

FINANCIAL STATEMENTS  
**MCNEESE STATE UNIVERSITY FOUNDATION**  
(A Non-Profit Corporation)

Years Ended June 30, 2004 and 2003  
With Independent Auditors' Report

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12-15-04

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# Langley, Williams & Company, L.L.C.

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J. AARON COOPER

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
McNeese State University Foundation  
Lake Charles, Louisiana

We have audited the accompanying statements of financial position of the McNeese State University Foundation, a non-profit corporation, as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These statements are the responsibility of the management of the McNeese State University Foundation. Our responsibility is to express an opinion on these statements based on our audits.

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

As discussed in Note 10, the Foundation changed the way it accounts for the segregated funds of its Eminent Scholars/Endowed Professorships program. Accordingly, the financial statements for the year ended June 30, 2003, have been restated and net assets as July 1, 2002, have been adjusted to reflect the change.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the McNeese State University Foundation, at June 30, 2004 and 2003, and the results of its activities and cash flows for the years then ended in conformity with generally accepted accounting principles of the United States of America.

December 6, 2004  
Lake Charles, LA

**MCNEESE STATE UNIVERSITY FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2004 and 2003

**ASSETS**

	<u>2004</u>	<u>2003</u> <u>(Restated)</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 1,958,473	\$ 1,179,935
Unconditional promises to give	126,817	136,447
State matching receivable	160,000	-
Accrued dividends receivable	9,077	-
Investments	32,699,434	29,658,544
Donated property	<u>470,000</u>	<u>470,000</u>
<b>Total assets</b>	<b><u>\$ 35,423,801</u></b>	<b><u>\$ 31,444,926</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 82,659	\$ 79,904
Funds held in custody	<u>2,582,234</u>	<u>2,266,568</u>
Total liabilities	2,664,893	2,346,472

**NET ASSETS**

Unrestricted	4,154,035	4,396,730
Temporarily restricted	6,675,900	4,682,306
Permanently restricted	<u>21,928,973</u>	<u>20,019,418</u>
Total net assets	<u>32,758,908</u>	<u>29,098,454</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 35,423,801</u></b>	<b><u>\$ 31,444,926</u></b>

The accompanying notes are an integral part of these statements.

**MCNEESE STATE UNIVERSITY FOUNDATION**

**STATEMENTS OF ACTIVITIES**

	Year Ended June 30, 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b><u>REVENUE AND SUPPORT</u></b>				
Contributions	\$ 399,415	\$ 1,002,241	\$ 1,676,056	\$ 3,077,712
Investment earnings, net of fees of \$125,916 for 2004 and \$98,346 for 2003	-	2,151,275	233,499	2,384,774
Rent	13,950	-	-	13,950
Fund raising	9,500	-	-	9,500
Other	3,431	-	-	3,431
Net assets released from restrictions:				
Transfer to unrestricted net assets	<u>1,159,922</u>	<u>(1,159,922)</u>	<u>-</u>	<u>-</u>
<b>Total Revenue and Support</b>	<b>1,586,218</b>	<b>1,993,594</b>	<b>1,909,555</b>	<b>5,489,367</b>
<b><u>EXPENSES</u></b>				
Grants paid to benefit McNeese State University for:				
Projects specified by donors	1,377,546	-	-	1,377,546
Dedicated scholarships	224,329	-	-	224,329
Freshman awards	40,500	-	-	40,500
Professorship awards	46,000	-	-	46,000
Named honor awards	10,750	-	-	10,750
Excellence awards	3,500	-	-	3,500
Early admission awards	-	-	-	-
<b>Total grants paid</b>	<b>1,702,625</b>	<b>-</b>	<b>-</b>	<b>1,702,625</b>
Supporting services:				
Management and general	34,171	-	-	34,171
Fund raising	<u>92,117</u>	<u>-</u>	<u>-</u>	<u>92,117</u>
<b>Total support services</b>	<b>126,288</b>	<b>-</b>	<b>-</b>	<b>126,288</b>
<b>Total Expenses</b>	<b><u>1,828,913</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,828,913</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>(242,695)</b>	<b>1,993,594</b>	<b>1,909,555</b>	<b>3,660,454</b>
Net assets at beginning of period	4,396,730	4,682,306	20,019,418	29,098,454
Cumulative effect of prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS AT END OF PERIOD</b>	<b><u>\$ 4,154,035</u></b>	<b><u>\$ 6,675,900</u></b>	<b><u>\$ 21,928,973</u></b>	<b><u>\$ 32,758,908</u></b>

The accompanying notes are an integral part of these statements.

