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

FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2007
ISSUED MAY 21, 2008

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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BATON ROUGE, LOUISIANA 70804-9397

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

April 30, 2008

Independent Auditor's Report

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Grambling, Louisiana

We have audited the accompanying basic financial statements of the business-type activities of Grambling State University (University), a campus within the University of Louisiana System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2007, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Black and Gold Facilities, Inc., which is a nonprofit corporation included as a blended component unit in the basic financial statements representing 15.1 percent, 0.4 percent, and 1.3 percent, respectively, of the assets, net assets, and revenues of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this component unit, is based solely upon the report of the other auditor.

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 Black and Gold Facilities, Inc., which were audited by other auditors upon whose report we are relying, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in note 1-B, the accompanying financial statements of the University are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the University of Louisiana System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the University of Louisiana System as of June 30, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the University as of June 30, 2007, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the University did not directly suffer any major effects of these two hurricanes, the University of Louisiana System lost significant assets and operational functionality. However, the long-term effects of these events directly on the University cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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GSU07

INTRODUCTION

The Management's Discussion and Analysis of Grambling State University's (university) financial performance presents a narrative overview and analysis of the university's financial activities for the year ended June 30, 2007. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the university's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

The university's net assets overall changed from $91.83 million to $96.69 million or 5.29% from June 30, 2006, to June 30, 2007. The overall reasons for this change include a new facility and new endowments.

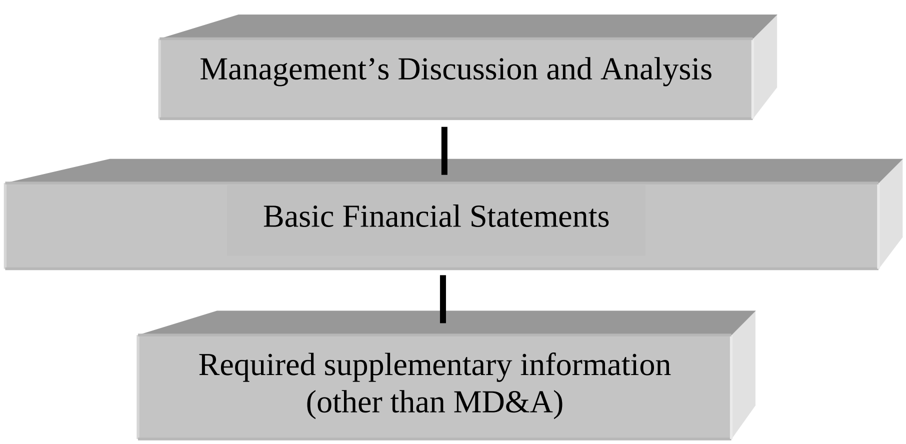
Enrollment changed from 5,165 to 5,065 for the fall semesters of fiscal years 2006 and 2007, respectively, a decrease of 1.92%.

The university's operating revenues changed from $51.1 million to $53.2 million or 4.11% from June 30, 2006, to June 30, 2007. Operating expenses, however, changed by 7.66% to $83.1 million for the year ended June 30, 2007. Increases in faculty personnel expense, utilities expense and utilities repair and maintenance costs are the primary reasons for this change.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating appropriations. The change to $32.1 million in 2007 from $26.4 million in 2006 is attributed to an increase in state appropriations and investment income.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special-Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.



These financial statements consist of three sections - Management's Discussion and Analysis (this section), the basic financial statements, and the notes to the financial statements.

Basic Financial Statements

The basic financial statements present information for the university as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (pages 11-12) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the university is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (pages 13-14) presents information showing how the university's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

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

The financial statements provide both long-term and short-term information about the university's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

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

Grambling State University used the Black and Gold Facilities, Inc., nonprofit corporation for financing the purchase and construction of student residence halls. Nonprofit corporations, such as these, must be reported on the face of the financial statements and eliminating entries performed, if needed.

This nonprofit corporation is a separate entity; however, the university's statements are prepared in accordance with Generally Accepted Accounting Principles as prescribed by the GASB and must include this nonprofit corporation in the university's financial statements to comply with

GASB standards. In the case of this nonprofit building corporation, GASB Statement No. 14 dictates inclusion. Accordingly, financial statements from the Black and Gold Facilities, Inc., nonprofit corporation are blended into the university's financial statements.

FINANCIAL ANALYSIS

Statement of Net Assets
As of June 30, 2007, and June 30, 2006
(in thousands)

	Total	
	2007	2006
Current and other assets	$15,835	$13,042
Noncurrent assets	45,482	12,421
Capital assets	122,304	78,500
Total assets	183,621	103,963
Current and other liabilities	16,458	7,156
Noncurrent liabilities	70,477	4,974
Total liabilities	86,935	12,130
Net assets:		
Invested in capital assets, net of debt	76,306	75,410
Restricted	11,801	11,187
Unrestricted	8,579	5,236
Total net assets	$96,686	$91,833

This schedule is prepared from the university's Statement of Net Assets which is presented on an accrual basis of accounting. Significant Statement of Net Assets changes in 2007 include a 5.28% increase in net assets because of the following:

- Capital assets, net of related debt - increase in movable property
- Restricted assets - increase in endowments
- Unrestricted - increases in investment values and earnings

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. Restricted net assets represent those assets that are not available for spending as a result of legislative requirements, donor agreements, or grant requirements. Conversely, unrestricted net assets are those that do not have any limitations on the purposes for which these amounts may be spent.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2007, and June 30, 2006
(in thousands)

	2007	2006
Operating revenues:		
Student tuition and fees, net	$16,178	$15,776
Grants and contracts	20,862	19,936
Auxiliary	14,654	13,891
Other	1,548	1,514
Total operating revenues	53,242	51,117
Operating expenses:		
Education and general:		
Instruction	23,732	22,774
Research	375	528
Public service	127	151
Academic support	8,903	8,270
Student services	5,205	4,445
Institutional support	11,218	10,531
Operations and maintenance of plant	6,652	4,958
Depreciation	3,767	3,479
Scholarships and fellowships	7,804	6,820
Auxiliary enterprises	15,304	15,276
Other operating expenses	54	3
Total operating expenses	83,141	77,235
Operating loss	(29,899)	(26,118)
Nonoperating revenues (expenses):		
State appropriations	29,437	26,224
Gifts	263	571
Other nonoperating revenues (expenses)	2,436	(368)
Nonoperating revenues	32,136	26,427
Income before other revenues	2,237	309
Capital appropriations	2,616	9,758
Additions to permanent endowments		1,100
Increase in Net Assets	4,853	11,167
Net assets at beginning of year	91,833	80,666
Net assets at end of year	$96,686	$91,833

Nonoperating revenues reported on the financial statements increased by 21.60% to $32.14 million, primarily attributable to the combined investment income of the university and the Black and Gold Facilities, Inc., and the increase in state appropriation.

The university's operating revenues increased by $2.1 million or 4.16%. This increase is attributable to the following:

- Increase in Auxiliary Revenue is applicable to an increase in student room and board fees.
- Increase in Administrative Expense Recovery is from grants and contracts and miscellaneous income.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2007, the university had invested approximately $122.3 in capital assets, net of accumulated depreciation. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately $43.8 million or 55.8% over the previous fiscal year. More detailed information about the university's capital assets is presented in note 6 to the financial statements.

Capital Assets at Year-end
(Net of Depreciation, in thousands)

	2007	2006
Land	$1,145	$992
Buildings	117,991	74,409
Equipment	2,422	2,366
Library materials	746	733
Total	$122,304	$78,500

This year's major additions included (in thousands) the following:

- The Black and Gold Facilities, Inc., purchase of an apartment complex for student housing; $1,368
- The Black and Gold Facilities, Inc., construction of new residence halls; $42,188

Debt

The university had $68.2 million in revenue bonds and notes outstanding at year-end, compared to $3.09 million last year, an increase of 2,107%.

New debt resulted from the Black and Gold Facilities, Inc., bond obligation incurred for the construction of student residence facilities, the purchase of an existing apartment complex for student residence, and the relocation and renovation of the student annex facility.

See note 13 for details relating to changes in and the composition of long-term liabilities.

