

SOUTHERN UNIVERSITY SYSTEM
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2006
ISSUED JUNE 13, 2007

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

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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

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

April 19, 2007

Independent Auditor's Report
on the Financial Statements

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Southern University 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 Southern University System. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Southern University System Foundation, which represents the only discretely presented component unit of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this foundation, is based on the report 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 Southern University System Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Southern University System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 report of other auditors provide a reasonable basis for our opinions.

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

As discussed in notes 1-P and 25 to the financial statements, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the year ended June 30, 2006, and Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

As discussed in note 25 to the financial statements, on August 29, 2005, the State of Louisiana and the City of New Orleans suffered catastrophic damage from Hurricane Katrina resulting in the President of the United States declaring Louisiana a major disaster area. The Southern University System sustained significant losses of assets and operational functionality at its New Orleans campus because of Hurricane Katrina. On September 24, 2005, Hurricane Rita struck Louisiana causing further damage to state and local governmental operations. Because of the severity of these two hurricanes and the resulting damage and losses sustained, it is unknown what economic impact recovery efforts will have on state and local governmental operations in Louisiana. The long-term effects of the hurricanes on the Southern University System cannot be determined at this time.

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.

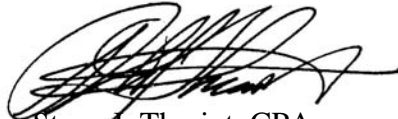
In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2007, on our consideration of the Southern University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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.

Management's discussion and analysis on pages 7 through 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

INDEPENDENT AUDITOR'S REPORT

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southern University System's basic financial statements. The accompanying supplementary information schedules of per diem paid board members and combining financial schedules on pages 63 through 68 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 in the audit of the basic financial statements and, in our opinion, 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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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of the Southern University System's financial performance presents a narrative overview and analysis of the System's financial activities for the year ended June 30, 2006. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the information contained in the System's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

The Southern University System's net assets overall changed from \$162.5 million to \$173.1 million, an increase of approximately 6.5% from June 30, 2005, to June 30, 2006.

Enrollment for the fall semesters changed from 15,879 to 13,393 from June 30, 2005, to June 30, 2006, a decrease of 15.7%. The reason for this change is attributed to the following:

- Because of hurricanes Katrina and Rita, Southern University at New Orleans (SUNO) could not occupy its campus and moved its administrative operations to the Baton Rouge campus. SUNO's students were urged to enroll at other institutions for fall 2005 as the campus could not offer its academic programs. SUNO was excluded from the Board of Regents 2005 student enrollment requirements. For the previous three years, SUNO had enrolled an average of 3,500 students.
- Southern University at Baton Rouge, Southern University Law Center, and Southern University at Shreveport had an increase in enrollment during the 2005 fall semester, when compared to the 2004 fall semester. Southern University at Shreveport continued its rapid growth rate; its enrollment increased by 203 students or 8.7%. The Southern University Law Center's enrollment increased from 463 students in 2004 to 495 students in 2005 or 6.9%.
- The decline in enrollment at Southern University and Agricultural and Mechanical College at Baton Rouge, which resulted from the implementation of a selective admissions policy during the fall of 2001, appears to have been stabilized as evidenced by an increase in enrollment of 926 students or 9.8%. Also, this increase in enrollment can be attributed to displaced students from hurricanes Katrina and Rita.

The System's operating revenues changed from \$124.9 million to \$120.1 million or a 3.9% decrease from June 30, 2005, to June 30, 2006. Operating expenses decreased by 4.1% from \$211.9 million for the year ended June 30, 2005, to \$203.2 million for the year ended June 30, 2006. There were some cost decreases in areas of instruction, academic support, operations and maintenance, depreciation, scholarships and fellowships, and various mandated costs.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations received from the state and other sources. The total of nonoperating revenues (expenses), including capital appropriations was \$89,251,950 in 2005 and \$95,073,925 in 2006, reflecting an increase of 6.5%.

Overview of the Financial Statements and Financial Analysis

This financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements including the notes to the financial statements, and supplementary information. 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.

Statement of Net Assets

The Statement of Net Assets (pages 19-20) 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.

From the data presented, readers of the Statement of Net Assets can determine the assets available to continue the operations of the System. They are also able to determine how much the Southern University System's institutions owe vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a summary of the combined net assets (assets minus liabilities) and their availability for expenditure by the institutions.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets (pages 23-24) 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.

Statement of Cash Flows

The Statement of Cash Flows (pages 27-28) 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 financial statements provide both long-term and short-term information about the System's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

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

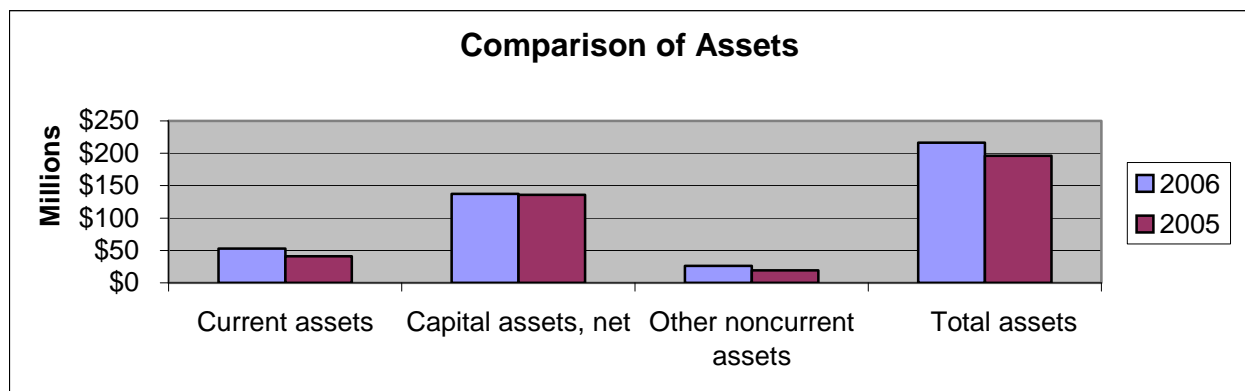
which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the System are included in the Statement of Net Assets.

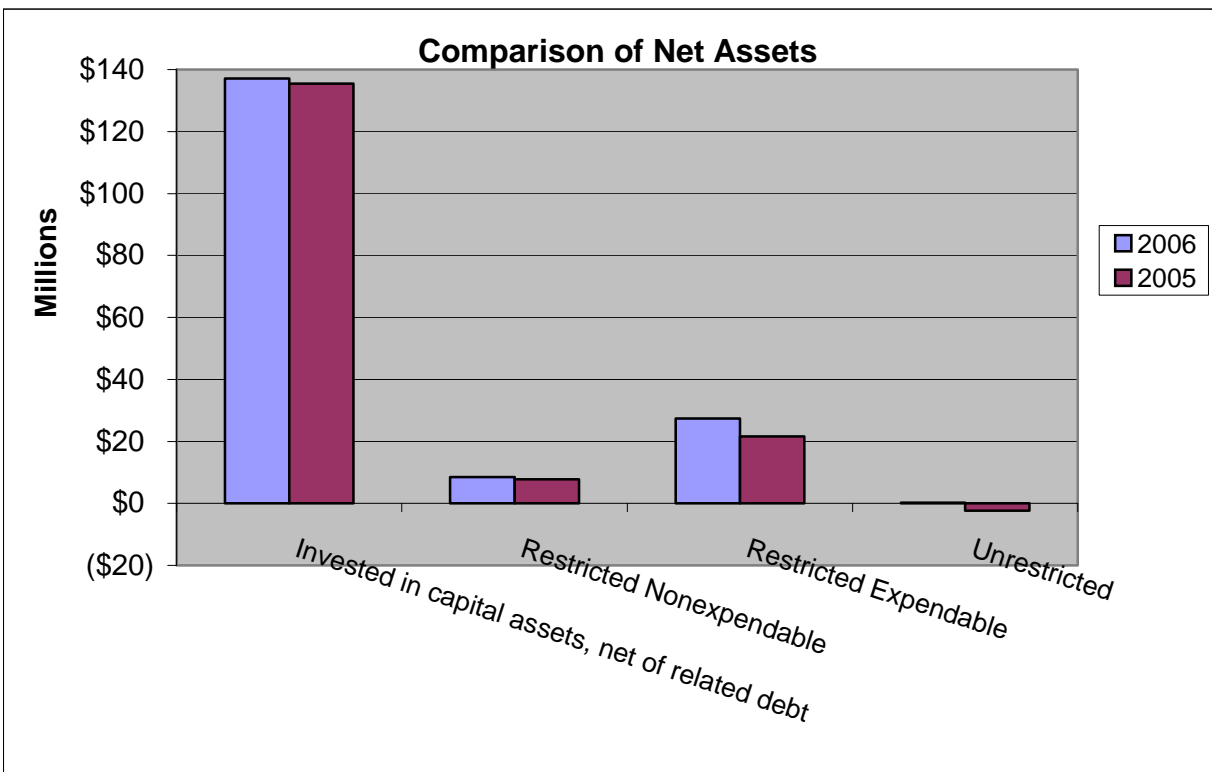
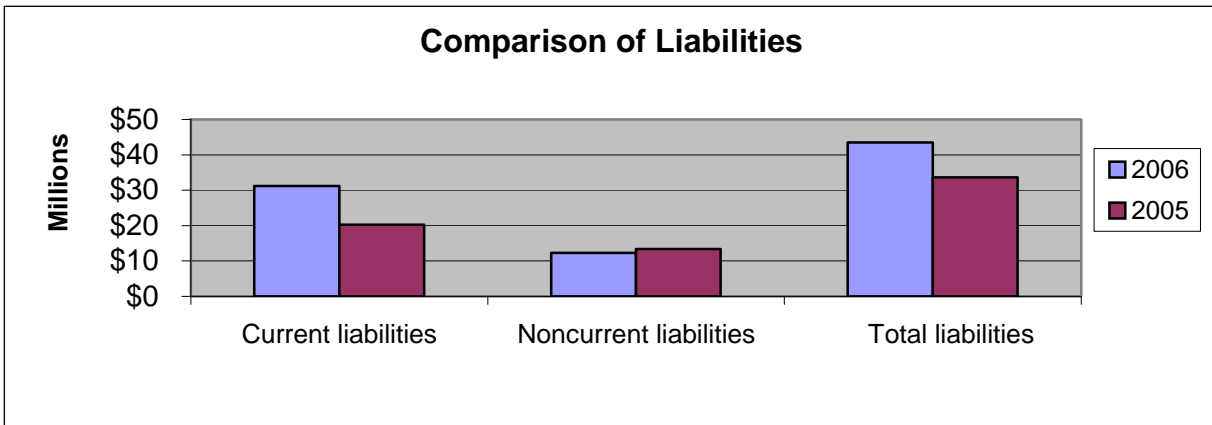
Categories of Net Assets

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, indicates the total equity in property, plant and equipment that is owned by all of the System's institutions. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted resources is only available for investment purposes. The expendable restricted net assets are available for expenditure by the various institutions but must be spent for the purposes that are designated by donors or external entities that placed the time or purpose restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the institutions of the System to be used for any lawful purpose.

**Statement of Net Assets
For the Fiscal Years Ended
June 30, 2006 and 2005**

	2006	2005	Percent Change
Assets			
Current assets	\$52,970,857	\$41,172,616	28.7%
Capital assets, net	137,382,573	135,795,029	1.2%
Other noncurrent assets	26,165,508	19,203,632	36.3%
Total assets	<u>216,518,938</u>	<u>196,171,277</u>	10.4%
Liabilities			
Current liabilities	31,177,101	20,237,784	54.1%
Noncurrent liabilities	12,282,306	13,402,447	(8.4%)
Total liabilities	<u>43,459,407</u>	<u>33,640,231</u>	29.2%
Net Assets			
Invested in capital assets, net of related debt	137,075,867	135,439,970	1.2%
Restricted:			
Nonexpendable	8,451,493	7,783,505	8.6%
Expendable	27,333,149	21,606,188	26.5%
Unrestricted	199,022	(2,298,617)	(108.7%)
Total net assets	<u><u>\$173,059,531</u></u>	<u><u>\$162,531,046</u></u>	6.5%





This schedule is prepared from the System's Statement of Net Assets which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Overall, the System's financial position has improved. The total net assets of the System increased by \$10.1 million, an increase of 6%. The consumption of assets follows the System's philosophy to use available resources to acquire and improve all areas of the System's institutions, to better serve the instruction, research, and public service missions of the institutions.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets, as presented on the Statement of Net Assets, are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received and expenses paid by the System's institutions for both operating and nonoperating purposes. The statement includes any other revenues, gains, expenses or losses that were realized or incurred by the institutions during the fiscal year.

The operating revenues are received for providing goods and services to the various customers and constituencies of the institutions. The operating expenses are those expenses incurred to acquire or produce the goods and services that are provided in return for the operating revenues that are received to carry out the missions of the institutions. Nonoperating revenues are revenues received for which goods and services are not provided in an exchange for the revenues received. For example, state appropriations are considered nonoperating because they are provided by the legislature to the institutions even though the legislature does not receive, directly in return, goods and services for those revenues.

**Statement of Revenues, Expenses,
and Changes in Net Assets
For the Fiscal Years Ended
June 30, 2006 and 2005**

	2006	2005	Percent Change
Operating revenues			
Student tuition and fees, net of scholarship allowances	\$35,079,200	\$37,186,718	(5.7%)
Federal appropriations	2,556,565	2,424,681	5.4%
Federal grants and contracts	62,496,176	65,054,715	(3.9%)
State and local grants and contracts	2,109,828	2,119,786	(0.5%)
Nongovernmental grants and contracts	5,000		100.0%
Sales and services of educational departments	614	2,494	(75.4%)
Auxiliary revenues, net of scholarship allowances	13,880,403	13,405,788	3.5%
Other operating revenues	3,958,979	4,708,470	(15.9%)
Total operating revenues	<u>120,086,765</u>	<u>124,902,652</u>	(3.9%)
Nonoperating revenues			
State appropriations	77,402,673	78,795,845	(1.8%)
Gifts	2,242,800	1,016,413	120.7%
Investment income	1,276,776	902,635	41.4%
Other nonoperating revenues	4,275,556	4,317,779	(1.0%)
Other nonoperating revenues - FEMA	7,850,936		100.0%
Total nonoperating revenues	<u>93,048,741</u>	<u>85,032,672</u>	9.4%
Total revenues	<u>213,135,506</u>	<u>209,935,324</u>	1.5%