Year Ended June 30, 2003 (Restated)

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 185,417	\$ 1,352,478	\$ 943,874	\$ 2,481,769
-	488,531	89,033	577,564
14,700	-	-	14,700
500	-	-	500
4,595	-	-	4,595
<u>2,398,397</u>	<u>(2,398,397)</u>	<u>-</u>	<u>-</u>
<b>2,603,609</b>	<b>(557,388)</b>	<b>1,032,907</b>	<b>3,079,128</b>
1,398,750	-	-	1,398,750
221,843	-	-	221,843
39,400	-	-	39,400
-	-	-	-
11,875	-	-	11,875
3,250	-	-	3,250
<u>12,300</u>	<u>-</u>	<u>-</u>	<u>12,300</u>
1,687,418	-	-	1,687,418
39,308	-	-	39,308
<u>67,325</u>	<u>-</u>	<u>-</u>	<u>67,325</u>
<u>106,633</u>	<u>-</u>	<u>-</u>	<u>106,633</u>
<b><u>1,794,051</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,794,051</u></b>
<b>809,558</b>	<b>(557,388)</b>	<b>1,032,907</b>	<b>1,285,077</b>
3,587,172	4,057,725	19,695,692	27,340,589
<u>-</u>	<u>1,181,969</u>	<u>(709,181)</u>	<u>472,788</u>
<b><u>\$ 4,396,730</u></b>	<b><u>\$ 4,682,306</u></b>	<b><u>\$ 20,019,418</u></b>	<b><u>\$ 29,098,454</u></b>

**MCNEESE STATE UNIVERSITY FOUNDATION**

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2004 and 2003

	2004	2003 (Restated)
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 3,660,454	\$ 1,285,077
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized loss on sale of property	-	21,500
Net appreciation in market value of investments	(1,731,942)	(1,082,364)
Net realized (gains) losses on sales of investments	(532,093)	695,590
Contribution of property	(85,000)	(358,498)
Distribution of property	85,000	8,498
Contributions restricted for investment in endowment	(1,676,056)	(943,874)
Change in accrued interest/dividends receivable	(9,077)	74,663
Change in unconditional promises to give	9,630	35,077
Change in accounts payable	2,755	1,349
Change in funds held in custody	155,666	59,356
	<b>(120,663)</b>	<b>(203,626)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of investments	(5,616,238)	(12,674,267)
Proceeds from sale of investments	4,839,383	10,933,396
Proceeds from sale of property	-	46,500
	<b>(776,855)</b>	<b>(1,694,371)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Contributions restricted for investment in endowment	1,676,056	943,874
State matching funds received	-	-
	<b>1,676,056</b>	<b>943,874</b>
<b>NET CHANGE IN CASH</b>	<b>778,538</b>	<b>(954,123)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>1,179,935</b>	<b>2,134,058</b>
<b>CASH AT END OF PERIOD</b>	<b>\$ 1,958,473</b>	<b>\$ 1,179,935</b>

The accompanying notes are an integral part of these statements.

**McNeese State University Foundation**

**NOTES TO FINANCIAL STATEMENTS**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

The McNeese State University Foundation (the Foundation) is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed to promote the educational and cultural welfare of McNeese State University by accepting gifts for the purpose of providing scholarships for students, professorships for educational research, or such other designated projects for the benefit of the University. The principal sources of support are from alumni of McNeese State University as well as businesses located in southwest Louisiana.

**Basis of Accounting**

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation**

The Foundation presents its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Additionally, the Foundation is required to present a statement of cash flows.

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets from endowment fund contributions are restricted to investment in perpetuity, the income from which is considered temporarily restricted until donor-imposed restrictions are met.

Certain gifts are subject to the terms of acts of donation whereby the Foundation and/or the University agrees to certain requirements such as providing information regarding how such gifts are invested and how earnings thereon are spent.

**Promises To Give**

Unconditional promises to give are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**McNeese State University Foundation**

**NOTES TO FINANCIAL STATEMENTS**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**Cash and Cash Equivalents**

For accounting and reporting purposes, cash and cash equivalents includes cash on hand, cash in bank, and all highly liquid investments with original maturities of three months or less. The foundation maintains deposit accounts with large, multi-state financial institutions. As of June 30, 2004, the Foundation's collected bank balances exceeded federally-insured limits by approximately \$150,000. The Foundation began participation in Louisiana Asset Management Pool (LAMP), a state-wide external investment pool, during the year ended June 30, 2004. Deposits with LAMP totaled \$1,107,690 at June 30, 2004. Such deposits are secured by an interest in the underlying investment pool, consisting of U.S. Treasury and agency securities, held by LAMP. The Foundation also has money-market holdings as part of its managed investment accounts. Such balances totaled \$637,996 and \$315,680 at June 30, 2004 and 2003, respectively, and are not secured.