CONTACTING THE UNIVERSITY'S MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of the university's finances and to demonstrate the university's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Vice President for Finance at (318) 274-6406.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statement of Net Assets, June 30, 2007

ASSETS	
Current assets:	
Cash and cash equivalents (note 2)	$10,788,354
Receivables, net (note 4)	3,961,475
Due from state treasury (note 16)	780,000
Inventories	264,623
Deferred charges and prepaid expenses	39,984
Total current assets	15,834,436
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (note 2)	4,516,040
Investments (note 3)	37,349,762
Receivables, net (note 4)	109,986
Notes receivables, net (note 5)	4,643
Capital assets, net (note 6)	122,304,432
Other noncurrent assets	3,501,905
Total noncurrent assets	167,786,768
Total assets	183,621,204
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities (note 7)	11,992,846
Due to state treasury (note 16)	7,758
Deferred revenues (note 8)	1,184,633
Compensated absences payable (notes 12 and 14)	666,955
Amounts held in custody for others	913,086
Notes payable (note 14)	296,056
Other current liabilities	1,396,313
Total current liabilities	16,457,647

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2007

LIABILITIES (CONT.)	
Noncurrent liabilities:	
Compensated absences payable (notes 12 and 14)	$2,572,917
Notes payable (note 14)	2,222,307
Bonds payable (note 14)	65,681,844
Total noncurrent liabilities	70,477,068
Total liabilities	86,934,715
NET ASSETS	
Invested in capital assets, net of related debt	76,305,798
Restricted for:	
Nonexpendable (note 17)	3,649,990
Expendable (note 17)	8,151,378
Unrestricted	8,579,323
TOTAL NET ASSETS	$96,686,489

(Concluded)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $9,548,368)	$16,177,945
Federal grants and contracts	17,745,795
State and local grants and contracts	2,727,894
Nongovernmental grants and contracts	388,736
Sales and services of educational departments	446,837
Auxiliary enterprise revenues (net of scholarship allowances of $803,931)	14,653,665
Other operating revenues	1,100,886
Total operating revenues	53,241,758
OPERATING EXPENSES	
Education and general:	
Instruction	23,732,378
Research	375,041
Public service	127,533
Academic support	8,903,011
Student services	5,204,773
Institutional support	11,217,622
Operations and maintenance of plant	6,651,891
Depreciation	3,766,583
Scholarships and fellowships	7,803,992
Auxiliary enterprises	15,304,541
Other operating expenses	54,007
Total operating expenses	83,141,372
OPERATING LOSS	(29,899,614)
NONOPERATING REVENUES (Expenses)	
State appropriations	29,436,963
Gifts	263,737
Net investment income	2,639,781
Interest expense	(686,679)
Other nonoperating revenues	483,088
Net nonoperating revenues	32,136,890

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses, and Changes in Net Assets, 2007

INCOME BEFORE OTHER REVENUES	$2,237,276
Capital appropriations	2,616,592
INCREASE IN NET ASSETS	4,853,868
NET ASSETS - BEGINNING OF YEAR	91,832,621
NET ASSETS - END OF YEAR	$96,686,489

(Concluded)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Tuition and fees	$25,515,569
Grants and contracts	20,526,272
Sales and services of educational departments	470,426
Auxiliary enterprise receipts	16,037,589
Payments for employee compensation	(38,791,257)
Payments for benefits	(10,340,258)
Payments for utilities	(2,948,901)
Payments for supplies and services	(11,945,882)
Payments for scholarships and fellowships	(18,156,291)
Other sources	20,026
Net cash used by operating activities	(19,612,707)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	28,657,874
Gifts and grants for other than capital purposes	263,737
TOPS receipts	482,905
TOPS disbursements	(482,905)
Federal Family Educational Loan program receipts	31,029,855
Federal Family Educational Loan program disbursements	(31,029,855)
Other sources	575,342
Net cash provided by noncapital financing sources	29,496,953
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from capital debt	65,666,744
Capital appropriations received	2,616,592
Purchase of capital assets	(47,556,085)
Principal paid on capital debt and leases	(571,345)
Interest paid on capital debt and leases	(686,679)
Other payments	(92,254)
Net cash provided by capital financing activities	19,376,973

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2007

CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	$6,413,789
Interest received on investments	2,639,781
Purchase of investments	(33,181,438)
Net cash used by investing activities	(24,127,868)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,133,351
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,171,043
CASH AND CASH EQUIVALENTS AT END OF YEAR	$15,304,394
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	($29,899,614)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	3,766,583
Changes in assets and liabilities:	
Decrease in accounts receivable, net	28,499
Decrease in inventories	306,542
(Increase) in deferred charges and prepaid expenses	(14,568)
Decrease in notes receivable	8,199
(Increase) in other assets	(3,501,905)
Increase in accounts payable and accrued liabilities	8,426,018
Increase in deferred revenue	28,186
Increase in amounts held in custody for others	216,549
Increase in compensated absences	238,163
Increase in other liabilities	784,641
Net cash used by operating activities	($19,612,707)

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

Grambling State University 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 University of Louisiana System Board of Supervisors; however, the annual budget of the university and changes to the degree programs, department of instruction, et cetera, require the approval of the Board of Regents for Higher Education. As a state university, operations of the university's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

Grambling State University is located in Grambling, Louisiana, and serves as a cultural and educational center for north Louisiana. The university offers associate, baccalaureate, and selected masters and specialist degrees in the areas of liberal arts, education, business administration, the sciences and science-related technologies, nursing, and social work. Enrollment at the university was 2,598; 5,065; and 4866, respectively, during the summer, fall, and spring semesters of fiscal year 2007. At June 30, 2007, the university has approximately 747 full-time faculty and staff 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

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. Grambling State University is part of the University of Louisiana System, which is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the majority of the members of the governing boards 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 universities within the system primarily serve state residents. The accompanying financial statements present information only as to the transactions of the programs of the university as authorized by Louisiana statutes and administrative regulations.

Annually, the State of Louisiana issues a comprehensive financial report (CAFR), which includes the activity contained in the accompanying financial statements within the University of Louisiana System amounts. The Louisiana Legislative Auditor audits the basic financial statements of the University of Louisiana System and the state's CAFR.

Blended Component Unit

Black and Gold Facilities, Inc., is a Louisiana nonprofit corporation and is considered a blended component unit of the university. The component unit is included in the reporting entity because it is fiscally dependent on the university. The purpose of this organization is to promote, assist, and benefit the mission of the university through the acquisition, construction, development, management, leasing or otherwise assisting in the acquisition, construction, development, management or leasing of student housing or other facilities on behalf of the university. Although this facility corporation is legally separate, it is reported as a part of the university because the majority of its revenue will come from the leasing of facilities to the university. To obtain the corporation's latest audit report, write to:

Black and Gold Facilities, Inc.
c/o Mr. Leon Sanders
Grambling State University
P.O. Box 4287
Grambling, Louisiana 71245

This blended component unit is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria, presentation, and disclosure requirements are different from GASB revenue recognition criteria and presentation features. With the exception of presentation adjustments, no modifications have been made to this component unit's financial information in Grambling State University's report for these differences.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities. All activities of the university are accounted for in a single proprietary (enterprise) fund. Accordingly, the university'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-university transactions have been eliminated.

The university has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university has elected to not apply FASB pronouncements issued after the applicable date.

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. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated, but are recognized in the succeeding year; and (4) certain inventories are recorded as expenditures at the time of purchase.

The original approved budgets and subsequent amendments approved for the university for fiscal year 2007 are as follows:

Original approved budget	$52,534,382
Amendments:	
State General Fund (direct)	1,358,836
State General Fund (self-generated)	142,351
Final budget	$54,035,569

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

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes cash on hand (petty cash), demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in certificates of deposit and all highly liquid investments with a maturity of three months or less when purchased. Under state law, the university 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 university 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 non-negotiable certificates of deposit, regardless of maturity.

In accordance with Louisiana Revised Statute (R.S.) 49:327, the university is authorized to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, and money market funds. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are U.S. government agency obligations and are reported at fair value in accordance with GASB Statement No. 31. Changes in the carrying value of investments, resulting from unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. For purposes of the Statement of Cash Flows, the university considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. INVENTORIES

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

G. NONCURRENT RESTRICTED ASSETS

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

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the university's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if they exceed $100,000. Any infrastructure exceeding $3 million must be capitalized, but the university does not have any infrastructure that meets that criterion. 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.

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

Upon termination or transfer, an employee will be paid for any time 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 employee's hourly rate of pay at termination or transfer.

K. NONCURRENT LIABILITIES

Noncurrent liabilities include principal amounts of revenue bonds and notes payable with contract maturities greater than one year and estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

L. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

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

M. NET ASSETS

The university's net assets are classified as follows:

(a) Invested in capital assets, net of related debt consists of the university's total investment in capital assets, net of accumulated depreciation, and reduced by outstanding debt obligations related to the acquisition, construction, or improvement of those assets.

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

(c) Restricted net assets - expendable consist of resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

N. CLASSIFICATION OF REVENUES

The university 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.

(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 goods and services provided by the university and the amount that is paid by students and/or third parties making payments on the students' behalf.

2. CASH AND CASH EQUIVALENTS

At June 30, 2007, the university has cash and cash equivalents (book balances) totaling $15,304,394 as follows:

Demand deposits:	
Interest-bearing	$13,699,557
Noninterest-bearing	(628,531)
Time certificates of deposit	2,231,668
Petty cash	1,700
Total	$15,304,394

Custodial credit risk is the risk that in the event of a bank failure, the university's deposits may not be recovered. Under state law, the university's deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the university or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

As of June 30, 2007, $1,307,401 of the university's total bank balance of $15,096,247 was uninsured and collateralized with securities held by pledging institutions and therefore exposed to custodial credit risk. The $1,307,401 consists of deposits in money market accounts belonging to the Black and Gold Facilities, Inc.