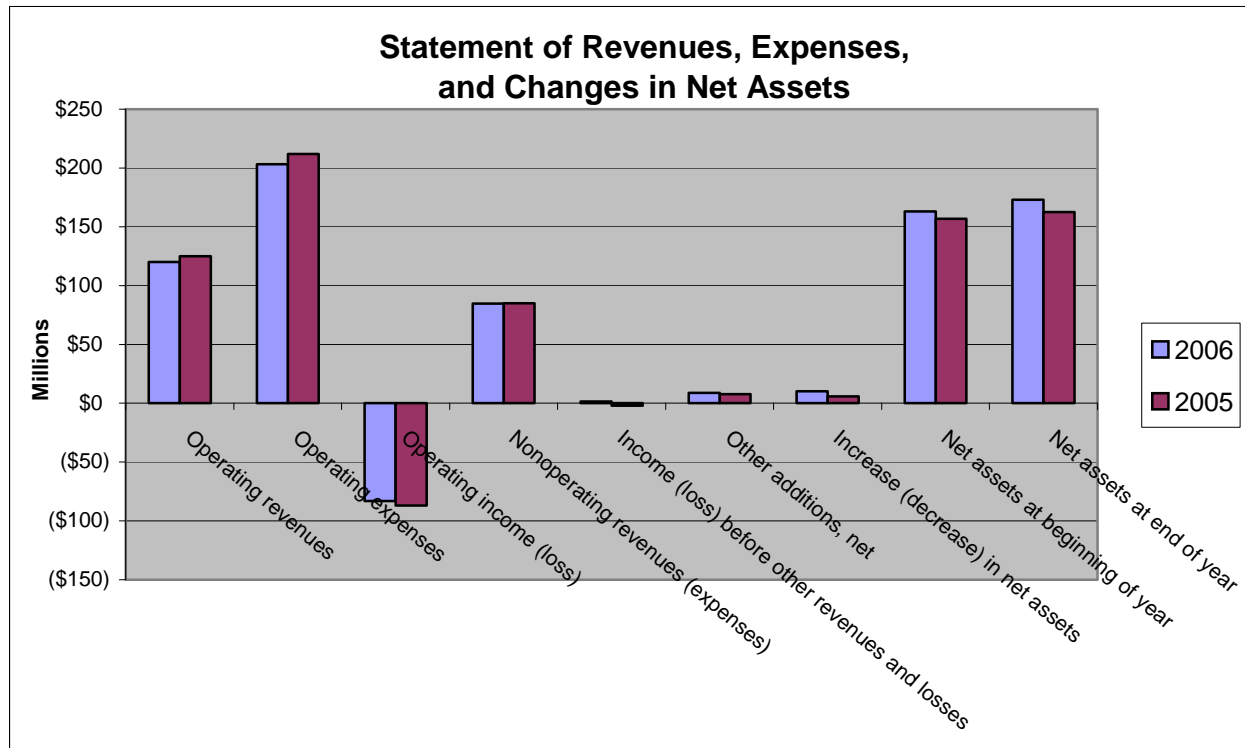
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005	Percent Change
Operating Expenses			
Educational and general			
Instruction	\$52,281,220	\$56,233,317	(7.0%)
Research	8,030,657	6,382,721	25.8%
Public service	6,268,280	6,841,595	(8.4%)
Academic support	27,627,949	28,252,955	(2.2%)
Student services	17,109,549	15,650,467	9.3%
Institutional support	34,663,443	35,148,534	(1.4%)
Operation and maintenance of plant	15,130,533	17,095,228	(11.5%)
Depreciation	8,402,263	8,475,605	(0.9%)
Scholarships and fellowships	19,380,961	23,349,706	(17.0%)
Auxiliary enterprises	14,919,583	13,886,327	7.4%
Other operating expenses	(575,753)	579,452	(199.4%)
Total operating expenses	<u>203,238,685</u>	<u>211,895,907</u>	(4.1%)
Nonoperating Expenses			
Interest expense	46,702	53,938	(13.4%)
Other nonoperating expenses - FEMA	8,379,620		100.0%
Net nonoperating expenses	<u>8,426,322</u>	<u>53,938</u>	15,522.2%
Total expenses	<u>211,665,007</u>	<u>211,949,845</u>	(0.1%)
Income (loss) before other revenues and losses	<u>1,470,499</u>	<u>(2,014,521)</u>	173.0%
Capital appropriations	10,451,506	4,272,856	144.6%
Capital grants and gifts	1,492,380	1,056,594	41.2%
Additions to permanent endowment	782,019	989,696	(21.0%)
Other additions, net		1,459,556	(100.0%)
Extraordinary items - loss on impairment of capital assets	<u>(4,051,112)</u>		100.0%
Other revenues and losses	<u>8,674,793</u>	<u>7,778,702</u>	11.5%
Change in net assets	10,145,292	5,764,181	76.0%
Net assets at beginning of year, restated	<u>162,914,239</u>	<u>156,766,865</u>	3.9%
Net assets at end of year	<u><u>\$173,059,531</u></u>	<u><u>\$162,531,046</u></u>	6.5%

(Concluded)



The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with a \$10.1 million increase in net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Beginning the 2001 fall semester, Southern University and Agricultural and Mechanical College at Baton Rouge implemented selective admission. As expected, the University experienced a modest decline in enrollment. Anticipating this decline, budget adjustments were made to offset the reduction in revenues to maintain a balanced budget. The impact resulting from the budget reductions that were made still poses challenges in the management process, even though the enrollment decline has been stabilized and the University is now experiencing an increase in enrollment.
- The Agricultural Research and Extension Center was appropriated \$950,000 by the state from the tobacco funds to support youth programs, the SU Museum of Art, and the historical district.

Capital Assets and Long-Term Debt Activity

The combined total of capital assets, net of accumulated depreciation at year-end, is \$137,382,573.

The Southern University System's institutions retired \$48,353 in bonds payable during the fiscal year. The System did not enter into any new long-term debt during the year. The total amount of long-term debt is \$12,282,306. Included in that sum are the following:

- Compensated Absences Payable - \$12,026,953
- Bonds and Reimbursement Contracts Payable - \$255,353

For additional information concerning Capital Assets and Long-term Debt Activity, refer to notes 6, 13, and 14 in the Notes to the Financial Statements.

Economic Outlook - Short-Term

The Southern University System has three geographically distinct institutions which include the Southern University and Agricultural and Mechanical College, Southern University Law Center, and Southern University Agricultural Research and Extension Center in Baton Rouge; Southern University at New Orleans; and Southern University at Shreveport. The Southern University at New Orleans campus suffered damages because of Hurricane Katrina.

The System's overall financial position is strong. Even with relatively flat funding from state sources for the fiscal year 2006 and a decrease in enrollment, the System had a modest increase in net assets. Except for the effects of the devastation caused by Hurricane Katrina, the System's management anticipates that fiscal year 2007 will be much like fiscal year 2006. Management will maintain a close watch over available resources of the System to ensure the System's ability to react to unknown internal and external issues in a timely manner.

Implementation of Enrollment Management Programs and Activities

Aggressive steps have been taken to implement enrollment management programs and activities at each of the institutions that have academic programs. Assistance in the form of financial support and professional consultants has been provided to the four-year institutions to aid in the achievement of designated enrollment management goals.

Economic Outlook - Long-Term

There was concern within the University System regarding adequate and continuous funding to support programs that were implemented under the United States versus State of Louisiana Desegregation Settlement Agreement. The Southern University System received \$4.1 million to support implementation of the programs during fiscal year 2006. The funds were distributed among the Southern University System - Board and Administration, Southern University Agricultural and Mechanical College, and Southern University at New Orleans in the amounts of

\$109,331, \$2,433,725, and \$1,556,944, respectively. Even though the Agreement ended on the 31st day of December 2005, continuous funding of the programs was provided by the state in the appropriation process for the 2006-2007 fiscal year.

A major portion of the Agricultural Research and Extension Center's base funding comes from a federal appropriation that has a state match requirement. Currently, both the amount of the federal appropriation and the percent of matching requirement established by the federal government have remained stable. The matching requirement has gone from zero dollars in fiscal year 1999 to not less than 50% of the federal funds currently received for agricultural research, extension, and education.

An agreement which had been reached between the state's land-grant institutions for settling land grant issues relative to programs and funding was approved at all required levels on the 10th day of May 2006. The funding for the Agricultural Research and Extension Center will be enhanced.

On December 13, 2006, the Southern University System obtained \$59,990,000 in financing for various capital projects through a third-party financing arrangement with its affiliate, the Southern University System Foundation.

The Southern University System is eager to implement an up-to-date comprehensive computerized accounting System known as BANNER, on all of the campuses. BANNER, which was developed by SunGard SCT, consists of the Financial, Human Resource (HR)/Payroll and Student/Financial Aid components. The entire group of BANNER applications is scheduled to be implemented within a three-year time frame. Currently, the Student and Financial Aid components have been implemented on the Shreveport campus. These components will be implemented individually on the three major campus sites; however, the Financial and HR/Payroll will be housed on the Baton Rouge campus computer and made accessible to all campuses throughout the Southern University System.

Impact of Hurricane Katrina

The Southern University at New Orleans campus suffered major damages to its facilities during Hurricane Katrina. The campus was closed for the fall semester of 2005. The Southern University System assisted the students at the New Orleans campus by allowing those that were eligible the opportunity to attend classes at the Baton Rouge and Shreveport campuses.

The State of Louisiana, Division of Administration, Office of Facility Planning and Control (OFP&C) has estimated the damages to all 11 buildings on the New Orleans campus to be approximately \$18,503,620. OFP&C has stated, "The intent . . . is to restore each building to its condition just prior to Hurricane Katrina." In the meantime, the University is housed in and operating from temporary trailer facilities, which were provided by the Federal Emergency Management Authority (FEMA). The trailer facilities are located on the University's North Campus. The student enrollment for the fall 2006 semester is 2,453.

The Southern University System and Campus' Administration are firmly committed to the process of rebuilding Southern University at New Orleans.

Contacting the Southern University System's Management

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of the Southern University System's finances and to show the Southern University System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Tolor White, System Vice President of Finance and Business Affairs and Comptroller at Southern University and Agricultural and Mechanical College, 4th Floor, J.S. Clark Administration Building, Baton Rouge, Louisiana 70813, phone number 225-771-5550.

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**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

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

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$19,513,697
Receivables, net (note 4)	31,024,014
Due from state treasury	754,516
Inventories	309,904
Deferred charges and prepaid expenses	831,323
Notes receivable, net (note 5)	502,208
Other current assets	35,195
Total current assets	<u>52,970,857</u>

Noncurrent assets:

Restricted cash and cash equivalents (note 2)	21,303,881
Restricted investments (note 3)	4,861,627
Capital assets, net (note 6)	<u>137,382,573</u>
Total noncurrent assets	<u>163,548,081</u>
Total assets	<u>216,518,938</u>

LIABILITIES

Current liabilities:

Accounts payable and accruals (note 12)	18,744,100
Deferred revenues (note 11)	8,392,341
Compensated absences (note 10)	593,808
Amounts held in custody for others	1,099,008
Bonds payable - current portion (notes 13 and 14)	44,000
Reimbursement contracts payable - current portion (notes 13 and 14)	7,353
Other current payables	2,296,491
Total current liabilities	<u>31,177,101</u>

Noncurrent liabilities:

Compensated absences (note 10)	12,026,953
Bonds payable (notes 13 and 14)	248,000
Reimbursement contracts payable (notes 13 and 14)	7,353
Total noncurrent liabilities	<u>12,282,306</u>
Total liabilities	<u>43,459,407</u>

(Continued)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, 2006**

NET ASSETS

Invested in capital assets, net of related debt	\$137,075,867
Restricted for:	
Nonexpendable (note 16)	8,451,493
Expendable (note 16)	27,333,149
Unrestricted	<u>199,022</u>
TOTAL NET ASSETS	<u><u>\$173,059,531</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA****SOUTHERN UNIVERSITY SYSTEM FOUNDATION
Statement of Financial Position
December 31, 2005****ASSETS**

Current assets:

Cash and cash equivalents	\$1,065,915
Certificates of deposit	283,216
Receivables (net allowance of \$178,000) (note 4)	916,460
Due from affiliate	13,399
Due from Millennium Housing, LLC (note 24)	3,253,664
Unconditional promises to give (net allowance of \$24,700)	211,589
Other assets	15,546

Restricted assets:

Cash and cash equivalents	1,258,936
Certificates of deposit	389,363
Investments (note 3)	2,865,244
Total current assets	<u>10,273,332</u>

Noncurrent assets:

Unconditional promises to give	20,000
Fixed assets (net of accumulated depreciation of \$834,558) (note 6)	2,508,245
Total noncurrent assets	<u>2,528,245</u>

TOTAL ASSETS\$12,801,577**LIABILITIES**

Current liabilities:

Accounts payable and accrued liabilities	\$1,177,947
Accrued interest payable	31,548
Payroll taxes payable	420
Due to affiliate (note 21)	3,479,425
Line of credit	670,000
Notes payable (note 13)	1,666,925
Bonds payable - current portion (note 14)	170,000
Total current liabilities	<u>7,196,265</u>

(Continued)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
SOUTHERN UNIVERSITY SYSTEM FOUNDATION
Statement of Financial Position, 2005**

LIABILITIES (CONT.)

Noncurrent liabilities:

Notes payable (note 13)	\$228,917
Bonds payable (note 14)	1,190,000
Total noncurrent liabilities	<u>1,418,917</u>
Total liabilities	<u>8,615,182</u>

NET ASSETS

Unrestricted	207,280
Temporarily restricted	2,412,141
Permanently restricted	1,566,974
Total net assets	<u>4,186,395</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$12,801,577</u></u>
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(Concluded)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY 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	\$49,519,884
Less scholarship allowances	<u>(14,440,684)</u>
Net student tuition and fees	35,079,200
Federal appropriations	2,556,565
Federal grants and contracts	62,496,176
State and local grants and contracts	2,109,828
Nongovernmental grants and contracts	5,000
Sales and services of educational departments	614
Auxiliary enterprise revenues (including revenues pledged to secure debt per note 14)	14,515,651
Less scholarship allowances	<u>(635,248)</u>
Net auxiliary revenues	13,880,403
Other operating revenues	<u>3,958,979</u>
Total operating revenues	<u>120,086,765</u>

OPERATING EXPENSES

Educational and general:	
Instruction	52,281,220
Research	8,030,657
Public service	6,268,280
Academic support	27,627,949
Student services	17,109,549
Institutional support	34,663,443
Operation and maintenance of plant	15,130,533
Depreciation	8,402,263
Scholarships and fellowships	19,380,961
Auxiliary enterprises	14,919,583
Other operating expenses	<u>(575,753)</u>
Total operating expenses	<u>203,238,685</u>

OPERATING LOSS	<u>(83,151,920)</u>
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(Continued)

The accompanying notes are an integral part of this statement.

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

NONOPERATING REVENUES (Expenses)

State appropriations	\$77,402,673
Gifts	2,242,800
Investment income	1,276,776
Interest expense	(46,702)
Other nonoperating revenues	4,275,556
Other nonoperating revenues - FEMA	7,850,936
Other nonoperating expenses - FEMA	(8,379,620)
Net nonoperating revenues	<u>84,622,419</u>

Income before other revenues and losses 1,470,499

Capital appropriations	10,451,506
Capital grants and gifts	1,492,380
Additions to permanent endowment	782,019
Extraordinary item - loss on impairment of capital assets (note 25)	<u>(4,051,112)</u>

INCREASE IN NET ASSETS 10,145,292

NET ASSETS - BEGINNING OF YEAR (Restated) (note 17) 162,914,239

NET ASSETS - END OF YEAR \$173,059,531

(Concluded)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**SOUTHERN UNIVERSITY SYSTEM FOUNDATION
Statement of Activities
For the Year Ended December 31, 2005**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES AND OTHER SUPPORT				
Contributions and other support	\$33,550	\$321,063	\$27,190	\$381,803
Scoreboard sponsorships		290,000		290,000
Athletic sponsorships and support		244,520		244,520
Interest income	25,666	10,331		35,997
Other income	45,951	14,920		60,871
Bayou Classic revenues	1,720,718			1,720,718
Other program support		237,158		237,158
In-kind revenue (note 23)	164,124			164,124
Net assets released from restrictions - satisfaction of program restrictions	900,960	(900,960)		
Total revenues and other support	2,890,969	217,032	27,190	3,135,191
EXPENSES				
Program	2,552,451			2,552,451
General	249,164			249,164
Fundraising	2,155			2,155
Total expenses	2,803,770	NONE	NONE	2,803,770
Changes in net assets	87,199	217,032	27,190	331,421
Net assets - beginning of year	120,081	2,195,109	1,539,784	3,854,974
Net assets - end of year	\$207,280	\$2,412,141	\$1,566,974	\$4,186,395

The accompanying notes are an integral part of this statement.

