

LEGISLATIVE AUDITOR  
STATE OF LOUISIANA



———— SOUTHERN UNIVERSITY SYSTEM ————  
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT  
ISSUED FEBRUARY 2, 2005

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

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STEVE J. THERIOT, CPA

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STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

OFFICE OF  
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December 15, 2004

Independent Auditor's Report  
on the Financial Statements

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

We have audited the accompanying 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, 2004, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Southern University System Foundation, a discretely presented component unit of the system. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this foundation, is based solely upon 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

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 financial position of the Southern University System and its discretely presented component unit as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-B to the basic financial statements, the Southern University System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB No. 14*. Accordingly, the Southern University System has discretely presented the financial statements and other required disclosures for the Southern University System Foundation, a component unit, as of June 30, 2004.

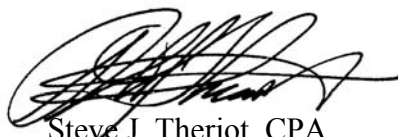
As discussed in note 1-P to the basic financial statements, the Southern University System implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, for the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004, 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.

The management's discussion and analysis on pages 5 through 14 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.

Our audit was conducted for the purpose of forming an opinion 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 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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[SU04]

### **Overview of the Financial Statements and Financial Analysis**

This document presents Management's Discussion and Analysis (MD&A) and financial statements for the Southern University and A&M College System for fiscal year 2004. The discussion and analysis of the System's financial statements provides a general overview of the financial activities of the System's institutions for the year. The emphasis of discussions about these statements will be on the current year financial data. The notes to the financial statements provide a summary of some of the significant accounting policies affecting all financial transactions of the System's institutions. The primary financial statements presented are 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 presents the assets, liabilities, and net assets of the Southern University System as of the end of fiscal year 2004. The purpose of the Statement of Net Assets is to present to the readers of the financial statements, a fiscal snapshot of the Southern University System. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets will be discussed in the notes to the financial statements.

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.

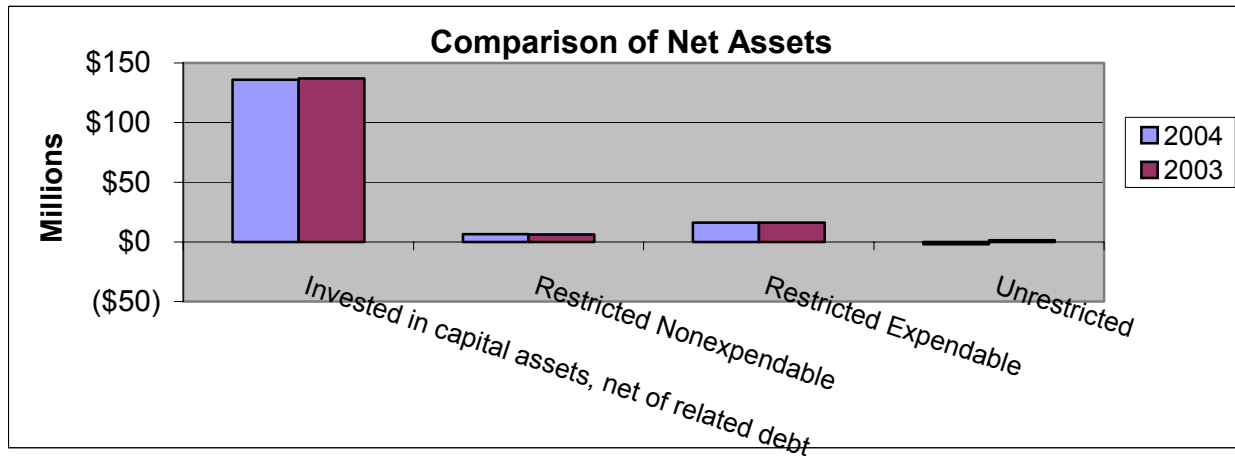
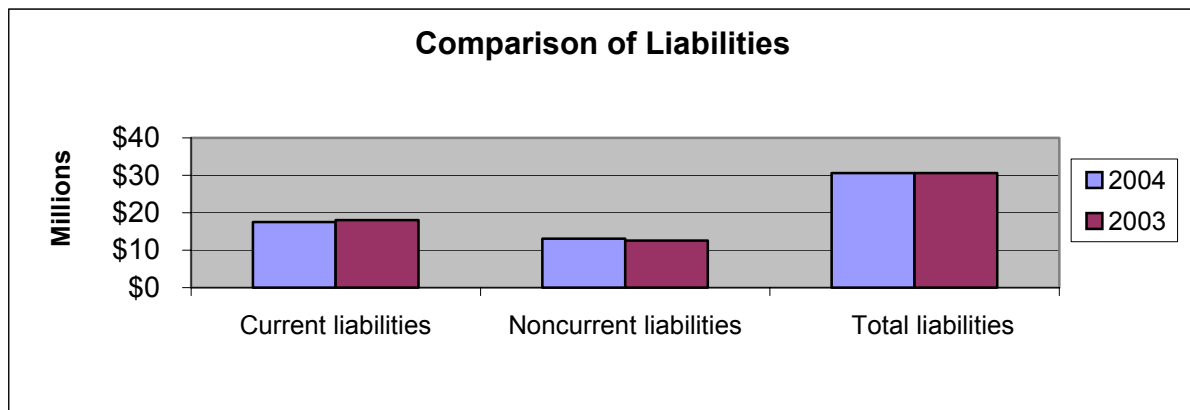
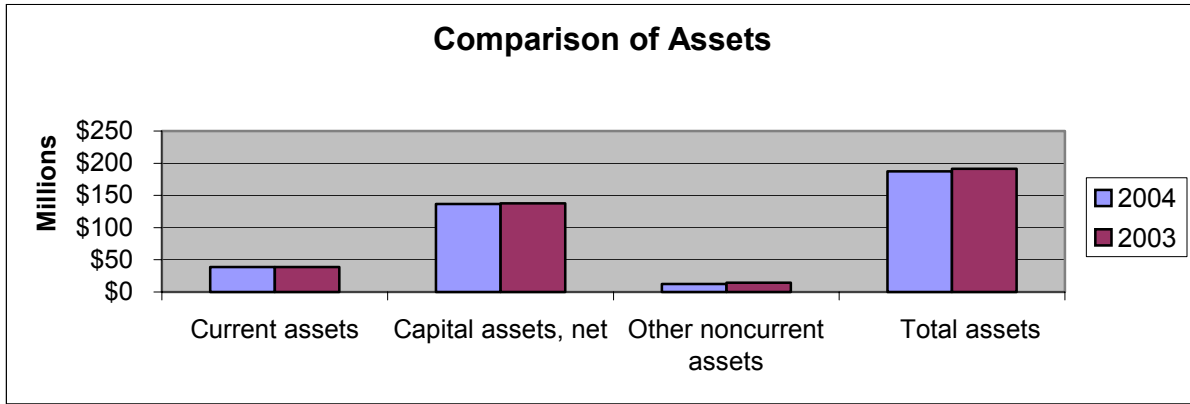
### **Categories of Net Assets**

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.

**Comparative Statement of Net Assets  
For the Fiscal Years Ended  
June 30, 2003 and 2004**

	2004	2003	Percent Change
<b>Assets</b>			
Current assets	\$38,603,054	\$38,966,855	-1%
Capital assets, net	136,484,136	137,650,805	-1%
Other noncurrent assets	12,267,018	14,645,300	-16%
Total assets	<u>187,354,208</u>	<u>191,262,960</u>	-2%
<b>Liabilities</b>			
Current liabilities	17,530,426	18,044,189	-3%
Noncurrent liabilities	13,056,917	12,566,483	4%
Total liabilities	<u>30,587,343</u>	<u>30,610,672</u>	
<b>Net Assets</b>			
Invested in capital assets, net of related debt	136,083,724	137,103,040	-1%
Restricted:			
Nonexpendable	6,312,984	6,095,243	4%
Expendable	16,196,916	16,170,932	0%
Unrestricted	<u>(1,826,759)</u>	<u>1,283,073</u>	-242%
<b>Total net assets</b>	<u>\$156,766,865</u>	<u>\$160,652,288</u>	-2%





The total assets of the System decreased by \$3,793,154, a decrease of 2%. 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.

