,468,877)	1,344,132,274
85,278,111	(12,548)	(8,642,019)	1,458,589,417
(42,081,938)		7,949,580	(700,446,864)
<u>\$43,196,173</u>	<u>(\$12,548)</u>	<u>(\$692,439)</u>	<u>\$758,142,553</u>

Component Units

	Balance July 1, 2005	Additions	Transfers	Retirements	Balance June 30, 2006
Capital assets not being depreciated:					
Real estate	\$7,250,993	\$19,954		(\$14,881)	\$7,256,066
Land improvements					
Art and collectibles	2,045,516				2,045,516
Construction-in-progress	40,113		(\$40,113)		
Total capital assets not being depreciated	\$9,336,622	\$19,954	(\$40,113)	(\$14,881)	\$9,301,582
Depreciable capital assets:					
Buildings	\$15,391,963	\$12,470	\$40,113		\$15,444,546
Vehicles, furniture, and equipment	3,008,674	2,377,996		(\$228,203)	5,158,467
Total depreciable capital assets	18,400,637	2,390,466	40,113	(228,203)	20,603,013
Less accumulated depreciation	(3,383,373)	(1,301,219)		79,565	(4,605,027)
Total depreciable capital assets, net	15,017,264	1,089,247	40,113	(148,638)	15,997,986
Total capital assets, net	\$24,353,886	\$1,109,201	NONE	(\$163,519)	\$25,299,568

The capital asset disclosure for the discretely presented component units has been adjusted to reflect the classifications of the assets as presented in the audited financial statements of the discretely presented component units. Their financial statements have been prepared in accordance with FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. The disclosure requirements of FASB 117 differ from those required for financial statements prepared in accordance with GASB requirements.

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 of 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 criteria 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.

6. PAYABLES

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

<u>Account Name</u>	
Vendor payables	\$11,085,775
Accrued salaries and payroll deductions	18,643,789
Accrued interest	1,432,389
Other	<u>4,501,497</u>
Total payables	<u><u>\$35,663,450</u></u>

7. PENSION PLANS

Plan Description. Substantially all employees of the System are members of three statewide, public employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS), and the Louisiana School Employees Retirement System (LSERS) includes non-instructional personnel of the Louisiana Public School System. TRS and LSERS are cost-sharing, multiple-employer defined benefit pension plans, and LASERS is considered a single-employer defined benefit pension plan because the material portion of its activity is with one employer--the State of Louisiana. All three plans are administered by separate boards of trustees. These plans provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the retirement systems; employee benefits vest with TRS after five years of service and with LASERS and LSERS after 10 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; the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (225) 922-0600; and/or the Louisiana School Employees Retirement System, Post Office Box 44516, Baton Rouge, Louisiana 70804-4516.

Funding Policy. The contribution requirements of plan members and the 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 8.0% (TRS) and 7.5% (LASERS and LSERS) of covered salaries. The state is required to contribute 15.9% of covered salaries to TRS, 19.1% of covered salaries to LASERS, and 18.4% of covered salaries to LSERS for fiscal year 2006. The State of Louisiana, through the annual appropriation to the System, funds the System's employer contribution. The System's employer contributions to TRS for the years ended June 30, 2006,

2005, and 2004 were \$19,439,549; \$18,576,348; and \$16,194,689, respectively, to LASERS for the years ended June 30, 2006, 2005, and 2004 were \$16,348,084; \$14,856,635; and \$12,923,954, respectively, and to LSERS for the years ended June 30, 2006 and 2005 were \$16,275 and \$11,112, 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 15.9% of the covered payroll for fiscal year 2006. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the System. Benefits payable to participants are not the obligations of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$21,490,122 and \$10,781,712, respectively, for the year ended June 30, 2006.

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 3,291 retirees, totaled \$19,046,892 for the year ended June 30, 2006.

10. COMPENSATED ABSENCES

At June 30, 2006, employees of the System have accumulated and vested annual, sick, and compensatory leave of \$17,542,713; \$10,516,243; and \$1,268,134, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

11. LEASE OBLIGATIONS

Operating Leases

For the year ended June 30, 2006, the total rental expense for all operating leases is \$2,260,964. The following is a schedule by years of future minimum annual rental payments required under operating leases:

<u>Fiscal Year Ending June 30</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Land</u>	<u>Other</u>	<u>Total Minimum Payments Required</u>
2007	\$467,782	\$626,421	\$211,500	\$624,481	\$1,930,184
2008	281,697	596,215	91,539	624,956	1,594,407
2009	279,691	422,407	7,686	623,680	1,333,464
2010	217,729	283,606		622,886	1,124,221
2011	217,729	23,634		622,996	864,359
2012-2016	1,088,645			3,105,375	4,194,020
2017-2021	1,088,645			3,100,670	4,189,315
2022-2026	10			310,635	310,645
2027-2031	10				10
2032-2036	10				10
Total	<u>\$3,641,948</u>	<u>\$1,952,283</u>	<u>\$310,725</u>	<u>\$9,635,679</u>	<u>\$15,540,635</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, 2006, consist of various equipment leases as follows:

<u>Nature of Lease</u>	<u>Gross Amount of Leased Assets (Historical Cost)</u>	<u>Remaining Interest to End of Lease</u>	<u>Remaining Principal to End of Lease</u>
Office space	\$380,271	\$102,839	\$302,698
Equipment	2,051,940	107,260	999,106
	<u>\$2,432,211</u>	<u>\$210,099</u>	<u>\$1,301,804</u>

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, 2006:

Fiscal Year Ending June 30:		
2007		\$344,065
2008		335,119
2009		311,299
2010		239,840
2011		129,504
2012-2016		152,076
Total minimum lease payments		<u>1,511,903</u>
Less - amount representing executory costs		<u>NONE</u>
Net minimum lease payments		1,511,903
Less - amount representing interest		<u>(210,099)</u>
Present value of net minimum lease payments		<u>\$1,301,804</u>

Lessor - Operating Lease

The System's leasing operations consist primarily of leasing 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, 2006:

NOTES TO THE FINANCIAL STATEMENTS

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Office space	\$11,504,530	(\$7,466,403)	\$4,038,127
Equipment	135,187	(29,725)	105,462
Land	<u>189,118</u>	<u> </u>	<u>189,118</u>
	<u>\$11,828,835</u>	<u>(\$7,496,128)</u>	<u>\$4,332,707</u>

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

Fiscal Year Ending June 30:	
2007	\$1,956,247
2008	1,182,500
2009	1,057,500
2010	975,500
2011	975,500
2012-2016	1,092,083
2017-2021	<u>2,500</u>
Total minimum future rentals	<u>\$7,241,830</u>

Minimum future rentals do not include contingent rentals that 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 of office space and other for the year ended June 30, 2006, were \$197,941 and \$90,412, respectively.

12. 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, 2006:

University of Louisiana System

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Bonds payable	\$241,501,000	\$8,320,000	(\$3,825,000)	\$245,996,000	\$5,001,000
Notes payable	4,038,280	\$174,628	(734,326)	3,478,582	535,655
Capital lease obligations (note 11)	1,879,504		(577,700)	1,301,804	279,210
Subtotal	<u>247,418,784</u>	<u>8,494,628</u>	<u>(5,137,026)</u>	<u>250,776,386</u>	<u>5,815,865</u>
Other liabilities:					
Accrued compensated absences payable (note 10)	28,944,910	7,762,555	(7,380,375)	29,327,090	3,057,602
Amounts held in custody for others	3,790,056	56,473,548	(56,235,353)	4,028,251	4,028,251
Reimbursement contracts payable	250,000		(20,000)	230,000	25,000
Subtotal	<u>32,984,966</u>	<u>64,236,103</u>	<u>(63,635,728)</u>	<u>33,585,341</u>	<u>7,110,853</u>
Total	<u>\$280,403,750</u>	<u>\$72,730,731</u>	<u>(\$68,772,754)</u>	<u>\$284,361,727</u>	<u>\$12,926,718</u>

Component Units

	Balance June 30, 2005	Adjustments	Adjusted Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds, notes, and capital leases payable:							
Bonds payable	\$10,494,899		\$10,494,899		(\$439,487)	\$10,055,412	\$1,066,584
Notes payable	1,439,467		1,439,467		(36,231)	1,403,236	112,995
Subtotal	11,934,366	NONE	11,934,366	NONE	(475,718)	11,458,648	1,179,579
Other liabilities - amounts held in custody for others	68,648,099	(\$441,175)	68,206,924	\$9,714,416		77,921,340	NONE
Total	<u>\$80,582,465</u>	<u>(\$441,175)</u>	<u>\$80,141,290</u>	<u>\$9,714,416</u>	<u>(\$475,718)</u>	<u>\$89,379,988</u>	<u>\$1,179,579</u>

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UNIVERSITY OF LOUISIANA SYSTEM

Details of all debt outstanding at June 30, 2006, follow.