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**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

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

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$34,667,817
Federal appropriations	2,556,565
Grants and contracts	61,718,370
Payments to suppliers	(32,288,036)
Payments for utilities	(8,603,930)
Payments to employees	(102,060,442)
Payments for benefits	(27,292,249)
Payments for scholarships and fellowships	(27,158,906)
Loans issued to students and employees	(502,357)
Payments on loans issued to students and employees	715,456
Auxiliary enterprise charges	12,831,614
Sales and services of educational departments	614
Other receipts	3,761,416
Net cash used by operating activities	<u>(81,654,068)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	76,648,157
Gifts and grants for other than capital purposes	2,242,800
Private gifts for endowment purposes	782,019
TOPS receipts	1,755,038
TOPS disbursements	(1,736,922)
Federal Family Education Loan program receipts	76,963,198
Federal Family Education Loan program disbursements	(76,963,198)
Other receipts	7,174,286
Net cash provided by noncapital financing sources	<u>86,865,378</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants and gifts received	1,492,380
Purchases of capital assets	(3,887,169)
Principal paid on capital debt and leases	(48,353)
Interest paid on capital debt and leases	(24,441)
Net cash used by capital financing activities	<u>(2,467,583)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	5,149,259
Interest received on investments	1,248,566
Purchase of investments	(5,415,062)
Net cash provided by investing activities	<u>982,763</u>

(Continued)

The accompanying notes are an integral part of this statement.

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

Net increase in cash and cash equivalents	\$3,726,490
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>37,091,088</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$40,817,578</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	(\$83,151,920)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	8,402,263
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(6,922,814)
(Increase) in notes receivable	(36,373)
(Increase) in inventories	(55,002)
(Increase) in prepaid expenses	(137,465)
Decrease in other assets	100,530
(Decrease) in accounts payable	(1,461,330)
Increase in deferred revenue	2,376,945
(Decrease) in compensated absences	(936,170)
Increase in other liabilities	<u>167,268</u>
Net cash used by operating activities	<u><u>(\$81,654,068)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS	
Cash and cash equivalents classified as current assets	\$19,513,697
Cash and cash equivalents classified as noncurrent assets	<u>21,303,881</u>
Cash and cash equivalents at the end of the year	<u><u>\$40,817,578</u></u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Loss on disposal of capital assets	\$151,120
Capital appropriations for construction of capital assets	10,431,394
Net increase in the fair value of investments	231,789
Impairment loss on capital assets	4,051,112

(Concluded)

The accompanying notes are an integral part of this financial statement.

INTRODUCTION

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

In April 1880, Southern University was chartered by the General Assembly of the State of Louisiana. The first site of the university was in New Orleans on Calliope Street and the university opened on March 7, 1881, with 12 students. In 1890, an Agriculture and Mechanical Department was established, and in 1891, Southern University was recognized by the federal government as a Land Grant College under the Federal Act of 1890, known as the Second Morrill Act. In 1914, Southern University in New Orleans was closed by legislative authorization, and Southern University was opened in Scotlandville, Louisiana. It is now the Southern University System, composed of campuses located in Baton Rouge, New Orleans, and Shreveport and is managed by the Southern University Board of Supervisors. The New Orleans and Shreveport campuses were established in September 1959 and September 1967, respectively.

The universities offer numerous bachelor degrees in the areas of agriculture, arts and humanities, business, education, science, engineering, and home economics. In addition, master degrees are offered in the Graduate School and Jurist Doctorate degrees are offered through the university's Law Center. During the summer, fall, and spring semesters of the 2005-2006 fiscal year, the university conferred 2,095 degrees and student enrollment was 31,740. Southern University has 675 full-time and adjunct faculty members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

The System applies all GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. 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 a nonprofit corporation, the Southern University System Foundation, as a discrete component unit. The Foundation has adopted the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, the accounting and presentation criteria for the Foundation are in accordance with FASB 117, which may differ from GASB.

B. REPORTING ENTITY

Using the criteria in GASB Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The university System is considered a discretely presented component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the System primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of the Southern University System.

Annually, the State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

The Southern University System Foundation (Foundation) is being included as a discretely presented component unit of the System in the System's financial statements, in accordance with the criteria outlined in GASB Statement No. 14, as amended by GASB Statement No. 39. The Foundation is a nonprofit corporation organized to promote the educational and cultural welfare of the Southern University and Agricultural and Mechanical College System and to develop, expand, and improve the System's facilities.

Other external auditors audited the Foundation for the year ended December 31, 2005. To obtain a copy of the audit report, write to:

Southern University System Foundation
Post Office Box 2468
Baton Rouge, Louisiana 70821

C. BASIS OF ACCOUNTING

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities (enterprise fund). Accordingly, the System's

financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting where the aim is to report all inflows, outflows, and balances affecting or reflecting an entity's net assets. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when a liability has been incurred, regardless of the timing of the related cash flows. All significant intra-agency transactions have been eliminated.

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 agencies of state government. The Joint Legislative Committee on the Budget grants budget revisions. 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

The System defines cash as cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include time deposits. 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 certificates of deposit, regardless of maturity. These terms are also used in preparing the Statement of Cash Flows. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent.

F. INVENTORIES

Inventories are valued at the lower of cost or market on the weighted-average basis. The System uses periodic and perpetual inventory systems and accounts for its inventories using the consumption method.

G. RESTRICTED CASH AND INVESTMENTS

Cash that is externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets is reported as noncurrent restricted assets. Noncurrent restricted investments consist of endowments

and similar type accounts for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity. Some cash and all investments are classified as noncurrent assets in the Statement of Net Assets.

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 maintained in investment accounts in the Foundation are authorized by policies and procedures established by the Board of Regents. Investments 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.

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 institution'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 is also 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. Library collections regardless of age with a total acquisition value of \$5 million or more will be capitalized and depreciated.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities before 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 that would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

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

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and reimbursement contracts payable with maturities greater than one year and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year. Revenue bonds payable are reported at face value.

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

The System provides certain continuing health care and life insurance benefits for its retired employees. The System recognizes the cost of providing these retiree benefits as an expense when paid during the year.

M. NET ASSETS

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

- (a) *Invested in capital assets, net of related debt* consists of the System's total investment in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) *Restricted - nonexpendable* consist of endowments and similar type funds for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

- (c) *Restricted - expendable* consist of resources that the System is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (d) *Unrestricted* consist of resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the System and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the System's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

N. CLASSIFICATION OF REVENUES AND EXPENSES

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.

The System has classified its expenses as either operating or nonoperating expenses according to the following criteria:

- (a) *Operating expenses* generally include transactions resulting from providing goods or services, such as (1) payments to vendors for goods or services; (2) payments to employees for services; and (3) payments for employee benefits.
- (b) *Nonoperating expenses* include transactions resulting from financing activities, capital acquisitions, and investing activities.

O. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for services (tuition and fees) provided by each university 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 Reporting for Impairment of Capital Assets and for Insurance Recoveries*; No. 46, *Net Assets Restricted by Enabling Legislation*; and No. 47, *Accounting for Termination Benefits*. Statement No. 47 had no impact on reporting for the System.

FOUNDATION

**ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

A. ORGANIZATION AND PURPOSE

The Southern University System Foundation (Foundation) is a nonprofit corporation organized to promote the educational and cultural welfare of the Southern University and Agricultural and Mechanical College System and to develop, expand, and improve the university's facilities.

B. TAX EXEMPTION STATUS

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

C. BASIS OF REPORTING

The Foundation is a nonprofit organization whose financial statements are prepared on the accrual basis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. FINANCIAL STATEMENT PRESENTATION

The Foundation has adopted the provision of FASB's Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net assets categories according to external (donor) imposed restrictions.

A description of the three net asset categories is as follows:

Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the missions of the Foundation are included in this category.

Temporarily restricted net assets include realized gains and losses, investment income, and gifts and contributions for which donor-imposed restrictions (capital improvements, et cetera) have not been met.

Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until used for donor-imposed restrictions.

E. PROMISES TO GIVE

Unconditional promises to give are recognized as contribution revenue and receivables in the period in which the promise is received. Promises to give are recorded at net realizable value if they are expected to be collected in one year and at the present value of their estimated future cash flows if they are expected to be collected in more than one year. The discounts on those amounts are computed using risk free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

F. INVESTMENT AND INVESTMENT INCOME

Investments in equity securities and mutual funds are measured at fair value in the Statement of Financial Position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is recorded as an increase in the due to affiliate liability account as the investments are held on behalf of the university.

G. CONTRIBUTIONS

The Foundation accounts for contributions in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in

the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Unconditional promises to give cash and other assets to the Foundation are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift is received.

H. CASH AND CASH EQUIVALENTS

Cash of the Foundation consists solely of demand deposits and a money market account that is secured by federal deposit insurance. All highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

I. FIXED ASSETS

Fixed assets of the Foundation are recorded as assets and are stated at historical cost if purchased, or at fair value at the date of the gift, if donated. Additions, improvements, and expenditures that significantly extend the useful life of an asset are capitalized. The Foundation follows the practice of capitalizing all fixed asset purchases that exceed \$1,000.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are five to 39 years.

J. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

K. RESTRICTED ASSETS

Cash and cash equivalents, certificates of deposit, and investments that are held on behalf of the university are classified as restricted assets in the Statement of Financial Position.

L. NONCURRENT LIABILITIES

Noncurrent liabilities include principal amounts of revenue bonds payable and notes payable with contractual maturities greater than one year.

2. CASH AND CASH EQUIVALENTS

At June 30, 2006, the System has cash and cash equivalents (book balances) totaling \$40,817,578 as follows:

Demand deposits:	
Noninterest-bearing	\$30,693,365
Interest-bearing	2,892,556
Time certificates of deposit	7,229,457
Petty cash	<u>2,200</u>
Total	<u><u>\$40,817,578</u></u>

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

Current assets	\$19,513,697
Noncurrent assets - restricted	<u>21,303,881</u>
Total	<u><u>\$40,817,578</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. The System does not have a formally adopted policy that addresses custodial credit risk of deposits. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. At June 30, 2006, the System has \$7,917,323 in deposits (collected bank balances) that are uninsured and uncollateralized because the collateral was held by a custodial bank in the name of the pledging bank, and not in the name of the university. The System intends to obtain an enforceable security interest in the collateral.

FOUNDATION CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. Cash and cash equivalents exceeded federally insured limits by \$2,513,347 as of December 31, 2005.

3. INVESTMENTS

At June 30, 2006, the System has investments (noncurrent - restricted assets) totaling \$4,861,627 as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Fair Value June 30, 2006	Investment Maturities (Years)	Credit Quality Rating
Investments held by private foundation:			
Mutual funds (debt securities)	\$92,022	5.9	
U.S. government securities	625,878	6.8	
Equities	<u>3,147,742</u>	Not Applicable	
Subtotal - external investment pool	3,865,642		Not Rated
U.S. government securities	57,598	0.3	Not Applicable
Mutual funds (equities)	591,469	Not Applicable	Not Applicable
Mutual funds (debt securities)	303,978	7.9	Not Rated
Money market fund	<u>42,940</u>	Not Applicable	Not Rated
 Total	 <u><u>\$4,861,627</u></u>		

There is no formally adopted investment policy regarding interest rate risk.

The investments in U.S. government securities totaling \$57,598 are exposed to custodial credit risk since the securities are uninsured, not registered in the name of the System, and are held by the counterparty. There is no formally adopted investment policy regarding custodial credit risk.

These investments are reported at fair value as required by GASB Statement No. 31. Investments held by the foundation are in an external investment pool, which is not SEC registered, but is managed in accordance with the terms outlined in a management agreement executed between the System and the Foundation. The System is a voluntary participant in the agreement and the fair value of the System's position in the pool is equal to the value of the pool shares.

The investments held by private foundations totaling \$3,865,642 are held pursuant to the Eminent Scholars and Endowed Professorships Program. For that program, the investment policy established by the Louisiana Board of Regents limits the investment of fixed income securities to a maximum investment of 15% in quality ratings between AA and BB, while the overall average quality must be at least AA. For the remaining investments, there is no formally adopted investment policy regarding the acceptable credit quality of investments.

FOUNDATION INVESTMENTS

Investments as of December 31, 2005, and held on behalf of the university are summarized as follows:

	<u>Cost</u>	<u>Fair/Carrying Value</u>
Temporarily and permanently restricted - equity and fixed income	\$1,789,013	\$2,865,244

4. RECEIVABLES

Receivables are shown on Statement A, net of an allowance for doubtful accounts, as follows:

	<u>Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Receivables, Net</u>
Student tuition and fees	\$4,213,982	\$1,059,791	\$3,154,191
Auxiliary enterprises	1,884,286	19,068	1,865,218
Federal, state, and private grants and contracts	23,767,587		23,767,587
Accrued interest receivable	42,442		42,442
Other	<u>2,244,770</u>	<u>50,194</u>	<u>2,194,576</u>
Total	<u>\$32,153,067</u>	<u>\$1,129,053</u>	<u>\$31,024,014</u>

There is no noncurrent portion of accounts receivable.

FOUNDATION RECEIVABLES

Receivables consist of amounts due from Bayou Classic related events as well as an amount due from a third party which resulted from a questionable transaction. An allowance for doubtful collections has also been recorded for the entire balance of the amount due from the third party.

Receivables consist of the following:

Bayou Classic related events	\$916,460
Third party	<u>178,000</u>
Subtotal	1,094,460
Less - allowance for doubtful collections	<u>(178,000)</u>
Receivables net of allowance for doubtful accounts	<u>\$916,460</u>

5. NOTES RECEIVABLE

Notes receivable are comprised of loans to students under the Federal Perkins Loan program and Student Government Association loans. Loans are no longer issued under the Federal Perkins Loan program, but collections are still made on outstanding loans. Student Government Association loans are funded from self-assessed student fees and are available to qualified students for books and emergency financial needs.