3. INVESTMENTS

At June 30, 2007, the university has investments totaling $37,349,762. The university's investment policy follows state law (R.S. 49:327), which authorizes the university to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds. A summary of the university's investments follows:

Type of Investment	Fair Value	Credit Quality Ratings	Percent of Investment	Investment Maturity (in years) Less Than 1	1 to 5	6 to 10
Investment in government securities:						
Federal Home Loan Mortgage Corporation[1]	$2,366,268	Aaa	6.30%			$2,366,268
Federal National Mortgage Association[1]	580,968	Aaa	1.60%			580,968
Federal Home Loan Bank[1]	136,287	Aaa	0.40%			136,287
Federal Farm Credit Bank[2]	1,978,760	Aaa	5.30%		$1,978,760	
Total investments in government securities	5,062,283		13.60%	NONE	1,978,760	3,083,523
Investments held by foundation[3]	1,176,656		3.20%	$1,176,656		
Corporate bonds[3]	3,413,923		9.10%	2,615,575	798,348	
Common stock[3]	417,438		1.10%			
Certificates of deposit[3]	784,571		2.10%	199,745	495,264	89,562
Held by blended component units[a]	26,494,891		70.90%	26,494,891		
Total investments	$37,349,762		100.00%	$30,486,867	$3,272,372	$3,173,085

[1]Credit quality ratings obtained from Moody's Investors Service.
[2]Credit quality ratings obtained from Standard and Poor's.
[3]Credit quality ratings are not required for these investments.
[a]Credit quality ratings are not required. U.S. Treasury notes are explicitly guaranteed by the U.S. government and have no credit risk.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the university's investments by type as described previously. The university does not have policies to further limit credit risk.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the $37,349,762 in total investments held by the university, $5,062,283 is government securities and the university's investment policy generally requires that issuers must provide the university with safekeeping receipts, collateral agreements, and custodial agreements.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State law as applicable to institutions of higher education does not address interest rate risk. The university does not have policies to limit concentration of credit risk or interest rate risk.

Investments held by private foundations in an external investment pool are managed in accordance with the terms outlined in a management agreement executed between the university and the Grambling Black and Gold Foundation, with the university being a voluntary participant. These investments total $1,176,656, and have no specified maturity date or credit quality rating.

4. RECEIVABLES

Receivables are shown on the Statement of Net Assets, net of an allowance for doubtful accounts, at June 30, 2007. These receivables are composed of the following:

Type	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Student tuition and fees	$7,236,100	($5,342,335)	$1,893,765
Federal, state, and private grants and contracts	1,246,674	(30,340)	1,216,334
Auxiliary enterprises	675,907		675,907
Other	285,455		285,455
Total	$9,444,136	($5,372,675)	$4,071,461

5. NOTES RECEIVABLE

The university administers the Nursing Student Loan program. Notes receivables are comprised of loans to students under this program. If loans are determined to be uncollectible and not eligible for reimbursement by the federal government, the loans can be written off and assigned to the Department of Health and Human Services (DHHS). Loans are no longer issued under the Nursing Student Loan program, but collections are still being made on outstanding loans and remitted quarterly to DHHS. As of June 30, 2007, notes receivable totaling $4,643 is shown on the Statement of Net Assets, net of an allowance for doubtful accounts of $103,547.

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2007, follows:

	Balance June 30, 2006	Additions	Transfers	Retirements	Balance June 30, 2007
Capital assets not being depreciated:					
Land	$992,089	$153,469			$1,145,558
Construction-in-progress	18,758,817	45,021,004	($21,024,552)		42,755,269
Total capital assets not being depreciated	$19,750,906	$45,174,473	($21,024,552)	NONE	$43,900,827
Other capital assets:					
Land improvements	$467,099				$467,099
Less accumulated depreciation	(467,099)				(467,099)
Total land improvements	NONE	NONE	NONE	NONE	NONE
Buildings	115,820,589	$1,367,706	$21,024,552	($5,534,055)	132,678,792
Less accumulated depreciation	(60,170,668)	(2,806,318)		5,534,055	(57,442,931)
Total buildings	55,649,921	(1,438,612)	21,024,552	NONE	75,235,861
Equipment	11,539,567	671,023		(297,166)	11,913,424
Less accumulated depreciation	(9,173,314)	(615,446)		297,166	(9,491,594)
Total equipment	2,366,253	55,577	NONE	NONE	2,421,830
Library books	14,289,347	390,883		(13,364)	14,666,866
Less accumulated depreciation	(13,556,597)	(377,719)		13,364	(13,920,952)
Total library books	732,750	13,164	NONE	NONE	745,914
Total other capital assets	$58,748,924	($1,369,871)	$21,024,552	NONE	$78,403,605
Capital Asset Summary:					
Captial assets not being depreciated	$19,750,906	$45,174,473	($21,024,552)		$43,900,827
Other capital assets, at cost	142,116,602	2,429,612	21,024,552	($5,844,585)	159,726,181
Total cost of capital assets	161,867,508	47,604,085	NONE	(5,844,585)	203,627,008
Less accumulated depreciation	(83,367,678)	(3,799,483)	NONE	5,844,585	(81,322,576)
Capital assets, net	$78,499,830	$43,804,602	NONE	NONE	$122,304,432

7. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2007:

Account Name	
Vendor payables	$10,246,404
Accrued salaries and benefits	1,610,617
Other	135,825
Total payables	$11,992,846

8. DEFERRED REVENUES

The following is a summary of deferred revenues at June 30, 2007:

Prepaid tuition and fees	$949,871
Prepaid athletic ticket sales	37,294
Grants and contracts	197,468
Total deferred revenues	$1,184,633

9. PENSION PLANS

Plan Description. Substantially all employees of the university are members of two statewide, public employee retirement systems. Academic employees are generally members of the Teachers' Retirement System of Louisiana (TRSLA), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSLA 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. TRSLA and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems; employee benefits vest with TRSLA 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 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of employee plan members and the university are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRSLA) and 7.5% (8% for LASERS employees hired after July 1, 2006) of covered salaries. In fiscal year 2007, the state contributed 15.8% of covered salaries to TRSLA and 19.1% of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to the university. The employer contributions to TRSLA for the years ended June 30, 2007, 2006, and 2005 were $2,589,668; $2,528,076; and $2,358,513, respectively, and to LASERS for years ended June 30, 2007, 2006, and 2005 were $1,440,005; $1,440,065; and $1,267,523, respectively, equal to the required contributions for each year.

Optional Retirement System

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

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

Total contributions by the university are 15.8% of covered payroll for fiscal year 2007. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligations of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled $1,351,851 and $684,477, respectively, for the year ended June 30, 2007.

10. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The university provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university'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 by the university. The university recognizes the cost of providing these benefits to retirees (university's portion of premiums) as an expense when paid during the year. These retiree benefits, for 296 retirees, totaled $1,594,712 for the year ended June 30, 2007.

11. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are considered state liabilities and paid upon appropriation by the legislature and not the university. As of June 30, 2007, the university was involved as a defendant in seven lawsuits which are being handled by contract attorneys. The attorneys have estimated a reasonable potential liability of $13,000 relating to one of the claims. This amount has not been accrued in the accompanying financial statements. This note does not include any lawsuits filed with the university system or the Office of Risk Management, the agency responsible for the state's risk management program.

12. COMPENSATED ABSENCES

At June 30, 2007, employees of the university have accumulated and vested annual, sick, and compensatory leave of $2,022,623; $792,295; and $424,954, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

13. OPERATING LEASES

For the year ended June 30, 2007, the total rental expense for all operating leases was $432,705. The following is a schedule by years of future minimum annual rental payments required under operating leases:

	Fiscal Year										
	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2037	Total
Nature of Lease:											
Office equipment	$316,732	$120,132									$436,864
Buses	80,000										80,000
Land	1	1	$1	$1	$1	$5	$5	$5	$5	$5	30
Total	$396,733	$120,133	$1	$1	$1	$5	$5	$5	$5	$5	$516,894

14. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the university for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Bonds and notes payable:					
Revenue bonds payable	$286,000	$65,681,844	$286,000	$65,681,844	
Notes payable	2,803,708		285,345	2,518,363	$296,056
Total bonds and notes payable	3,089,708	65,681,844	571,345	68,200,207	296,056
Other liabilities - accrued compensated absences payable	3,001,709	238,163	NONE	3,239,872	666,955
Total long-term liabilities	$6,091,417	$65,920,007	$571,345	$71,440,079	$963,011

The additions to compensated absences during the fiscal year represent the net change during the year because the additions and deductions could not readily be determined.

15. REVENUE BONDS AND NOTES PAYABLE

Revenue bonds and notes payable consisted of the following:

	Date of Issue	Original Issue	Principal Outstanding June 30, 2006	Issued (Redeemed)	Principal Outstanding June 30, 2007	Maturities	Interest Rates	Interest Outstanding June 30, 2007
Revenue Bonds								
Student Housing System:								
1968 Series B	October 1, 1968	$3,000,000	$286,000	($286,000)				
2006 Series A	October 1, 2006	55,705,000		55,705,000	$55,705,000	2039	3.79-5.41%	$56,462,750
2006 Series B	October 1, 2006	3,595,000		3,595,000	3,595,000	2013	5.32-5.41%	782,291
2006 Series C	October 1, 2006	5,700,000		5,700,000	5,700,000	2038	5.15-5.80%	6,716,440
Net Premium/Discount on 2006 Bonds amortized over life				681,844	681,844			
Total Bonds Payable		68,000,000	286,000	65,395,844	65,681,844			63,961,481
Notes Payable								
U.S. Department of Education	May 1, 1993	3,500,000	2,406,397	(106,354)	2,300,043	2023	3.0%	632,897
Ford Motor Credit Company for telephone equipment	August 30, 2001	1,165,931	397,311	(178,991)	218,320	2008	4.1%	5,648
Total Notes Payable		4,665,931	2,803,708	(285,345)	2,518,363			638,545
Total bonds and notes payable		$72,665,931	$3,089,708	$65,110,499	$68,200,207			$64,600,026

The outstanding bonds in the above schedule are related to the blended component unit identified in note 1.B. and are not the responsibility of Grambling State University.