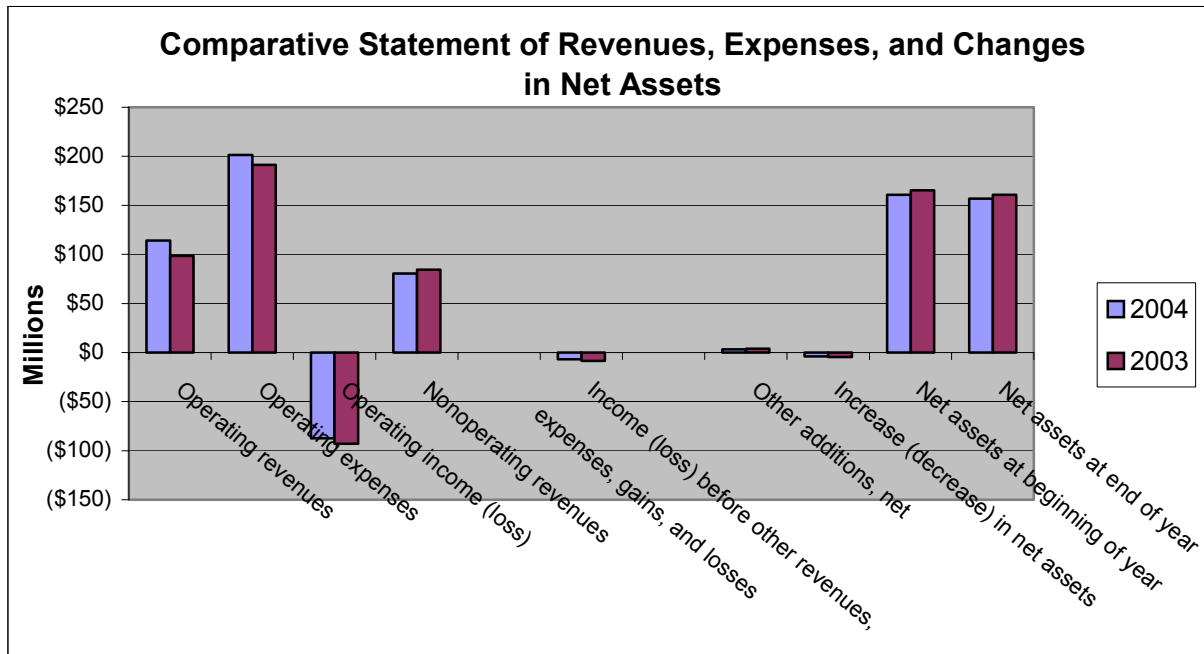
**Statement of Revenues, Expenses, and Changes in Net Assets**

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.

**Comparative Statement of Revenues, Expenses,  
and Changes in Net Assets  
For the Fiscal Years Ended  
June 30, 2004 and 2003**

<u>Items</u>	<u>2004</u>	<u>2003</u>	<u>Percent Change</u>
Operating revenues	\$114,095,883	\$98,522,602	16%
Operating expenses	202,313,085	191,453,164	6%
Operating income (loss)	(88,217,202)	(92,930,562)	5%
Nonoperating revenues	80,375,831	84,500,338	-5%
Income (loss) before other revenues, expenses, gains, and losses	(7,841,371)	(8,430,224)	7%
Other additions, net	3,955,948	3,772,740	5%
Increase (decrease) in net assets	(3,885,423)	(4,657,484)	17%
Net assets at beginning of year (restated)	160,652,288	165,309,772	-3%
Net assets at end of year	\$156,766,865	\$160,652,288	-2%



The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with a decrease 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 for the first time in its history. As expected, the University experienced a modest decline in enrollment. Anticipating this decline, budget adjustments were made to offset the reduction in revenues in order 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.

The compensation and employee benefits category increased during the fiscal year because of the annualization of pay increases granted during fiscal year 2003. During fiscal year 2002-2003, the University implemented a faculty pay plan to bring the salaries of all faculty members closer to their respective disciplines, per the 2001-2002 SREB salary averages. Other unclassified employees on the Baton Rouge and Shreveport campuses were provided a salary increase of 5% of their annual base salary which had to be annualized during 2003-2004. There is a direct correlation between salaries and employer contributions toward benefits for retirees; accordingly, an increase in related benefits was also noted.

The Agricultural Research and Extension Center was appropriated \$1,000,000 by the state from the tobacco funds to support Youth Programs, the SU Museum of Art, and the Historical District. The Center expanded its Youth Programs related to outreach efforts. The SU Museum of Art and the Historical District were provided additional support that was needed.

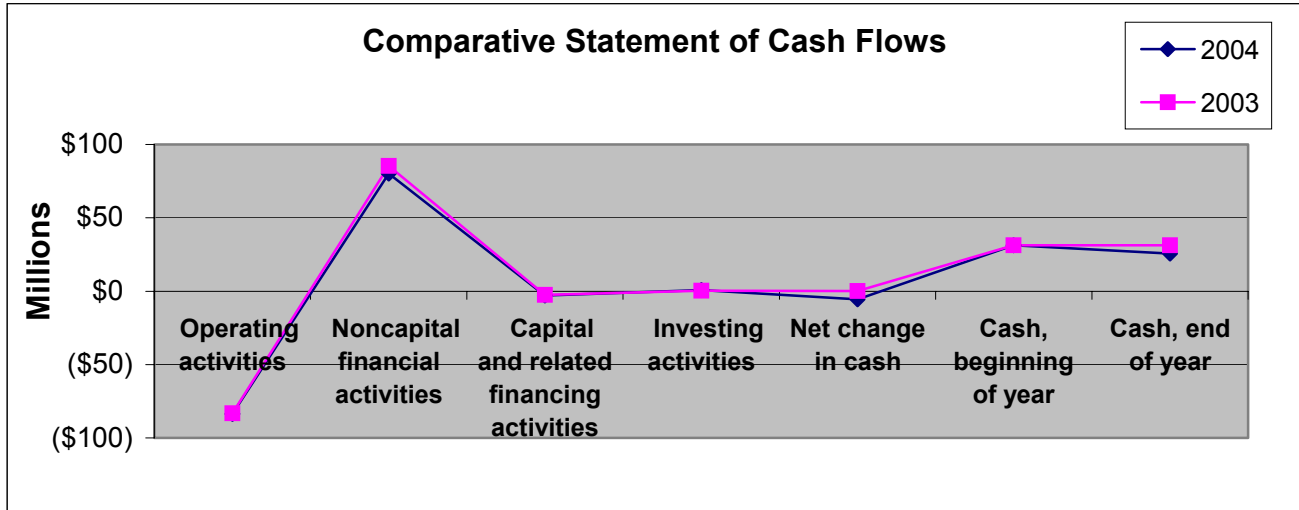
The cumulative effects of the University recording depreciation on capital assets and making a change in the recognition of summer session revenues, during fiscal year 2002, are reflected in the financial statements. The changes were made to comply with the Governmental Accounting Standards Board's Statements 34 and 35 and the directives issued by the Division of Administration, Office of Statewide Reporting and Accounting Policy for the State of Louisiana.

**Statement of Cash Flows**

The final statement presented by the Southern University System is the Statement of Cash Flows. The Statement of Cash Flows presents summary information about the combined cash activity of the institutions during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institutions. The second section reflects cash flows from noncapital financing activities or the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section includes cash flows from capital and related financing activities, such as the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

**Comparative Statement of Cash Flows  
For the Fiscal Years Ended June 30, 2004 and 2003**

	2004	2003	Percent Change
Cash provided (used) by:			
Operating activities	(\$83,576,671)	(\$83,137,487)	-1%
Noncapital financing activities	82,818,160	85,424,816	-3%
Capital and related financing activities	(5,600,200)	(2,576,173)	117%
Investing activities	691,320	371,310	86%
Net change in cash	(5,667,391)	82,466	-6972%
Cash, beginning of year	31,382,258	31,299,792	0%
Cash, end of year	\$25,714,867	\$31,382,258	-18%



**Capital Assets and Debt Administration**

The combined total of capital assets, net of accumulated depreciation at year-end, is \$136,484,136.

The Southern University System’s institutions retired \$147,353 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 \$13,056,917. Included in that sum are the following:

- Compensated Absences Payable - \$12,701,858
- Bonds Payable - \$355,059

For additional information concerning Capital Assets and Debt Amortization, refer to note 13 in the Notes to the Financial Statements.

**BUDGETARY PRACTICES**

The annual budget for the General Fund of the university is established by annual legislative action and by Title 39 of the Louisiana Revised Statutes. The submission of the budget for approval by the Southern University Board of Supervisors, the Louisiana Board of Regents, and other external bodies is required in the budgetary process. The other funds of the university, although subject to internal budgeting, are not required to be submitted for approval through the legislative budget process. State law provides that appropriations lapse at the end of the fiscal year. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting with certain exceptions as described in the notes.

The following is a budgetary comparison for current year General Fund appropriation:

**Budgetary Comparison for General Fund Appropriations  
For the Year Ended June 30, 2004**

	Original	Final	Actual	Adjustment to Budget Basis	Actual on Budget Basis	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Appropriated by legislature:						
State General Fund (direct)	\$72,635,889	\$72,990,287	\$73,231,566	\$250	\$73,231,816	\$241,529
State General Fund by self-generated revenues	46,851,166	47,149,172	39,320,223	3,640,654	42,960,877	(4,188,295)
State General Fund by self-interagency transfers	1,841,023	1,841,023	2,075,805		2,075,805	234,782
Federal funds	2,691,700	2,691,700	2,691,916		2,691,916	216
Other	3,532,502	3,532,502	3,532,502	463,224	3,995,726	463,224
Total revenues	<u>127,552,280</u>	<u>128,204,684</u>	<u>120,852,012</u>	<u>4,104,128</u>	<u>124,956,140</u>	<u>(3,248,544)</u>
<b>EXPENDITURES</b>						
Program expenditures	<u>127,552,280</u>	<u>128,204,684</u>	<u>118,968,002</u>	<u>5,271,717</u>	<u>124,239,719</u>	<u>3,964,965</u>
<b>UNEXPENDED APPROPRIATION - CURRENT YEAR</b>						
	<u>NONE</u>	<u>NONE</u>	<u>\$1,884,010</u>	<u>(\$1,167,589)</u>	<u>\$716,421</u>	<u>\$716,421</u>

### Economic Outlook - Short Term

The System's overall financial position is strong, even though the financial statements do not show this. The decrease in net assets show results from the reporting requirements that were promulgated for public colleges and universities by the Governmental Accounting Standards Board's Statements Nos. 34 and 35.

With relatively flat funding for the year and an increase in enrollment from the prior year, the System had a modest decrease in net assets. The System's management anticipates that the current fiscal year will be much like fiscal year 2004, and it 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 are being 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.