Notes receivable are shown on Statement A, net of an allowance for doubtful accounts, at June 30, 2006. These receivables are composed of the following:

	Notes Receivable	Allowance for Doubtful Accounts	Notes Receivable, Net
Federal Perkins Loan program	\$2,191,204	\$2,191,204	
Student Government Association loans	502,358	150	\$502,208
Long-term student loans (Shreveport)	102,348	102,348	
Total	<u>\$2,795,910</u>	<u>\$2,293,702</u>	<u>\$502,208</u>

6. CHANGES IN CAPITAL ASSETS

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

	Restated Balance June 30, 2005	Adjustment	Adjusted Balance July 1, 2005
Capital assets not being depreciated:			
Land	\$6,921,846	(\$3,056,770)	\$3,865,076
Construction-in-progress	13,075,061	210,267	13,285,328
Total capital assets not being depreciated	<u>\$19,996,907</u>	<u>(\$2,846,503)</u>	<u>\$17,150,404</u>
Capital assets being depreciated:			
Infrastructure	\$23,184,000		\$23,184,000
Less accumulated depreciation	(22,140,720)		(22,140,720)
Total infrastructure	<u>1,043,280</u>	<u>NONE</u>	<u>1,043,280</u>
Land improvements	3,269,008	\$1,050,606	4,319,614
Less accumulated depreciation	(2,554,697)	(597,636)	(3,152,333)
Total land improvements	<u>714,311</u>	<u>452,970</u>	<u>1,167,281</u>
Buildings	212,595,533	(1,166,000)	211,429,533
Less accumulated depreciation	(106,523,359)	1,166,598	(105,356,761)
Total buildings	<u>106,072,174</u>	<u>598</u>	<u>106,072,772</u>
Equipment	27,000,973	816,968	27,817,941
Less accumulated depreciation	(20,001,648)	(448,078)	(20,449,726)
Total equipment	<u>6,999,325</u>	<u>368,890</u>	<u>7,368,215</u>
Library books	118,870,669	(798,194)	118,072,475
Less accumulated depreciation	(117,901,637)	2,695,714	(115,205,923)
Total library books	<u>969,032</u>	<u>1,897,520</u>	<u>2,866,552</u>
Total capital assets being depreciated	<u>\$115,798,122</u>	<u>\$2,719,978</u>	<u>\$118,518,100</u>
Capital assets summary:			
Capital assets not being depreciated	\$19,996,907	(\$2,846,503)	\$17,150,404
Capital assets being depreciated	<u>384,920,183</u>	<u>(96,620)</u>	<u>384,823,563</u>
Total cost of capital assets	404,917,090	(2,943,123)	401,973,967
Less accumulated depreciation	<u>(269,122,061)</u>	<u>2,816,598</u>	<u>(266,305,463)</u>
Capital assets, net	<u>\$135,795,029</u>	<u>(\$126,525)</u>	<u>\$135,668,504</u>

NOTES TO THE FINANCIAL STATEMENTS

Additions	Transfers	Retirements	Impairment Loss	Balance June 30, 2006
				\$3,865,076
\$10,431,424	(\$10,819,599)			12,897,153
<u>\$10,431,424</u>	<u>(\$10,819,599)</u>	<u>NONE</u>	<u>NONE</u>	<u>\$16,762,229</u>
	\$1,665,703			\$24,849,703
(\$215,523)				(22,356,243)
<u>(215,523)</u>	<u>1,665,703</u>	<u>NONE</u>	<u>NONE</u>	<u>2,493,460</u>
				4,319,614
(94,841)				(3,247,174)
<u>(94,841)</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>1,072,440</u>
	9,153,896		(\$3,119,637)	217,463,792
(4,747,005)				(110,103,766)
<u>(4,747,005)</u>	<u>9,153,896</u>	<u>NONE</u>	<u>(3,119,637)</u>	<u>107,360,026</u>
2,545,657		(\$1,998,720)	(262,455)	28,102,423
<u>(2,229,727)</u>		<u>1,847,600</u>	<u>99,663</u>	<u>(20,732,190)</u>
315,930	<u>NONE</u>	(151,120)	(162,792)	7,370,233
1,341,483		(297,127)	(31,131,407)	87,985,424
<u>(1,115,167)</u>		<u>297,127</u>	<u>30,362,724</u>	<u>(85,661,239)</u>
<u>226,316</u>	<u>NONE</u>	<u>NONE</u>	<u>(768,683)</u>	<u>2,324,185</u>
<u>(\$4,515,123)</u>	<u>\$10,819,599</u>	<u>(\$151,120)</u>	<u>(\$4,051,112)</u>	<u>\$120,620,344</u>
\$10,431,424	(\$10,819,599)			\$16,762,229
3,887,140	10,819,599	(\$2,295,847)	(\$34,513,499)	362,720,956
14,318,564	<u>NONE</u>	(2,295,847)	(34,513,499)	379,483,185
<u>(8,402,263)</u>	<u>NONE</u>	<u>2,144,727</u>	<u>30,462,387</u>	<u>(242,100,612)</u>
<u>\$5,916,301</u>	<u>NONE</u>	<u>(\$151,120)</u>	<u>(\$4,051,112)</u>	<u>\$137,382,573</u>

FOUNDATION FIXED ASSETS

Land, building, and equipment as of December 31, 2005, are summarized as follows:

Land and improvements	\$555,193
Building	172,125
Office equipment	15,330
Scoreboard equipment	2,555,610
Furniture and fixtures	44,545
Sub-total	<u>3,342,803</u>
Less - accumulated depreciation	<u>(834,558)</u>
Total	<u><u>\$2,508,245</u></u>

Depreciation expense totaled \$261,174 for the year ended December 31, 2005.

7. PENSION PLANS

Plan Description. Substantially all employees of the System are members of two statewide, public-employee retirement systems. Academic employees are generally members of the Teachers' Retirement System of Louisiana (TRSLA), and classified/unclassified state employees are generally members of the Louisiana State Employees' Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSLA is a cost-sharing, multiple-employer defined benefit pension plan 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. TRSLA and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after five years of service for TRSLA and after 10 years of service for LASERS. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees' Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of employee plan members and 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% (TRSLA) and 7.5% (LASERS) of covered salaries. For fiscal year 2006, the state is required to contribute 15.9% of covered salaries to TRSLA and 19.1% of covered salaries to LASERS. The State of Louisiana, through the annual appropriation to each university, funds the employer contribution. The employer contributions to TRSLA for the years ended June 30, 2006, 2005, and 2004, were \$7,098,633; \$7,073,853; and

\$6,109,240, respectively, and to LASERS for the years ended June 30, 2006, 2005, and 2004, were \$4,559,946; \$4,548,788; and \$3,883,734, respectively, equal to the required contributions for each year.

8. OPTIONAL RETIREMENT PLAN

TRSLA administers an optional retirement plan, which was created by R.S. 11:921-931 for academic and administrative employees of public institutions of higher education. This plan was designed to aid universities in recruiting employees who may not be expected to remain in the TRSLA for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

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

R.S. 11:927 sets the contribution requirements of the plan members and the System equal to the contribution rates established for the regular retirement plan of TRSLA. Total contributions by the System are 15.9% of the covered payroll. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the System. Benefits payable to participants are not the obligation of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$3,290,113 and \$1,665,392, 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 university. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the 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. Benefits for 631 retirees totaled \$3,451,052 for the year ended June 30, 2006.

10. COMPENSATED ABSENCES

At June 30, 2006, employees of the System have accumulated and vested annual leave, sick leave, and compensatory leave of \$8,258,372, \$4,251,846, and \$110,543, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

11. DEFERRED REVENUES

The following is a summary of deferred revenues at June 30, 2006:

<u>Account Name</u>	<u>Amount</u>
Prepaid tuition and fees	\$2,291,758
Prepaid athletic ticket sales	276,296
Prepaid room and board	135,510
Grants and contracts	<u>5,688,777</u>
Total deferred revenues	<u><u>\$8,392,341</u></u>

12. ACCOUNTS PAYABLE AND ACCRUALS

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

<u>Account Name</u>	<u>Amount</u>
Vendor payables	\$9,179,868
Accrued salaries and payroll deductions	6,218,914
Other	<u>3,345,318</u>
Total payables	<u><u>\$18,744,100</u></u>

13. LONG-TERM LIABILITIES

The following is a summary of bonds and reimbursement contracts payable and other long-term transactions of the System for the year ended June 30, 2006:

	<u>Balance, June 30, 2005</u>	<u>Reductions</u>	<u>Balance, June 30, 2006</u>	<u>Amounts Due Within One Year</u>
Revenue bonds payable	\$333,000	\$41,000	\$292,000	\$44,000
Reimbursement contract payable	22,059	7,353	14,706	7,353
Compensated absences payable (note 10)	<u>13,556,930</u>	<u>936,169</u>	<u>12,620,761</u>	<u>593,808</u>
Total long-term liabilities	<u><u>\$13,911,989</u></u>	<u><u>\$984,522</u></u>	<u><u>\$12,927,467</u></u>	<u><u>\$645,161</u></u>

FOUNDATION NOTES PAYABLE

The following is a summary of notes payable at December 31, 2005:

Note payable to a bank, secured by certain investments held by the Foundation, on behalf of the Southern University System, with an interest rate of 4.75% with a maturity date of March 31, 2006. The note calls for interest only payments until maturity.	\$1,600,000
Note payable to a bank, secured by the scoreboard equipment, with an interest rate of 7.5%, with a maturity date of February 15, 2007.	40,000
Unsecured note payable to a contractor, with an interest rate of 7.186%, with a maturity date of April 20, 2013.	<u>255,842</u>
Total notes payable	1,895,842
Less - current portion	<u>(1,666,925)</u>
Total long-term portion	<u>\$228,917</u>

Scheduled principal payments due on the above notes payable subsequent to December 31, 2005, are as follows:

<u>Year Ending December 31,</u>	
2006	\$1,666,925
2007	28,860
2008	30,934
2009	33,157
2010	35,539
Subsequent to 2010	<u>100,427</u>
Total	<u>\$1,895,842</u>

Interest expense for the year ended December 31, 2005, totaled \$29,403.

**14. BONDS AND REIMBURSEMENT
CONTRACTS PAYABLE**

Bonds and reimbursement contracts payable consisted of the following for the year ended June 30, 2006:

	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2005</u>
A.W. Mumford Stadium Track Resurfacing Revenue Bonds, Series 1993	November 1, 1993	\$650,000	\$333,000
Reimbursement Contract - Reroofing Dunn Hall	February 1, 1991	125,002	<u>22,059</u>
Total			<u><u>\$355,059</u></u>

The revenues of certain auxiliary enterprises are restricted by terms in the covenants of certain debt instruments. The Intercollegiate Athletic Facilities fee is used to secure the debt related to the A.W. Mumford Stadium Track Resurfacing Revenue Bonds, Series 1993. The total fees collected during the fiscal year were \$437,075. In addition, revenues from the operation of the cafeteria on the Baton Rouge campus are pledged as security for the reimbursement contract. Total revenues from the cafeteria during the fiscal year were \$4,924,773.

The scheduled maturities of the bonds and reimbursement contract at June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$51,353	\$21,274
2008	54,353	17,838
2009	51,000	14,089
2010	55,000	9,966
2011	35,000	6,416
2012-2014	<u>60,000</u>	<u>5,913</u>
Total	<u><u>\$306,706</u></u>	<u><u>\$75,496</u></u>

NOTES TO THE FINANCIAL STATEMENTS

<u>Redeemed</u>	<u>Outstanding June 30, 2006</u>	<u>Final Fiscal Year Maturity</u>	<u>Interest Rates</u>	<u>Interest Outstanding June 30, 2006</u>
\$41,000	\$292,000	2014	7.5-8.5%	\$75,496
<u>7,353</u>	<u>14,706</u>	2008		<u>NONE</u>
<u><u>\$48,353</u></u>	<u><u>\$306,706</u></u>			<u><u>\$75,496</u></u>

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

	Cash/ Investment Reserves Available	Reserve Requirements	Excess
A.W. Mumford track project	\$58,413	\$55,462	\$2,951

FOUNDATION REVENUE BONDS PAYABLE

On May 19, 2003, the Louisiana Local Government Environmental Facilities and Community Development Authority issued \$1,700,000 of Revenue Bonds, Series 2003 to the Foundation. The proceeds of the bonds were used for the purpose of funding a new entrance marquee and new athletic scoreboards on and adjacent to the campus of Southern University and Agricultural and Mechanical College and paying the costs of issuance of the Series 2003 bonds. The bond agreement provides for interest on the outstanding bonds at a rate of 5.64% per annum. The bonds are due in annual principal installments of \$170,000, beginning February 15, 2004, and ending February 15, 2007, with a balloon principal payment of \$1,190,000.

The requirements to amortize the bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>
2006	\$170,000
2007	<u>1,190,000</u>
Total	<u><u>\$1,360,000</u></u>

Interest expense for the year ended December 31, 2005, totaled \$79,101.

15. LEASE OBLIGATIONS

Operating Leases

For the year ended June 30, 2006, total operating lease expenditures was \$2,630,339. The following is a schedule by years of future minimum annual rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year as of June 30, 2006:

NOTES TO THE FINANCIAL STATEMENTS

Nature of Operating Lease	2007	2008	2009	2010	Total Minimum Payments Required
Office space	\$191,350	\$191,350	\$191,350	\$33,806	\$607,856
Equipment	567,077	192,728			759,805
Other	296,519	59,085	59,085		414,689
Total	<u>\$1,054,946</u>	<u>\$443,163</u>	<u>\$250,435</u>	<u>\$33,806</u>	<u>\$1,782,350</u>

The lease agreements have nonappropriation exculpatory clauses that allow lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period. The System has no capital leases.

Lessor Leases

The System's leasing operations consist primarily of leasing property for the purposes of providing food services to students and bookstore operations.

The following schedule provides an analysis of the cost and carrying amount of the System's investment in property on operating leases and property held for lease as of June 30, 2006:

Nature of Lease	Cost	Accumulated Depreciation	Carrying Amount
Office space	<u>\$3,323,546</u>	<u>\$2,503,277</u>	<u>\$820,269</u>

The following is a schedule of the minimum future rentals for the leases as of June 30, 2006:

Nature of Operating Lease	2007	2008	2009	2010	2011	2012	Total Minimum Future Rentals
Office space	\$977,940	\$972,040	\$35,000	\$35,000	\$35,000		\$2,054,980
Land	3,600	3,600	3,600	3,600	2,400		16,800
Other	94,900	85,300	67,300	62,300	50,000	\$50,000	409,800
Total	<u>\$1,076,440</u>	<u>\$1,060,940</u>	<u>\$105,900</u>	<u>\$100,900</u>	<u>\$87,400</u>	<u>\$50,000</u>	<u>\$2,481,580</u>

Minimum future rentals do not include contingent rentals, which may be received as stipulated in the lease contracts. These contingent rental payments occur as a result of sales volume. Contingent rentals amounted to \$331,957 for the year ended June 30, 2006.

FOUNDATION LEASE OBLIGATIONS**Lease Agreement**

On May 15, 2003, the Foundation (lessor) entered into an equipment lease agreement with the Board of Supervisors for Southern University and Agricultural and Mechanical College (the lessee) to lease the football and basketball scoreboards, twin signs located on either side of the baseball scoreboard and a front entrance marquee with all ancillary equipment. This lease shall be and continued in full force and effect for a term beginning on the effective date of the agreement and ending upon termination of the premises lease, at which time the lessee shall be granted all rights, title, and interest as owner in and to the equipment in accordance with the premises lease. The lease calls for rent of \$1 per year.

16. RESTRICTED NET ASSETS

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

Nonexpendable - endowments	<u>\$8,451,493</u>
Expendable:	
Gifts, grants, and contracts	\$11,561,551
Auxiliary Fund	109,078
Endowment income	2,727,014
Student fees	3,928,747
Student loans	921,664
University plant projects	6,612,581
Debt service requirements	<u>1,472,514</u>
Total expendable	<u>\$27,333,149</u>

Of the total net assets reported in the Statement of Net Assets for the year ended June 30, 2006, a total of \$3,223,468 is restricted by enabling legislation.

17. RESTATEMENT OF BEGINNING NET ASSETS

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

Net assets at June 30, 2005	\$162,531,046
Net errors in capital assets	(126,525)
Endowment earnings not recorded	501,718
Other miscellaneous errors	<u>8,000</u>
Net assets at July 1, 2005, restated	<u>\$162,914,239</u>

**18. CONTINGENT LIABILITIES
AND RISK MANAGEMENT**

The System is involved in 225 lawsuits and claims against it at June 30, 2006, of which 15 are handled by contracted attorneys. In the opinion of the contracted attorneys, the System does not have any potential liability for these lawsuits and claims and none has been accrued in the System's financial statements. The remaining lawsuits and claims are handled by the Attorney General's Office or the state's self-insurance fund that is operated by the Office of Risk Management (ORM). Any losses resulting from these lawsuits and claims would be paid by ORM or through General Fund appropriations.

The amount of settlements paid in the last three years did not exceed insurance coverage. However, during the current fiscal year, the amount of impairment losses to buildings, equipment, and library materials exceeded the insurance coverage provided by ORM. The university is continuing to work with ORM to determine the insurance recovery that is due the university.