The scheduled maturities of revenue bonds and notes payable are as follows:

	Bonds Payable		Notes Payable		
Fiscal Year	Principal	Interest	Principal	Interest	Total
2008		$3,167,298	$296,056	$73,672	$3,537,026
2009	$75,000	3,167,297	144,712	65,037	3,452,046
2010	930,000	3,140,698	116,292	61,462	4,248,452
2011	965,000	3,090,080	119,807	57,947	4,232,834
2012	1,090,000	3,034,942	123,428	54,326	4,302,696
2013-2017	6,310,000	14,297,131	675,405	213,364	21,495,900
2018-2022	8,050,000	12,517,920	783,836	104,934	21,456,690
2023-2027	10,315,000	10,210,175	258,827	7,803	20,791,805
2028-2032	13,195,000	7,261,128			20,456,128
2033-2037	16,675,000	3,733,610			20,408,610
2038-2039	7,395,000	341,202			7,736,202
Total	65,000,000	63,961,481	2,518,363	638,545	132,118,389
Unamortized net premium/discount	681,844	NONE	NONE	NONE	681,844
Total	$65,681,844	$63,961,481	$2,518,363	$638,545	$132,800,233

The following is a summary of the debt service reserve requirements of the various bond and note issues outstanding at June 30, 2007:

	Reserves Available	Reserve Requirement	Excess
U.S. Department of Education note	$493,000	$493,000	
Series A Revenue Bonds	3,763,096	3,749,700	$13,396
Series B Revenue Bonds	362,070	359,500	2,570
Series C Revenue Bonds	421,193	408,085	13,108
Total	$5,039,359	$5,010,285	$29,074

The university is required by the U.S. Department of Education note to establish a Retirement of Indebtedness Account and make semiannual deposits of $22,250 until $178,000 has been reached. Once the debt service reserve account balance is satisfied, the university is to establish a Repair and Replacement Reserve Account and make annual deposits of $35,000 until $350,000 has been accumulated.

In addition, the university is required to establish Debt Service Reserve Accounts related to the issuance of bonds for constructing new dormitories.

16. DUE TO/FROM STATE TREASURY

Amounts due to/from the state treasury shown on the Statement of Net Assets at June 30, 2007, are composed of the following:

Due from - balance of state approrpiation	$780,000
Due to - unclaimed property	$7,758

The unclaimed property balance will be remitted to the state treasury when the appropriate reports are filed.

17. RESTRICTED NET ASSETS

The university has the following restricted net assets at June 30, 2007:

Nonexpendable - endowments	$3,649,990
Expendable:	
Grants and contracts	$5,242,241
Endowment earnings	428,150
Student technology fees	177,028
Student loans	103,461
University plant projects	1,707,498
Debt service requirements	493,000
Total	$8,151,378

18. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Of the total net assets reported in the Statement of Net Assets for the year ended June 30, 2007, $1,817,020 is restricted by R.S. 17:3351.1 and other statutes. Listed below are the net assets restricted by enabling legislation and the purpose of the restriction:

Building and Facility Prevention Maintenance Program	$555,788
Building Use Fee	892,701
Student Technology Fee	177,028
Vehicle Registration Fee	191,503
Total	$1,817,020

19. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board of Regents to authorize for expenditure 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, 2007, net appreciation of $353,888 is available to be spent and is restricted to specific purposes.

20. AFFILIATED ORGANIZATIONS

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

Grambling Black and Gold Foundation, Inc.
Grambling University Athletic Foundation

The affiliated organizations are not included in the university's financial statements as component units since they do not meet the criteria for inclusion established by the Division of Administration, Office of Statewide Reporting and Accounting Policy. The organizations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

However, the accompanying financial statements do include the Black and Gold Facilities, Inc., accounts. These accounts have been audited by another independent auditor and when necessary, we have relied on the auditor's work.

21. ON-BEHALF PAYMENTS

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. For example, a nongovernmental fund-raising foundation affiliated with a governmental university (such as Grambling State University) may supplement salaries of certain university employees. Those payments constitute on-behalf payments for purposes of reporting by the university if they are made to the faculty members in their capacity as employees of the university.

The amount of on-behalf payments for salaries and fringe benefits included in the university's accompanying financial statements for fiscal year ended June 30, 2007, was $578.

22. DEFERRED COMPENSATION PLAN

Certain employees of the university participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available on the Internet at www.lla.la.gov.

23. SUBSEQUENT EVENTS

In a board meeting held on August 24, 2007, the Board of Supervisors for the University of Louisiana System adopted a resolution approving Grambling State University's request authorizing the execution of a Ground and Facilities Lease Agreement involving financing, designing, and implementing the university's Phase II comprehensive housing redevelopment plan. This action resulted in issuing $39,330,000 in tax-exempt revenue bonds and $2,595,000 in taxable revenue bonds by the Louisiana Public Facilities Authority.

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OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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

LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

April 30, 2008

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

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Grambling, Louisiana

We have audited the basic financial statements of the business-type activities of Grambling State University, a campus within the University of Louisiana System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2007, and have issued our report thereon dated April 30, 2008. Our report was modified to include a reference to another auditor and an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Black and Gold Facilities, Inc., as described in our report on Grambling State University's financial statements. The financial statements of the Black and Gold Facilities, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grambling State University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Grambling State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Grambling State University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the following paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

Inaccurate Annual Fiscal Report

Grambling State University (university) did not prepare an accurate Annual Fiscal Report (AFR) for the year ended June 30, 2007. As authorized by Louisiana Revised Statute (R.S.) 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP) prescribes the content and format for the preparation of the university's AFR, which is then submitted to the Office of Legislative Auditor for audit and to the University of Louisiana System (System) office for inclusion in the System's annual financial statements.

Good internal control and sound business practices require (1) accounting records and balances to be routinely analyzed for appropriateness and subsidiary records to be routinely reconciled to control records for consistency and (2) reports to be reviewed by competent members of management for accuracy and compliance with applicable requirements. A review of the university's AFR disclosed the following material or significant errors in the financial statements:

<u>Statement of Net Assets</u>

- Current cash and cash equivalents were overstated and noncurrent restricted cash and cash equivalents were understated by $1,407,401.
- Current investments were overstated and noncurrent restricted investments were understated by $26,494,891.
- Current receivables were overstated by $44,356.
- Current and noncurrent compensated absences payable were overstated by $74,896 and $937,542, respectively.
- Net assets - restricted expendable was understated by $421,957.
- Net assets - unrestricted was understated by $546,125.

Statement of Revenues, Expenses, and Changes in Net Assets

- Other operating revenues were overstated by $67,752.
- Education and general expenses were overstated by $1,012,438.
- Other operating expenses were overstated by $23,396.

Statement of Cash Flows

- Operating loss was overstated by $1,012,438.
- Increase in compensated absences was overstated by $1,012,438.
- Increase in accounts receivable was understated by $44,356.
- Net cash used by operating activities was understated by $500,000.
- Net cash provided by noncapital financing sources was overstated by $600,000.
- Net cash used by investing activities was overstated by $1,100,000.

Material or significant adjustments were also necessary to present fairly the following notes to the financial statements:

- Budget note
- Long-term liabilities note
- Compensated absences note
- Enabling legislation note
- Net assets note
- Accounts receivable note
- Investments note

Ten additional proposed adjusting entries were identified for the financial statements and notes that we did not consider material or significant. These proposed adjusting entries were prepared and presented to management for consideration.

University management does not adequately analyze and adjust the accounts in its accounting system prior to closing the system and preparing the AFR. In addition, supporting schedules and working papers are not prepared and agreed to the supporting accounting records prior to preparing the financial statements. Furthermore, not all insignificant errors noted in prior audits have been corrected by management and remain in the accounting records. As a result, the university's financial information submitted to the System is not fairly presented and requires significant time and effort by auditors to identify and adjust for material or significant errors. This also causes unnecessary delays in issuing the university's and the System's annual financial statements. Furthermore, failure to timely analyze accounts and identify errors subjects university assets to fraud and/or abuse.