Bonds Payable - University of Louisiana System

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2005</u>
University of Louisiana at Lafayette			
Ragin' Cajun Facilities, Inc. (blended component unit) - Lafayette Public Trust Financing Authority	October 1, 2002	\$19,065,000	\$19,065,000
Southeastern Louisiana University			
University Facilities, Inc. (blended component unit):			
Louisiana Public Facilities Authority			
Revenue Bonds - Series 2004	August 13, 2004	76,910,000	76,910,000
Parking Revenue Bonds, Series 1996	April 26, 1996	1,180,000	155,000
Student Recreation and Activity Center Revenue Bonds	June 30, 1998	7,690,000	6,010,000
Louisiana Tech University			
Academic Facilities Extension			
Use Revenue Bonds - Series B	July 1, 1972	4,750,000	2,360,000
Revenue Refunding Bonds:			
Revenue Bonds - 2002 Series	July 1, 2002	5,920,000	5,690,000
Revenue Bonds - 2004 Series	September 30, 2004	7,225,000	7,225,000
Innovative Student Facilities, Inc. (blended component unit):			
Revenue Bonds - 2003 Series	July 1, 2003	21,840,000	21,840,000
University of Louisiana at Monroe			
Physical Education Complex -			
Series 1992-A	March 1, 1992	2,650,000	1,345,000
ULM Facilities, Inc. (blended component unit):			
Revenue Bonds Series 2004 A&B	June 30, 2004	35,210,000	35,210,000
Revenue Bonds Series 2004 C&D	December 8, 2004	33,680,000	33,680,000

NOTES TO THE FINANCIAL STATEMENTS

Issued (Redeemed)	Outstanding June 30, 2006	Maturities	Interest Rates	Interest Outstanding June 30, 2006
(\$350,000)	\$18,715,000	2033	2.625%-5%	\$15,202,239
	76,910,000	2035	3%-5.25%	66,072,985
(155,000)				
(285,000)	5,725,000	2020	4.25%-5%	2,351,192
	2,125,000	2013	6.125%-6.25%	497,906
(235,000)				
(240,000)	5,450,000	2022	3.5%-4.9%	2,401,748
(950,000)	6,275,000	2012	1.6%-3.12%	496,437
	21,840,000	2034	2%-4.5%	17,054,088
(155,000)	1,190,000	2012	6%-8%	284,374
	35,210,000	2035	Variable	26,334,964
	33,680,000	2036	Variable	24,884,982

Bonds Payable - University of Louisiana System (Cont.)

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2005</u>
Northwestern State University			
Wellness, Recreation, and Activity Center Bonds - Series 1999			
	April 1, 1999	\$6,850,000	\$5,820,000
McNeese State University			
Student Housing System Revenue			
Bonds - Refunding Bonds - Series 2001			
	May 30, 2001	2,110,000	1,220,000
Stadium Project - Series 1996			
	October 15, 1996	900,000	420,000
Parking Lot - Series 1997			
	February 12, 1997	1,500,000	875,000
Cowboy Facilities, Inc. (blended component unit) - University Student Lease Revenue			
Bond - Series 2001			
	May 31, 2001	21,120,000	20,450,000
University Stadium Parking Revenue Bonds - Series 2004			
	February 1, 2004	820,000	750,000
University Scoreboard Project Bonds - Series 2005			
	April 1, 2005	1,900,000	1,900,000
Grambling State University			
Student Housing System Revenue Bonds:			
1965 - Series B			
	October 1, 1965	4,000,000	175,000
1968 - Series B			
	October 1, 1968	3,000,000	401,000
Nicholls State University			
NSU Facilities Corporation (blended component unit) - Louisiana Community Development Authority, Series 2006			
	May 11, 2006	8,320,000	
Total		<u>\$266,640,000</u>	<u>\$241,501,000</u>

NOTES TO THE FINANCIAL STATEMENTS

Issued (Redeemed)	Outstanding June 30, 2006	Maturities	Interest Rates	Interest Outstanding June 30, 2005
(\$195,000)	\$5,625,000	2024	4%-5.1%	\$3,045,440
(235,000)	985,000	2009	4.95%	84,769
(60,000)	360,000	2012	4.52%	48,816
(105,000)	770,000	2012	6.25%	153,125
(360,000)	20,090,000	2033	5.4%	17,819,361
(70,000)	680,000	2014	4.73%	151,124
(140,000)	1,760,000	2015	6.5%	619,770
(175,000)				
(115,000)	286,000	2009	3%	10,200
<u>8,320,000</u>	<u>8,320,000</u>	2031		<u>7,199,184</u>
<u>\$4,495,000</u>	<u>\$245,996,000</u>			<u>\$184,712,704</u>

On May 11, 2006, NSU Facilities Corporation (Nicholls State University blended component unit) entered into a loan agreement with the Louisiana Community Development Authority to issue \$8,320,000 of Revenue Bonds, Series A and B. The proceeds of the bonds will be used for the development and construction of streets and parking facilities, and for cafeteria renovations.

UNIVERSITY OF LOUISIANA SYSTEM

Component Units

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2005</u>
University of Louisiana at Lafayette Foundation, Inc.			
Lafayette Economic Development Authority	November 1, 1999	\$1,000,000	\$740,000
Lafayette Economic Development Authority	February 1, 2002	8,500,000	7,500,000
Louisiana Tech University Foundation, Inc.			
Revenue Bonds - Series 2000	August 15, 2000	<u>3,791,183</u>	<u>2,254,899</u>
Total		<u>\$13,291,183</u>	<u>\$10,494,899</u>

Reimbursement Contracts Payable - University of Louisiana System

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2005</u>
Northwestern State University			
General Obligation Bonds - Series 1993-B	February 1, 1993	\$460,000	\$250,000

NOTES TO THE FINANCIAL STATEMENTS

Issued (Redeemed)	Outstanding June 30, 2006	Maturities	Interest Rates	Interest Outstanding June 30, 2006
(\$60,000)	\$680,000 7,500,000	2014 2017	4.6% 4.5%	\$149,500 2,101,500
<u>(379,487)</u>	<u>1,875,412</u>	2011	5.37%	<u>249,588</u>
<u><u>(\$439,487)</u></u>	<u><u>\$10,055,412</u></u>			<u><u>\$2,500,588</u></u>

Issued (Redeemed)	Outstanding June 30, 2006	Maturities	Interest Rates	Interest Outstanding June 30, 2006
(\$20,000)	\$230,000	2014	4.5%-7%	\$54,804

UNIVERSITY OF LOUISIANA SYSTEM

The annual requirements to amortize all System bonds and reimbursement contracts outstanding at June 30, 2006, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$5,001,000	\$10,277,669	\$15,278,669
2008	5,515,000	10,671,268	16,186,268
2009	6,036,000	10,230,560	16,266,560
2010	6,021,000	10,130,181	16,151,181
2011	6,506,000	9,896,691	16,402,691
2012-2016	32,675,000	45,493,302	78,168,302
2017-2021	38,856,000	37,871,960	76,727,960
2022-2026	44,251,000	28,260,396	72,511,396
2027-2031	53,026,000	17,126,935	70,152,935
2032-2036	48,109,000	4,753,742	52,862,742
Total	<u>\$245,996,000</u>	<u>\$184,712,704</u>	<u>\$430,708,704</u>

The annual requirements to amortize all component unit bonds outstanding at June 30, 2006, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,066,584	\$465,701	\$1,532,285
2008	1,089,969	412,326	1,502,295
2009	1,119,714	357,476	1,477,190
2010	1,245,901	301,069	1,546,970
2011	5,533,244	964,016	6,497,260
Total	<u>\$10,055,412</u>	<u>\$2,500,588</u>	<u>\$12,556,000</u>

NOTES TO THE FINANCIAL STATEMENTS

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

<u>Bond Issue</u>	<u>Reserves Available</u>	<u>Reserve Requirement</u>	<u>Excess</u>
Southeastern Louisiana University			
Student Recreation and Activity Center Revenue Bonds	\$7,294,087	\$578,108	\$6,715,979
University Facilities, Inc. (UFI) Revenue Bonds 2004	5,265,849	5,265,838	11
Louisiana Tech University			
Academic Facilities Bonds	477,328	389,650	87,678
Series 2003 Revenue Bonds - Intramural Complex	1,499,153	1,485,475	13,678
Series 2004 Revenue Refunding Bonds	224,345	224,345	
University of Louisiana at Monroe			
Physical Education Complex - Series 1992-A	245,204	245,204	
Northwestern State University			
General Obligation Bonds, Series 1993-B	38,250	38,250	
McNeese State University			
Auxiliary Revenue Refunding Bonds 2001	226,940	211,000	15,940
University Student Lease Revenue Bonds Series 2001	1,415,613	1,409,558	6,055
Grambling State University			
Student Housing System Repair and Replacement Account	1,505,619	150,000	1,355,619
Student Housing System Revenue Bonds	180,000	180,000	
U.S. Department of Education Note	458,000	458,000	
Nicholls State University			
NSU Facilities Corporation, Louisiana Community Development Authority Revenue Bonds, Series 2006 A and B	681,813	677,566	4,247
Total	<u>\$19,512,201</u>	<u>\$11,312,994</u>	<u>\$8,199,207</u>

As permitted by the Bond Resolution for the Revenue Refunding Bonds, Series, 2004, Louisiana Tech University 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.