19. RELATED PARTY TRANSACTIONS

During fiscal year ended June 30, 2006, the System had a relationship with the Foundation. The Foundation has a cooperative endeavor with the System to promote activities of the Southern University Athletic Department and coordinates the ancillary activities of the Bayou Classic weekend.

20. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Southern University 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 \$1,955,621, 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.

21. FOUNDATIONS

The accompanying financial statements include the accounts of the Southern University System Foundation but do not include the accounts of the Southern University Shreveport Foundation or the Southern University New Orleans Foundation. These foundations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

The System has contracted with the Foundation to invest the System's Endowed Chair for Eminent Scholars endowment funds and Endowed Professorship Program endowment funds, which were created in accordance with R.S. 17:3384. The Endowed Chairs for Eminent Scholars endowment funds are established for \$1,000,000 each, with \$600,000 of private contributions and \$400,000 of state matching portion allocated by the Board of Regents for Higher Education, while 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. The original endowment base including the state matching portion and private contributions totaled \$3,189,365. At June 30, 2006, the Foundation holds in custody \$3,865,642 of Endowed Chair and Endowed Professorship endowment funds invested for the System. Because the Southern University System Foundation's fiscal year-end of December 31, 2005, differs from the System's fiscal year-end, the amounts reported as due to the System by the Foundation do not agree to the amounts reported as invested by the System.

Certain operating expenses of the Foundation for the year (assumed by Southern University System and included in expenses, Statement C) are summarized as follows:

Salaries and related benefits	\$205,329
Other	<u>4,558</u>
Total	<u><u>\$209,887</u></u>

FOUNDATION DISCLOSURE

The System has contracted with the Foundation to invest the university's Endowed Chair for Eminent Scholars and Endowed Professorship endowment funds. The amount due to the System as of December 31, 2005, totaled \$3,421,434.

In addition, the Foundation received funds from corporate sponsors for the Athletic Department. The amounts due to the System as of December 31, 2005, totaled \$57,991.

The total amount due to the affiliate as of December 31, 2005, totaled \$3,479,425.

22. 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 of the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

23. FOUNDATION IN-KIND DONATIONS

During the fiscal year ended December 31, 2005, the Foundation received in-kind donations from the System which are recorded in revenues and expenses. The in-kind donations are summarized as follows:

Salaries and related benefits	\$157,624
Operating services	5,000
Supplies	<u>1,500</u>
Total	<u><u>\$164,124</u></u>

24. FOUNDATION - DUE FROM MILLENNIUM HOUSING, LLC

On April 3, 2004, Millennium Housing, LLC, a nonprofit organization, was established exclusively for the purpose of borrowing funds for the Student Housing and Mumford Stadium capital projects. The Foundation is the sole member and manager of the LLC and shall have all powers necessary to handle the LLC's affairs which include (1) the power to acquire property in the name of the LLC; (2) borrow monies from banks and lending institutions; (3) lease, sell, and exchange the LLC property; (4) construct improvements on, demolish, and rehabilitate the LLC property; and (5) hire, employ, or contract with any management company, leasing agents, consultants, et cetera. As of December 31, 2005, the Foundation had paid certain expenses on behalf of the LLC for the Student Housing and Mumford Stadium capital projects for \$3,253,664 since inception of the LLC. The LLC will reimburse the Foundation for the related expenses upon issuance of revenue bonds.

25. 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. Because of the severity of these events and the resulting damages sustained by the state, it is unknown exactly what economic impact recovery efforts will have on state and local governmental operations. The long-term effects of hurricanes Katrina and Rita on the state and the System cannot be determined at this time.

On August 29, 2005, the New Orleans campus was struck by Hurricane Katrina. The campus suffered extensive flooding and various degrees of wind damage to its 11 buildings. This resulted in water and mold damage to the buildings' interiors. The buildings remain closed for repair, and these closed buildings constitute the campus' entire academic and administrative space. These facilities are being repaired based upon a state Office of Facility Planning and Control priority schedule. The time of completion of the buildings' repairs is not certain. The New Orleans campus is using temporary buildings to meet student classroom and administrative needs.

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. In addition, the loss should only be calculated on equipment items whose restoration cost is the higher of 20% of the capitalized asset or \$20,000. OSRAP also provided guidance that the impairment gain/loss should be reported as an extraordinary item.

The System used the Deflated Restoration Cost Method for the buildings and the Current Restoration Cost Method for the equipment to determine the amount of impairment loss before insurance recovery. Because ORM has not determined how much, if any, insurance proceeds will be distributed to the System, no insurance recoveries have been recognized. Based on this method, the New Orleans campus buildings that were physically damaged by Hurricane Katrina and considered impaired had an impairment loss of \$3,119,637. In addition, the entire New Orleans campus library collection, which had a net value of \$768,683, was lost because of the flooding and resulting mold conditions. Therefore, this entire amount was reported as an impairment loss. Furthermore, several pieces of equipment with a net value of \$162,792 were also considered impaired and this amount was reported as an impairment loss.

Buildings and equipment with a carrying value of \$7,903,853 and \$317,665, respectively, are idle at June 30, 2006. In addition, the idle equipment could not be inventoried because System personnel were prohibited from entering the buildings where the equipment was being housed.

26. SUBSEQUENT EVENTS

On December 13, 2006, the Louisiana Public Facilities Authority (LPFA) sold \$59,990,000 in Series 2006 revenue bonds and lent the proceeds from the sale to Millennium Housing, LLC, whose sole member is the Southern University System Foundation to finance the design, development, acquisition, construction, installation, renovation, and equipping of student housing facilities on the Baton Rouge campus; certain auxiliary student projects, including a student intramural sports complex, a football and track complex, a baseball field house and north-end seating in Mumford Stadium, and refinancing a loan for the football field restoration at the Baton Rouge campus; and acquiring a building to be used by the Shreveport campus. The bonds are payable from the payments to be made pursuant to a loan agreement dated as of October 1, 2006, between LPFA and Millennium Housing, LLC and certain other amounts held by and pledged to the trustee. Millennium Housing, LLC entered into a cooperative endeavor and lease agreement with the Southern Board. The Southern Board agreed to lease portions of its grounds and campuses to Millennium Housing, LLC for the purposes stated above and the Southern Board will lease the facilities from Millennium Housing, LLC. Lease payments by the

Southern Board are designed to be sufficient to pay the principal of and interest on the Series 2006 Bonds. The first principal payment is scheduled for November 1, 2009, and the last for November 1, 2038, while the yearly lease payments began in December 2006 and end November 1, 2037. The interest rate ranges from 4.0% to 5.25% over the life of the bonds.

On January 18, 2007, the state Bond Commission gave preliminary approval to the LPFA's request to issue revenue bonds not to exceed \$17.5 million for the benefit of SUSLA Facilities, Inc., a Louisiana nonprofit organization, for the purpose of financing the costs of acquisition, construction, reconstruction, renovation, furnishing and equipping of dormitories at Southern University in Shreveport. The actual bond sale is anticipated to be in April 2007.

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SCHEDULE OF PER DIEM PAID BOARD MEMBERS

Schedule 1 presents the per diem paid board members for the year ended June 30, 2006. Members of the Southern University Board of Supervisors receive \$50 per diem for each day of attendance of board meetings, committee meetings, or while on business for the board, as authorized by R.S. 17:3206. This schedule is prepared in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

COMBINING SCHEDULE OF NET ASSETS

Schedule 2 presents the Combining Schedule of Net Assets, by campus.

**COMBINING SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

Schedule 3 presents the Combining Schedule of Revenues, Expenses, and Changes in Net Assets, by campus.

COMBINING SCHEDULE OF CASH FLOWS

Schedule 4 presents the Combining Schedule of Cash Flows, by campus.

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**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA****Schedule of Per Diem Paid Board Members
For the Year Ended June 30, 2006**

<u>Name</u>	<u>Amount</u>
Alexander, Angela J.	\$450
Anderson, Johnny	3,350
Atkins, Dale N.	1,050
Bilberry, Jesse B., Jr.	650
Caiton, Richard J.	1,050
Clayton, Antonio M.	1,050
Gilliam, Sam Albert	1,000
Guidry, Walter Jr.	1,450
Hannon, Romante	800
Jackson, Christopher	100
Joseph, John	1,550
Kiefer, Anne Z.	800
Lawson, Myron K.	1,600
Miller, Louis	850
Nash, Murphy Jr.	750
Polk, Lea M.	1,000
Williams, Achilles	650
Total	<u><u>\$18,150</u></u>

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**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Combining Schedule of Net Assets, by Campus, June 30, 2006

	Board and System	Baton Rouge Campus	New Orleans Campus	Shreveport Campus	Total System
ASSETS					
Current assets:					
Cash and cash equivalents	\$997,257	\$13,902,655	\$4,999,110	(\$385,325)	\$19,513,697
Receivables, net	22,565	15,681,087	10,057,555	5,262,807	31,024,014
Due from state treasury		539,553	98,339	116,624	754,516
Inventories		283,664	26,240		309,904
Deferred charges and prepaid expenses	25,501	585,343	86,422	134,057	831,323
Notes receivable, net		338,395	163,813		502,208
Other current assets		29,130		6,065	35,195
Total current assets	<u>1,045,323</u>	<u>31,359,827</u>	<u>15,431,479</u>	<u>5,134,228</u>	<u>52,970,857</u>
Noncurrent assets:					
Restricted cash and cash equivalents	659,444	13,486,744	6,933,251	224,442	21,303,881
Restricted investments		3,923,240	938,387		4,861,627
Capital assets, net		117,337,753	11,956,401	8,088,419	137,382,573
Total noncurrent assets	<u>659,444</u>	<u>134,747,737</u>	<u>19,828,039</u>	<u>8,312,861</u>	<u>163,548,081</u>
Total assets	<u>1,704,767</u>	<u>166,107,564</u>	<u>35,259,518</u>	<u>13,447,089</u>	<u>216,518,938</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accruals	166,214	7,523,028	10,136,480	918,378	18,744,100
Deferred revenues	470	4,996,977	2,214,867	1,180,027	8,392,341
Compensated absences	5,679	385,741	152,803	49,585	593,808
Amounts held in custody for others		1,006,105		92,903	1,099,008
Bonds payable - current portion		44,000			44,000
Reimbursement contracts payable - current portion		7,353			7,353
Other current payables	250	1,923,109	365,452	7,680	2,296,491
Total current liabilities	<u>172,613</u>	<u>15,886,313</u>	<u>12,869,602</u>	<u>2,248,573</u>	<u>31,177,101</u>
Noncurrent liabilities:					
Compensated absences	553,274	8,499,184	1,702,572	1,271,923	12,026,953
Bonds payable		248,000			248,000
Reimbursement contracts payable		7,353			7,353
Total noncurrent liabilities	<u>553,274</u>	<u>8,754,537</u>	<u>1,702,572</u>	<u>1,271,923</u>	<u>12,282,306</u>
Total liabilities	<u>725,887</u>	<u>24,640,850</u>	<u>14,572,174</u>	<u>3,520,496</u>	<u>43,459,407</u>
NET ASSETS					
Invested in capital assets, net of related debt		117,031,047	11,956,401	8,088,419	137,075,867
Restricted for:					
Nonexpendable	420,000	5,548,634	2,482,859		8,451,493
Expendable	754,875	21,150,873	4,017,512	1,409,889	27,333,149
Unrestricted	<u>(195,995)</u>	<u>(2,263,840)</u>	<u>2,230,572</u>	<u>428,285</u>	<u>199,022</u>
TOTAL NET ASSETS	<u>\$978,880</u>	<u>\$141,466,714</u>	<u>\$20,687,344</u>	<u>\$9,926,593</u>	<u>\$173,059,531</u>

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**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

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

	Board and System	Baton Rouge Campus	New Orleans Campus	Shreveport Campus	Total System
OPERATING REVENUES					
Student tuition and fees		\$41,444,259	\$3,582,516	\$4,493,109	\$49,519,884
Less scholarship allowances		(10,446,618)	(1,142,135)	(2,851,931)	(14,440,684)
Net student tuition and fees	NONE	30,997,641	2,440,381	1,641,178	35,079,200
Federal appropriations		2,556,565			2,556,565
Federal grants and contracts		41,062,077	8,411,708	13,022,391	62,496,176
State and local grants and contracts		1,265,066	621,342	223,420	2,109,828
Nongovernmental grants and contracts		5,000			5,000
Sales and services of educational departments		614			614
Auxiliary enterprise revenues (including revenue used to secure debt)		13,897,027	195,041	423,583	14,515,651
Less scholarship allowances		(564,221)	(56,055)	(14,972)	(635,248)
Net auxiliary revenues	NONE	13,332,806	138,986	408,611	13,880,403
Other operating revenues		2,233,710	1,420,785	304,484	3,958,979
Total operating revenues	NONE	91,453,479	13,033,202	15,600,084	120,086,765
OPERATING EXPENSES					
Educational and general:					
Instruction		40,943,403	7,082,066	4,255,751	52,281,220
Research		7,580,018	294,874	155,765	8,030,657
Public service	\$80,604	4,217,106	878,366	1,092,204	6,268,280
Academic support	400	22,549,996	4,100,721	976,832	27,627,949
Student services		8,431,710	2,358,665	6,319,174	17,109,549
Institutional support	5,322,605	20,906,205	4,780,965	3,653,668	34,663,443
Operation and maintenance of plant		12,244,239	1,779,652	1,106,642	15,130,533
Depreciation		7,117,173	700,224	584,866	8,402,263
Scholarships and fellowships	36,059	12,019,354	3,431,276	3,894,272	19,380,961
Auxiliary enterprises		14,063,934	549,408	306,241	14,919,583
Other operating expenses	85,238	(263,588)	(496,316)	98,913	(575,753)
Total operating expenses	5,524,906	149,809,550	25,459,901	22,444,328	203,238,685
OPERATING LOSS	(5,524,906)	(58,356,071)	(12,426,699)	(6,844,244)	(83,151,920)
NONOPERATING REVENUES (Expenses)					
State appropriations	1,813,416	56,519,313	12,803,450	6,266,494	77,402,673
Gifts	75,885	471,066	1,695,849		2,242,800
Investment income	36,522	1,082,421	94,256	63,577	1,276,776
Interest expense		(46,702)			(46,702)
Other nonoperating revenues (expenses)	(23,662)	3,958,580	(121,130)	461,768	4,275,556
Other nonoperating revenues - FEMA		342,247	7,481,346	27,343	7,850,936
Other nonoperating expenses - FEMA		(342,247)	(7,996,786)	(40,587)	(8,379,620)
Net nonoperating revenues	1,902,161	61,984,678	13,956,985	6,778,595	84,622,419
Income/(Loss) before other revenues and losses	(3,622,745)	3,628,607	1,530,286	(65,649)	1,470,499
Capital appropriations		10,430,005		21,501	10,451,506
Capital grants and gifts		1,492,380			1,492,380
Additions to permanent endowment		782,019			782,019
Transfers	3,386,394	(2,364,011)	(741,497)	(280,886)	
Extraordinary item - loss on impairment of capital assets			(4,051,112)		(4,051,112)
Increase (decrease) in net assets	(236,351)	13,969,000	(3,262,323)	(325,034)	10,145,292
NET ASSETS - BEGINNING OF YEAR (Restated)	1,215,231	127,497,714	23,949,667	10,251,627	162,914,239
NET ASSETS - END OF YEAR	\$978,880	\$141,466,714	\$20,687,344	\$9,926,593	\$173,059,531

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**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