University management should immediately begin analyzing and reconciling all accounts and should make all adjustments necessary to the records to reflect current, accurate financial information. In addition, management should develop a compilation process that requires timely reconciliation of all general ledger accounts to subsidiary or supporting records and schedules. The compilation process should include the performance of analytical procedures and a high level supervisory review of financial information and note disclosures to detect and correct errors in a timely manner before submitting that information to the System and the Office of Legislative Auditor. Management partially concurred with the finding and recommendations stating that it concurs that errors occurred in the amount reported for compensating absences and these errors were the result of staff turnover. However, it did not concur that the university failed to adequately analyze and adjust accounts in its accounting system prior to the closing of its accounting system and preparing its AFR. In addition, management feels that the more significant adjustments detailed in the finding are primarily attributable to the blending of the financial information taken from the audit report of the Black and Gold Facility Corporation. Management added that it did not have sufficient time to analyze the accuracy of the financial information in the independent auditor's report for the Black and Gold Facility Corporation before blending this information with the university's annual financial report (see Appendix A, pages 1-2).

Additional Comments: Several months prior to June 30, 2007, management was informed of the reporting standards requiring the blending of the university's financial information with the financial information from the Black and Gold Facility Corporation. It was also suggested that the university meet with the management of the corporation and its auditors to impress upon them the importance of issuing the corporation's audit report, as quickly as possible, after June 30, 2007, to give the university as much time as possible to prepare the AFR.

We acknowledge that the university has had staff turnover during 2007; however, in the past the amounts reported in the AFR for compensated absences and supporting schedules have been incomplete, inaccurate, or contained numerous errors. Given the problems with compensated absences in past audits plus the fact that the staff responsible for providing the compensated absence information were relatively new and inexperienced, management should have taken the time necessary to closely analyze the supporting schedules prior to entering the balances in the AFR. Some additional accounts for which the support provided by management was incomplete, inaccurate, or unchanged from previous years were deferred revenues, travel advances, grants and third party receivables, and various allowance accounts.

The statement in the response that the Legislative Auditor relies on the report is not correct. We review the report and determine if the university properly blended the corporation's financial information with the university's financial information. We take no responsibility for the information taken from the audit report issued by the independent auditors for the Black and Gold Facility Corporation. Our report includes the appropriate division of responsibility disclosure.

Unlocated Movable Property

For the third consecutive year, the university has identified a significant amount of unlocated movable property as a result of its annual property inventory certification procedures. Current year inventory procedures identified unlocated property items totaling $706,785. Of that amount, items totaling $306,560 were removed from the property records because these items had not been located for three consecutive years. Of the unlocated property reported on the university's property inventory certification, the amount of unlocated computers and computer-related equipment totaled $451,571; audio visual equipment totaled $68,100; office equipment totaled $40,525; and scientific equipment totaled $48,496. In addition, our tests of movable property revealed three of 27 items (11.1%) were not in the recorded location, and four items (15%) were reported to the Louisiana Property Assistance Agency (LPAA) 24 days after the required 60-day reporting period, as reflected on the Late Additions Report for the period July 1, 2006, through June 30, 2007.

R.S. 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated property to the LPAA. Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property items for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets should be properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory should be conducted. The university's certification of annual property inventory, submitted to LPAA on October 5, 2006, disclosed $21,758,058 in total movable property.

University management has not enforced and consistently applied its existing policies and procedures for tracking movable property across campus and conducting the annual inventory. Failure to enforce existing policies and procedures subjects the university's movable property to increased risk of loss and/or unauthorized use and subjects the university to noncompliance with movable property laws and regulations. Furthermore, because of the nature of the services provided by the university, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

Once again we recommend that university management enforce and consistently apply its existing policies and procedures for tracking movable property items and conducting the annual property inventory. In addition, management should strengthen its procedures to require more extensive searches for unlocated items and require university personnel to immediately respond to the property control officer's requests concerning unlocated property. Finally, management needs to devote additional efforts to locating movable property reported as unlocated in previous years and comply with all applicable requirements of LPAA. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 3).

Failure to Obtain Written, Signed Contracts

The university transacts business with vendors and other institutions without having current valid contracts. Sound internal control and good business practices require that agreements between parties should be reduced to writing, signed and dated, and should provide clarity of action required by both parties; otherwise, the agreements may be ambiguous and unenforceable.

During the 2007 fiscal year, the university conducted business with vendors and other institutions without first obtaining a current valid contract. In some cases, the university allowed contracts to expire without beginning the renewal process in sufficient time so a new contract could be in place as the existing contracts expired. In other situations, contracts were drawn up but not signed prior to the commencement of services rendered. The following examples of contracts were not renewed in a timely manner or signed prior to the commencement of the services performed:

- The cooperative endeavor agreement among the university, Southern University, Southern University System Foundation, and the Grambling Black and Gold Foundation, Inc., for the annual Bayou Classic football game and related events was never signed.

- The contracts between the university and its two collection agencies which expired on February 28, 2007, and had not been renewed as of January 25, 2008, even though the university and the collection agencies continue to conduct business.

- Eighty-nine of 113 (79%) athletic events, including football, basketball and baseball games, were not supported by a signed contract between the university and the competing school.

Management of the university has not placed sufficient emphasis on obtaining signed contracts to support its business operations as is evidenced by the number of unsigned contracts and the length of time between the expiration of contracts with obtaining the necessary renewals. Failure to execute signed contracts with clearly identifiable terms and conditions could result in the university paying for services not received and/or incurring unnecessary litigation fees.

University management should develop and implement the controls necessary to ensure that contracts are submitted in sufficient time to allow contracts to complete the approval process prior to services being rendered or the expiration of existing contracts. The approval process must include the timely signing and dating of all contracts.

Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 4).

Athletic Revenue Control Weaknesses

For the third consecutive year, the university has not implemented adequate internal controls over its athletic revenues. Good internal control and sound business practices require (1) the assignment of incompatible duties to separate individuals and, where this is not possible, the timely and adequate review of the work performed by upper management, (2) adequate procedures be in place to ensure the proper accounting for all athletic tickets printed and sold, (3) the terms of financial arrangements be specified in writing and signed to establish responsibility for all parties and to identify penalties and remedies for non-performance of any provision of a contract, and (4) complimentary tickets should be issued in accordance with university policy which was approved by the System. Article 5, Section 5.4.1 of the Southwest Athletic Conference (SWAC) Constitution Bylaws and Sports Regulations, states, "A copy of all contracts shall be forwarded to the Conference office within forty-eight hours after the signing date of the contract." A review of the internal controls in the university's athletic department disclosed the following weaknesses:

- The director of ticket operations verifies cash drawers, reconciles daily ticket sales, prepares deposits, controls ticket stock, reconciles ending ticket sales to total revenue deposited, manages petty cash, sets up and adjusts accounts receivable, and prepares journal vouchers. She also has the opportunity to sell tickets, collect cash, and print tickets for sale and her actions are done without review by a member of upper management.

- The university has not reconciled athletic ticket sales timely. A test of athletic ticket sales reconciliations for five football games revealed that these reconciliations were performed from six to nine months after the games were played. In addition, one game involved the sale of "roll" tickets that were not given adequate accountability and control.

- An internal audit report issued on June 29, 2007, disclosed that the university issued complimentary football tickets in excess of the number authorized by university policy which was approved by the System. The university issued 57 season tickets and 596 individual game tickets in excess of the number authorized by university policy.

- The university has not obtained signed contracts for all sporting events. A test of 113 games for football, men's basketball, women's basketball, and baseball indicated 89 events (79%) with missing or unsigned contracts. Of the 89 missing or unsigned contracts, 4 were for conference football games; 15 were for men's conference basketball games and 2 were for men's nonconference basketball games; 18 were for women's conference basketball games and 10 were for women's nonconference basketball games; and 26 were for conference baseball games and 14 were for non-conference baseball games.

University management has not placed sufficient emphasis on maintaining adequate segregation of duties within the athletic department, obtaining signed athletic game contracts, reconciling ticket sales timely, following the university's policy on complimentary tickets, and developing adequate policies and procedures to address these issues. These weaknesses increase the risk that errors or fraud could occur and not be detected timely. In addition, the provisions of an unsigned contract would be unenforceable in the event of a violation, cancellation, or breach of contract. Furthermore, the university is not in compliance with conference regulations.

University management should implement internal controls within the university's athletic department to establish and maintain an adequate segregation of duties. Management should also require that a formal written contract be properly prepared and signed before any sporting event occurs and that signed contracts are forwarded to the conference office within 48 hours after signing as required by SWAC. In addition, management should reconcile ticket sales for sporting events timely and should comply with its existing policy relating to complimentary tickets. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 5-6).

Inadequate Support for Payments

The university failed to exercise adequate internal controls over its nonpayroll expenses by paying for goods and services without an original invoice. A test of nonpayroll transactions revealed four of 20 payments (20%) were paid from either faxed copies of invoices or statements. In addition, one of 16 checks greater than $5,000 (6%) was issued without the required initials of the president or his designee. Sound internal controls over nonpayroll expense payments require adequate supporting documentation to include original invoices. University Policy FCT004 requires all nonpayroll checks of $5,000 or more be initialed by the president or his designee, prior to distribution. The university does not have a policy that requires original invoices be obtained prior to liquidating outstanding obligations.

University management failed to require its staff to make payments for goods and services only after receiving a valid original invoice. Furthermore, university officials failed to ensure that the president or his designee initial all checks of $5,000 or more. Failure to implement sound internal controls could result in an increased risk of unauthorized disbursement of funds, fraud and abuse.