Notes Payable - University of Louisiana System

<u>Note</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2005</u>
Southeastern Louisiana University			
UFI Construction Loan	October 10, 1999	\$2,300,000	\$268,701
Copiers	September 20, 2004	641,861	552,604
Louisiana Tech University			
Farm Equipment	August 6, 2004	200,824	130,087
Cannon Color Copier	May 13, 2005	12,380	8,151
Farm Equipment	May 31, 2006	65,167	
Canon Color Copier	May 31, 2006	51,274	
University of Louisiana at Lafayette			
Sigma Nu Fraternity House	June 6, 1984	66,485	
Grambling State University			
U.S. Department of Education	May 1, 1993	3,500,000	2,509,631
Ford Motor Credit Company	August 30, 2001	1,165,931	569,106
Total		<u>\$8,003,922</u>	<u>\$4,038,280</u>

Notes Payable - Component Units

<u>Note</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2005</u>
Louisiana Tech University Foundation, Inc.			
Athletic field house	March 1, 2002	\$1,500,000	\$1,125,000
Athletic field house	March 1, 2006	1,125,000	
University of Louisiana at Monroe Foundation			
Real estate mortgage	October 30, 2002	400,500	314,467
Total		<u>\$3,025,500</u>	<u>\$1,439,467</u>

NOTES TO THE FINANCIAL STATEMENTS

Issued (Redeemed)	Outstanding June 30, 2006	Maturities	Interest Rates	Interest Outstanding June 30, 2006
(\$268,701) (122,719)	\$429,885	2010	3.51%	\$25,613
(63,862)	66,225	2007	3.69%	2,444
(4,015)	4,136	2007	3.16%	130
63,498	63,498	2009	5.5%	5,377
49,962	49,962	2009	5.59%	4,303
61,168	61,168	2010	3.5%	4,173
(103,233)	2,406,398	2023	3%	704,297
(171,796)	397,310	2008	4.1%	18,632
<u>(\$559,698)</u>	<u>\$3,478,582</u>			<u>\$764,969</u>

Issued (Redeemed)	Outstanding June 30, 2006	Maturities	Interest Rates	Interest Outstanding June 30, 2006
(\$1,125,000) 1,125,000	\$1,125,000	2021	Variable	\$514,341
(36,231)	278,236	2012	4.75%	45,095
<u>(\$36,231)</u>	<u>\$1,403,236</u>			<u>\$559,436</u>

UNIVERSITY OF LOUISIANA SYSTEM

The annual requirements to amortize all notes outstanding for the System at June 30, 2006, including interest of \$819,454 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$535,655	\$107,425	\$643,080
2008	483,669	86,763	570,432
2009	336,174	70,616	406,790
2010	161,781	61,789	223,570
2011	119,807	57,947	177,754
2012-2016	655,590	233,180	888,770
2017-2021	760,839	127,931	888,770
2012-2026	425,067	19,318	444,385
Total	<u>\$3,478,582</u>	<u>\$764,969</u>	<u>\$4,243,551</u>

The annual requirements to amortize all notes outstanding for the component units at June 30, 2006, including interest of \$559,436, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$112,995	\$81,372	\$194,367
2008	114,839	74,840	189,679
2009	116,773	68,219	184,992
2010	118,801	61,503	180,304
2011	120,927	54,690	175,617
2012-2016	443,901	183,302	627,203
2017-2021	375,000	35,510	410,510
Total	<u>\$1,403,236</u>	<u>\$559,436</u>	<u>\$1,962,672</u>

Grambling State University is required by a 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.

During the fiscal year ended June 30, 2006, the University of Louisiana at Lafayette closed the Sigma Nu fraternity house and assumed responsibility for the repayment of the note on the fraternity house. The balance on the note at the time the house was closed was \$66,485, and the university made payments totaling \$5,317 during the fiscal year. The net increase of \$61,168 in notes payable for the University of Louisiana at Lafayette is reflected as current year notes payable issued.

**13. REVENUE USED AS SECURITY
FOR REVENUE BONDS**

The revenues of certain auxiliary enterprises of the System 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 universities, but exclude sales to other System departments, in accordance with accounting principles generally accepted in the United States of America. The following represents those restricted auxiliary enterprise revenues of certain auxiliary enterprises within the System that are used as security for revenue bonds; however, these amounts do include sales to other departments for the year ended June 30, 2006.

Auxiliary Enterprises

Athletics	\$4,379,148
Student union services, including bookstore	46,985,193
Residential life	8,344,803
Student health, physical education, and recreation	2,134,464
Cowboy Facilities, Inc.	<u>2,595,722</u>
Total	<u><u>\$64,439,330</u></u>

14. RESTATEMENT OF BEGINNING NET ASSETS

The beginning net assets as reflected on Statement C have been restated to reflect the following changes:

University

Net assets at June 30, 2005	\$842,500,689
Capital asset adjustment to record correct beginning balances at McNeese State University	5,829
Capital asset adjustment to record correct beginning balances at Southeastern Louisiana University	748,960
Adjustment to correct understatement of prior year expenses at Southeastern Louisiana University	(213,066)
Adjustment to correct overstatement of prior year expenses at Grambling State University	<u>324,489</u>
Net assets at June 30, 2005, restated	<u><u>\$843,366,901</u></u>

15. RESTRICTED NET ASSETS

The System has the following restricted expendable net assets at June 30, 2006:

<u>Account Title</u>	<u>Amount</u>
Student fees	\$8,441,808
Grants and contracts	16,027,746
Endowments	15,270,828
Auxiliary enterprises	19,081,795
Student loans	36,063,200
Capital construction	34,829,111
Debt service	6,778,918
WRAC fund	1,915,624
Cowboy Facilities, Inc.	1,573,506
Instructional department use	7,594,529
Other restricted funds	<u>8,758,261</u>
 Total expendable	 <u><u>\$156,335,326</u></u>

The System's restricted nonexpendable net assets of \$128,712,942 as of June 30, 2006, are comprised entirely of endowment funds.

Of the total net assets reported on Statement A for the year ended June 30, 2006, \$16,314,197 is restricted by enabling legislation.

RESTRICTED NET ASSETS - COMPONENT UNITS

Restricted net assets for the component units within the System are as follows:

	<u>Louisiana Tech Foundation</u>	<u>McNeese State Foundation</u>	<u>University of Louisiana at Lafayette Foundation</u>	<u>University of Louisiana at Monroe Foundation</u>
Temporarily restricted	<u>\$9,687,580</u>	<u>\$11,104,335</u>	<u>\$19,315,359</u>	<u>\$3,828,871</u>
Permanently restricted:				
Scholarships and fellowships		\$8,198,092		
Real estate				\$3,195,317
Endowments	\$13,200,611	4,762,221	\$60,776,120	11,098,326
Other university projects		11,090,361		
 Total permanently restricted net assets	 <u><u>\$13,200,611</u></u>	 <u><u>\$24,050,674</u></u>	 <u><u>\$60,776,120</u></u>	 <u><u>\$14,293,643</u></u>

16. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies such as guaranty of mortgage loans on sorority and fraternity houses are considered state liabilities and paid upon appropriation by the legislature and not the university. 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 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.

17. 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, 2006, is \$1,082,389.

18. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the University of Louisiana System Board of Supervisors to authorize expenditure of the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2006, net appreciation of donor restricted endowments is equal to \$10,387,328, which is available to be spent for restricted purposes. The System limits endowment spending to the income earned in a given year for purposes specified by donors. The donated portion of the endowments is reported in restricted net assets - nonexpendable in the Statement of Net Assets; the endowment income is reported in restricted net assets - expendable.

19. FOUNDATIONS

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

The University of Louisiana at Lafayette Alumni Foundation
Southeastern Athletic Association

Southeastern Development Foundation
Southeastern Louisiana University Alumni Association
Louisiana Tech University Alumni Association
The University of Louisiana at Monroe Athletic Scholarship Foundation
The University of Louisiana at Monroe Alumni Association
Northwestern State University Foundation
McNeese State University Alumni Association
Nicholls State University Foundation
Nicholls Alumni Federation
PRO NSU
Grambling University Athletic Foundation
Grambling Black and Gold Foundation
Black and Gold Facilities, Inc.