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

	Board and System	Baton Rouge Campus	New Orleans Campus	Shreveport Campus	Total System
CASH FLOWS FROM OPERATING ACTIVITIES:					
Tuition and fees		\$30,076,665	\$2,861,723	\$1,729,429	\$34,667,817
Federal appropriations		2,556,565			2,556,565
Grants and contracts	\$127,781	39,332,820	8,484,659	13,773,110	61,718,370
Payments to suppliers	(1,445,171)	(24,599,905)	(4,419,888)	(1,823,072)	(32,288,036)
Payments for utilities		(7,752,856)	(532,168)	(318,906)	(8,603,930)
Payments to employees	(2,981,674)	(75,589,595)	(13,341,581)	(10,147,592)	(102,060,442)
Payments for benefits	(723,701)	(20,003,853)	(3,880,827)	(2,683,868)	(27,292,249)
Payments for scholarships and fellowships	(178,018)	(16,804,736)	(3,429,949)	(6,746,203)	(27,158,906)
Loans issued to students and employees		(338,545)	(163,812)		(502,357)
Payments on loans issued to students and employees		511,449	169,695	34,312	715,456
Auxiliary enterprise charges		12,253,132	173,979	404,503	12,831,614
Sales and services of educational departments		614			614
Other receipts		2,233,710	1,420,785	106,921	3,761,416
Net cash used by operating activities	(5,200,783)	(58,124,535)	(12,657,384)	(5,671,366)	(81,654,068)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State appropriations	1,813,416	55,979,760	12,705,111	6,149,870	76,648,157
Gifts and grants for other than capital purposes	75,885	471,066	1,695,849		2,242,800
Private gifts for endowment purposes		782,019			782,019
TOPS receipts		1,698,825	7,018	49,195	1,755,038
TOPS disbursements		(1,680,709)	(7,018)	(49,195)	(1,736,922)
Federal Family Education Loan program receipts		69,329,002	5,815,215	1,818,981	76,963,198
Federal Family Education Loan program disbursements		(69,329,002)	(5,815,215)	(1,818,981)	(76,963,198)
Other receipts	3,362,732	2,513,322	1,060,044	238,188	7,174,286
Net cash provided by noncapital financing sources	5,252,033	59,764,283	15,461,004	6,388,058	86,865,378
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital grants and gifts received		1,492,380			1,492,380
Purchases of capital assets		(3,555,725)	(53,818)	(277,626)	(3,887,169)
Principal paid on capital debt and leases		(48,353)			(48,353)
Interest paid on capital debt and leases		(24,441)			(24,441)
Net cash used by capital financing activities	NONE	(2,136,139)	(53,818)	(277,626)	(2,467,583)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sales and maturities of investments		5,149,259			5,149,259
Interest received on investments	37,885	1,054,555	92,548	63,578	1,248,566
Purchase of investments		(5,351,507)	(63,555)		(5,415,062)
Net cash provided by investing activities	37,885	852,307	28,993	63,578	982,763
Net increase in cash and cash equivalents	89,135	355,916	2,778,795	502,644	3,726,490
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,567,566	27,033,483	9,153,566	(663,527)	37,091,088
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$1,656,701	\$27,389,399	\$11,932,361	(\$160,883)	\$40,817,578

(Continued)

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Combining Schedule of Cash Flows, by Campus, 2006**

	Board and System	Baton Rouge Campus	New Orleans Campus	Shreveport Campus	Total System
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:					
Operating loss	(\$5,524,906)	(\$58,356,071)	(\$12,426,699)	(\$6,844,244)	(\$83,151,920)
Adjustments to reconcile operating loss to net cash used by operating activities:					
Depreciation expense		7,117,173	700,224	584,866	8,402,263
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable, net	129,579	(6,025,463)	(1,448,926)	421,996	(6,922,814)
(Increase) decrease in due from notes receivable		(42,256)	5,883		(36,373)
(Increase) in inventories		(35,621)	(19,381)		(55,002)
(Increase) decrease in prepaid expenses	(14,042)	(114,419)	(19,152)	10,148	(137,465)
Decrease in other assets				100,530	100,530
Increase (decrease) in accounts payable	126,016	(1,068,561)	(617,823)	99,038	(1,461,330)
Increase (decrease) in deferred revenue	(2,668)	996,546	1,356,870	26,197	2,376,945
Increase (decrease) in compensated absences	85,238	(624,005)	(496,316)	98,913	(936,170)
Increase (decrease) in other liabilities		28,142	307,936	(168,810)	167,268
Net cash used by operating activities	(\$5,200,783)	(\$58,124,535)	(\$12,657,384)	(\$5,671,366)	(\$81,654,068)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS					
Cash and cash equivalents classified as current assets	\$997,257	\$13,902,655	\$4,999,110	(\$385,325)	\$19,513,697
Cash and cash equivalents classified as noncurrent assets	659,444	13,486,744	6,933,251	224,442	21,303,881
Cash and cash equivalents at the end of the year	\$1,656,701	\$27,389,399	\$11,932,361	(\$160,883)	\$40,817,578
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES					
Loss on disposal of capital assets		\$29,990	\$121,130		\$151,120
Capital appropriations for construction of capital assets		10,409,893		\$21,501	10,431,394
Net increase in the fair value of investments		202,547	29,242		231,789
Impairment loss on capital assets			4,051,112		4,051,112

(Concluded)

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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

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

April 19, 2007

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

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit, which collectively comprise the basic financial statements of the Southern University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, and have issued our report thereon dated April 19, 2007. Our report was modified to include a reference to other auditors; an explanatory paragraph for the implementation of a new reporting standard; 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 the Southern University System Foundation, as described in our report on Southern University System's financial statements. The financial statements of the Southern University System Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southern University 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 a certain 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 Southern University System's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

General Ledger Accounts Not Properly Reconciled

The Southern University System (System) did not properly reconcile its general ledger accounts to its subsidiary records or supporting documentation. Good internal control requires the periodic reconciliation of account balances to ensure that errors and/or fraud are detected timely and to ensure the fair presentation of financial information. Our audit revealed the following:

- At June 30, 2006, the group insurance payable account for the Baton Rouge, New Orleans, and Shreveport campuses had not been reconciled to supporting documentation. The accounting staff at each campus reviewed this account and determined that the general ledger account balance was overstated by \$602,825.
- Even though the June 30, 2006, bank reconciliations for three Baton Rouge and two Shreveport campus bank accounts identified an understatement in cash of \$205,954, the adjustments to the general ledger were not made until the subsequent fiscal year resulting in a misstatement of the June 30, 2006, financial statements.
- At June 30, 2006, the subsidiary ledger for student receivables at the Shreveport campus, which totaled \$578,599, was not reconciled to the general ledger balance of \$851,571.
- At June 30, 2006, the general ledger account for the Federal Family Education Loan Program at the Baton Rouge campus, which totaled \$1,600,902, was not reconciled to subsidiary records. Of this total, the breakdown of the amounts owed to students or back to the lender (Sallie Mae) could not be provided.

Management did not ensure that the System's policies and procedures that required the reconciliation of the various general ledger accounts to supporting documentation were performed accurately and timely. When accounts are not analyzed or reconciled periodically, assets are placed at a greater risk of fraud and/or misappropriation and financial records and/or statements may not represent the true financial condition of the entity.

Management of the System should ensure that timely and accurate reconciliations of all subsidiary accounts to general ledger balances are performed. A knowledgeable member of management should then review those reconciliations to ensure that all reconciling items are properly supported and that adjustments to correct the ledgers, if any, are made timely. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 1-8).

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, we do not believe that the reportable condition described previously is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southern University 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 the following instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Public Records Not Preserved

The Southern University System at New Orleans (SUNO) campus did not preserve certain public records as required by state law. Louisiana Revised Statute (R.S.) 44:36 states that all persons and public bodies having custody or control of any public record shall preserve and maintain these records for a period of at least three years from the date on which the public record was made. Permanent records are to be maintained indefinitely. As a result of Hurricane Katrina, which occurred on August 29, 2005, SUNO suffered extensive wind and water damage, which destroyed some records and made others unavailable for review. Access to buildings was restricted because of damage and environmental hazards.

Attached to a memorandum dated March 23, 2006, from SUNO's Vice Chancellor for Administration and Finance, was information from various departments on the types of documents lost. The information lost included, but was not limited to, the following:

- Budgetary files
- Banking documents
- Grant applications and agreements
- Property and land documents
- Manuals on various SUNO policies and procedures
- Documents related to university investments
- Special deferment letters

- Bank of America Card requests
- Bank of America VISA payments
- Receiving reports
- Receiving and delivery log for movable property
- Stores requisition files
- Campus police reports and investigation files

In addition, during our test work we noted the following:

- We were unable to review the supporting documentation for two federal revenue transactions that totaled \$2,190,640. Through other audit procedures, we were able to determine that these transactions did represent the receipt of federal funds and were recorded in the accounting system at the correct amount.
- We were unable to review the supporting documentation for two auxiliary revenue transactions totaling \$7,950. Through other audit procedures, we were able to determine that these transactions represented rental payments and the payments were recorded in the accounting system at the amount stipulated by the contract.
- For five nonpayroll transactions totaling \$1,975, SUNO could not provide supporting documentation for these disbursements.
- During our test of employee compensation, documentation could not be provided supporting \$187 paid to one student worker. In addition, for one regular employee, documentation could not be provided supporting the approval of the 35 hours of overtime earned and the 16 hours of annual leave charged for the pay period tested.
- We were unable to review the supporting documents for two items on the Office of Risk Management Claims Loss Listing.

The SUNO campus did not have an adequate disaster recovery/contingency plan regarding the protection of and access to public records, including financial documents. As a result, in the flooding after Hurricane Katrina, many public records were either destroyed or in buildings where access was not allowed. Because of the loss of public records, the SUNO campus is in noncompliance with state law. In addition, the loss of financial documents could have a significant impact on financial accountability and the accuracy of financial statements.

To ensure compliance with state law, the SUNO campus should revise its disaster recovery plan to ensure that all public records are properly safeguarded and are accessible when business operations resume after a disaster or other business interruption. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 9).

Noncompliance With Movable Property Regulations

For the second consecutive year, the Southern University System (System) did not maintain adequate control over movable property as prescribed by state law. R.S. 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated items to the Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code (LAC) Title 34, Part VII, Section 313 states, in part, that efforts must be made to locate all movable property for which no explanations are available for their disappearance. 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. LAC Title 34, Part VII, Section 309 (A) requires that all items that meet the definition of items of property to be inventoried must be identified with an identification tag. Furthermore, the U.S. Department of Education [34 CFR 80.32(d)] requires that property records must be maintained that include a percentage of federal participation in the cost of the property. Office of Management and Budget (OMB) Circular A-21 defines equipment as an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the government unit for financial statement purposes or \$5,000. At June 30, 2006, the System has 15,985 movable property items with an original cost of \$54,111,163.

During our tests of movable property, the following deficiencies were noted:

- The System's certifications of annual property inventory, submitted to LPAA from March 11, 2006, through June 13, 2006, identified 780 unlocated movable property items totaling \$1,692,770 (Baton Rouge campus - \$1,410,027; New Orleans campus - \$69,113; and Shreveport campus - \$213,630). Of that amount, items totaling \$278,642 were removed from the property records because they had not been located for three consecutive years. In addition, the amount of unlocated computers and computer-related equipment totaled \$897,974 or 53% of the unlocated property reported.

The SUNO campus was exempted by LPAA from performing an inventory on the South campus representing approximately \$4.4 million of movable property because of hurricane damage and environmental concerns at the campus.
- The New Orleans and Shreveport campuses did not identify in the LPAA Protégé system if items were acquired with federal funds.

- Of the \$1,329,604 movable property purchases tested, property valued at \$183,217 (14%) was not tagged when received.
- Fifty-two movable property items purchased in prior fiscal years with an original cost of \$563,008 were not recorded in the LPAA Protégé system.

The System has not placed sufficient emphasis on controls over movable property. 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 should strengthen its internal control over movable property and strengthen procedures for conducting the physical inventory. In addition, management should ensure that all property is properly tagged and reported accurately and timely to LPAA, including the identification of property purchased with federal funds. Additional efforts should be made to locate missing property and develop new procedures to better secure the property. Management concurred in part with the finding and outlined a corrective action plan (see Appendix A, pages 10-23).

Additional Comments: Southern University at Baton Rouge (SUBR) states that it does not agree with our interpretation of the movable property regulations that the purchases of four portable showers totaling \$56,912 were required to be tagged. However, according to LPAA's Program Compliance Supervisor, a tag number should be assigned to the equipment to ensure that accountability over the assets is maintained even if it may not be feasible to physically attach a tag to them. In addition, SUBR notes that many of the items reported as unlocated were obsolete, scrapped, et cetera, and that there is no financial statement impact. However, SUBR has not implemented sufficient internal control to demonstrate the proper accountability over these assets and to determine the actual disposition.

Uncollateralized Bank Accounts

The System did not ensure that all bank accounts were adequately collateralized as required by state law. R.S. 49:321 states that state agencies shall require security for deposits of state funds in excess of those amounts insured by a governmental agency, such as the Federal Deposit Insurance Corporation. Under the United States Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), a security agreement for collateral must (1) be in writing; (2) be approved by the financial institution's board of directors or loan committee and that approval must be reflected in the minutes of the board or committee; and (3) be an official record of the depository institution from the time of its execution. If these FIRREA requirements are not met, the entity would not be able to maintain an enforceable security interest in collateral pledged to secure deposits against the receiver of a failed financial institution and, thus, the accounts would not be considered collateralized.

At June 30, 2006, the System has not obtained or maintained copies of the required agreements with three financial institutions to demonstrate compliance with FIRREA requirements for bank account balances totaling \$7.9 million out of a total of \$47.2 million. Failure to adhere to the FIRREA requirements increases the risk of loss of public funds resulting from the failure of the financial institution. Unless the FIRREA requirements are met, the Federal Deposit Insurance Corporation may rule that the System does not have a perfected security interest and would then have only the right to share with other creditors in the pro rata distribution of the remaining assets of the failed financial institution.

Management of the System should ensure that its accounts are adequately collateralized, obtain security agreements with the financial institutions, and ensure that all FIRREA requirements regarding those agreements have been met. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 24-27).

Noncompliance with Laws and Regulations

The System did not have adequate internal control to ensure that certain activities and transactions of the System were in compliance with laws and regulations. Louisiana Constitution Article 7, Section 14 provides that the funds, credit, property or things of value of the state or its political subdivisions shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

Our tests of purchases and disbursements revealed the following:

- An athletic department employee has received free housing in a university dormitory in addition to his salary since January 1993 even though there was no written documentation showing that he was entitled to this benefit. The value of the housing, which was not reported as income to the employee, is \$2,273 for the fiscal year ended June 30, 2006. Management states that the employee is required to live on campus as a part of his job duties, but there is no written documentation supporting that contention. In addition, initial interviews with the employee and his supervisor indicate that they believed the housing was provided because the employee's initial rate of pay was considered to be insufficient.
- Public funds totaling \$1,200 were initially used to pay for an employee's retirement party. The Southern University System Foundation provided funds to reimburse the System for this event but did so only after we brought this issue to the attention of the System's management.

The System has not placed sufficient emphasis on controls over purchases and disbursements to ensure that related laws and regulations are adhered to, resulting in noncompliance. Management should strengthen internal control to ensure that public funds are disbursed in accordance with state laws and regulations. Management

concurred with the finding and recommendations and outlined a corrective action plan (see Appendix A, pages 28-31).