University management should establish a formal policy and immediately direct its employees to pay for goods and services based on original invoices only. Furthermore, management should periodically test the payment of nonpayroll expenses to determine if its employees are only paying for goods and services once they have received the proper supporting documentation. Finally, management should follow university policy requiring all nonpayroll checks of $5,000 or more be initialed by the president or his designee, prior to distribution. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 7).

Inadequate Controls Over Cash Receipts

The university does not have adequate internal controls in place over its cash collection procedures at its cash collection centers. Article 7, Section 9 of the 1974 Louisiana Constitution requires that all money received by state agencies shall be deposited immediately upon receipt. Immediately is defined in the Division of Administration Policies and Procedures Manual as "as soon as possible but no later than 24 hours after receipt." Furthermore, the university's Deposits and Cash Handling Policy and Procedures require that deposits be made within 24 hours of receipt or by the next business day. In addition, good internal control requires that all monies received by the university be deposited timely to properly safeguard assets and ensure accurate financial reporting of revenues collected. Good internal control also requires maintaining adequate records of cash receipts.

A review was conducted of the internal controls for mail receipt logs at five of the 20 cash collection centers. The review disclosed exceptions in three departments. Total collections for the three departments with exceptions for fiscal year 2007 totaled $1,052,615.

- Seven of 11 mail receipt logs tested in the controller's office disclosed that at least $4,770 was deposited from two to four business days after receipt. Furthermore, it was noted that many of the Summary Logs for cash receipts that are received from the various departments by the controller's office are not date stamped so we were unable to determine the actual amount of receipts that were not deposited timely. The controller's office collected $863,290 during fiscal year 2007.

- One mail receipt log tested totaling $300 in the Office of Development disclosed that this receipt was deposited five business days after receipt. This collection center collected $162,425 during fiscal year 2007.

- Two mail receipt logs tested totaling $1,150 in the Center for International Affairs and Programs disclosed that these funds were deposited from nine to 33 business days after receipt. Furthermore, we were informed by department personnel that receipts are accumulated and the log is prepared only once or twice a month instead each time a receipt is received. This collection center collected $26,900 during fiscal year 2007.

University policies do not require that all receipts received by mail are to be date-stamped which would enable management to determine if receipts are being deposited timely. In addition, university management failed to place sufficient emphasis on enforcing university policy requiring receipts to be deposited within 24 hours or the next business day. As a result, cash receipts are placed at an increased risk of loss or abuse and the university is in violation of its policy and the state constitution.

Management should develop and implement the detailed policies and procedures necessary for its cash receipting system to ensure accountability for cash receipts and that the receipts are properly safeguarded. Management should also emphasize to its employees the importance of adhering to its cash collection policy. Furthermore, periodic reviews should be performed to determine if the cash collection centers are complying with the university's policy and state law. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 8).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Noncompliance Issues and Control Weaknesses Within the University Police Department

The university has not required its police chief to be commissioned as a university police officer and has not reported the value of the police chief's on-campus lodging as income to the Internal Revenue Service (IRS) as required by law and university policies. Furthermore, for fiscal year 2007, the police chief earned 1,359 hours of compensatory time without providing adequate documentation indicating the specific reasons for earning compensatory leave. R.S. 17:1805 A(2) states, "Each such person named as a police officer by the president of the college or university shall be commissioned as a university or college police officer by the Department of Public Safety and Corrections. . . ." The university's *Unclassified Personnel Handbook*, Chapter VII, Section B, states, in part, that "Grambling State University officers are commissioned Louisiana Police Officers with all the authority and responsibility of any police officer in the state of Louisiana. They are empowered to make arrests in the matters concerning felonies and misdemeanors." In addition, IRS Publication 525, *Taxable and Nontaxable*

Income, states, in part, that the value of lodging would not have to be reported as income if as a condition of employment the employer required the employee to live in employer provided housing. In addition, the Louisiana Division of Administration's Policy and Procedure Memorandum 73, *Taxable and Nontaxable Fringe Benefits*, requires agencies to report annually all taxable and nontaxable benefits to OSRAP. Good internal control and business practices dictate that detailed documentation be prepared, maintained, and submitted to the employee's supervisor for review and approval for all compensatory time worked by an employee. This documentation should describe the specific circumstances for earning compensatory leave.

The university's police chief began his employment with the university on December 1, 2005, even though he is not a commissioned police officer by the Louisiana Department of Public Safety and Corrections as required by state law and university policy. The chief moved into university housing without paying rent and the value of the housing has not been reported to the IRS as income or to OSRAP as a fringe benefit. Regarding the chief's 1,359 hours of earned compensatory leave, the university's Request to Earn Compensatory Leave for Unclassified Employees form includes the appropriate space for the employee to document the reason for earning compensatory leave; however, most forms supporting the chief's compensatory leave earned either do not state a reason or the reason provided is general.

Management did not provide an explanation why it did not require the chief to be a commissioned police officer as required by state law and university policy. The chief feels he still has the authority to arrest even if he is not a commissioned police officer. We were also informed by management that compensatory leave earned by the chief is appropriate given the staffing shortage in the police department and the security needs of the university. Failure to require the chief to be a commissioned police officer violates state law and university policy. In addition, allowing the chief to hold himself out as a commissioned police officer and conduct police duties, such as providing security, intelligence gathering, patrolling, conducting investigations, and making arrests, may subject the university, the state, and the chief to potential liability. In addition, the university is in violation of the IRS Code and state regulations since it has not reported the value of the housing provided the chief as income.

The university should ensure that the chief obtains his commission as required by state law and university policy and, in the interim, hire a commissioned officer to perform the duties of the police chief. In addition, management should contact the IRS and OSRAP to determine the appropriate course of action to be taken regarding reporting the tax-free housing provided the chief since he began employment with the university. Finally, compensatory leave forms should be approved by supervisors only after employees have provided sufficient detailed information which clearly indicates the reason for earning the compensatory leave. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 9).

Noncompliance With the State Constitution

The university amended its food services contract with Aramark Educational Services without the benefit of due consideration. The amendment allows the vendor to defer payment of commissions due the university for the past three years, totaling $326,835. Article 7, Section 14 of the Louisiana Constitution of 1974 states, in part, that "the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private."

On April 25, 2006, the president and vice president for finance signed an amendment to the original contract that allowed Aramark to defer the payment of commissions from fiscal years 2004, 2005, and 2006 and to repay one-sixth of the aggregate outstanding commission balance each semester beginning with the fall 2006 semester. The amendment provided no consideration to the university for allowing the postponement of the payment of the commissions.

When management was asked why the university agreed to such an amendment, no one could provide an explanation or show how approving the amendment benefited the university. Allowing Aramark to defer the commission payments resulted in an interest-free loan by the university to the vendor. As a result, the university violated the state constitution and lost interest income it could have earned had it collected the commissions in a timely manner and invested the proceeds.

The university should establish or revise existing policies and procedures to state that the university will collect all amounts owed the university when due and payable. Also, if the vendor refuses to pay the outstanding balance, the university should consult its legal advisors to determine the appropriate course of action to recoup these funds. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 10).

Untimely Repayment of Travel Advances

The university provided interest-free loans of state funds to its employees by providing travel advances without requiring the advances to be repaid in a timely manner. Article 7, Section 14 of the 1974 Louisiana Constitution states, in part, that "the funds, credit, property, or things of value of the state . . . shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private." In addition, the university's FCT008 Travel Policy, Section 2(D), states that advances not cleared in 15 working days after the travel is completed may be payroll deducted. Furthermore, the university's travel policy requires strict adherence to the state travel policy as set forth by the Division of Administration for the State of Louisiana. State Travel Policy, Policy and Procedure Memorandum (PPM) 49, states, in part, that advances of funds for travel shall be made only for extraordinary travel and should be punctually repaid when submitting the travel voucher covering the related travel, not later than the fifteenth day of the month following the completion of travel.

The university had outstanding travel advances totaling $140,476 as of June 30, 2007. A review of the outstanding balances revealed that $140,052 (99.7%) was delinquent per PPM 49. A further review of nine travel advances of $3,000 or more disclosed that all nine advances were delinquent from 10 to 379 days. A further review of travel advance balances disclosed the following:

- On May 26, 2006, an employee's contract was not renewed. The employee had eight outstanding advances totaling $12,527 from February 7, 2006, through April 24, 2006, that had not been resolved. Although the university withheld $3,594 from the employee's termination pay, as of December 4, 2007, the university had made no further attempt to contact the employee to resolve the outstanding travel advance balance. Subsequent attempts by the university after December 4, 2007, to locate documentation in the employee's office at the university to support the travel advances were unsuccessful.

- An employee received two travel advances in April 2006 totaling $921 and later resigned on August 4, 2006. Our analysis of the advances for this employee revealed that the advances were resolved at the time of the employee's resignation; however, the receivable balance of $921 was not eliminated in August 2006 and was reported as part of the receivable balance at June 30, 2007.

- An employee that died on May 29, 2007, had three outstanding travel advances totaling $13,711 from September 15, 2006, through February 9, 2007, that had not been resolved as of June 30, 2007. Additional university resources (personnel and equipment) were needed to obtain documentation supporting the outstanding travel advance balance.