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 endowment funds and Endowed Professorship Program endowment funds in accordance with the Board of Regents for Higher Education's investment policies. The Endowed Chairs 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, 2006, the foundations held in custody \$114,089,474 of Endowed Chairs and Endowed Professorship Program funds. Amounts invested by private foundations for the System are included as investments held by private foundations in external investment pools in the disclosures in note 3.

20. 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.

21. ALTERNATIVE FINANCING AGREEMENTS

McNeese State University (McNeese)

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

Pursuant to the terms of a ground lease agreement, the 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.

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

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

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

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

Southeastern Louisiana University (SLU)

On August 13, 2004, University Facilities, Inc., entered into a loan agreement with the Louisiana Local Government Environmental Facilities and Community Authority to obtain financing for the acquisition, construction, renovation, and furnishing of student housing and demolishing existing housing; to provide working capital; to fund interest on the Series 2004 bonds; and to repay certain indebtedness of the corporation. Financing for the project is through the issuance of \$76,910,000 of Revenue Bonds, Series 2004(A), Series 2004(B), and Series 2004(C).

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

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 Ragin' 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.

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.

University of Louisiana at Monroe (ULM)

On June 30, 2004, the Louisiana Local Government Environmental Facilities and Community Development Authority agreed to issue revenue bonds totaling \$35,210,000 for the University of Louisiana Monroe Facilities, Inc., for the purpose of paying prior debt and the construction of student housing, a student center, an infirmary, and other facilities for the Board of Supervisors of the University of Louisiana System.

Pursuant to the terms of the ground lease agreement, 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 student housing facilities, an infirmary, and other student facilities and lease back the facilities to the board for use by students, faculty, and staff of ULM. The rental income derived from the facilities lease will be used to pay the bonds.

On December 8, 2004, the Louisiana Local Government Environmental Facilities and Community Development Authority agreed to issue revenue bonds totaling \$33,680,000 for the University of Louisiana Monroe Facilities, Inc., for the purpose of demolishing existing dormitories on the campus; to design, develop, and construct new student housing and a student center; and to refurbish existing on-campus student housing.

Pursuant to the terms of the ground lease agreement, 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 student housing facilities and lease back the facilities to the board for use by students, faculty, and staff of ULM. The rental income derived from the facilities lease will be used to pay the bonds.

Louisiana Tech University (Tech)

On July 1, 2003, the Louisiana Local Government Environmental Facilities and Community Development Authority agreed to issue revenue bonds totaling \$21,840,000 for the Innovative Student Facilities Inc., a nonprofit corporation, for the purpose of constructing student housing and related facilities for the Board of Supervisors of the University of Louisiana System.

Pursuant to the terms of the ground lease agreement, the corporation will lease land from the board upon which the facilities will be built. 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 student housing facilities and lease back the facilities to the board for use by students, faculty, and staff of Tech. The rental income derived from the facilities lease will be used to pay the bonds.

Nicholls State University

On May 11, 2006, NSU Facilities Corporation entered into a loan agreement with the Louisiana Community Development Authority to obtain financing for street and parking lot improvements along with renovations to the cafeteria on the Nicholls campus. Financing for the project is through the issuance of \$8,320,000 of Series 2006 A tax exempt bonds and Series B taxable bonds.

Pursuant to the terms of a ground lease agreement, the corporation will lease land from the Board of Supervisors of the University of Louisiana System on which the improvements to the streets, parking lots, and facilities will take place. In return, the university will lease the facilities from the corporation for use by university students, faculty, and staff and others. The university has agreed to make lease payments to the corporation in amounts sufficient to allow the corporation to pay the debt service and related bond expenses.

22. IMPAIRMENT OF CAPITAL ASSETS

During August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area.

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

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

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

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

23. INSURANCE RECOVERIES

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

Combining Schedule of Net Assets, by University

Schedule 1 presents the current and long-term portions of assets and liabilities and net assets for each university.

**Combining Schedule of Revenues, Expenses,
and Changes in Net Assets, by University**

Schedule 2 presents information showing how the assets of each university changed as a result of current year operations.

Schedule of Cash Flows, by University

Schedule 3 presents information showing how each university's cash changed as a result of current year operations.

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**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Combining Schedule of Net Assets, by University
June 30, 2006**

	GRAMBLING STATE UNIVERSITY	LOUISIANA TECH UNIVERSITY	MCNEESE STATE UNIVERSITY	NICHOLLS STATE UNIVERSITY
ASSETS				
Current assets:				
Cash and cash equivalents	\$7,845,965	\$17,026,674	\$20,390,252	\$15,880,281
Investments				
Receivables (net)	4,599,959	6,164,279	21,975,984	1,497,977
Due from federal government				
Inventories	571,165	1,932,108	1,329,357	136,001
Deferred charges and prepaid expenses	25,417	1,101,255	219,954	333,391
Notes receivable (net)		1,244,519	330,606	
Other current assets		108,509		21,169
Total current assets	<u>13,042,506</u>	<u>27,577,344</u>	<u>44,246,153</u>	<u>17,868,819</u>
Noncurrent assets:				
Restricted:				
Cash and cash equivalents	2,325,078	6,881,092	2,175,798	11,314,917
Investments	8,165,481	26,271,037	10,201,830	11,835,426
Receivables (net)	600,911	24,612		58,961
Notes receivable (net)	12,842	5,687,985	2,371,376	
Other			7,267	
Investments	1,316,632			
Notes receivable (net)				18,174
Capital assets (net)	78,499,830	109,316,884	54,668,302	30,421,816
Other noncurrent assets		170,203	1,549,797	652,877
Total noncurrent assets	<u>90,920,774</u>	<u>148,351,813</u>	<u>70,974,370</u>	<u>54,302,171</u>
Total assets	<u>103,963,280</u>	<u>175,929,157</u>	<u>115,220,523</u>	<u>72,170,990</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accruals	3,567,697	5,202,578	4,222,903	2,396,763
Due to state treasury	6,889			
Deferred revenues	1,156,447	3,747,653	1,508,717	1,384,546
Compensated absences payable	545,750	307,869	206,851	262,986
Capital lease obligations		276,734		
Amounts held in custody for others	696,537	476,021	289,799	209,318
Notes payable	285,345	107,218		
Reimbursement contracts payable				
Bonds payable	286,000	1,720,000	1,010,000	245,000
Other current liabilities	611,672	(59,139)	611,900	65,901
Total current liabilities	<u>7,156,337</u>	<u>11,778,934</u>	<u>7,850,170</u>	<u>4,564,514</u>

(Continued)

NORTHWESTERN STATE UNIVERSITY	SOUTHEASTERN LOUISIANA UNIVERSITY	UNIVERSITY OF LOUISIANA AT LAFAYETTE	UNIVERSITY OF LOUISIANA AT MONROE	BOARD	TOTAL SYSTEM
\$19,422,008	\$17,526,488	\$33,935,745	\$13,375,926	\$146,479	\$145,549,818
	6,880,482	9,870,072			16,750,554
4,313,957	7,896,819	8,816,439	8,156,633		63,422,047
		632,569			632,569
631,676	648,388	1,869,824	198,386		7,316,905
228,194	89,217	4,904,650	652,550		7,554,628
98,432	470,013	1,232,006	822,437		4,198,013
227,459	1,776,468		2,420,318	144,708	4,698,631
<u>24,921,726</u>	<u>35,287,875</u>	<u>61,261,305</u>	<u>25,626,250</u>	<u>291,187</u>	<u>250,123,165</u>
3,196,644	8,856,560	22,490,930	13,698,656		70,939,675
5,875,646	12,580,039	53,358,947	25,283,509		153,571,915
69,734			600,520		1,354,738
1,795,916	1,415,364	8,767,891	4,660,475		24,711,849
					7,267
					1,316,632
					18,174
49,516,595	146,518,463	163,530,204	125,655,837	14,622	758,142,553
	3,073,433	787,210			6,233,520
<u>60,454,535</u>	<u>172,443,859</u>	<u>248,935,182</u>	<u>169,898,997</u>	<u>14,622</u>	<u>1,016,296,323</u>
<u>85,376,261</u>	<u>207,731,734</u>	<u>310,196,487</u>	<u>195,525,247</u>	<u>305,809</u>	<u>1,266,419,488</u>
2,391,908	4,410,308	5,149,595	8,077,055	244,643	35,663,450
					6,889
2,324,109	4,664,371	2,484,821	3,633,433		20,904,097
245,858	522,368	379,267	452,771	133,882	3,057,602
	2,476				279,210
23,821	605,706	1,113,420	605,406	8,223	4,028,251
	127,096	15,996			535,655
25,000					25,000
205,000	520,000	360,000	655,000		5,001,000
	5,450			138,256	1,374,040
<u>5,215,696</u>	<u>10,857,775</u>	<u>9,503,099</u>	<u>13,423,665</u>	<u>525,004</u>	<u>70,875,194</u>