Other external auditors audited the Southern University System Foundation. To obtain a copy of that report, you may write to:

Southern University System Foundation
Post Office Box 2468
Baton Rouge, Louisiana 70821

The System's internal auditor is currently investigating alleged improprieties at SUNO involving the overstatement of enrollment figures.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Steve J. Theriot', is written over the printed name.

Steve J. Theriot, CPA
Legislative Auditor

STD:WDD:PEP:dl

SU06

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



SOUTHERN UNIVERSITY AND A&M COLLEGE SYSTEM

BATON ROUGE, LOUISIANA 70813
(225) 771-2011

Baton Rouge, New Orleans,
Shreveport/Bossier City
LOUISIANA

Office of the President
(225) 771-4680

Fax Number:
(225) 771-5522

February 28, 2007

Mr. Steve Theriot, Legislative Auditor
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

Attached are the responses of the Institutions of the Southern University System to the following findings:

- General Ledger Accounts Not Properly Reconciled
- Uncollateralized Bank Accounts
- Public Records Not Preserved

Please let me know if additional information is needed.

Sincerely,

A handwritten signature in black ink, appearing to read "Ralph R. Slaughter". The signature is fluid and cursive, with a large initial "R" and a long, sweeping underline.

Ralph R. Slaughter, Ph.D., CPA
System President

Attachments

TEW/gam



Agricultural & Mechanical College

Office of the Chancellor
P. O. Box 9374
[225] 771-5020
FAX [225] 771-2018

MEMORANDUM

TO: Dr. Ralph Slaughter
Southern University System President

FROM: Edward R. Jackson *Eng*
Chancellor

DATE: February 22, 2007

RE: **Official Response to Legislative Auditor Reportable Findings**

Attached is the official response relating to the 2006 reportable findings of the Legislative Auditor. This submission is applicable to findings for the Baton Rouge Campus.

Please contact Vice Chancellor Flandus McClinton if you have questions or need additional information regarding the attached response.

Attachment

cc: Mr. Flandus McClinton, Jr.
Vice Chancellor for Finance and Administration

GENERAL LEDGER ACCOUNTS NOT PROPERLY RECONCILED

We concur with the auditor's finding that certain general ledger accounts were not fully reconciled at the end of the fiscal year. Although reconciliations were performed to some degree at June 30, 2006, extenuating circumstances prevented the following accounts from being fully reconciled at June 30, 2006.

- **GROUP INSURANCE PAYABLE**--A computer glitch in the automated group insurance benefit tables that was not timely detected by our staff in the review and approval process prevented us from fully reconciling this account. The problem has been identified and the Baton Rouge Campus' human resource, technical, and accounting staffs are working to correct the benefit tables. Appropriate adjustments will be made to reconcile the ledgers. We are strengthening our existing procedures to ensure that the group insurance account is reconciled to supporting documentation each month and that appropriate adjustments are timely recorded.

The contact persons responsible for corrective action are Lester Pourciau, Human Resource Director, and Gwendolyn Bennett, Associate Vice Chancellor for Financial Operations. The corrective action planned is to correct the benefit tables in the Human Resource System, post the appropriate adjustments to the general ledger, and strengthen the controls to monitor the account on a monthly basis to prevent future recurrences. The anticipated completion date of the corrective action is March 31, 2007.

- **BANK RECONCILIATIONS**--The situation with the bank reconciliation on the Baton Rouge Campus is attributed to the untimely posting of a reconciling item to the general ledger. As noted by the auditor, the untimely posting was detected and has been corrected. We have strengthened our existing procedures to ensure that all reconciling adjustments are promptly recorded to the general ledger.

The contact person responsible for corrective action is Gwendolyn Bennett, Associate Vice Chancellor for Financial Operations. The corrective action has been completed.

- **FEDERAL FAMILY EDUCATION LOAN PROGRAM (FFEL)**—Excessive employee turnover of key personnel in the Baton Rouge Campus' financial aid, information systems, and comptroller's offices attributed to the account not being fully reconciled at June 30, 2006. Currently all of the vacancies in the positions responsible for monitoring the reconciliation process have been filled and a full reconciliation is currently underway. We are strengthening our existing procedures to ensure that the FFEL account is timely and fully reconciled and supported by sufficient documentation to validate the general ledger balance owed to either the students or the lender.

The contact persons responsible for corrective action are Ursula Shorty, Financial Aid Director, Willie Francois, ISD Director, and Gwendolyn Bennett, Associate Vice Chancellor for Financial Operations. The corrective action planned is to fully reconcile the FFEL account, remit the funds to the appropriate recipient and maintain a current FFEL database of funds received from Sallie Mae for individual students. The anticipated completion date of the corrective action is March 31, 2007.

The Baton Rouge Campus management will ensure that existing policies and procedures for reconciling general ledger accounts are performed accurately and timely. Management will further ensure timely and accurate reconciliations of all subsidiary ledger accounts to the general ledger and that reconciling items used to correct the ledgers are properly supported and documented.




SOUTHERN UNIVERSITY AT NEW ORLEANS

6801 Press Drive
New Orleans, LA 70126-0002
(504) 286-5311
FAX (504) 284-5500
www.suno.edu

OFFICE OF THE CHANCELLOR

TO: Dr. Ralph Slaughter
System President

FROM: Dr. Victor Ukpole 
Chancellor

DATE: February 26, 2007

RE: **Official Response to Legislative Auditor Reportable Findings**

Attached is the official response relating to the 2006 reportable findings of the Legislative Auditor. This submission is applicable to findings for the New Orleans Campus.

Please contact Dr. Gerald Williams, Vice Chancellor for Administration and Finance at 504-286-5117 if you have questions or need additional information regarding the attached response.

Attachment

/rlb

pc: Dr. Gerald Williams

SOUTHERN UNIVERSITY AT NEW ORLEANS

GENERAL LEDGER ACCOUNTS NOT PROPERLY RECONCILED

We concur with the auditor's finding that certain general ledger accounts were not fully reconciled at the end of the fiscal year.

- **GROUP INSURANCE PAYABLE** - A computer glitch in the automated group insurance benefit tables that was not timely detected by our staff in the review and approval process prevented us from fully reconciling this account. The problem has been identified and the Baton Rouge Campus' human resources, technical, and accounting staffs are working to correct the benefit tables. Appropriate adjustments will be made to reconcile the ledgers. We are strengthening our existing procedures to ensure that the group insurance account is reconciled to supporting documentation each month and that appropriate adjustments are timely recorded.

The contact persons responsible for corrective action are Lester Pourciau, Human Resource Director, and Gwendolyn Bennett, Associate Vice Chancellor for Financial Operations. The corrective action planned is to correct the benefit tables in the Human Resources Systems, post the appropriate adjustments to the general ledger, and strengthen the controls to monitor the account on a monthly basis to prevent future recurrences. The anticipated completion date of the corrective action is March 31, 2007.

The Comptroller's Office on the New Orleans campus will compare insurance reports from HRS to the invoice. The anticipated completion date is June 30, 2007.

The contact persons responsible for on the New Orleans Campus are Mr. Woodie White, Comptroller and Dr. Gerald Williams, Vice Chancellor for Administration and Finance.



SOUTHERN UNIVERSITY
At Shreveport

OFFICE OF THE CHANCELLOR

February 16, 2007

Dr. Ralph Slaughter, President
Southern University System
4th Floor, J. S. Clark Administration Bldg.
Baton Rouge, LA 70813

Dear Dr. Slaughter:

I am transmitting a response to findings for the legislative audit for the Southern University-Shreveport campus for the period ending June 30, 2007.

If you have any questions or require additional information, please feel free to call.

Respectfully submitted,



Ray L. Belton, Ph.D.
Chancellor

/lhb

3050 MARTIN LUTHER KING, JR. DRIVE • SHREVEPORT, LOUISIANA 71107
PHONE: (318) 674-3312 • FAX: (318) 674-3374
TOLL FREE: 1-800-458-1472, EXT. 312
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Southern University-Shreveport

Response to Legislative Audit Findings FY 2005-2006

Finding:

General Ledger Account not properly reconciled

Corrective Action:

Southern University-Shreveport concurs with the reportable finding listed above relative to reconciliation of general ledger accounts.

Internal procedures relative to reconciliation of the group insurance payable account, bank reconciliation process, and aged receivables being reconciled to the general ledger will be reviewed and monitored on a timely basis.

The University is committed to resolving these findings and ensuring compliance with all applicable state and federal regulations.

Proposed Completion Date:

June 30, 2007

Person(s) Responsible:

Wanda Lewis, Accounting Director

Benjamin Pugh, Vice Chancellor for Fiscal Affairs

SOUTHERN UNIVERSITY AT NEW ORLEANS

PUBLIC RECORDS NOT PRESERVED

We concur with the auditor's findings that the university did not preserve certain public records as required by state law.

- **PUBLIC RECORDS NOT PRESERVED** -- As a result of Hurricane Katrina on August 29, 2005, some records were destroyed and others made unavailable for review.

Due to the nature of the disaster, we did not anticipate the total flooding of the entire campus. Critical offices will be moved from the first floor to the second floor, and the imaging of documents will be implemented when we return to the South Campus.

The university has contracted with IBM to provide backup service and limited computer equipment, and published its Disaster Preparedness Plan. The blackboard server is now located in another state for online courses that could be used as a means to communicate with the SUNO family in the event of another disaster.

The contact person responsible for corrective action is Dr. Gerald Williams, Vice Chancellor for Administration and Finance.



SOUTHERN UNIVERSITY AND A&M COLLEGE SYSTEM

BATON ROUGE, LOUISIANA 70813
(225) 771-2011

Baton Rouge, New Orleans,
Shreveport/Bossier City
LOUISIANA

Office of the President
(225) 771-4680

Fax Number:
(225) 771-5522

March 14, 2007

Mr. Steve Theriot, Legislative Auditor
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

Attached are the responses of the campuses of the Southern University System to the finding concerning Noncompliance with State Movable Property Regulations.

Please let me know if additional information is needed.

Sincerely,

A handwritten signature in black ink, appearing to read "Ralph A. Slaughter".

Ralph A. Slaughter, Ph.D., CPA
System President

Attachments

TEW/gam



Office of the Chancellor
P. O. Box 9374
[225] 771-5020
FAX [225] 771-2018

MEMORANDUM

TO: Dr. Ralph Slaughter
Southern University System President

FROM: Dr. Edward R. Jackson
Chancellor

DATE: March 15, 2007

RE: **Official Response to Legislative Auditor Reportable Finding
Noncompliance With Movable Property Regulations**

Attached is the official response relating to the 2006 reportable finding of the Legislative Auditor. This submission is applicable to findings for the Baton Rouge Campus.

Please contact Vice Chancellor Flandus McClinton if you have questions or need additional information regarding the attached response.

Attachment

cc: Mr. Flandus McClinton, Vice Chancellor for Finance and Administration

AUDIT RESPONSE
NONCOMPLIANCE WITH MOVABLE PROPERTY REGULATIONS

Southern University at Baton Rouge (SUBR) concurs in part with this finding.

Although the University did not locate 100 per cent of its overall movable property items, the amount of unlocated movable property (\$1,229,433) represents less than 3% of the SUBR's total movable property value with an original acquisition cost of \$43,147,203 as of June 30, 2006. The University believes that the management of SUBR did maintain adequate controls over its movable property as prescribed by state law, and evidenced by the following actions.

- As required by Louisiana Revised Statute (R. S.) 39:325, the University did conduct the annual inventory of its movable property as of June 30, 2006 and all unlocated items were reported to the Louisiana Property Assistance Agency (LPAA).
- As required in part by Louisiana Administrative Code (LAC) Title 34, Part VII, Section 313, the University did make efforts to locate all movable property items for which there were no explanations available for their disappearance.
- As required by LAC Title 34, Part VII, Section 309 (A) with the exception of three (3) purchases, all 12,220 movable property items that were defined as items of property to be inventoried and tagged were tagged. The three (3) exceptions have subsequently been tagged in the current fiscal year.
- As required by the U. S. Department of Education (34 CFR 80:32(d), the University has maintained its property records to include the percentage of federal participation in the cost of the movable property.

The University's detail responses to specific deficiencies noted by the auditor are outlined below.

- SUBR concurs that it had \$1,229,433 of unlocated property as of June 30, 2006 which was reported as unlocated over a 4 year period. This amount represents less than 3% of the University's total movable property value as of June 30, 2006. As communicated to the auditors in the University's 2005 audit response, of the total unlocated property, approximately 40% of the property is more than ten (10) years old. As a result, many of the items reported were fully depreciated and would have a net value of zero on the financial statements. Consequently, many of the property items have been rendered obsolete and subsequently dismantled, scrapped or set aside by the various departments and offices as inoperable.

- The University concurs in part with the audit finding that relates to movable property purchases that were not tagged when received. The auditor cited five (5) purchases valued at \$183,217 for SUBR that were not tagged when received. SUBR concurs that three (3) of these equipment purchases were not tagged as of June 30, 2006 but were subsequently tagged in the current fiscal year. The remaining two (2) movable property items cited by the auditor were determined by SUBR to be equipment components or equipment that did not require tagging. The basis for the University's non-concurrence is attributed to interpretation differences. The two (2) purchases were portable shower curtains procured by the University in the wake of Hurricane Katrina. SUBR housed evacuees and served as a Red Cross shelter in the aftermath of Hurricane Katrina. These evacuees were housed in the F. G. Clark Activity Center. The showers were purchased on an emergency basis to provide citizens of Louisiana with healthy and clean living arrangements during their time of crisis. The University's Property Management Office determined upon inspection that a tag could not be placed on these portable shower curtains based on the construction, materials, and portability of the showers. Once the evacuees left the shelter, the showers were no longer of any value to the University and have been subsequently transferred to surplus property.
- The University will review the items not recorded in the LPAA Protégé System for SUBR and make appropriate adjustments.

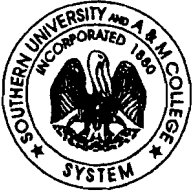
Plan for Corrective Action

The University will continue the implementation plan for corrective action that was begun in 2005 to ensure accurate accountability of property and compliance with state regulations. Highlights of the plan include the following:

- Continuation of the annual Property Management and Control Workshop. The focus of the workshop is on reviewing current policy and training department administrators and Property and Inventory Control Officers on all aspects of property management, including tagging, inventorying, and transferring of movable property.
- Continuation of efforts to identify outdated and inoperable equipment that is in need of disposal. Department heads will be required to review the status of equipment in their areas. The Property Management Office will work with the various departments on identifying and documenting items requiring disposal.
- Continuation of efforts to work closely with the appropriate state offices that have oversight responsibilities for movable property. The Property Management Office will communicate more timely and work more closely with the LPAA and

auditor's offices on the treatment of equipment and components where the regulations may be vague and thus lead to interpretation differences.

The point of contact for corrective action is Associate Vice Chancellor for Facilities Operations, Tony Moudgil. The Office for Finance and Administration will provide oversight in the implementation of these corrective actions.




OFFICE OF THE
VICE PRESIDENT FOR
FINANCE AND BUSINESS AFFAIRS
AND
COMPTROLLER

SOUTHERN UNIVERSITY AND A & M COLLEGE SYSTEM
BATON ROUGE, LOUISIANA 70813

TELEPHONE: (225) 771-5550
FAX: (225) 771-2807

TO: Dr. Ralph Slaughter
System President

 Tolor E. White
Vice President for Finance and Business Affairs & Comptroller

DATE: March 13, 2007

RE: Official Response to Legislative Auditor Reportable Findings

Attached is the official response to the Legislative Auditor's finding on Noncompliance with Movable Property Regulations in the offices at the System level. Please contact me if you have any questions.