### Contingent Liabilities

Southern University at New Orleans had a contingent claim at the end of 2003 with the federal government in the amount of \$1,367,586. After providing appropriate documentation, the amount was reduced to \$1,061,497 and paid in full during fiscal year 2004.

The management of the System is not aware of any other facts, decisions, or conditions, other than general economic conditions, that are expected to have a significant effect on the financial position or operations of the institutions during fiscal year 2005.

### **Economic Outlook - Long-Term**

There is concern within the University System regarding adequate and continuous funding to support programs that are being implemented under the United States versus State of Louisiana Settlement Agreement. The Southern University System received \$3,756,620 to support implementation of the programs during fiscal year 2004. The Agreement is scheduled to expire on the 31<sup>st</sup> day of December 2005. A firm commitment is needed regarding funding, upon expiration of the Desegregation Settlement Agreement, so that stability and program productivity can be maintained. The lack of a firm commitment regarding continuous funding leads to speculation, which has a negative impact on the desired outcomes at the institutions responsible for the programs.

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 match required has increased. 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 was reached between the state's land-grant institutions for settling land grant issues relative to programs and funding. The agreement has not been approved at all required levels. Once the agreement receives final approval and the required funding is provided, research and outreach programs envisioned will be implemented and maintained.





**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA****Statement of Net Assets  
June 30, 2004****ASSETS**

## Current assets:

Cash and cash equivalents (note 2)	\$17,161,922
Receivables (net) (note 4)	19,932,572
Inventories	222,371
Deferred charges and prepaid expenses	841,187
Notes receivable (net) (note 5)	429,300
Other current assets	15,702
Total current assets	<u>38,603,054</u>

## Noncurrent assets:

Restricted cash and cash equivalents (note 2)	8,552,945
Restricted investments (note 3)	3,714,073
Capital assets (net) (note 6)	136,484,136
Total noncurrent assets	<u>148,751,154</u>
Total assets	<u>187,354,208</u>

**LIABILITIES**

## Current liabilities:

Accounts payable and accruals (note 12)	8,856,656
Deferred revenues (note 11)	6,241,056
Compensated absences (note 10)	473,373
Amounts held in custody for others	882,548
Bonds payable - current portion (note 13)	45,353
Other current payables	1,031,440
Total current liabilities	<u>17,530,426</u>

## Noncurrent liabilities:

Compensated absences (note 10)	12,701,858
Bonds payable (note 13)	355,059
Total noncurrent liabilities	<u>13,056,917</u>
Total liabilities	<u>30,587,343</u>

(Continued)

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The accompanying notes are an integral part of this statement.

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
Statement of Net Assets, 2004**

<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$136,083,724
Restricted for:	
Nonexpendable (note 16)	6,312,984
Expendable (note 16)	16,196,916
Unrestricted	<u>(1,826,759)</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$156,766,865</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA****SOUTHERN UNIVERSITY SYSTEM FOUNDATION  
Statement of Financial Position  
June 30, 2004****ASSETS**

## Current assets:

Cash and cash equivalents	\$2,026,103
Certificates of deposit	436,959
Accounts receivable	174,955
Due from affiliate	13,399
Other assets	23,331
Unconditional promises to give (net allowance of \$171,314)	86,171

## Restricted assets:

Cash and cash equivalents	441,750
Certificates of deposit	106,867
Investments (note 3)	2,377,878
Total current assets	<u>5,687,413</u>

## Noncurrent assets:

Due from Millennium Housing, LLC	1,433,877
Unconditional promises to give	226,750
Fixed assets (net of accumulated depreciation of \$442,246) (note 6)	2,895,650
Total noncurrent assets	<u>4,556,277</u>

**TOTAL ASSETS**10,243,690**LIABILITIES**

## Current liabilities:

Bank overdraft	16,389
Accounts payable and accrued liabilities	643,458
Accrued interest payable	10,067
Payroll taxes payable	5,565
Deferred revenue	53,000
Due to affiliate (note 21)	2,955,858
Line of credit	944,809
Notes payable (note 13)	194,263
Bonds payable - current portion (note 14)	170,000
Total current liabilities	<u>4,993,409</u>

(Continued)

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The accompanying notes are an integral part of this statement.

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
SOUTHERN UNIVERSITY SYSTEM FOUNDATION  
Statement of Financial Position, 2004**

**LIABILITIES (CONT.)**

Noncurrent liabilities:

Notes payable (note 13)	\$268,620
Bonds payable (note 14)	<u>1,360,000</u>
Total noncurrent liabilities	<u>1,628,620</u>
Total liabilities	<u>6,622,029</u>

**NET ASSETS**

Unrestricted	\$133,012
Temporarily restricted (note 16)	2,015,246
Permanently restricted (note 16)	<u>1,473,403</u>
Total net assets	<u>3,621,661</u>

**TOTAL LIABILITIES AND NET ASSETS** \$10,243,690

(Concluded)

The accompanying notes are an integral part of this statement.

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2004**

**OPERATING REVENUES**

Student tuition and fees (net of scholarship allowances of \$13,767,884)	\$31,481,392
Federal appropriations	2,691,916
Federal grants and contracts	61,873,126
State and local grants and contracts	2,044,376
Sales and services of educational departments	4,451
Auxiliary enterprise revenues (net of scholarship allowances of \$2,077,958)	12,271,753
Other operating revenues	3,728,869
<b>Total operating revenues</b>	<u>114,095,883</u>

**OPERATING EXPENSES**

Educational and general:	
Instruction	55,833,170
Research	5,160,087
Public service	5,713,129
Academic support	28,131,489
Student services	14,798,859
Institutional support	32,171,478
Operation and maintenance of plant	15,658,713
Depreciation	8,526,134
Scholarships and fellowships	23,379,790
Auxiliary enterprises	12,465,217
Other operating expenses	475,019
<b>Total operating expenses</b>	<u>202,313,085</u>

**OPERATING LOSS** (88,217,202)

(Continued)

The accompanying notes are an integral part of this statement.

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
Statement of Revenues, Expenses, and  
Changes in Net Assets, 2004**

<b>NONOPERATING REVENUES (Expenses)</b>	
State appropriations	\$76,081,441
Gifts	746,200
Investment income	496,913
Interest expense	(60,969)
Other nonoperating revenues	<u>3,112,246</u>
<b>Net nonoperating revenues</b>	<u><b>80,375,831</b></u>
<b>Loss before other revenues and expenses</b>	(7,841,371)
Capital appropriations	2,532,817
Capital grants and gifts	1,136,960
Additions to permanent endowment	60,000
Other additions, net	<u>226,171</u>
<b>DECREASE IN NET ASSETS</b>	(3,885,423)
<b>NET ASSETS - BEGINNING OF YEAR (restated) (note 17)</b>	<u>160,652,288</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$156,766,865</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**SOUTHERN UNIVERSITY SYSTEM FOUNDATION  
Statement of Activities  
For the Year Ended June 30, 2004**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>REVENUES AND OTHER SUPPORT</b>				
Contributions and other support	\$30,519	\$1,663,110	\$222,657	\$1,916,286
Interest income	19,878	4,992		24,870
Other income	41,177	3,670		44,847
Other program support	26,048	186,988		213,036
In-kind revenue	172,600			172,600
Net assets released from restrictions - satisfactions of program restrictions	2,008,094	(2,008,094)		
Total revenues and other support	<u>2,298,316</u>	<u>(149,334)</u>	<u>222,657</u>	<u>2,371,639</u>
<b>EXPENSES</b>				
Program	1,959,262			1,959,262
General	406,539			406,539
Fundraising	10,017			10,017
Total expenses	<u>2,375,818</u>	<u>NONE</u>	<u>NONE</u>	<u>2,375,818</u>
<b>Changes in net assets</b>	(77,502)	(149,334)	222,657	(4,179)
<b>Net assets - beginning of year</b>	<u>210,514</u>	<u>2,164,580</u>	<u>1,250,746</u>	<u>3,625,840</u>
<b>Net assets - end of year</b>	<u><u>\$133,012</u></u>	<u><u>\$2,015,246</u></u>	<u><u>\$1,473,403</u></u>	<u><u>\$3,621,661</u></u>

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, 2004**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Tuition and fees	\$30,276,020
Grants and contracts	64,680,844
Payments to suppliers	(32,294,369)
Payments for utilities	(5,993,581)
Payments to employees	(103,993,691)
Payments for benefits	(22,293,108)
Payments for scholarships and fellowships	(23,984,703)
Loans issued to students and employees	(8,529)
Auxiliary enterprise charges	11,483,480
Sales and services of educational departments	4,451
Other payments	(1,453,485)
<b>Net cash used by operating activities</b>	<u>(83,576,671)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

State appropriations	76,081,353
Gifts and grants for other than capital purposes	1,293,519
Private gifts for endowment purposes	60,000
TOPS receipts	1,334,089
TOPS disbursements	(1,535,882)
Federal Family Education Loan program receipts	69,001,331
Federal Family Education Loan program disbursements	(69,001,331)
Student organization agency transactions	79,488
Other receipts	5,505,593
<b>Net cash provided by noncapital financing sources</b>	<u>82,818,160</u>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:**

Capital appropriations received	2,532,817
Capital grants and gifts received	1,136,960
Purchases of capital assets	(9,061,655)

(Continued)

The accompanying notes are an integral part of this statement.