- Examination of six journal vouchers and supporting documentation used to clear $54,813 of travel advances revealed that $6,690 (12%) of supporting documentation was copies of invoices, faxes, reprinted invoices, and credit card statements instead of original invoices.

University management has not placed sufficient emphasis on ensuring compliance with the state constitution and state and university policies, procedures, and regulations. As a result of not requiring timely resolution of travel advances, employees are being provided interest-free loans in violation of the Louisiana Constitution and are in violation of the university's policy. In addition, by allowing individuals to receive additional travel advances prior to resolving existing advances, management has lost control over processing travel advances, as is evidenced by the length of time that some of the advances remain unresolved, and the fact that some were not resolved prior to employees leaving the university. Also, management failed to periodically analyze and reconcile travel advance accounts to ensure the accuracy of financial information reported in the university's annual financial report.

Management should immediately enforce existing policies and procedures to ensure timely resolution of travel advances and comply with the state constitution. The university should also review existing policies and procedures to determine if revisions need to be made to enhance existing policies and procedures to better control issuing and collecting travel advances. In addition, reimbursement for travel expenses should only be made once original invoices are provided as support for travel expenses. Furthermore, the university should periodically analyze its accounts to ensure the accuracy of the financial information presented in its general ledger and reported in its annual financial report as well as all other external reports. Finally, the university should take the necessary legal action against current and former employees to collect outstanding travel advance balances. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 11).

Failure to Comply With Outside Employment Regulations

The university failed to develop and implement sufficient controls and procedures to ensure its compliance with the System's policy relating to outside and/or dual employment. System Policy FS-III.VII.-1, Section VII, Procedures, requires, in part, that each campus head develop such written procedures and approval forms as are necessary to provide for compliance with this policy. In addition, Section VIII, Reporting Requirements, requires each university president to prepare an information report listing all outside employment approved by him/her and currently in force under this policy and any other details that may be requested.

Annually the university provides each employee a Disclosure of Outside/Dual Employment form to be completed and returned to the internal auditor. A review of the internal audit report titled "Review of Outside/Dual Employment" for fiscal year 2007 disclosed that of the 827 employees required to complete the annual survey identifying any outside employment, 62 (7%) failed to respond. Management did make repeated efforts to obtain the required forms from these individuals; however, they did not comply and no action was taken against the employees.

In developing and implementing the university's policies and procedures, management failed to include sanctions to be imposed against employees not responding in a timely manner. As a result, the report that was provided to the System concerning outside/dual employment may be incomplete or inaccurate and therefore does not comply with the System's policy.

University management should review and amend its current policy to include sanctions to be imposed against any employee not completing and returning the Disclosure of Outside/Dual Employment form in a timely manner. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 12).

Failure to Comply With Internal Revenue Service Regulations

For the second consecutive audit, the university failed to withhold the maximum amount of federal income tax from employees that claimed tax exempt status, but did not complete, and/or have on file, the required Form W-4. IRS Publication 15, Circular E, *Employer's Tax Guide*, Section 9, Withholding from Employees' Wages, states that a Form W-4 claiming exemption from withholding is valid for only one calendar year. To continue to be exempt from withholding in the next year, an employee must give a new Form W-4 by February 15 of that year. If the employee does not give a new Form W-4, the employer is to withhold tax from the employee as if the employee is single with zero withholding allowances or withhold based on the last valid Form W-4 on record for the employee.

A review of payroll expenses disclosed that Form W-4s were not being obtained, or retained, for all employees who did not have federal income tax withheld from one or more of their pay checks during fiscal year 2007. A report provided by the university for fiscal year 2007 indicated exemptions from federal income tax withholdings were provided to 725 university employees (including students and graduate workers) with annual salaries totaling $4,071,843. We selected 17 of the 725 employees for review and found that eight (48%) did not have federal income taxes withheld during one or more months between January and June of 2007 and did not have a valid Form W-4 on file for the period of exemption. Therefore, the university was not withholding federal income tax from the employee as if the employee was single with zero allowances or withholding based on the employee's last valid Form W-4, as required by IRS Publication 15, Circular E, *Employer's Tax Guide*.

University management has failed to place sufficient emphasis on adhering to employer responsibilities set forth in the IRS *Employer's Tax Guide* by not withholding the required tax from its employees' wages. As a result, the university continues to be in noncompliance with the IRS regulations.

The university should comply with the provisions of the IRS *Employer's Tax Guide* by immediately withholding the appropriate federal taxes from employee wages when no valid Form W-4 exists for employees claiming "exempt" status. In addition, the university should review and evaluate existing policies and procedures, both formal and informal, to ensure the university will comply with the IRS regulations in the future. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 13).

Grambling State University's responses to these findings are attached in Appendix A. We did not audit Grambling State University's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of Grambling State University management, University of Louisiana System management, others within the entity, and the Louisiana Legislature 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

RLA:WJR:THC:dl

GSU07

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

GRAMBLING
STATE UNIVERSITY
WHERE EVERYBODY IS SOMEBODY

Office of the President

January 29, 2008

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

Dear Mr. Theriot:

RE: Inaccurate Annual Fiscal Report

The university concurs in part with the finding on Inaccurate Annual Fiscal Report.

The more significant adjustments detailed in the finding are primarily attributable to the reclassification of blending entries of the Facilities Corp Financial Report. Grambling State University (GSU), as required by accounting principles and current business practice, blended amounts from the report issued by the CPA of the Black and Gold Facility Corporation into its financial statements. Due to the limited timeframe allowed for submitting its AFR, GSU did not have the necessary time to analyze the accuracy of the efforts of the CPA, but did what is normally done within industry, blended the results as reported. It was later determined that the CPA report required adjustment. Management does not consider this a weakness in internal controls since management, as does the Legislative Auditor in issuing its opinion, relies on the report of the CPA. Finally, this is the first-time the university has blended a component unit into its financial statements. This misclassification will be addressed in future reports.

Management does not agree that the cause is that management does not adequately analyze and adjust the accounts in its accounting system prior to closing the system and preparing its AFR. Management also does not agree that supporting schedules and work papers are not prepared and tied to the accounting records prior to the preparation of the financial statements. Management provided supporting schedules and work papers used to adjust the financial records for AFR purposes. There were some timing concerns, but data was provided.

Adjustments made to compensated absences are attributable to staff turnover. Management acknowledges that an error occurred. A turnover in staff resulted in the responsible individual not being familiar with the manner in which GSU calculates the liability. The calculation involves an assumption that only portions of annual and sick leave will be used to determine the reported liability and that the responsible party was not familiar with the assumptions GSU previously used.

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Mr. Norman Jones is responsible for corrective action and he will ensure that, in the future, compensated absence calculations are made in accordance with appropriate practices and assumptions, as well as addressing other concerns in this finding .

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jj

GRAMBLING STATE UNIVERSITY
GRAMBLING, LOUISIANA

Office of the President

October 4, 2007

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

Dear Mr. Theriot:

RE: Unlocated Movable Property Finding

Management concurs with the finding on Unlocated Moveable Property. Efforts to require more extensive searches for unlocated items and improving response time to the Property Control Office are a priority.

The Associate Vice President for Finance, the Assistant Controller and the Property Officer will establish a process to provide for the systematic escalation of notifications to the next line of authority when timely responses are not received. Further, additional resources will be made available, either through current staffing or temporary appointments, to devote additional effort to locating moveable property that may reside in locations other than that of record.

A significant amount of Grambling State University's unlocated property is computers. In order to reduce unlocated laptop and desktop personal computers, the University has begun using a software designed to track and locate computers.

Other efforts include having periodic workshops to reiterate the importance of maintaining current and accurate property records, making property forms and instructions available via the web, and improving the process for requesting and conducting the transfer of moveable property.

The procedures outlined above shall be implemented by January 2008, with expected results reflected in the October 2008 moveable property certification report.

Management remains committed to strengthening its procedures to minimize unlocated property.

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jj

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Office of the President

March 10, 2008

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

Dear Mr. Theriot:

RE: INVALID CONTRACTS

Management concurs with the finding that cases existed where business was conducted without current valid contracts. Acknowledging that contracts are an integral part of conducting business, Management is committed to ensuring that current and valid contracts have been executed.

Management is currently negotiating a cooperative endeavor agreement that will govern the annual Bayou Classic football game and is committed to finalizing the agreement as quickly as possible. The Athletic Director has responsibility for ensuring that a signed agreement is executed.

An RFP is being prepared to solicit bids to identify collection agencies so that new contracts can be executed to assist with collection efforts applicable to past-due accounts. In addition, the policy governing contracts will be revised to provide specific guidelines for contract expirations. The Associate Vice President (AVP) for Finance/Controller will address this through the University Policy Committee by May 1, 2008.

The majority of the missing athletic contracts are for non-monetary conference events, which will not result in the risk of financial loss in the event a game is not played. Contracts have been executed on behalf of the University, but the challenge has been obtaining signed documents from other institutions.

The AVP for Finance/Controller consulted with the Conference Commissioner regarding these challenges and the Commissioner has pledged his assistance to obtain signed contracts. This information has been discussed with the Athletic Director and the ticket manager.