**Investments**

Investments consist of U.S. Government securities and obligations, marketable debt and equity securities, mutual funds, and money market funds. The Foundation accounts for its investments in accordance with SFAS No. 124, *Accounting for Certain Investments by Not-for-Profit Organizations*. Accordingly, investments in these securities are reported at fair value.

**Donated Property**

Donated property is reflected as a contribution in the accompanying statements at its estimated values at date of receipt.

**Funds Held in Custody**

The Foundation participates in a program with the State of Louisiana (the Eminent Scholars/Endowed Professorships Program sponsored by the Louisiana Board of Regents) whereby the State contributes matching funds which, together with donations received by the Foundation, establishes endowment funds, which are accumulated in accounts segregated from other Foundation funds. The state match constitutes 40% of the total endowment. The earnings on these funds are to be used for professorships. The Foundation considers donations received from donors into this fund to be permanently restricted net assets and all state matching funds as funds held in custody. The liability "Funds held in custody" represents the lesser of 40% of the fair value of the segregated accounts or the original state match amount.

**Estimates**

The preparation of financial statements requires management estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**Reclassifications**

Certain reclassifications have been made to the 2003 amounts in order to conform to the 2004 presentation.

McNeese State University Foundation

NOTES TO FINANCIAL STATEMENTS

2. PROMISES TO GIVE

Unconditional promises to give are considered collectible therefore no allowance for doubtful accounts has been recorded. The total amount of unconditional promises to give at June 30, 2004 are expected to be collected as follows:

Less than one year	\$ 42,527
One to five years	43,000
More than five years	<u>41,290</u>
Total unconditional promises to give	\$ <u>126,817</u>

Certain donors have stipulated in their wills to make donations to the Foundation upon death. The total amount of such conditional promises to give is \$1,348,541 at June 30, 2004. As the donors have placed a condition on the donation, these amounts have not been recorded in the financial statements.

3. INVESTMENTS

At June 30, 2004 and 2003, the Foundation's investments, carried at fair value, consisted of the following:

	2004			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Market Value
Certificates of deposit	\$ 76,393	\$ -	\$ -	\$ 76,393
Mutual funds	18,810,050	3,135,358	( 36,667 )	21,908,741
Corporate stock	9,718,706	1,238,262	( 265,083 )	10,691,885
Other	<u>21,816</u>	<u>599</u>	<u>-</u>	<u>22,415</u>
	\$ <u>28,626,965</u>	\$ <u>4,374,219</u>	\$ ( <u>301,750</u> )	\$ <u>32,699,434</u>
	2003			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Market Value
Certificates of deposit	\$ 75,701	\$ -	\$ -	\$ 75,701
Mutual funds	18,448,860	2,245,547	-	20,694,407
Corporate stock	8,771,641	693,463	( 598,484 )	8,866,620
Other	<u>21,816</u>	<u>-</u>	<u>-</u>	<u>21,816</u>
	\$ <u>27,318,018</u>	\$ <u>2,939,010</u>	\$ ( <u>598,484</u> )	\$ <u>29,658,544</u>

**McNeese State University Foundation**  
**NOTES TO FINANCIAL STATEMENTS**

**5. DONATED PROPERTY**

The carrying values of donated property consisted of the following at June 30, 2004 and 2003:

	2004	2003
650-acre farm	\$ 350,000	\$ 350,000
Property at 1608 Sampson Street, Westlake, Louisiana	120,000	120,000
	\$ 470,000	\$ 470,000

The Foundation has agreed that the farm would be used primarily by the Agriculture Department of McNeese State University and would never be sold.

**6. FUNDS HELD IN CUSTODY**

The Foundation has received matching funds of \$2,840,000 from the State of Louisiana as of June 30, 2004, under the professorship program detailed in Note 1.