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
Statement of Cash Flows, 2004**

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: (CONT.)**

Principal paid on capital debt and leases	(\$147,353)
Interest paid on capital debt and leases	(60,969)
<b>Net cash used by capital financing activities</b>	<u>(5,600,200)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Proceeds from sales and maturities of investments	271,358
Interest received on investments	496,962
Purchase of investments	(77,000)
<b>Net cash provided for investing activities</b>	<u>691,320</u>

**Net decrease in cash and cash equivalents** (5,667,391)

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** 31,382,258

**CASH AND CASH EQUIVALENTS AT END OF YEAR** \$25,714,867

**RECONCILIATION OF OPERATING LOSS TO NET**

**CASH USED BY OPERATING ACTIVITIES:**

Operating loss	(\$88,217,202)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	8,526,134
Changes in assets and liabilities:	
(Increase) in accounts receivable (net)	(491,077)
(Increase) in due from federal government	(2,677,231)
(Increase) in inventories	(25,832)
(Increase) in prepaid expenses	(257,098)
Decrease in other assets	2,288
(Decrease) in accounts payable	(1,177,316)
Increase in deferred revenue	55,225
Increase in compensated absences	505,049
Increase in other liabilities	211,841
(Decrease) in loans payable to students and employees	(31,452)

**Net cash used by operating activities** (\$83,576,671)

(Concluded)

The accompanying notes are an integral part of the financial statements.

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## 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, departments of instruction, et cetera, 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 2003-2004 fiscal year, the university conferred 2,374 degrees, and student enrollment was 36,472. Southern University has 720 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.

**B. REPORTING ENTITY**

The GASB, Code Section 2100, has defined the governmental reporting entity to be the State of Louisiana. The university system is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) 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, a component unit of the State of Louisiana.

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 implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*. 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 Southern University System Foundation for the year ended June 30, 2004. To obtain a copy of the audit report, write to:

Southern University System Foundation  
P.O. 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. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The system has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The system has elected to not apply FASB pronouncements issued after the applicable

date. However, in the current fiscal year, the system has included 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.

**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  
AND INVESTMENTS**

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 negotiable certificates of deposit, regardless of maturity. These terms are also used in preparing the Statement of Cash Flows.

In accordance with Louisiana Revised Statute (R.S.) 49:327, the system is authorized to invest funds in direct United States Treasury obligations, United States government agency obligations, and money market funds. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. Investments maintained in investment accounts in the Southern University System 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.

**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.

**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 3 to 10 years for most movable property. Library collections regardless of age, with a total acquisition value of \$5,000,000 or more will be capitalized and depreciated.

**I. DEFERRED REVENUES**

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

**J. COMPENSATED ABSENCES**

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

Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave 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 with maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets. 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 operation, nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following components:

- (a) Invested in capital assets, net of related debt consists of the system's total investment in capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted - nonexpendable 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 each university and may be used at the discretion of the governing board to meet current expenses and for any purpose.

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

#### **N. CLASSIFICATION OF REVENUES**

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

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

#### **O. SCHOLARSHIP DISCOUNTS AND ALLOWANCES**

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for services (tuition and fees) provided by 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 PRINCIPLE**

For the year ended June 30, 2004, the Southern University System implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. The implementation of this new accounting standard required additional disclosures but had no impact on the reported amounts of investments, net assets, or changes in net assets.



**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 Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organization*, 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 the Financial Accounting Standards Board in 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 (i.e., 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 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 for purposes of the statement of cash flows.

**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.

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. DEFERRED REVENUES**

Deferred revenues include amounts received for contract and football suite sponsors that have not yet been earned.

**M. 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, 2004, the system has cash and cash equivalents (book balances) totaling \$25,714,867 as follows:

Petty cash	\$5,700
Cash in State Treasury	634,946
Demand deposits:	
Noninterest-bearing	17,798,377
Interest-bearing	2,336,395
Time certificates of deposit	4,939,449
	<u>                    </u>
Total	<u><u>\$25,714,867</u></u>

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

Current assets	\$17,161,922
Noncurrent assets - restricted	8,552,945
	<u>                    </u>
Total	<u><u>\$25,714,867</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the system's deposits may not be returned to it. Under state law, 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. At June 30, 2004, the system has \$32,406,962 in deposits (collected bank balances) secured by federal deposit insurance and pledged securities.

**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 \$2,155,514 as of June 30, 2004.

**3. INVESTMENTS**

At June 30, 2004, the system has investments (noncurrent-restricted assets) totaling \$3,714,073 as follows:

	Fair Value June 30, 2004	Investment Maturities
U.S. government securities	\$51,771	Less than 1 year
Mutual funds	764,435	
Investments held by private foundations (uncategorized)	2,897,867	
	<u>                    </u>	
Total	<u><u>\$3,714,073</u></u>	

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## NOTES TO THE FINANCIAL STATEMENTS

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 and 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.

For the monies held by the foundations totaling \$2,897,867 and mutual funds totaling \$764,435, there are no credit quality ratings. The investments held by private foundations totaling \$2,897,867 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. The system has no investments that are highly sensitive to changes in interest rates. No interest rate risk is disclosed. The system has no deposits or investments that are subject to foreign currency risk.

### FOUNDATION INVESTMENTS

Investments as of June 30, 2004, are summarized as follows:

	<u>Cost</u>	<u>Fair/Carrying Value</u>
Temporarily and permanently restricted - equity and fixed income	\$1,789,013	\$2,377,878

#### 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	\$3,605,926	\$707,923	\$2,898,003
Auxiliary enterprises	962,747		962,747
Federal, state, and private grants and contracts	13,075,335		13,075,335
Other	3,014,831	18,344	2,996,487
Total	<u>\$20,658,839</u>	<u>\$726,267</u>	<u>\$19,932,572</u>

There is no noncurrent portion of accounts receivable.

**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, 2004. These receivables are composed of the following:

	<u>Notes Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Notes Receivable (Net)</u>
Federal Perkins Loan program	\$2,532,657	\$2,532,657	
Student Government Association loans	429,300		\$429,300
Long-term student loans (Shreveport)	<u>105,957</u>	<u>105,957</u>	
Total	<u>\$3,067,914</u>	<u>\$2,638,614</u>	<u>\$429,300</u>

**6. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the fiscal year ending June 30, 2004, is as follows:

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SOUTHERN UNIVERSITY SYSTEM

	Restated Balance July 1, 2003	Adjustment	Adjusted Balance July 1, 2003
Capital assets not being depreciated:			
Land	\$6,921,846		\$6,921,846
Construction-in-progress	7,490,201		7,490,201
Total capital assets not being depreciated	<u>\$14,412,047</u>	<u>NONE</u>	<u>\$14,412,047</u>
Capital assets being depreciated:			
Infrastructure	\$23,184,000		\$23,184,000
Less accumulated depreciation	(21,792,960)		(21,792,960)
Total infrastructure	<u>1,391,040</u>	<u>NONE</u>	<u>1,391,040</u>
Land improvements	3,269,008		3,269,008
Less accumulated depreciation	(2,451,227)		(2,451,227)
Total land improvements	<u>817,781</u>	<u>NONE</u>	<u>817,781</u>
Buildings	211,326,013		211,326,013
Less accumulated depreciation	(97,129,049)	NONE	(97,129,049)
Total buildings	<u>114,196,964</u>	<u>NONE</u>	<u>114,196,964</u>
Equipment	27,406,143	NONE	27,406,143
Less accumulated depreciation	(22,503,673)	NONE	(22,503,673)
Total equipment	<u>4,902,470</u>	<u>NONE</u>	<u>4,902,470</u>
Library books	98,543,380	\$17,920,162	116,463,542
Less accumulated depreciation	(96,705,142)	(17,827,893)	(114,533,035)
Total library books	<u>1,838,238</u>	<u>92,269</u>	<u>1,930,507</u>
Total capital assets being depreciated	<u>\$123,146,493</u>	<u>\$92,269</u>	<u>\$123,238,762</u>
Capital assets summary:			
Capital assets not being depreciated	\$14,412,047		\$14,412,047
Capital assets being depreciated	363,728,544	\$17,920,162	381,648,706
Total cost of capital assets	<u>378,140,591</u>	<u>17,920,162</u>	<u>396,060,753</u>
Less accumulated depreciation	(240,582,051)	(17,827,893)	(258,409,944)
Capital assets, net	<u>\$137,558,540</u>	<u>\$92,269</u>	<u>\$137,650,809</u>



NOTES TO THE FINANCIAL STATEMENTS

<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
			\$6,921,846
\$3,753,703	(\$1,750,000)		9,493,904
<u>\$3,753,703</u>	<u>(\$1,750,000)</u>	NONE	<u>\$16,415,750</u>
			\$23,184,000
(\$173,880)			(21,966,840)
(173,880)	NONE	NONE	1,217,160
			3,269,008
(51,733)			(2,502,960)
(51,733)	NONE	NONE	766,048
244,000	\$150,000		211,720,013
(4,697,947)			(101,826,996)
(4,453,947)	150,000	NONE	109,893,017
4,016,680		(\$1,015,076)	30,407,747
(2,073,610)		767,502	(23,809,781)
1,943,070	NONE	(247,574)	6,597,966
1,192,652			117,656,194
(1,528,964)			(116,061,999)
(336,312)	NONE	NONE	1,594,195
<u>(\$3,072,802)</u>	<u>\$150,000</u>	<u>(\$247,574)</u>	<u>\$120,068,386</u>
\$3,753,703	(\$1,750,000)		\$16,415,750
5,453,332	150,000	(\$1,015,076)	386,236,962
9,207,035	(1,600,000)	(1,015,076)	402,652,712
(8,526,134)	NONE	767,502	(266,168,576)
<u>\$680,901</u>	<u>(\$1,600,000)</u>	<u>(\$247,574)</u>	<u>\$136,484,136</u>

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**FOUNDATION FIXED ASSETS**

Land, building, and equipment as of June 30, 2004, are summarized as follows:

Land	\$480,375
Building	172,125
Office equipment	15,330
Scoreboard equipment	2,555,611
Furniture and fixtures	44,545
Construction-in-progress	69,910
Total	<u>3,337,896</u>
Less - accumulated depreciation	<u>(442,246)</u>
Total	<u><u>\$2,895,650</u></u>

## 7. PENSION PLANS

*Plan Description.* Substantially all employees of the system are members of two statewide, public-employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), and classified/unclassified state employees are generally members of the Louisiana State Employees Retirement System (LASERS). TRS is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer plan because the material portion of its activity is with one employer--the State of Louisiana. TRS and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems; employee benefits vest with TRS after five years of service and with LASERS after 10 years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The 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, or by calling (225) 922-0600.