The ticket manager will have primary responsibility for obtaining contracts. When contracts cannot be obtained, she will inform the Athletic Director who will, in turn, solicit the assistance of the Conference Commissioner. Problems arising with non-conference contracts will be escalated by the Athletic Director to the Office of the President.

Management is committed to ensuring sound internal controls and good business practices.

Sincerely,

Horace A. Judson

Horace A. Judson
President

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GRAMBLING
STATE UNIVERSITY
GRAMBLING, LOUISIANA

Office of the President

November 1, 2007

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

RE: Athletic Revenue Control Weaknesses

Dear Mr. Theriot:

The university concurs with the finding on Athletic Revenue Control Weaknesses.

To address the lack of segregation of duties, the following changes and controls have been implemented:

- ♦Ticket sales operations have been transferred from Athletics to the Interim Vice President for Finance.

- ♦Two employees, Bertha Roberts and Wanda Currie, conduct reviews of daily activities and validate the cash drawers.

- ♦The Internal Audit Office has conducted a review of the game reconciliation process and has made recommendations to enhance procedures.

- ♦Within 7 days of each home football game, the Internal Audit Office reviews the ticket sales reconciliation, supporting reports and documentation for the game.

The attainment of athletic contracts has continued to be a challenge. The Associate Vice President for Finance & Controller, Norman Jones, has discussed the concern with the Interim Commissioner for the Southwestern Athletic Conference, Duer Sharp, who readily offers his support to assist the university in obtaining contracts for conference games. This information has been provided to the Athletic Director and the Director of Ticket Operations. A policy and procedure shall be drafted to ensure that game contracts, conference and non-conference, are obtained. This shall be completed by December 31, 2007.

The number of complimentary tickets issued exceeded the current approved complimentary ticket policy. This is attributable to the addition of new coaching staff positions added subsequent to the establishment of the policy and the policy's lack of flexibility to provide complimentary tickets on other occasions that could be beneficial to the university and the athletic program. The policy has been revised and is pending approval. This should be completed by December 31, 2007.

Please contact me if additional information is needed.

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jpb

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Office of the President

February 7, 2008

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

Dear Mr. Theriot:

RE: Payments Made Without Proper Support

Management concurs with the finding on making payments from faxed copies and the un-initialed check greater than $5,000.

On rare occurrences, invoices have not been received at the appropriate address. In an effort to expedite payment, faxed copies were requested. The non-initialing of a payment greater than $5,000 also appears to be the result of an effort to expedite payment.

The Associate Vice President (AVP) for Finance held a meeting on January 29, 2008 to reiterate the requirement that original documentation be used to support payment for goods and services. In October 2007, reorganization was implemented to enhance the check review and approval process. In November 2007, a procedure was implemented to document and correct, payments containing exceptions prior to issuance. The noted documentation will be used to keep the Payables Office, the AVP for Finance and the Assistant Controller informed about non-compliance related to non-payroll related payments. In addition, a periodic review will be conducted of non-payroll expenses to ascertain compliance.

The AVP for Finance and the Assistant Controller will monitor the process to insure compliance.

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jj

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Office of the President

March 10, 2008

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

Dear Mr. Theriot:

RE: INADEQUATE CONTROLS OVER CASH RECEIPTS

Management concurs that there were occurrences where receipts were not deposited in accordance with the time requirement as referenced in the statutes and policies.

Untimely deposits are being addressed as follows:

Controller's Office duties have been realigned to enhance the efficiency and effectiveness of several processes, one of which is the timely submission of mail receipts. Payments received by the Controller's Office (by mail or from external departments) are now recorded electronically to further enhance the efficiency of the process.

Discussions have been held with responsible parties in the units cited to reiterate the guidelines governing deposits. A meeting will be held with all collection point units to discuss this finding and highlight the importance of adhering to statutes and policies.

The Associate Vice President for Finance will have responsibility for the development and implementation of very detailed procedures to ensure accountability and proper safeguarding of receipts by March 31, 2008. These new detailed procedures will be provided to all collection points to provide consistency and ensure adherence to statutes and policies.

Periodic reviews will be conducted to determine compliance with University policy and State Law.

Management remains committed to ensuring compliance with all State laws and University policies.

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jj

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GRAMBLING STATE UNIVERSITY
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Office of the President

March 25, 2008

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

Dear Mr. Theriot:

RE: VIOLATIONS OF STATE AND FEDERAL LAWS AND REGULATIONS BY UNIVERSITY POLICE CHIEF

Management concurs that the University Police Chief (Chief) has not been commissioned by the State of Louisiana as a police officer. Per a memo dated January 30, 2008 from the Acting Associate Vice President for Human Resources/EEO Officer, the Chief has been scheduled to attend the first available training to qualify him for commissioning. The Chief will attend the Basic Police Academy which will begin August 18, 2008, and will be held at the North Delta Regional Training Academy in West Monroe, LA.

Management concurs in part that the housing allowance provided the Police Chief was not reported. For the tax year ended December 31, 2007, the benefit was included in the Chief's W-2 form and reported to the Office of Statewide Reporting and Accounting Policy. The Associate Vice President for Finance & Controller will be responsible for determining and effecting the action required for prior years.

Effective April 1, 2008, compensatory leave forms will be required to reflect specific justifications for compensatory time claimed prior to approval. Supervisors responsible for approving leave will have the primary responsibility and the payroll office will have secondary responsibility for ensuring sufficient justifications are noted.

Management remains committed to ensuring compliance with all rules and regulations governing law enforcement, compensatory time, and benefit reporting.

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jj

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Office of the President

March 7, 2008

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

Dear Mr. Theriot:

RE: VIOLATION OF STATE CONSTITUTION

Management concurs with the finding that the amended food services contract provided no consideration to the university for allowing the postponement of the payment of commissions.

Though not a provision of the contract, the deferment was agreed to in the first quarter of 2006 when the contractor and the university negotiated an increase in the capital investment from $2 million to $2.5 million for renovations and improvements to the University's dining hall facility. The outstanding balance of $163,417 remaining from the original deferred amount was paid in full in January 2008.

The Associate Vice President for Finance/Controller will review and revise polices governing contracts to include: (a) language that the university will collect all amounts owed the university when due and payable, and (b) the procedure for collecting when vendors refuse to pay.

Management remains committed to ensuring compliance with all state and federal rules and regulations.

Sincerely,

Horace A. Judson
President

HAJ:jj

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March 25, 2008

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

Dear Mr. Theriot:

RE: UNTIMELY REPAYMENT OF TRAVEL ADVANCE

Management concurs that there were occurrences where travel advances were not repaid in accordance with State Travel Policy and Procedure Memorandum (PPM) 49 and the University's Travel Policy.

The untimely repayment of travel advances are being addressed as follows:

> The Associate Vice President for Finance & Controller has met with the travel staff and discussed the deficiencies identified with the clearance of travel advances. The significance of adhering to University Policy and PPM 49 has been reiterated, and in light of the noted deficiencies, a heightened emphasis has been placed on complying with travel advance policies and procedures.
>
> The Associate Vice President for Finance & Controller will ensure that travel policies and procedures will be reviewed by April 1, 2008 to determine if revisions are needed to strengthen controls. In addition, reconciliations are being prepared on a monthly basis to ensure accurate reporting.
>
> As a final recourse, the Vice President for Finance will pursue legal actions to recoup un-cleared, un-reimbursed travel advances.

Management remains committed to ensuring compliance with all rules and regulations governing travel advances.

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jj

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GRAMBLING STATE UNIVERSITY
GRAMBLING, LOUISIANA

Office of the President

October 10, 2007

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

Dear Mr. Theriot:

RE: FAILURE TO COMPLY WITH OUTSIDE EMPLOYMENT REGULATIONS

Management partially concurs with the finding that Grambling State University failed to develop and implement sufficient controls and procedures to ensure compliance with the University of Louisiana System's (System) policy relating to outside and/or dual employment.

The finding cited a 7% failure to respond which is a low non-response rate. Additional effort has been made to contact each employee who did not complete the Disclosure form. This effort resulted in the completion of 42 of the 62 outstanding forms reducing the non-response rate to 2%.

Management agrees that the University's Outside/Dual Employment Policy should be revised to include sanctions to be imposed against employees who do not respond in a timely manner. The policy has been revised to include specific sanctions for employee non-compliance. Pending review and approval by the University's Policy Task Force Committee, it is expected that the revised policy will become effective by January 15, 2008.

Management is dedicated to complying with University and System policies and procedures to ensure a strong system of internal controls which will mitigate University risk.

Sincerely,

Horace A. Judson
President

HAJ:jj

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GRAMBLING
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September 17, 2007

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

Dear Mr. Theriot:

Grambling State University concurs that, per the Internal Revenue Service (IRS) Publication 15, Circular E, Employer's Tax Guide, Section 9, taxes were not withheld for eight of the seventeen employees selected.

However, five of the eight employees' tax allowance records had been established to default to the allowance withholding required by the IRS regulation, with an effective date of February 1, 2007, as opposed to January 1, 2007 as outlined in the prior year's finding.

The procedure has been enhanced to incorporate the generation of periodic reports throughout the year of employees who claim exempt status to ensure compliance. The Payroll Manager and Assistant Controller will assume responsibility for this procedure and compliance. The University will be in compliance by December 31, 2007.

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jj

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