Attachment

**Southern University System
Response to Legislative Auditor's Finding
FY 2005-2006**

Noncompliance with Movable Property Regulations

We partially concur with the auditor's finding that the Southern University System (SUS) did not maintain control over movable property as prescribed by state law. The value of property reported as unlocated in the System's departments has decreased approximately 90% in the past three years. In fiscal year 2006, only two additional items (\$2,800) were reported as unlocated. We do strive however, to be totally in compliance with state property regulations and guidelines and will take steps to ensure that no additional property is reported as unlocated.

We will continue to tighten our controls over moveable property and monitor compliance with state property regulations and guidelines as follows:

- Each department has been requested to review the discrepancy reports of their operating units and to devote additional efforts to locate property previously reported as unlocated.
- With the annual inventory, individual departments will be requested to submit explanations of why they have not located all the moveable property on their annual inventory.
- Each department has been requested to ensure that the proper paperwork has been filled out in accordance with state property procedures and guidelines for transferred, surplus, or stolen property. Periodic reviews will be conducted to ensure that these items are deleted from the Master Roster.

Expected completion date: June 30, 2007.

The contact person for corrective action is Mrs. Gloria Matthews, Deputy Vice President for Finance and Business Affairs and Assistant to the Vice President.



SOUTHERN UNIVERSITY
AT SHREVEPORT

OFFICE OF THE CHANCELLOR

March 7, 2007

Mr. Tolor White
Vice President for Finance & Business Affairs
Southern University System
4th Floor, J. S. Clark Administration Bldg.
Baton Rouge, LA 70813

Dear Mr. White:

I am transmitting responses per the attached legislative audit findings for the Southern University-Shreveport campus for the period ending June 30, 2007.

Should you have questions or require additional information, feel free to contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ray L. Belton".

Ray L. Belton, Ph.D.
Chancellor

/lhb

Att.

xc: Benjamin Pugh, Vice Chancellor

Southern University-Shreveport

Response to Legislative Audit Findings FY 2005-2006

Finding:

Noncompliance with Movable Property Regulations

Corrective Action:

Southern University-Shreveport concurs with the findings. The University will strengthen its internal control over property and strengthen procedures for conducting the physical inventory. Additionally, the University will place greater emphasis on ensuring that all property is tagged and reported timely and accountably to LPAA. The University has developed new procedures to secure property and has experienced some success in locating missing property.

Proposed Completion Date:

June 30, 2007

Person(s) Responsible:

Eddie Boxley, Property Control Coordinator

Wanda Lewis, Accounting Director

Benjamin Pugh, Vice Chancellor for Fiscal Affairs



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Southern University and A & M College System
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(225) 771-2861 Fax
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March 12, 2007

TO: Dr. Ralph Slaughter, System President
Southern University System
CAMPUS

FROM: Leodrey Williams, Chancellor
Southern University Ag Center

RE: Official Response to Legislative Auditor Reportable Findings –
Noncompliance with Movable Property Regulations

Per your request for official campuses response relating to the "Official Response to Legislative Auditor Reportable Findings," the Southern University AgCenter reviewed the recent audit report and is in full agreement with the concerns raised in the report. Management at the Southern University Ag Center is resolved to strengthen its control over movable property to ensure that there is an accountability system in place; and that it is properly enforced. Attached you will find the Center's response to questions raised in the recent audit.

If further information is needed, please contact Dr. Adell Brown, Jr. at (225) 771-2242 ext. 317 or email: adell_brown@suagcenter.com.

Attachment

Cc: Dr. Adell Brown, Jr. – Vice Chancellor for Finance and Administration
Dr. Kirkland Mellad – Vice Chancellor for Research
Dr. Gina E. Eubanks – Vice Chancellor for Extension
Mr. Christopher J. Rogers – Director of Technology and Communications

**Southern University Agricultural and Research Center
Compliance with Movable Property Regulations**

Audit Response

The Southern University Agricultural Research and Extension Center (SUAREC) reviewed the recent audit report and are in full agreement with the concerns raised in the report. Management in SUAREC is resolved to strengthen its control over movable property to ensure that there is an accountability system in place; and that it's properly enforced.

Several attempts have been made in the past to remove the stolen, surplus, and/or misplaced items from the inventory, but they continue to appear on Annual Physical Inventories. Management will follow through to see that this is accomplished in a more timely matter.

Name of Contact person (s) responsible for corrective action:

Mr. Roosevelt Payne, Research Associate, / Property Manager

Mr. Christopher J. Rogers, Director of Technology Services

Corrective actions plan for the following deficiencies noted on SUAREC inventory:

- A. Stolen items – Ensure proper paperwork (i.e. police reports) are secured and reported to the Southern University Property Control Office in a timely matter. Follow-up with Office of University Property to ensure items are removed from the inventory.
- B. Surplus/Misplaced items still on inventory – Ensure proper paperwork is filled out in accordance to state property procedures and guidelines. Periodic reviews, along with the Southern University Property Control Office will be conducted to ensure items are deleted from the Master Roster. **[Timeline: the Center has appointed an inventory control team, which consist of two persons. Additionally each unit within the Ag Center has an inventory point person(s).]**

Anticipated Completion Date:

May, 2007




SOUTHERN UNIVERSITY AT NEW ORLEANS

6801 Press Drive
New Orleans, LA 70126-0002
(504) 286-5311
FAX (504) 284-5500
www.suno.edu

OFFICE OF THE CHANCELLOR

TO: Dr. Ralph Slaughter
System President

FROM: Dr. Victor Ukpolo 
Chancellor

DATE: March 8, 2007

RE: **Official Response to Deficiencies as noted by the Legislative Auditor**

Attached is the official response relating to the 2006 reportable deficiencies as noted by the Legislative Auditor. This submission is applicable to deficiencies for the New Orleans Campus.

Please contact Dr. Gerald Williams, Vice Chancellor for Administration and Finance at 504-286-5117 if you have questions or need additional information regarding the attached response.

Attachment

/rlb

pc: Dr. Gerald Williams

SOUTHERN UNIVERSITY AT NEW ORLEANS

NON-COMPLIANCE WITH MOVABLE PROPERTY REGULATIONS

We concur with the deficiency as noted by the auditor on unlocated movable property items totaling **\$69,113.00**.

- The university requires all employees to notify the Property Manager and Campus Police on all stolen or missing equipment.

We concur with the deficiency as noted by auditor that the university did not identify in the LPAA Protégé System items that were acquired with federal funds.

- At the present time, the fund line is used to record the source of funds for all items entered into the Protégé System. Our office has updated the source of funds used to acquire items entered into Protégé System from January 2006 to present. We are currently verifying source of funds used on all items entered into the Protégé System before January 2006. Upon completion of verification, each item source of funds used will be updated.
- The anticipated completion date is June 30, 2007.
- The contact persons responsible for corrective action are Mr. John L. Sullivan, Director, Central Stores/Property Manager and Dr. Gerald Williams, Vice Chancellor for Administration and Finance.



SOUTHERN UNIVERSITY LAW CENTER

POST OFFICE BOX 9294

BATON ROUGE, LOUISIANA 70813-9294

OFFICE OF THE CHANCELLOR

(225) 771-2552

FAX (225) 771-2474

March 8, 2007

Dr. Ralph Slaughter, System President
Southern University System
4th Floor
J.S. Clark Administration Building
Baton Rouge, La. 70813

Dear Dr. Slaughter:

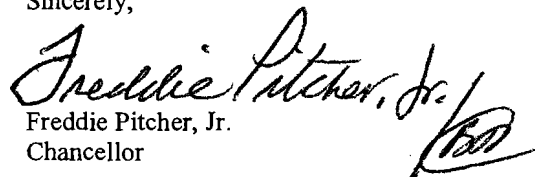
This is the response for the Southern University Law Center in regards to the audit finding for fiscal year 2006 regarding unlocated movable property. Two (2) movable property items totaling \$5,200.00 was reported unlocated. One was a laptop computer (\$3,553.00) that was allegedly returned by the user to our Information Technology (IT) Department for repairs and a HP Printer (\$1,647.00) that was used at the F. G. Clark Activity Center by Law Center volunteers assisting the American Red Cross to process hurricane evacuees. We concur with this finding.

The persons that are responsible for corrective action are: Mrs. Lata Johnson, Mr. Srinivas Yadavalli, Mr. Felton DeRouen and Mr. Bertell Dixon. The planned corrective action is as follows:

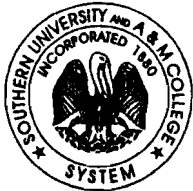
- (1.) A system is already in place to sign-out laptop computers and other computer related equipment to faculty members, employees and students. The current return procedure sometimes allows an individual to return the equipment without signing the log. The Information Technology employee receives the equipment and signs as receiving back the equipment. The return logging is sometimes done at a later time. The corrective action is to have the individual who signed out the equipment to also sign-in upon returning the equipment and have the IT employee immediately sign the equipment back in. This process will begin immediately.
- (2.) The unlocated HP Printer comes under the topic of loaned equipment. The current process is that agreed upon loan equipment is to be recorded and an individual assigned to ensure that the equipment is returned. The above referenced individuals will be responsible for strengthening this process immediately.

If you have any questions or need additional information, please let me know.

Sincerely,


Freddie Pitcher, Jr.
Chancellor

FP/dal



OFFICE OF THE
VICE PRESIDENT FOR
FINANCE AND BUSINESS AFFAIRS
AND
COMPTROLLER

SOUTHERN UNIVERSITY AND A & M COLLEGE SYSTEM
BATON ROUGE, LOUISIANA 70813

TELEPHONE: (225) 771-5550
FAX: (225) 771-2807

February 28, 2007

To: Dr. Ralph Slaughter
System President

From: Tolor E. White
Vice President for Finance and Business Affairs

Re: Official Response to Legislative Auditor Reportable Findings

Attached is the official response to the Legislative Auditor's finding on *Uncollateralized Bank Accounts*. The response refers to uncollateralized bank accounts maintained at the System level.

Please contact me if you have any questions.

Attachments

**Southern University System
Response to Legislative Auditor's Finding
FY 2005-2006**

UNCOLLATERALIZED BANK ACCOUNTS

We concur with the auditor's finding that Southern University System (SUS) did not ensure that all bank accounts were adequately collateralized as required by state law. Although we received quarterly Pledged Security Reports from our banking institution showing that a portion of our funds were adequately collateralized, we did not have on file a signed Security Agreement for the Collateralization of Public Funds - State of Louisiana, as required. For accounts at the System level, the necessary measures were being taken to obtain, sign and have on file the required Security Agreement.

The contact person for corrective action is Mr. Tolor White, Vice President for Finance and Business Affairs and Comptroller. A Security Agreement with Capital One, N.A. was signed on November 18, 2006. Management will continue to monitor the amount in its accounts to ensure that all accounts are adequately collateralized by each bank, on a system-wide basis. Further, management will ensure compliance with FIRREA requirements.

SOUTHERN UNIVERSITY AT NEW ORLEANS

UNCOLLATERIZED BANK ACCOUNTS

We concur with the auditor's findings that the university could not provide adequate collateral documents as required by state law.

- **UNCOLLATERIZED BANK ACCOUNTS** - Due to Hurricane Katrina, the university nor the financial institution could provide the documents as required. We have requested the documents from the banks as required by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) for collateralization of funds.

The contact persons responsible for corrective action are Mr. Woodie White, Comptroller and Dr. Gerald Williams, Vice Chancellor for Administration and Finance.

Southern University-Shreveport

Response to Legislative Audit Findings FY 2005-2006

Finding:

Uncollateralized Bank Accounts

Corrective Action:

Southern University-Shreveport will ensure that its accounts are adequately collateralized, will obtain security agreements with the financial institutions, and ensure that all FIRREA requirements regarding those agreements have been met.

Proposed Completion Date:

June 30, 2007

Person(s) Responsible:

Wanda Lewis, Accounting Director

Benjamin Pugh, Vice Chancellor for Fiscal Affairs



SOUTHERN UNIVERSITY AND A&M COLLEGE SYSTEM

BATON ROUGE, LOUISIANA 70813
(225) 771-2011

Baton Rouge, New Orleans,
Shreveport/Bossier City
LOUISIANA

Office of the President
(225) 771-4680

Fax Number:
(225) 771-5522

March 23, 2007

Mr. Steve Theriot, Legislative Auditor
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

Attached are the responses of Southern University at Baton Rouge and the Southern University Agricultural and Research Center to the revised finding concerning Noncompliance with Laws and Regulations.

Please let me know if additional information is needed.

Sincerely,

A handwritten signature in black ink, appearing to read "Ralph Slaughter". The signature is fluid and cursive, with a large initial "R" and a long, sweeping underline.

Ralph Slaughter, Ph.D., CPA
System President

Attachments

RS/gam

cc: Mr. Tolor White, Vice President for Finance and Business Affairs and Comptroller



Office of the Chancellor
P. O. Box 9374
[225] 771-5020
FAX [225] 771-2018

MEMORANDUM

TO: Dr. Ralph Slaughter
Southern University System President

FROM: Dr. Edward R. Jackson *Edward R. Jackson /ma*
Chancellor

DATE: March 23, 2007

RE: **Official Response to Legislative Auditor Reportable Finding
Noncompliance With Laws and Regulations**

Attached is the official response relating to the 2006 reportable finding of the Legislative Auditor. This submission is applicable to findings for the Baton Rouge Campus.

Please contact Vice Chancellor Flandus McClinton if you have questions or need additional information regarding the attached response.

Attachment

cc: Mr. Flandus McClinton, Vice Chancellor for Finance and Administration

Audit Response

Noncompliance With Laws and Regulations

Southern University at Baton Rouge (SUBR) concurs with the auditor's finding regarding an athletic department employee who received housing benefits from living in a university dormitory. Although it was management's intent to require the employee to live on campus as a part of his job duties, the requirement for receiving the housing benefit was not formally documented by the University. The University has subsequently taken appropriate action to formally document the requirements of the employee for receiving the housing benefit by including the requirement in the employee's job description and hiring documents. SUBR management does not endorse the statements made to the auditors by the employee and his supervisor. These statements are the opinions of the employee and his supervisor.

Plan for Corrective Actions

The University will implement procedures to require documentation to support all in-kind benefits provided to employees. The specific job requirements for receiving the benefit will be retained in the employee's job descriptions, in hiring documents, and in other official communications. These documents will be retained by the hiring department and Human Resource office.

The points of contacts for corrective actions will be the appropriate supervisor and vice chancellor. The Human Resource Office will have oversight responsibility in the implementation of this corrective action.



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March 14, 2007

TO: Dr. Ralph Slaughter, System President
Southern University System
CAMPUS

FROM: Leodrey Williams, Chancellor
Southern University Ag Center

RE: Official Response to Legislative Auditor Reportable Findings --

SUAREC uses public funds to pay for an employees retirement function

Per your request for official campuses response relating to the "Official Response to Legislative Auditor Reportable Findings," the Southern University AgCenter reviewed the recent audit report and is in agreement with the concerns raised in the report. At the time of the finding, management at the Southern University Ag Center was operating under approved University policies for the use of funds derived from the campus vending machine proceeds. As soon as the finding was brought to our attention, we immediately reverse the process and reimbursed the funds from the SU Foundation. All future transactions will adhere to state guidelines.

If further information is needed, please contact Dr. Adell Brown, Jr. at (225) 771-2242 ext. 317 or email: adell_brown@suagcenter.com.

Attachment

Cc: Dr. Adell Brown, Jr. -- Vice Chancellor for Finance and Administration
Dr. Kirkland Mellad -- Vice Chancellor for Research
Dr. Gina E. Eubanks -- Vice Chancellor for Extension
Mr. Christopher J. Rogers -- Director of Technology and Communications