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Combining Schedule of Net Assets, by University
June 30, 2006

	<u>GRAMBLING STATE UNIVERSITY</u>	<u>LOUISIANA TECH UNIVERSITY</u>	<u>MCNEESE STATE UNIVERSITY</u>	<u>NICHOLLS STATE UNIVERSITY</u>
LIABILITIES (CONT.)				
Noncurrent liabilities:				
Compensated absences payable	\$2,455,959	\$3,083,645	\$2,493,135	\$2,586,267
Capital lease obligations		1,022,594		
Notes payable	2,518,363	76,603		
Reimbursement contracts payable				
Bonds payable		33,970,000	23,635,000	8,075,000
Other noncurrent liabilities		(404,599)		
Total noncurrent liabilities	<u>4,974,322</u>	<u>37,748,243</u>	<u>26,128,135</u>	<u>10,661,267</u>
Total liabilities	<u>12,130,659</u>	<u>49,527,177</u>	<u>33,978,305</u>	<u>15,225,781</u>
NET ASSETS				
Invested in capital assets, net of related debt	75,410,256	75,190,247	31,681,192	30,799,629
Restricted for:				
Nonexpendable	2,447,584	28,198,880	9,142,035	12,185,810
Expendable	8,738,857	13,774,505	11,213,247	9,460,092
Unrestricted	<u>5,235,924</u>	<u>9,238,348</u>	<u>29,205,744</u>	<u>4,499,678</u>
Total net assets	<u>\$91,832,621</u>	<u>\$126,401,980</u>	<u>\$81,242,218</u>	<u>\$56,945,209</u>

(Concluded)

NORTHWESTERN STATE UNIVERSITY	SOUTHEASTERN LOUISIANA UNIVERSITY	UNIVERSITY OF LOUISIANA AT LAFAYETTE	UNIVERSITY OF LOUISIANA AT MONROE	BOARD	TOTAL SYSTEM
\$1,815,505	\$3,605,343	\$6,341,351	\$3,633,014	\$255,269	\$26,269,488
					1,022,594
	302,789	45,172			2,942,927
205,000					205,000
5,420,000	82,115,000	18,355,000	69,425,000		240,995,000
20,647	431,548		340,420		388,016
<u>7,461,152</u>	<u>86,454,680</u>	<u>24,741,523</u>	<u>73,398,434</u>	<u>255,269</u>	<u>271,823,025</u>
<u>12,676,848</u>	<u>97,312,455</u>	<u>34,244,622</u>	<u>86,822,099</u>	<u>780,273</u>	<u>342,698,219</u>
43,661,595	59,035,062	144,499,498	69,377,193	14,622	529,669,294
6,397,292	6,159,654	44,368,426	19,813,261		128,712,942
10,113,223	44,080,592	43,312,479	15,642,331		156,335,326
<u>12,527,303</u>	<u>1,143,971</u>	<u>43,771,462</u>	<u>3,870,363</u>	<u>(489,086)</u>	<u>109,003,707</u>
<u>\$72,699,413</u>	<u>\$110,419,279</u>	<u>\$275,951,865</u>	<u>\$108,703,148</u>	<u>(\$474,464)</u>	<u>\$923,721,269</u>

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Combining Schedule of Revenues, Expenses,
and Changes in Net Assets, by University
For the Fiscal Year Ended June 30, 2006**

	GRAMBLING STATE UNIVERSITY	LOUISIANA TECH UNIVERSITY	MCNEESE STATE UNIVERSITY	NICHOLLS STATE UNIVERSITY
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$67,814,125)	\$15,776,548	\$37,617,490	\$21,563,720	\$20,492,247
Federal grants and contracts	16,718,131	15,471,908	11,536,678	8,472,101
State and local grants and contracts	2,425,389	2,645,455	2,284,106	3,741,695
Nongovernmental grants and contracts	792,467	625,925	1,968,381	1,134,995
Sales and services of educational departments	261,745	686,338	73,052	651,240
Auxiliary enterprise revenues (net of scholarship allowances of \$6,272,372; \$64,439,330 of revenues used as security for revenue bonds)	13,890,335	22,258,911	9,595,871	4,827,236
Other operating revenues	1,252,236	1,448,770	1,369,932	1,362,370
Total operating revenues	<u>51,116,851</u>	<u>80,754,797</u>	<u>48,391,740</u>	<u>40,681,884</u>
OPERATING EXPENSES				
Educational and general:				
Instruction	22,773,993	37,474,253	26,093,336	24,682,155
Research	527,826	13,893,553	1,085,850	1,636,833
Public service	150,791	1,224,948	1,290,242	1,244,156
Academic services	8,270,152	7,040,698	6,270,722	5,424,522
Student services	4,444,990	5,319,662	4,131,090	6,543,251
Institutional support	10,531,259	9,530,098	5,583,071	6,558,970
Operations and maintenance of plant	4,958,625	9,141,087	7,176,862	6,718,333
Depreciation	3,478,897	7,439,399	3,957,982	2,307,667
Scholarships and fellowships	6,819,648	4,967,700	6,666,717	2,593,593
Auxiliary enterprises	15,275,774	30,499,346	10,893,512	8,031,605
Other operating expenses	3,251	19,000	278,119	233,496
Total operating expenses	<u>77,235,206</u>	<u>126,549,744</u>	<u>73,427,503</u>	<u>65,974,581</u>
OPERATING LOSS	<u>(26,118,355)</u>	<u>(45,794,947)</u>	<u>(25,035,763)</u>	<u>(25,292,697)</u>
NONOPERATING REVENUES (Expenses)				
State appropriations	26,223,729	43,365,718	27,162,866	25,422,695
Gifts	571,197	3,004,003	1,288,354	411,703
Investment income	375,351	1,034,275	1,209,971	847,489
Interest expense	(107,628)	(1,728,282)	(1,404,277)	
Payments to or on behalf of the university				34,281
Nonoperating revenues - insurance recovery			5,931,747	
Other nonoperating revenues (expenses)	(635,508)	870,526		313,623
Net nonoperating revenues	<u>26,427,141</u>	<u>46,546,240</u>	<u>34,188,661</u>	<u>27,029,791</u>

(Continued)

NORTHWESTERN STATE UNIVERSITY	SOUTHEASTERN LOUISIANA UNIVERSITY	UNIVERSITY OF LOUISIANA AT LAFAYETTE	UNIVERSITY OF LOUISIANA AT MONROE	BOARD	TOTAL SYSTEM
\$29,404,676	\$44,605,573	\$45,755,686	\$27,662,715		\$242,878,655
14,021,444	24,554,107	27,897,025	15,059,094		133,730,488
3,175,286	1,992,621	7,427,565	10,161,041		33,853,158
895,948	193,379	13,926,086	929,796		20,466,977
1,101,790	274,810	666,009	284,642		3,999,626
4,254,707	13,100,277	15,710,827	11,253,134		94,891,298
2,157,792	1,684,933	3,130,290	3,229,387		15,635,710
55,011,643	86,405,700	114,513,488	68,579,809	NONE	545,455,912
31,158,210	49,283,220	45,204,731	34,509,981		271,179,879
1,413,401	2,183,632	40,893,157	7,269,607		68,903,859
2,183,812	3,184,139	1,677,003	9,876,999		20,832,090
6,195,644	10,691,532	10,678,690	5,584,734		60,156,694
6,039,309	7,964,405	13,645,946	5,690,921		53,779,574
8,505,748	11,513,472	13,893,249	10,706,903	\$2,269,966	79,092,736
6,464,335	11,079,846	12,105,026	8,141,392		65,785,506
3,629,395	7,043,423	9,033,997	5,185,903	5,275	42,081,938
10,111,922	12,245,012	3,161,817	9,125,728		55,692,137
8,286,286	17,277,927	21,696,910	12,510,709		124,472,069
6,072	(38,396)	169,194	2,397,663	489,086	3,557,485
83,994,134	132,428,212	172,159,720	111,000,540	2,764,327	845,533,967
(28,982,491)	(46,022,512)	(57,646,232)	(42,420,731)	(2,764,327)	(300,078,055)
29,595,157	46,015,098	61,476,581	45,625,826	2,257,700	307,145,370
	1,185,609	644,474			7,105,340
1,449,592	2,064,853	6,497,374	2,436,509	320,000	16,235,414
(298,409)	(3,297,503)	(931,076)	(1,143,201)		(8,910,376)
					34,281
					5,931,747
126,204	(321,816)	3,184,414	400,406	36,000	3,973,849
30,872,544	45,646,241	70,871,767	47,319,540	2,613,700	331,515,625