**7. TEMPORARILY RESTRICTED NET ASSETS**

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

	2004	2003
Projects specified by donors	\$ 1,377,546	\$ 1,398,750
Dedicated scholarships	224,329	221,843
Freshman awards	40,500	39,400
Professorship awards	46,000	-
Named honor awards	10,750	11,875
Excellence awards	3,500	3,250
Early admissions awards	-	12,300
	\$ 1,702,625	\$ 1,687,418

**8. PERMANENTLY RESTRICTED NET ASSETS**

Net assets were permanently restricted for the following purposes at June 30, 2004 and 2003:

	2004	2003
Eminent Scholars/Endowed Professorships	\$ 4,960,441	\$ 4,614,889
Scholarships	7,388,278	4,986,970
Other university projects	9,599,935	10,417,559
	\$ 21,928,973	\$ 20,019,418

McNeese State University Foundation

NOTES TO FINANCIAL STATEMENTS

9. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, and unconditional promises to give. The carrying amounts reported in the statement of financial position for cash and cash equivalents approximate fair values because of the short maturities of those instruments. The fair value of unconditional promises to give is not considered to be significantly different from carrying value due to the small carrying value.

Investments. The carrying values of investments reported in the statement of financial position are equal to the estimated fair values of those investments. The fair values of investments are based on quoted market prices for those or similar investments.

10. PROFESSORSHIP PROGRAM

As discussed in Note 1, funds representing the Eminent Scholars/Endowed Professorships program are segregated. The fair value of these funds was \$6,455,585 and \$5,666,420 at June 30, 2004 and 2003, respectively, compared to \$7,100,000 and \$6,700,000 in donations/state matching. The deficiencies of \$644,415 and \$1,033,580 at June 30, 2004 and 2003, respectively, are the result of a drop in the fair value of the investments in the segregated accounts.

11. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2004, management changed the method it used to account for the Eminent Scholars/Endowed Professorships Program. Previously, the amount originally contributed by the donor was recorded as permanently restricted net assets and the amount originally matched by the state was recorded as the liability "Funds held in custody." The Foundation now records the donor portion at the lesser of 60% of the fair value of the segregated program accounts or the original contribution and the state match portion at the lesser of 40% of the fair value of the segregated program assets or the original match amount.

This change resulted in a decrease in funds held in custody and an increase in net assets of \$413,432 and \$472,788 as of June 30, 2003 and 2002, respectively. The increase in net assets for the year ended June 30, 2003 decreased by \$59,356. Had this accounting change not been made, net assets at June 30, 2004, would have been \$32,501,142, a \$257,766 decrease.



# Langley, Williams & Company, L.L.C.

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COMPANY AUDIT FIRMS

To the Board of Directors and Management of  
McNeese State University Foundation  
Lake Charles, Louisiana

In planning and performing our audit of the financial statements of McNeese State University Foundation for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Foundation's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

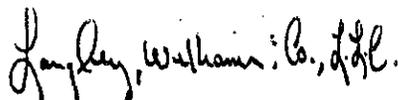
Finding 2004-1. During our testwork on contributions, we received a confirmation reply from the H.C. Drew Estate indicating two problems with a contribution received during the year. First, the contribution for \$30,000 was intended to be credited to an "In & Out" account but was coded to Drew Institute (an endowment account) in the Foundation's donor tracking system. Upon investigation, we discovered that the contribution was credited to the correct account in the accounting system, making those funds available for expenditure.

Second, the confirmation reply indicated that \$1,000 had been moved without authorization. Upon further investigation, we discovered that one of the two trustees had verbally approved the transfer. Further, in a letter from the approving trustee, he indicates that the second trustee had concurred with decision to transfer the funds.

In order to verify that contributions have been coded correctly in the donor tracking system, we suggest that contributions per the accounting system be reconciled to the donor tracking system.

In order to ensure that movement of contributions between funds is properly authorized, we suggest that the Foundation implement a policy of obtaining written authorization. The Foundation should also document on its non-individual donors who is authorized to act on behalf of the donor (e.g., corporate resolution, etc.).

This report is intended solely for the information and use of the Board of Directors, management, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

  
December 6, 2004

December 10, 2004

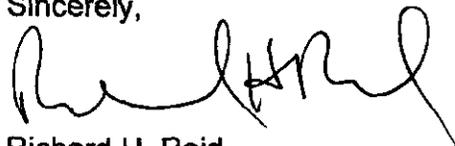
Mr. Steve J. Theriot, CPA  
Legislative Auditor  
1600 North Third Street  
Baton Rouge, LA 70802

Dear Mr. Theriot:

In regard to the management letter dated December 6, 2004, we concur with the audit findings with reference to Finding 2004-1. We plan to implement all recommendations.

If you should have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard H. Reid". The signature is fluid and cursive, with a large initial "R" and "H".

Richard H. Reid  
Executive Vice President

RHR/men