*Funding Policy.* The contribution requirements of plan members and the system are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.8% of covered salaries to TRS and 15.8% of covered salaries to LASERS for fiscal year 2004. The State of Louisiana, through the annual appropriation to each university, funds the employer contribution. The employer contributions to TRS for the years ended June 30, 2004, 2003, and 2002 were \$6,109,240, \$5,391,837, and \$5,037,560, respectively, and to LASERS for the years ended June 30, 2004, 2003, and 2002 were

\$3,883,734, \$3,287,238, and \$3,017,691, respectively, equal to the required contributions for each year.

## **8. OPTIONAL RETIREMENT SYSTEM**

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

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

Total contributions by the system are 13.8% of the covered payroll. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligation of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made.

Employer contributions to the optional retirement plan totaled \$2,711,409 for the year ended June 30, 2004.

## **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 558 retirees totaled \$2,810,956 for the year ended June 30, 2004.

**10. COMPENSATED ABSENCES**

At June 30, 2004, employees of the system have accumulated and vested annual leave, sick leave, and compensatory leave of \$5,785,224, \$7,307,321, and \$82,686, 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, 2004:

<u>Account Name</u>	<u>Amount</u>
Prepaid tuition and fees	\$2,216,851
Prepaid athletic ticket sales	150,424
Prepaid vending	8,939
Grants and contracts	<u>3,864,842</u>
Total deferred revenues	<u><u>\$6,241,056</u></u>

**12. ACCOUNTS PAYABLE AND ACCRUALS**

The following is a summary of payables at June 30, 2004:

<u>Account Name</u>	<u>Amount</u>
Vendor payables	\$4,875,353
Accrued salaries and payroll deductions	<u>3,981,303</u>
Total payables	<u><u>\$8,856,656</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, 2004:

	<u>Balance,</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> <u>June 30, 2004</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Reimbursement contract and revenue bonds payable	\$547,765		\$147,353	\$400,412	\$45,353
Compensated absences payable	12,670,182	<u>\$505,049</u>		<u>13,175,231</u>	<u>473,373</u>
Total long-term liabilities	<u><u>\$13,217,947</u></u>	<u><u>\$505,049</u></u>	<u><u>\$147,353</u></u>	<u><u>\$13,575,643</u></u>	<u><u>\$518,726</u></u>

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## NOTES TO THE FINANCIAL STATEMENTS

The additions and reductions to compensated absences during the fiscal year ended June 30, 2004, represent the net change during the years because the additions and deductions could not readily be determined.

### FOUNDATION NOTES PAYABLE

The following is a summary of notes payable at June 30, 2004:

Note payable to a bank, secured by the Scorebaord Equipment, with an interest rate of 7.5%, with a maturity date of February 15, 2007	\$70,000
Note payable to a bank, secured by the Scoreboard Equipment, with an interest rate of 4.5%, with a maturity date of August 27, 2004	100,000
Note payable to a contractor, with an interest rate of 7.186%, with a maturity date of April 20, 2013	<u>292,883</u>
Total notes payable	462,883
Less - current portion	<u>(194,263)</u>
Total long-term portion	<u><u>\$268,620</u></u>

Scheduled principal payments due on the above notes payable subsequent to June 30, 2004, are as follows:

<u>Year Ending June 30,</u>	
2005	\$194,263
2006	26,007
2007	27,876
2008	22,879
2009	32,026
Subsequent to 2009	<u>159,832</u>
Total	<u><u>\$462,883</u></u>

Interest expense for the year ended June 30, 2004, totaled \$25,558.

#### 14. BONDS AND REIMBURSEMENT CONTRACTS PAYABLE

Bonds and reimbursement contracts payable consisted of the following for the year ended June 30, 2004:

SOUTHERN UNIVERSITY SYSTEM

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	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2003</u>
Expansion of Student Union Building Bonds Series 1974	February 15, 1974	\$1,400,000	\$105,000
A.W. Mumford Stadium Track Resurfacing Bonds Series 1993	November 1, 1993	650,000	406,000
Reimbursement Contract - Reroofing Dunn Hall	February 1, 1991	125,002	<u>36,765</u>
Total			<u><u>\$547,765</u></u>

The scheduled maturities of the bonds and reimbursement contract at June 30, 2004, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$45,353	\$27,345
2006	48,353	24,441
2007	51,353	21,274
2008-2012	225,353	52,097
2013-2017	<u>30,000</u>	<u>2,125</u>
Total	<u><u>\$400,412</u></u>	<u><u>\$127,282</u></u>

The following is a summary of the debt service reserve requirements of the bond issue outstanding at June 30, 2004:

	<u>Cash/ Investment Reserves Available</u>	<u>Reserve Requirements</u>	<u>Excess</u>
A.W. Mumford Track Project	\$66,732	\$52,366	\$14,366

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NOTES TO THE FINANCIAL STATEMENTS

<u>Redeemed</u>	<u>Outstanding June 30, 2004</u>	<u>Final Maturity Year</u>	<u>Interest Rates</u>	<u>Interest Outstanding June 30, 2004</u>
\$105,000	NONE	2004	6.2-6.25%	NONE
35,000	\$371,000	2013	7.0-8.5%	\$127,282
<u>7,353</u>	<u>29,412</u>	2007		<u>NONE</u>
<u>\$147,353</u>	<u>\$400,412</u>			<u>\$127,282</u>

**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 June 30,</u>	<u>Principal</u>
2005	\$170,000
2006	170,000
2007	<u>1,190,000</u>
Total	<u><u>\$1,530,000</u></u>

Interest expense for the year ended June 30, 2004, totaled \$91,299.

**15. LEASE OBLIGATIONS**

**Operating Leases**

For the year ended June 30, 2004, total operating lease expenditures is \$1,047,334. 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, 2004:

<u>Nature of Operating Lease</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total Minimum Payments Required</u>
Office space	\$399,570	\$130,000	\$130,000	\$130,000	\$789,570
Equipment	<u>563,234</u>	<u>563,234</u>	<u>563,234</u>	<u>191,126</u>	<u>1,880,828</u>
Total	<u><u>\$962,804</u></u>	<u><u>\$693,234</u></u>	<u><u>\$693,234</u></u>	<u><u>\$321,126</u></u>	<u><u>\$2,670,398</u></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 the leasing of 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, 2004:

<u>Nature of Lease</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Office space	<u>\$4,015,514</u>	<u>\$2,777,620</u>	<u>\$1,237,894</u>

As of June 30, 2004, the minimum future rentals for the leases for fiscal year 2005 was \$1,203,505.

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 \$174,483 for the year ended June 30, 2004.

**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, 2004:

Nonexpendable - endowments	<u>\$6,312,984</u>
Expendable:	
Gifts, grants, and contracts	\$3,343,011
Quasi-endowments	1,496,185
Endowment income	2,131,060
Student fees	4,855,570
Student loans	751,892
University plant projects	2,383,712
Debt service requirements	<u>1,235,486</u>
Total expendable	<u>\$16,196,916</u>

**FOUNDATION NET ASSETS**

Temporarily restricted net assets as of June 30, 2004, are available for grants to support the Southern University System in the following general areas:

Scholarships and educational assistance	\$93,995
Academic support and enrichment	1,745,649
Capital outlay and improvements	<u>145,148</u>
Total	<u>\$1,984,792</u>

Permanently restricted net assets as of June 30, 2004, are restricted for investment in perpetuity, the income from which is expendable to support the activities listed below:

Chairs and professorships	\$330,010
Scholarships and educational assistance	<u>1,143,396</u>
Total	<u>\$1,473,406</u>

**17. RESTATEMENT OF BEGINNING NET ASSETS**

The following adjustment was made to restate beginning net assets for June 30, 2004:

Net Assets July 1, 2003, Previously Reported	Adjustments + or (-)	Beginning Net Assets, July 1, 2003, As Restated
<u>\$160,560,019</u>	<u>\$92,269</u>	<u>\$160,652,288</u>

An adjustment to net assets at July 1, 2003, recorded the cost and accumulated depreciation of library holdings at the beginning of the year.

**18. CONTINGENT LIABILITIES  
AND RISK MANAGEMENT**

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund.

The system is involved in seven lawsuits at June 30, 2004. In the opinion of legal counsel of the system, the total dollar amount of potential liability in presently prosecuted actions where there is a probable likelihood that an asset of the state has been impaired or a liability has been incurred as of June 30, 2004, is \$1,077,500. Any losses resulting from these lawsuits would be paid by the Office of Risk Management or through General Fund appropriations.