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Combining Schedule of Revenues, Expenses,
and Changes in Net Assets, by University
For the Fiscal Year Ended June 30, 2006**

	<u>GRAMBLING STATE UNIVERSITY</u>	<u>LOUISIANA TECH UNIVERSITY</u>	<u>MCNEESE STATE UNIVERSITY</u>	<u>NICHOLLS STATE UNIVERSITY</u>
INCOME (Loss) BEFORE OTHER REVENUES AND EXPENSES	\$308,786	\$751,293	\$9,152,898	\$1,737,094
Capital appropriations	9,758,335	3,409,725		(29,104)
Capital grants and gifts		128,349	24,026	70,950
Additions to permanent endowments	1,100,000	2,203,746		
Other		(716,079)		
Extraordinary item - gain on impairment of capital assets			11,130,636	
CHANGE IN NET ASSETS	<u>11,167,121</u>	<u>5,777,034</u>	<u>20,307,560</u>	<u>1,778,940</u>
NET ASSETS - BEGINNING OF YEAR (Restated)	<u>80,665,500</u>	<u>120,624,946</u>	<u>60,934,658</u>	<u>55,166,269</u>
NET ASSETS - END OF YEAR	<u><u>\$91,832,621</u></u>	<u><u>\$126,401,980</u></u>	<u><u>\$81,242,218</u></u>	<u><u>\$56,945,209</u></u>

(Concluded)

NORTHWESTERN STATE UNIVERSITY	SOUTHEASTERN LOUISIANA UNIVERSITY	UNIVERSITY OF LOUISIANA AT LAFAYETTE	UNIVERSITY OF LOUISIANA AT MONROE	BOARD	TOTAL SYSTEM
\$1,890,053	(\$376,271)	\$13,225,535	\$4,898,809	(\$150,627)	\$31,437,570
	2,429,614	2,782,163	6,814,940	19,897	25,185,570
2,682,190			27,410		2,932,925
1,100,000	280,000	5,700,000			10,383,746
					(716,079)
					11,130,636
5,672,243	2,333,343	21,707,698	11,741,159	(130,730)	80,354,368
67,027,170	108,085,936	254,244,167	96,961,989	(343,734)	843,366,901
\$72,699,413	\$110,419,279	\$275,951,865	\$108,703,148	(\$474,464)	\$923,721,269

**UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Combining Schedule of Cash Flows, by University
For the Fiscal Year Ended June 30, 2006**

	GRAMBLING STATE UNIVERSITY	LOUISIANA TECH UNIVERSITY	MCNEESE STATE UNIVERSITY	NICHOLLS STATE UNIVERSITY
CASH FLOWS FROM OPERATING ACTIVITIES:				
Tuition and fees	\$24,339,816	\$37,682,318	\$22,343,442	\$20,313,661
Grants and contracts	18,926,019	19,173,542	15,119,700	13,718,066
Sales and services of educational departments	261,745	684,061	52,825	643,984
Auxiliary enterprise receipts	14,615,554	22,463,582	9,465,062	4,841,116
Payments for employee compensation	(36,908,007)	(57,988,408)	(32,688,241)	(32,861,986)
Payments for benefits	(10,181,164)	(15,651,533)	(10,271,329)	(10,308,667)
Payments for utilities	(2,955,381)	(10,086,267)	(3,275,013)	(2,591,563)
Payments for supplies and services	(15,852,763)	(29,015,555)	(12,138,287)	(11,489,963)
Payments for scholarships and fellowships	(17,509,036)	(5,873,221)	(7,946,374)	(6,029,101)
Loans to students		(1,679,197)		(1,000)
Collection of loans to students		1,570,074	(337,728)	5,904
Other receipts (payments)	637,763	1,397,007	(1,027,670)	1,103,068
Net cash used by operating activities	<u>(24,625,454)</u>	<u>(37,323,597)</u>	<u>(20,703,613)</u>	<u>(22,656,481)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	26,375,430	43,886,807	27,162,866	25,422,695
Gifts and grants for other than capital purposes	571,197	2,614,735	1,288,354	411,703
Private gifts for endowment purposes		2,203,746		
TOPS receipts	436,891	10,122,716	5,113,821	4,597,267
TOPS disbursements	(436,891)	(10,101,272)	(5,113,821)	(4,597,267)
Federal Family Education Loan program receipts	32,464,322	22,724,921	20,644,687	16,057,758
Federal Family Education Loan program disbursements	(32,464,322)	(22,723,266)	(20,644,687)	(16,057,758)
Other payments	(35,508)	872,082	570,596	417,439
Net cash provided by noncapital financing sources	<u>26,911,119</u>	<u>49,600,469</u>	<u>29,021,816</u>	<u>26,251,837</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Proceeds from capital debt		116,440		7,873,165
Capital appropriations received	9,758,335	3,409,725		(29,104)
Capital grants and gifts received		241,698	24,026	461,410
Proceeds from sale of capital assets		69,679		
Purchases of capital assets	(10,635,617)	(6,447,755)	(3,883,288)	(1,590,562)
Principal paid on capital debt and leases	(572,148)	(1,697,788)	(970,000)	
Interest paid on capital debt and leases	(107,628)	(1,729,363)	(1,404,277)	
Deposit with trustees		11,081		261,489
Other sources (payments)		(716,079)		(487,899)
Net cash provided (used) by capital financing activities	<u>(1,557,058)</u>	<u>(6,742,362)</u>	<u>(6,233,539)</u>	<u>6,488,499</u>

(Continued)

NORTHWESTERN STATE UNIVERSITY	SOUTHEASTERN LOUISIANA UNIVERSITY	UNIVERSITY OF LOUISIANA AT LAFAYETTE	UNIVERSITY OF LOUISIANA AT MONROE	BOARD	TOTAL SYSTEM
\$29,237,650	\$43,023,858	\$45,449,357	\$26,784,019		\$249,174,121
18,092,678	28,081,901	48,226,374	26,149,931		187,488,211
1,101,790	398,444	666,009	284,642		4,093,500
(4,031,579)	13,603,333	16,614,948	(1,257,575)		76,314,441
(39,375,894)	(64,376,496)	(87,730,385)	(47,790,950)	(\$1,418,165)	(401,138,532)
(11,192,252)	(18,187,118)	(11,586,630)	(15,550,586)	(548,528)	(103,477,807)
(3,519,931)	(5,012,610)	(7,888,479)	(2,798,538)		(38,127,782)
(8,028,987)	(27,265,613)	(50,483,725)	(11,864,811)	(647,007)	(166,786,711)
(10,111,922)	(11,485,996)	(4,779,879)	(9,125,728)		(72,861,257)
67,958	(404,773)	(2,798,953)	(1,099,532)		(5,915,497)
(40,031)	636,538	3,257,939	1,577,653		6,670,349
2,073,709	(1,096,491)	3,492,093	(2,120,768)	(124,088)	4,334,623
<u>(25,726,811)</u>	<u>(42,085,023)</u>	<u>(47,561,331)</u>	<u>(36,812,243)</u>	<u>(2,737,788)</u>	<u>(260,232,341)</u>
29,776,475	46,266,380	61,476,581	45,625,826	2,257,700	308,250,760
		644,474			5,530,463
1,100,000	280,000	5,700,000			9,283,746
4,656,496	8,551,062	11,735,232	5,088,011		50,301,496
(4,656,496)	(8,769,493)	(11,735,232)	(5,088,011)		(50,498,483)
31,471,268	40,561,543	30,641,128	28,936,562		223,502,189
(31,471,268)	(40,566,802)	(30,641,128)	(28,936,562)		(223,505,793)
126,204	11,553	2,206,358	(540,629)	36,000	3,664,095
<u>31,002,679</u>	<u>46,334,243</u>	<u>70,027,413</u>	<u>45,085,197</u>	<u>2,293,700</u>	<u>326,528,473</u>
					7,989,605
	2,429,614		6,814,940	19,897	22,403,407
2,682,190			27,410		3,436,734
					69,679
(4,645,057)	(8,673,202)	(11,760,757)	(33,970,300)		(81,606,538)
(215,000)	(860,303)	(350,000)	(432,423)		(5,097,662)
(298,409)	(3,297,503)	(933,373)			(7,770,553)
			(897,997)		(625,427)
	78,166				(1,125,812)
<u>(2,476,276)</u>	<u>(10,323,228)</u>	<u>(13,044,130)</u>	<u>(28,458,370)</u>	<u>19,897</u>	<u>(62,326,567)</u>

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Combining Schedule of Cash Flows, by University, 2006