**19. RELATED PARTY TRANSACTIONS**

During fiscal year ended June 30, 2004, the system had a relationship with the Southern University System 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, 2004, net appreciation of donor restricted endowments is equal to \$2,151,668, 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 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 Southern University 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 \$2,609,365. At June 30, 2004, the Foundation holds in custody \$2,897,867 of Endowed Chair and Endowed Professorship endowment funds invested for the system.

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

Salaries and related benefits	\$210,545
Operating services	112,956
Supplies	282
Scholarships	<u>9,426</u>
Total	<u>\$333,209</u>

#### **FOUNDATION DISCLOSURE**

Southern University 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 Southern University System as of June 30, 2004, totaled \$2,897,867.

Also, the Foundation received funds from corporate sponsors for the Athletic Department. The amounts due to the Southern University System - Baton Rouge campus as of June 30, 2004, totaled \$57,991.

The total amount due to the affiliate as of June 30, 2004, totaled \$2,955,858.

#### **22. DEFERRED COMPENSATION PLAN**

Certain employees of the Southern University 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. SUBSEQUENT EVENTS**

In a board meeting on May 13, 2004, the Southern University Board of Supervisors approved a cooperative endeavor and leases agreement with a not-for-profit entity to provide housing, food service, and athletic facilities as specified in the agreement, for the institutions of the Southern University System. The total estimated cost of financing the entire project is \$50,337,486. The

funds are to be obtained through a third party financing arrangement, wherein the cooperative endeavor and lease agreement will be the primary collateral source of revenue for amortization of the bonded debt of the not-for-profit entity.

**FOUNDATION - DUE FROM MILLENNIUM HOUSING, LLC**

On April 3, 2004, Millennium Housing, LLC (a nonprofit organization) (the LLC) 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, rehabilitate the LLC property; and (5) hire, employ, or contract with any management company, leasing agents, consultants, et cetera. As of June 30, 2004, the Foundation paid certain expenses on behalf of the LLC for the Student Housing and Mumford Stadium capital projects in the amount of \$1,405,527. The LLC will reimburse the Foundation for the related expenses upon issuance of the revenue bonds subsequent to year-end.

**24. FOUNDATION IN-KIND DONATIONS**

During the fiscal year ended June 30, 2004, the Foundation received in-kind donations from the Southern University System which are recorded in revenues and expenses. The in-kind donations are summarized as follows:

Salaries and related benefits	\$164,996
Operating services	7,322
Supplies	<u>282</u>
Total	<u><u>\$172,600</u></u>



**SCHEDULE OF PER DIEM PAID BOARD MEMBERS**

Schedule 1 presents the per diem paid board members for the year ended June 30, 2004. 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 institution.

**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 institution.

**COMBINING SCHEDULE OF CASH FLOWS**

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





**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**Schedule of Per Diem Paid Board Members  
For the Year Ended June 30, 2004**

<u>Name</u>	<u>Amount</u>
Alexander, Angela J.	\$400
Anderson, Johnny	850
Atkins, Dale N.	400
Atkins, Quiten	50
Bell, Dottie H.	750
Belton, John F. K.	600
Bilberry, Jesse B., Jr.	750
Caiton, Richard J.	850
Clayton, Antonio M.	950
Dejoie, Bertel J.	250
Gilliam, Sam Albert	1,000
Guidry, Walter Jr.	1,600
Joseph, John	950
Kiefer, Anne Z.	650
Lawson, Myron K.	750
Miller, Louis	650
Polk, Lea M.	1,600
Taylor, Frank Jr.	650
	<hr/>
Total	<u><u>\$13,700</u></u>

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**Combining Schedule of Net Assets, June 30, 2004**

	Board and System	Baton Rouge Campus	New Orleans Campus	Shreveport Campus	Total System
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$1,289,686	\$13,016,119	\$3,577,542	(\$721,425)	\$17,161,922
Receivables (net)	213,433	11,875,902	2,716,390	5,126,847	19,932,572
Inventories		212,983	9,388		222,371
Deferred charges and prepaid expenses	12,373	623,541	70,558	134,715	841,187
Notes receivable (net)		255,370	173,930		429,300
Other current assets		15,697	5		15,702
Total current assets	<u>1,515,492</u>	<u>25,999,612</u>	<u>6,547,813</u>	<u>4,540,137</u>	<u>38,603,054</u>
Noncurrent assets:					
Restricted cash and cash equivalents	589,626	6,275,108	1,156,133	532,078	8,552,945
Investments		2,849,030	814,739	50,304	3,714,073
Capital assets (net)		111,657,586	16,766,583	8,059,967	136,484,136
Total noncurrent assets	<u>589,626</u>	<u>120,781,724</u>	<u>18,737,455</u>	<u>8,642,349</u>	<u>148,751,154</u>
Total assets	<u>2,105,118</u>	<u>146,781,336</u>	<u>25,285,268</u>	<u>13,182,486</u>	<u>187,354,208</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accruals	179,254	7,051,103	1,362,266	264,033	8,856,656
Deferred revenues	98,966	3,459,740	1,011,318	1,671,032	6,241,056
Compensated absences	8,403	377,011	71,601	16,358	473,373
Amounts held in custody for others		826,305	26,865	29,378	882,548
Bonds payable - current portion		45,353			45,353
Other current payables	250	739,151	94,936	197,103	1,031,440
Total current liabilities	<u>286,873</u>	<u>12,498,663</u>	<u>2,566,986</u>	<u>2,177,904</u>	<u>17,530,426</u>
Noncurrent liabilities:					
Compensated absences	418,261	8,873,382	2,356,779	1,053,436	12,701,858
Bonds payable		355,059			355,059
Total noncurrent liabilities	<u>418,261</u>	<u>9,228,441</u>	<u>2,356,779</u>	<u>1,053,436</u>	<u>13,056,917</u>
Total liabilities	<u>705,134</u>	<u>21,727,104</u>	<u>4,923,765</u>	<u>3,231,340</u>	<u>30,587,343</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt		\$111,257,174	\$16,766,583	\$8,059,967	136,083,724
Restricted for:					
Nonexpendable	\$457,048	4,341,097	1,464,535	50,304	6,312,984
Expendable	939,407	10,542,597	2,390,212	2,324,700	16,196,916
Unrestricted	3,529	(1,086,636)	(259,827)	(483,825)	(1,826,759)
<b>TOTAL NET ASSETS</b>	<u>\$1,399,984</u>	<u>\$125,054,232</u>	<u>\$20,361,503</u>	<u>\$9,951,146</u>	<u>\$156,766,865</u>

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**Combining Schedule of Revenues, Expenses,  
and Changes in Net Assets  
For the Fiscal Year Ended June 30, 2004**

	Board and System	Baton Rouge Campus	New Orleans Campus	Shreveport Campus	Total System
<b>OPERATING REVENUES</b>					
Student tuition and fees (net of scholarship allowances)		\$24,505,435	\$5,384,245	\$1,591,712	\$31,481,392
Federal appropriations		2,691,916			2,691,916
Federal grants and contracts		37,448,041	13,951,732	10,473,353	61,873,126
State and local grants and contracts	\$16,317	939,027	956,199	132,833	2,044,376
Sales and services of educational departments		4,451			4,451
Auxiliary enterprise revenues (net of scholarship allowances)		11,335,655	587,719	348,379	12,271,753
Other operating revenues	9,647	1,829,966	1,888,507	749	3,728,869
<b>Total operating revenues</b>	<u>25,964</u>	<u>78,754,491</u>	<u>22,768,402</u>	<u>12,547,026</u>	<u>114,095,883</u>
<b>OPERATING EXPENSES</b>					
Educational and general:					
Instruction		40,090,260	11,733,589	4,009,321	55,833,170
Research	2,344	4,588,274	464,412	105,057	5,160,087
Public service	26,317	4,298,589	1,071,514	316,709	5,713,129
Academic support	809	20,901,034	5,692,781	1,536,865	28,131,489
Student services		7,902,320	3,235,620	3,660,919	14,798,859
Institutional support	4,615,459	18,772,724	5,268,914	3,514,381	32,171,478
Operation and maintenance of plant		11,760,596	2,710,058	1,188,059	15,658,713
Depreciation		6,637,247	1,345,419	543,468	8,526,134
Scholarships and fellowships	266,015	13,692,310	5,762,452	3,659,013	23,379,790
Auxiliary enterprises		11,571,957	664,232	229,028	12,465,217
Other operating expenses	12,294	259,166	175,157	28,402	475,019
<b>Total operating expenses</b>	<u>4,923,238</u>	<u>140,474,477</u>	<u>38,124,148</u>	<u>18,791,222</u>	<u>202,313,085</u>
<b>OPERATING LOSS</b>	<u>(4,897,274)</u>	<u>(61,719,986)</u>	<u>(15,355,746)</u>	<u>(6,244,196)</u>	<u>(88,217,202)</u>
<b>NONOPERATING REVENUES (Expenses)</b>					
State appropriations	1,761,873	53,992,294	14,685,541	5,641,733	76,081,441
Gifts	134,396	611,804			746,200
Investment income	13,897	417,207	50,870	14,939	496,913
Interest expense		(60,969)			(60,969)
Other nonoperating revenues (expenses)	(14,639)	2,807,520		319,365	3,112,246
<b>Net nonoperating revenues</b>	<u>1,895,527</u>	<u>57,767,856</u>	<u>14,736,411</u>	<u>5,976,037</u>	<u>80,375,831</u>
<b>Loss before other revenues and expenses</b>	(3,001,747)	(3,952,130)	(619,335)	(268,159)	(7,841,371)
Capital appropriations		2,532,817			2,532,817
Capital grants and gifts		1,136,960			1,136,960
Additions to permanent endowment		60,000			60,000
Other additions (deductions), net	2,900,766	(3,255,930)	(534,763)	1,116,098	226,171
<b>Increase (decrease) in net assets</b>	<u>(100,981)</u>	<u>(3,478,283)</u>	<u>(1,154,098)</u>	<u>847,939</u>	<u>(3,885,423)</u>
<b>NET ASSETS - BEGINNING OF YEAR (restated)</b>	<u>1,500,965</u>	<u>128,532,515</u>	<u>21,515,601</u>	<u>9,103,207</u>	<u>160,652,288</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$1,399,984</u>	<u>\$125,054,232</u>	<u>\$20,361,503</u>	<u>\$9,951,146</u>	<u>\$156,766,865</u>

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**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**Combining Schedule of Cash Flows  
For the Fiscal Year Ended June 30, 2004**

	Board and System	Baton Rouge Campus	New Orleans Campus	Shreveport Campus	Total System
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Tuition and fees		\$22,541,009	\$4,877,431	\$2,857,580	\$30,276,020
Grants and contracts	\$50,088	40,373,689	15,656,585	8,600,482	64,680,844
Payments to suppliers	(2,188,400)	(23,906,885)	(5,950,657)	(248,427)	(32,294,369)
Payments for utilities		(4,958,496)	(791,919)	(243,166)	(5,993,581)
Payments to employees	(2,656,669)	(74,348,862)	(18,468,439)	(8,519,721)	(103,993,691)
Payments for benefits	(515,260)	(15,761,763)	(4,262,646)	(1,753,439)	(22,293,108)
Payments for scholarships and fellowships	(280,839)	(14,403,218)	(5,641,633)	(3,659,013)	(23,984,703)
Loans issued to students and employees		(34,401)	2,949	22,923	(8,529)
Auxiliary enterprise charges		10,547,382	587,719	348,379	11,483,480
Sales and services of educational departments		4,451			4,451
Other receipts (payments)	44,567	1,829,966	606,597	(3,934,615)	(1,453,485)
<b>Net cash used by operating activities</b>	<b>(5,546,513)</b>	<b>(58,117,128)</b>	<b>(13,384,013)</b>	<b>(6,529,017)</b>	<b>(83,576,671)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
State appropriations	1,761,785	53,992,294	14,685,541	5,641,733	76,081,353
Gifts and grants for other than capital purposes	134,396	1,159,123			1,293,519
Private gifts for endowment purposes		60,000			60,000
TOPS receipts		1,299,690	20,079	14,320	1,334,089
TOPS disbursements		(1,501,483)	(20,079)	(14,320)	(1,535,882)
Federal Family Education Loan program receipts		54,075,274	14,369,950	556,107	69,001,331
Federal Family Education Loan program disbursements		(54,075,274)	(14,369,950)	(556,107)	(69,001,331)
Student organization agency transactions		74,758	(4,245)	8,975	79,488
Other receipts (payments)	2,886,127	1,718,766	(534,763)	1,435,463	5,505,593
<b>Net cash provided by noncapital financing sources</b>	<b>4,782,308</b>	<b>56,803,148</b>	<b>14,146,533</b>	<b>7,086,171</b>	<b>82,818,160</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>					
Capital appropriations received		2,532,817			2,532,817
Capital grants and gifts received		1,136,960			1,136,960
Purchases of capital assets		(6,277,274)	(1,301,433)	(1,482,948)	(9,061,655)
Principal paid on capital debt and leases		(147,353)			(147,353)
Interest paid on capital debt and leases		(60,969)			(60,969)
<b>Net cash used by capital financing activities</b>	<b>NONE</b>	<b>(2,815,819)</b>	<b>(1,301,433)</b>	<b>(1,482,948)</b>	<b>(5,600,200)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Proceeds from sales and maturities of investments		240,622		30,736	271,358
Interest received on investments	14,197	416,956	50,870	14,939	496,962
Purchase of investments			(77,000)		(77,000)
<b>Net cash provided (used) for investing activities</b>	<b>14,197</b>	<b>657,578</b>	<b>(26,130)</b>	<b>45,675</b>	<b>691,320</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(750,008)</b>	<b>(3,472,221)</b>	<b>(565,043)</b>	<b>(880,119)</b>	<b>(5,667,391)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,629,320</b>	<b>22,763,448</b>	<b>5,298,718</b>	<b>690,772</b>	<b>31,382,258</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$1,879,312</b>	<b>\$19,291,227</b>	<b>\$4,733,675</b>	<b>(\$189,347)</b>	<b>\$25,714,867</b>

(Continued)

**SOUTHERN UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
Combining Schedule of Cash Flows, 2004**

	Board and System	Baton Rouge Campus	New Orleans Campus	Shreveport Campus	Total System
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>					
Operating loss	(\$4,897,274)	(\$61,719,986)	(\$15,355,746)	(\$6,244,196)	(\$88,217,202)
Adjustments to reconcile operating (loss) to net cash used by operating activities:					
Depreciation expense		6,637,247	1,345,419	543,468	8,526,134
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable (net)	80,775	(231,177)	(180,207)	(160,468)	(491,077)
(Increase) decrease in due from federal government	48,201	(991,418)	748,655	(2,482,669)	(2,677,231)
(Increase) in inventories		(23,555)	(2,277)		(25,832)
(Increase) decrease in prepaid expenses		(290,437)	10,416	22,923	(257,098)
Decrease in other assets	2,229		59		2,288
Increase (decrease) in accounts payable	(733,033)	(728,390)	86,404	197,703	(1,177,316)
Increase (decrease) in deferred revenue	(59,705)	(996,851)	(187,030)	1,298,811	55,225
Increase in compensated absences	12,294	229,435	100,040	163,280	505,049
Increase in other liabilities		32,405	47,305	132,131	211,841
(Increase) decrease in loans payable to students and employees		(34,401)	2,949		(31,452)
<b>Net cash used by operating activities</b>	<b>(\$5,546,513)</b>	<b>(\$58,117,128)</b>	<b>(\$13,384,013)</b>	<b>(\$6,529,017)</b>	<b>(\$83,576,671)</b>

(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.

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STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

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

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December 15, 2004

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 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, 2004, and have issued our report thereon dated December 15, 2004. We did not audit the financial statements of the Southern University System Foundation, a discretely presented component unit of the system. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and this report, insofar as it relates to the Southern University System Foundation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters described below involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant 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 record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

### **Information System User Access Not Effectively Monitored**

The Southern University System, Baton Rouge campus, has not effectively monitored access capabilities for agency users of the System Computing Technology administrative applications. Effective internal control provides that user access to information systems is disabled in a timely manner when users terminate employment. Failure to establish adequate control procedures in an on-line data entry environment could result in fraud and/or errors that could remain undetected.

No formal procedures exist to timely notify the security administrator of termination so that user access can be disabled immediately. Semiannually, the security administrator sends requests to the functional administrators to review the status of all assigned user access for staff under their supervision. Some functional administrators are not responding timely. Even with timely response, user access could remain active for up to six months after termination.

A test of user IDs for 23 terminated employees revealed that 14 (61%) user IDs were deleted more than 30 days after the employees' termination dates.

Management should develop and implement procedures to ensure that user access is disabled immediately upon termination or transfer. Management partially concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

### **Lack of Control Over Payroll Leave Records**

The Southern University System, Baton Rouge and New Orleans campuses, did not maintain adequate controls over payroll leave records to ensure that leave taken per authorized leave documents is adequately reflected in the Southern University Human Resource System. Good internal control includes an adequate review function to ensure data are accurate and reliable and that errors are detected timely.

In a test of 55 employee records, our audit procedures identified that leave used for four (16%) of 25 employee time and attendance reports with leave did not agree with the Southern University Human Resource System Leave Used report. Since system procedures require time and attendance records to be submitted at least one week before the end of each pay period, leave taken by employees is not recorded accurately in the Southern University Human Resources System from the time pay period records are submitted to the time when the records are subsequently amended for leave. Failure to maintain adequate controls increases the risk that inaccurate payroll data could be entered into the payroll system and processed without timely detection. When accurate time and attendance records and leave records are not maintained, the risk exists that leave balances will be overstated, resulting in an overpayment of leave benefits.

Management should develop procedures to ensure that the leave records system adequately reflects leave earned and taken by employees. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

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 believe that none of the reportable conditions described previously are material weaknesses.

### **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 instance of noncompliance that is required to be reported under *Government Auditing Standards*.

#### **Noncompliance With Movable Property Regulations**

The Southern University System did not comply with state movable property regulations and has not established policies and procedures relating to the proper disposition of personal computer equipment before disposal or transfer. This deficiency was noted at the Baton Rouge, New Orleans, and Shreveport campuses. Louisiana Administrative Code Title Part VII Section 307 (A) requires all acquisitions of qualified property to be tagged and all pertinent inventory information forwarded to the Louisiana Property Assistance Agency (LPAA) within 60 days after receipt of property. Also, Chief Information Officer Policy IT-POL-003 requires all entities under the authority of the Office of Information Technology to use government accepted methods of data removal before disposal of the asset that include reformatting, third-party "scrubbing" software, degaussing, or destruction of the hard drive.