	GRAMBLING STATE UNIVERSITY	LOUISIANA TECH UNIVERSITY	MCNEESE STATE UNIVERSITY	NICHOLLS STATE UNIVERSITY
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales and maturities of investments	\$2,137,881	\$406,167		
Interest received on investments	375,351	1,034,311	\$1,209,971	\$842,839
Purchase of investments	(6,404,266)	(2,203,745)	(659,507)	(5,384,890)
Net cash provided (used) by investing activities	<u>(3,891,034)</u>	<u>(763,267)</u>	<u>550,464</u>	<u>(4,542,051)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(3,162,427)	4,771,243	2,635,128	5,541,804
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
	<u>13,333,470</u>	<u>19,136,523</u>	<u>19,930,922</u>	<u>21,653,394</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
	<u>\$10,171,043</u>	<u>\$23,907,766</u>	<u>\$22,566,050</u>	<u>\$27,195,198</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	(\$26,118,355)	(\$45,794,947)	(\$25,035,763)	(\$25,292,697)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense	3,478,897	7,439,399	3,957,982	2,307,667
Changes in assets and liabilities:				
(Increase) Decrease in accounts receivable, net	(2,512,600)	289,428	(561,816)	442,977
(Increase) Decrease in inventories	80,692	41,914	(49,179)	(7,016)
(Increase) Decrease in deferred charges and prepaid expenses	39,124	(71,254)	19,124	(263,192)
(Increase) Decrease in notes receivable	3,706	29,982		
(Increase) Decrease in other assets		70,856		
Increase (Decrease) in accounts payable and accrued liabilities	(89,351)	520,598	670,914	224,362
Increase (Decrease) in deferred revenue	26,009	277,163	579,526	(263,539)
Increase (Decrease) in amounts held in custody for others	106,790	(6,927)	(58,489)	26,004
Increase (Decrease) in compensated absences	(248,718)	(125,127)	111,816	168,739
Increase (Decrease) in other liabilities	608,352	5,318	(337,728)	214
Net cash used by operating activities	<u>(\$24,625,454)</u>	<u>(\$37,323,597)</u>	<u>(\$20,703,613)</u>	<u>(\$22,656,481)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:				
Cash and cash equivalents classified as current assets	\$7,845,965	\$17,026,674	\$20,390,252	\$15,880,281
Cash and cash equivalents classified as noncurrent assets	<u>2,325,078</u>	<u>6,881,092</u>	<u>2,175,798</u>	<u>11,314,917</u>
Cash and cash equivalents at the end of the year	<u>\$10,171,043</u>	<u>\$23,907,766</u>	<u>\$22,566,050</u>	<u>\$27,195,198</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Capital asset donated to Nicholls State				\$70,950
Gain on impairment of capital assets at McNeese State University			\$11,130,636	
Capital assets appropriated for Board of Supervisors				
Capital appropriations				

(Concluded)

NORTHWESTERN STATE UNIVERSITY	SOUTHEASTERN LOUISIANA UNIVERSITY	UNIVERSITY OF LOUISIANA AT LAFAYETTE	UNIVERSITY OF LOUISIANA AT MONROE	BOARD	TOTAL SYSTEM
	\$18,510,841	\$91,542,663			\$112,597,552
\$1,449,592	2,064,853	6,497,374	\$3,377,544	\$320,000	17,171,835
(1,387,629)	(7,940,018)	(94,528,152)	(910,842)		(119,419,049)
<u>61,963</u>	<u>12,635,676</u>	<u>3,511,885</u>	<u>2,466,702</u>	<u>320,000</u>	<u>10,350,338</u>
2,861,555	6,561,668	12,933,837	(17,718,714)	(104,191)	14,319,903
<u>19,757,097</u>	<u>19,821,380</u>	<u>43,492,838</u>	<u>44,793,296</u>	<u>250,670</u>	<u>202,169,590</u>
<u>\$22,618,652</u>	<u>\$26,383,048</u>	<u>\$56,426,675</u>	<u>\$27,074,582</u>	<u>\$146,479</u>	<u>\$216,489,493</u>
(\$28,982,491)	(\$46,022,512)	(\$57,646,232)	(\$42,420,731)	(\$2,764,327)	(\$300,078,055)
3,629,395	7,043,423	9,033,997	5,185,903	5,275	42,081,938
65,412	(945,579)	40,689	(1,744,487)		(4,925,976)
22,405	(33,994)	(309,962)	7,772		(247,368)
167,508	(24,746)	(120,609)	(34,126)		(288,171)
(32,751)	231,765	458,986	42,163		733,851
(7,280)	492,560		(739,902)	91,511	(92,255)
(322,528)	(3,633,094)	998,160	2,547,905	(62,874)	854,092
(237,903)	598,269	(111,709)	559,920		1,427,736
5,465	315,596	6,313	(442,954)	(8,223)	(56,425)
66,208	(106,711)	89,036	330,119	96,818	382,180
(100,251)			(103,825)	(95,968)	(23,888)
<u>(\$25,726,811)</u>	<u>(\$42,085,023)</u>	<u>(\$47,561,331)</u>	<u>(\$36,812,243)</u>	<u>(\$2,737,788)</u>	<u>(\$260,232,341)</u>
\$19,422,008	\$17,526,488	\$33,935,745	\$13,375,926	\$146,479	\$145,549,818
<u>3,196,644</u>	<u>8,856,560</u>	<u>22,490,930</u>	<u>13,698,656</u>		<u>70,939,675</u>
<u>\$22,618,652</u>	<u>\$26,383,048</u>	<u>\$56,426,675</u>	<u>\$27,074,582</u>	<u>\$146,479</u>	<u>\$216,489,493</u>
				\$19,897	\$70,950
					\$11,130,636
		\$2,782,163			\$19,897
					\$2,782,163

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a 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 and other matters that would be material to the presented financial statements.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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STATE OF LOUISIANA
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May 16, 2007

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

UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the financial statements of the business-type activities and discretely presented component units of the University of Louisiana System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, which collectively comprise the System's basic financial statements and have issued our report thereon dated May 16, 2007. Our report was modified to include a reference to other auditors; an explanatory paragraph for the implementation of new reporting standards; an emphasis of a matter regarding the impact of hurricanes Katrina and Rita; and an emphasis of a matter regarding nonaudit services. 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. Other auditors audited the financial statements of Ragin' Cajun Facilities, Inc.; University Facilities, Inc.; Innovative Student Facilities, Inc.; University of Louisiana at Monroe Facilities, Inc.; and Cowboy Facilities, Inc., which are nonprofit corporations included as blended component units in the basic financial statements of the University of Louisiana System. Other auditors also audited the financial statements of the Louisiana Tech University Foundation, Inc.; the McNeese State University Foundation; the University of Louisiana at Lafayette Foundation, Inc.; and the University of Louisiana at Monroe Foundation, which are discretely presented component units in the basic financial statements of the University of Louisiana System as described in our report on the University of Louisiana System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the McNeese State University Foundation; the University of Louisiana at Monroe Foundation; University of Louisiana at Monroe Facilities, Inc.; and University Facilities, Inc., were not audited in accordance with *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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted the matter described below involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University of Louisiana System's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Inaccurate and Incomplete Annual Fiscal Report

The University of Louisiana System (System) did not have adequate controls over its financial reporting process to ensure that an accurate and complete Annual Fiscal Report (AFR) was submitted to the Division of Administration for the fiscal year ended June 30, 2006. As authorized by Louisiana Revised Statute (R.S.) 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Accounting and Reporting Policy (OSRAP) prescribes the content and format for the preparation of each agency and university system AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR) and the System's separately issued financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Good internal controls include establishing an adequate review process to ensure that these financial statements are accurately prepared. However, the System's AFR submitted to OSRAP on September 18, 2006, included the following errors and omissions:

1. The University of Louisiana at Monroe (ULM), an institution within the System, revised its fiscal year 2006 financial information, but the System did not include the revisions in its AFR that was submitted to OSRAP and the Office of Legislative Auditor, which resulted in the following errors on the System's Statement of Net Assets:
 - Assets were understated by \$321,638.
 - Liabilities were understated by \$1,663,889.
 - Net assets were overstated by \$1,342,251.
 - The System's eliminating entries for ULM's Statement of Net Assets were understated by \$19,889,473 for assets and \$20,630,426 for liabilities. OSRAP and GAAP require that certain transactions between the System's universities and its discretely presented component units be eliminated to avoid duplication of these transactions in the state's CAFR.

2. The System did not ensure that its note disclosures were complete and consistent with the amounts presented in the financial statements, resulting in the following errors and omissions in the note disclosures:
 - Investments (note 3):
 - Investments were understated by \$20,791,175.
 - Interest rate risk disclosures excluded maturities for \$40,902,035 of investments with reported maturities.
 - Credit risk and concentration of credit risk disclosures were omitted.
 - Component unit investments were understated by \$17,659,418.
 - Component unit capital assets (note 5) were understated by \$251,408.
 - Long-term liabilities (note 12):
 - Amounts due within one year in the summary of long-term liabilities were overstated by \$1,113,643.
 - The summary of long-term liabilities did not agree with the corresponding notes and schedules for long-term obligations, which provide additional detail on debt activity.
 - The System reported additions to bonds payable totaling \$76,937 when, initially, no additions should have been reported. (Subsequently, capital leases totaling \$8,320,000 were reclassified to additions to bonds for the fiscal year.)
 - The July 1, 2005, amounts outstanding on the schedule of notes payable were understated by \$3,156,842 for the universities and \$1,329,909 for the component units.
 - Beginning balance of net assets (note 14) was overstated \$695,964.

Management of the System has not ensured that its fiscal year 2006 AFR was properly prepared and reviewed for errors or omissions. Failure to submit an accurate AFR can delay the compilation and issuance of the state's CAFR and the System's separately issued financial statements. Furthermore, misstatements, whether intentional or unintentional, may occur and remain undetected.

Management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP and the Office of Legislative Auditor. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 1-2).

Unlocated Movable Property

Three universities within the System identified significant amounts of unlocated movable property items totaling \$2,189,037 as a result of physical inventory procedures. R.S. 39:325 requires entities to conduct an annual property inventory of movable property and report any unlocated movable property to the Louisiana Property Assistance Agency. In addition, good internal control dictates that assets be properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted.

During our audit, we identified the following dollar amounts of unlocated movable property reported by universities within the System on their fiscal year 2006 annual certifications of inventory:

	Total Movable Property Reported	All Unlocated Property	Unlocated Computer Equipment	Property Permanently Deleted
University of Louisiana at Lafayette	\$49,002,085	\$717,059	\$540,928	\$164,580
Grambling State University	22,378,924	893,363	471,867	285,451
University of Louisiana at Monroe	27,209,194	578,615	380,793	135,439
Total	<u>\$98,590,203</u>	<u>\$2,189,037</u>	<u>\$1,393,588</u>	<u>\$585,470</u>

The amount of unlocated computers and computer-related equipment represents 63.66% of the unlocated property reported.

Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects the System to noncompliance with state laws and regulations. Because of the nature of the services provided by the System, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

Management of the System should ensure that these universities strengthen their procedures for conducting the physical inventories of movable property and devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding, but citing improvements that had been made by the System in the past year, management disagreed that a system-wide finding is warranted (see Appendix A, page 3).

A material weakness is a reportable 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 caused by error or fraud 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, of the reportable conditions described previously, we consider the finding on the inaccurate and incomplete annual fiscal report to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of Louisiana System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Other Reports

Other external auditors audited the Ragin' Cajun Facilities, Inc.; University Facilities, Inc.; Innovative Student Facilities, Inc.; the University of Louisiana at Monroe Facilities, Inc.; and Cowboy Facilities, Inc., which are blended component units included in the University of Louisiana System's basic financial statements for the year ended June 30, 2006. In addition, other external auditors audited the Louisiana Tech University Foundation, Inc.; the McNeese State University Foundation; the University of Louisiana at Lafayette Foundation, Inc.; and the University of Louisiana at Monroe Foundation, which are discretely presented component units included in the basic financial statements of the University of Louisiana System. To obtain copies of those reports, refer to note 1-B to the basic financial statements for mailing addresses.

As a part of our audit of the University of Louisiana System's basic financial statements for the year ended June 30, 2006, we performed certain procedures on campuses within the University of Louisiana System. Our reports on those procedures for those campuses are listed as follows:

	<u>Issue Date</u>
University of Louisiana at Lafayette	December 13, 2006
Southeastern Louisiana University	December 8, 2006
University of Louisiana at Monroe	December 14, 2006

Our audit report on Grambling State University was issued on March 9, 2007.

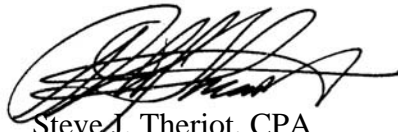
These reports contain compliance and internal control findings, where applicable, relating to those facilities. Management's responses are also included in those reports. Copies of those reports are available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor, and those reports can also be found on the Internet at www.la.state.la.us.

INTERNAL CONTROL REPORT

To provide financial information required for upcoming reaccreditation by the Southern Association of Colleges and Schools, we issued our accountant's review reports for Northwestern State University on September 19, 2006, and McNeese State University on October 2, 2006.

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,



Steve J. Theriot, CPA
Legislative Auditor

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[ULS06]

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

UNIVERSITY OF LOUISIANA

S Y S T E M

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May 16, 2007

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Mr. Steve Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70802

RE: Finding: "Inaccurate and Incomplete Annual Fiscal Report"

Dear Mr. Theriot:

The work of you and your staff in identifying issues that will help us strengthen our financial statement preparation and reporting process is greatly appreciated. The Board of Supervisors and the staff have been and continue to be advocates of a strong and effective audit process. Your finding assures me that your recent audit provides us with valuable support in managing our operations.

Management concurs with your finding related to the UL System's financial statements as submitted to the Division of Administration. The System office is responsible for compiling the System's eight universities' financial statements into one consolidated statement; however for the past five years limited Board staff led us to outsource this task by contracting with an extremely reputable and competent Certified Public Accounting firm.

Until this audit we received no negative audit comments about this process, therefore we followed the same processes as had been utilized in the past. Immediately upon learning of your finding, System staff met with that firm to assess the cause of the finding and, discovering that the quality of the CPA's work was the primary cause of the finding, decided to discontinue the firm's services.

1. University of Louisiana at Monroe's (ULM) Financial Statements

When ULM submitted a revised AFR ten (10) days past the deadline for submitting financial information for inclusion in the System's financial statements, system staff immediately forwarded that document to the CPA firm. However, the CPA firm gave no indication that it had not included ULM's revisions in the financial statement that was provided to UL System management for submission to the Office of the Legislative Auditor and the Division of Administration until the aforementioned meeting several months after submittal.

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

Under the supervision of the Board of Supervisors for the University of Louisiana System

While we acknowledge ultimate responsibility for acts of the CPA, we also recognize that the excluded adjustments would have to have been much more significant than they were to affect the issuance or reasonableness of the CAFR; the adjustments were less than 0.3% of CAFR component unit assets. Furthermore, the elimination entries identified in the finding would have had no effect on the System's own financial statements since the elimination entries are only for CAFR purposes.

2. Notes to the Financial Statements

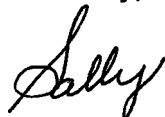
The account balances noted in the finding were reasonable in the System's financial statements. However, management acknowledges that the related notes to the financial statements, which provide clarification of statement amounts, were not appropriately stated as compiled by the CPA firm.

Corrective Action

While our staff remains small, the collective experience of that staff has changed this year due to the filling of vacant positions with individuals who have more financial statement preparation experience. This change in staff experience, qualifications and ability allow us greater flexibility in the distribution of our work. As a result, UL staff will prepare our System financial statements.

Dr. Nick Bruno, Vice-President of Facilities and Operations, and staff have identified those internal control issues that must be revised as well as new controls that will be instituted to eliminate a recurrence of inadequacies in our financial statement compilation process.

Sincerely,



Sally Clausen
President

UNIVERSITY OF LOUISIANA

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February 27, 2007

BOARD OF SUPERVISORS

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Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Re: Audit Finding-Un-located Movable Property

Dear Mr. Theriot:


Allow me to begin by commending your staff, particularly Mr. Charles Wendt, for the cooperation and professionalism he exhibited during his work with our System audit. Mr. Wendt was very thorough and communicated with us in a regular and positive manner.

Please be assured that the University of Louisiana System and her eight campuses are committed to the safeguarding of State property. As you are aware, a college campus is a very unique environment. In order to satisfy our mission many of our facilities must remain available to our faculty/staff and students throughout the day and much of the evenings. This is compounded by the large number of buildings and rooms where relatively free access is required.

Our system and campuses responded very favorably to last year's finding in which six of the six institutions that were audited had findings resulting in un-located property totaling 2.18%. This year only three of our campuses had findings resulting in approximately 1.2% of un-located movable property. While any loss of movable property is worthy of concern, I suggest that the improvements made by the system over the one year period verifies our commitment and that of our campuses.

As a result of the information provided in the immediately preceding paragraph, I respectfully do not agree that a system-wide finding on this issue is warranted and request your further consideration. Certainly, I am available to discuss this or any other matter you deem appropriate at your convenience. Thank you for your consideration of this request.

Sincerely,


Sally Clausen

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

Under the supervision of the Board of Supervisors for the University of Louisiana System