A test of 26 acquisitions reported to LPAA revealed that seven (27%) acquisitions costing \$28,567 were not reported within the required 60 days. The delays in reporting the property to LPAA ranged from 16 to 422 days beyond the 60-day reporting requirement. We also determined from interviews with university management and staff that no procedures were developed or implemented to remove information from hard drives before disposal of personal computers. Failure to maintain an accurate movable property system increases the risk that movable property is not accurately recorded, assets are not properly safeguarded against loss arising from unauthorized use, and the university is subjected to noncompliance with state laws and regulations. Failure to clean or destroy a computer hard drive before disposal presents the opportunity for an

unauthorized person to retrieve classified information, licensed software, and confidential personnel information from a surplus computer.

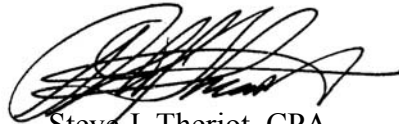
Management should develop procedures to ensure compliance with state movable property regulations and develop additional procedures to comply with the Office of Information Technology policy to properly transfer and dispose of personal computer equipment. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-6).

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

Southern University System Foundation  
P.O. Box 2468  
Baton Rouge, Louisiana 70821

This report is intended solely for the information and use of the Southern University 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,



Steve J. Theriot, CPA  
Legislative Auditor

ETM:WG:PEP:dl

SU04

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

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# 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

November 10, 2004

Mr. Steve J. Theriot, CPA  
Legislative Auditor  
Office of the Legislative Auditor  
State of Louisiana  
1600 North Third Street  
Baton Rouge, Louisiana 70804-9397

## **RE: Information System User Access Not Effectively Monitored**

Dear Mr. Theriot:

We concur in part with the audit finding concerning "**Information System User Access Not Effectively Monitored**" for the Southern University System as cited by your office for the fiscal year 2003-2004.

**We do not concur with the statement, "No formal procedures exist to timely notify the security administrator of termination so that user access can be disabled immediately."** Although formal procedures currently exist to notify the system administrator of an employee's termination/separation from the University, we concur that these procedures did not achieve the desired results. Therefore, we agree that there is a need for the University to strengthen its existing procedures, including monitoring, to ensure the continued integrity of our operating systems.

Southern University System administrators have implemented the following corrective actions to strengthen existing procedures and ensure user access is disabled immediately upon an employee's termination from the University or transfer to another functional area within the University.

- All supervisors must notify Information System Division (ISD) within 24 hours after receiving notification of an employee's transfer to another department or separation from the University.
- Functional administrators must notify ISD when the employee is transferring to another area in the University and his/her job requires access capability within their functional area.
- Supervisors must notify the ISD security administrator via an approved preprinted form designed for this purpose.

Employees responsible for implementing corrective actions are Vice Chancellors Flandus McClinton, Raymond Downs, Johnny Tolliver, Norman St. Amant and Mildred Smalley,

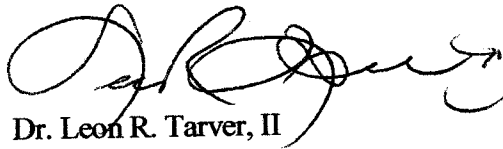
Steve J. Theriot, CPA  
Louisiana Legislative Auditor  
November 10, 2004  
Page 2

Athletics Director Floyd Kerr, Planning Director Roberta Kramer, ISD Director Franklin Patterson, and Human Resources Director Frances Smith.

The Chancellor's policy memorandum for this corrective action was issued to all supervisors on September 17, 2004. Monitoring of this corrective action will be ongoing.

Should you need additional information, please advise.

Sincerely,



Dr. Leon R. Tarver, II  
President  
Southern University System



## SOUTHERN UNIVERSITY AND A&M COLLEGE SYSTEM

BATON ROUGE, LOUISIANA 70813  
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Baton Rouge, New Orleans,  
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November 10, 2004

Mr. Steve J. Theriot, CPA  
Legislative Auditor  
Office of the Legislative Auditor  
State of Louisiana  
1600 North Third Street  
Baton Rouge, Louisiana 70804-9397

### **RE: Lack of Control Over Payroll Leave Records**

Dear Mr. Theriot:

We concur with the audit finding concerning "**Lack of Control Over Payroll Leave Records**" for the Southern University System as cited by your office for the fiscal year 2003-2004. Our corrective action plan is outlined below.

- All supervisors will be notified that all time and attendance reports, leave forms, and change-in-payroll forms are required to be submitted to the Office of Human Resources (OHR) in accordance with the established timelines.
- A report of the daily activity of leave entered into the Human Resources System (HRS) will be forwarded from the Information Systems Division to the Human Resources Office at the end of each payroll cycle. This information will be compared and reconciled with the employee's leave records maintained in Excel.
- The supervisor of the Human Resources Office payroll section will perform spot audits and conduct periodic reviews of employees' leave records to ensure continuing accuracy of leave data posted to the HRS.
- At least twice annually, management will request announced/unannounced reviews of payroll and leave records by the campus Internal Auditor's Office.
- The Human Resources Office is reviewing its internal procedures and implementing control measures to guide employees in performing routine functions associated with payroll processing and maintenance of employees' leave records. These procedures will be documented and compiled in the Office's Operating Policies and Procedures Manual.

Employees responsible for implementing corrective actions on the Baton Rouge campus are HR Director Frances Smith, HR Payroll Supervisor Ethel Washington, and ISD Director Franklin Patterson.

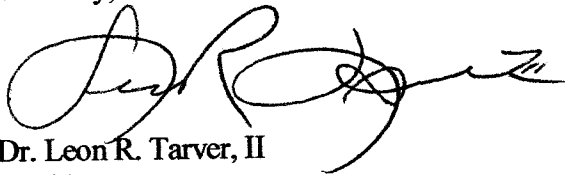
Steve J. Theriot, CPA  
Louisiana Legislative Auditor  
November 10, 2004  
Page 2

Responsible employees for implementing corrective actions on the New Orleans campus are HR Director Theola Caiton and HR Office Coordinator Marlene Riley.

The anticipated completion date for corrective actions is October 31, 2004. Monitoring of corrective actions will be ongoing.

Should you need additional information, please advise.

Sincerely,

A handwritten signature in black ink, appearing to read "Leon R. Tarver, II". The signature is fluid and cursive, with a large initial "L" and "R".

Dr. Leon R. Tarver, II  
President  
Southern University System



## SOUTHERN UNIVERSITY AND A&M COLLEGE SYSTEM

BATON ROUGE, LOUISIANA 70813  
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November 10, 2004

Mr. Steve J. Theriot, CPA  
Legislative Auditor  
Office of the Legislative Auditor  
State of Louisiana  
1600 North Third Street  
Baton Rouge, Louisiana 70804-9397

### **RE: Noncompliance With Movable Property Regulations**

Dear Mr. Theriot:

We concur with the audit finding concerning "**Noncompliance With Movable Property Regulations**" for the Southern University System as cited by your office for the fiscal year 2003-2004.

The University has already implemented corrective actions to comply with the Office of Technology policy regarding the use of government accepted methods of data removal prior to disposal or transfer of an asset. To this end, the following corrective action has been implemented by each campus within the Southern University System.

- Policies and procedures for the disposal and transfer of computer and storage devices have been developed and disseminated to all concerned. These policies will require the Information Technology Centers on each campus to purge all data prior to equipment disposal by the Property Manager.

To ensure accuracy in our movable property processes the following corrective actions will be implemented on each campus to strengthen existing procedures:

- SUBR – Internal data base tables listing all equipment purchase orders are being updated every 2-3 days showing receiving report information obtained from the Financial Records System (FRS). All property additions for the fiscal year 2004-05 through September 29, 2004 have been completed and well within the 60-day requirement utilizing this procedures.

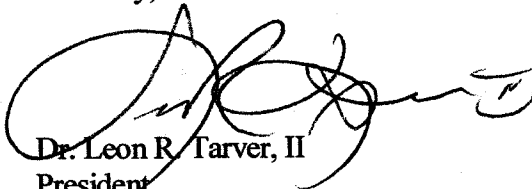
- Facilities Operations and Property Management will communicate on a weekly basis with staff in the Facility Planning Office to determine if there are projects that may have inventory equipment included in the overall project. Once these projects are identified, the offices will establish lines of communication to identify and track delivery of equipment to job sites to ensure that the purchase is reported within the 60-day reporting requirement.
- SUNO – The University will review the overall procedures used to update the Protégé Property System master file to ensure that the 60-day reporting requirement is met. The university will ensure that all receiving reports are processed through the Property Control Office central receiving warehouse before payments are made to vendors so that the Property Office is alerted to proceed with tagging of property and updating the master file.
- SUSLA – The University has implemented a procedure requiring all received equipment to be tagged and entered in the Protégé Property System master file within five (5) working days. Internal audit staff will review equipment purchases on a consistent basis to provide reasonable assurance of compliance to Louisiana Administration Code Title Part VII, Section 307 (A).

Employees responsible for implementing corrective actions are (1) SUBR – Property Manager Angus Wilkes, Associate Vice Chancellor for Facilities Operations Tony Mondgil, Technology and Network Services Director Huey K. Lawson; (2) SUNO – Property Manger John Sullivan, ITC Interim Director Clyde Jackson; and (3) SUSLA – Property Manager Eddie Boxley, and ITC Director Gabriel Fagbeyiro.

The anticipated completion date for corrective actions is October 31, 2004. Monitoring of corrective actions will be ongoing.

Should you need additional information, please advise.

Sincerely,



Dr. Leon R. Tarver, II  
President  
Southern University System