

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Grambling State University
University of Louisiana System
State of Louisiana
Grambling, Louisiana

October 2, 2003



Financial and Compliance Audit Division

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

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Years Ended
June 30, 2003 and 2002

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and Shreveport offices of the Legislative Auditor and at the office of the parish clerk of court.

October 2, 2003

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Years Ended
June 30, 2003 and 2002

CONTENTS

	Statement	Page No.
Independent Auditor's Report on the Financial Statements		2
Management's Discussion and Analysis		4
Basic Financial Statements:		
Statements of Net Assets	A	11
Statements of Revenues, Expenses, and Changes in Net Assets	B	13
Statements of Cash Flows	C	15
Notes to the Financial Statements		17
	Exhibit	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	A	
	Appendix	
Management's Corrective Action Plans and Responses to the Findings and Recommendations	A	



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October 2, 2003

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying basic financial statements of Grambling State University, a university within the University of Louisiana System, which is a component unit of the State of Louisiana, as of and for the years ended June 30, 2003 and June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of Grambling State University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grambling State University as of June 30, 2003, and June 30, 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2003, on our consideration of Grambling State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDITOR

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

Audit Report, June 30, 2003

Management's discussion and analysis on pages 4 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. When presenting comparative financial statements, the management discussion and analysis information should include three years of information. However, the university has elected to present only information relating to the two years under audit. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large initial "G" and "A".

Grover C. Austin, CPA
First Assistant Legislative Auditor

WMS:WJR:AJR:dl

[GSU03]

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Grambling State University's (GSU) annual financial report presents a discussion and analysis of GSU's financial performance during the fiscal year that ended June 30, 2003. Please read this section in conjunction with GSU's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

**Comparison of Net Assets
(in thousands)**

	2003	2002
Invested in capital assets, net	\$57,415	\$54,165
Restricted for debt service	1,927	1,850
Unrestricted	(1,373)	(782)

GSU's net assets overall changed from \$65,990,984 to \$67,805,407 or 2.7% from June 30, 2002, to June 30, 2003. The change is attributable to:

- New facilities funded with state capital appropriations and movable capital equipment net of depreciation expense.
- The decline in current assets was the result of re-investing restricted assets called by bondholders during 2002.
- Enrollment changed from 4,500 to 4,462 from June 30, 2002, to June 30, 2003, a change of 0.8%. However, new freshmen increased from 892 in 2002 to 933 in 2003 primarily because of a new Ambassador Program that waives out-of-state fees to qualified students.

GSU's operating revenues increased from \$39,396,374 to \$41,217,737 or 4.6% from June 30, 2002, to June 30, 2003. Operating expenses, however, increased by 4.2% to \$70,674,463 for the year ended June 30, 2003. The increases in salaries and out-of-state fee waivers (scholarships) for the ambassador students, as previously discussed, are the primary reasons for the change.

Nonoperating revenues (expenses) fluctuate depending on levels of state operating and capital appropriations for building construction and capital renovation. The increase to \$26,285,126 in 2003 from \$25,455,909 in 2002 is primarily attributable to an increase in state appropriation.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements provide both long-term and short-term information about GSU'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.

GSU's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 GSU are included in the Statement of Net Assets.

The Statement of Net Assets reports GSU's net assets. Net assets, the difference between GSU's assets and liabilities, are one way to measure GSU's financial health or position. The increase in GSU's net assets during 2003 is an indicator of its positive financial health.

FINANCIAL ANALYSIS

Net Assets

GSU's total net assets at June 30, 2003, reached approximately \$67.8 million, a 2.7% increase over June 30, 2002 (see Table A-1). Total assets increased 2.8% to \$79.9 million, and total liabilities increased 3.0% to \$12.1 million.

Table A-1
Grambling State University
University of Louisiana System
Statement of Net Assets
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Current assets	\$12,490	\$15,289	-18.3%
Noncurrent assets	5,288	3,062	72.7%
Capital assets	<u>62,161</u>	<u>59,421</u>	4.6%
Total assets	<u><u>\$79,939</u></u>	<u><u>\$77,772</u></u>	2.8%

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Table A-1 (Continued)
Grambling State University
University of Louisiana System
Statement of Net Assets
(in thousands)

	<u>2003</u>	<u>2002</u>	Increase (Decrease)
Current liabilities	\$5,772	\$4,890	18.0%
Long-term liabilities	6,362	6,891	-7.7%
Total liabilities	<u>12,134</u>	<u>11,781</u>	3.0%
Net assets:			
Invested in capital assets, net of related debt	57,415	54,165	6.0%
Restricted	11,763	12,608	6.7%
Unrestricted (deficit)	<u>(1,373)</u>	<u>(782)</u>	-75.6%
Total net assets	<u>67,805</u>	<u>65,991</u>	2.7%
Total liabilities and net assets	<u>\$79,939</u>	<u>\$77,772</u>	2.8%

This schedule is prepared from GSU's statement of net assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant statements of net asset changes include:

- The current ratio is 2.2:1 at June 30, 2003, which clearly represents GSU's ability to meet its current financial obligations.
- The 72.7% increase in noncurrent assets restricted for debt service and other purposes is due to the repurchase of investments called by bondholders before 2002 year-end and an increase in endowment gifts.
- 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.
- Unrestricted net assets include the general fund, auxiliary enterprise activities, and endowment appreciation. The deficit is the result of the State of Louisiana policy of not funding the compensated leave liability, which totals \$2,883,277 as of June 30, 2003.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Changes in Net Assets

The change in net assets for the year ending June 30, 2003, was approximately \$1.8 million or 46.2% less than the amount reported at June 30, 2002. GSU's total operating revenues increased by 4.6% to approximately \$41.2 million. Total operating expenses increased 4.2% to approximately \$70.7 million. The changes in net assets are detailed in Table A-2; general and education expenses are detailed in Table A-3.

These changes are the result of several factors, including an increase in state grants and a write-off of deferred revenue on closed and completed grants.

Table A-2
Grambling State University
University of Louisiana System
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Student tuition and fees, net	\$8,251	\$8,370	-1.4%
Auxiliary	10,128	10,360	-2.2%
Other	22,838	20,666	10.5%
Total operating revenues	<u>41,217</u>	<u>39,396</u>	4.6%
Operating expenses:			
Education and general	58,023	55,817	4.0%
Other	12,651	12,019	5.3%
Total operating expenses	<u>70,674</u>	<u>67,836</u>	4.2%
Operating income (loss)	<u>(29,457)</u>	<u>(28,440)</u>	-3.6%
Nonoperating revenues (expenses):			
State appropriation	25,430	24,648	3.2%
Gifts	958	772	24.1%
Other	(103)	36	-386.1%
Nonoperating revenues (expenses)	<u>26,285</u>	<u>25,456</u>	3.3%

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Table A-2 (Continued)
Grambling State University
University of Louisiana System
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Capital appropriation	\$4,839	\$6,358	-23.9%
Additions to permanent endowments	<u>147</u>	<u>NONE</u>	
Change in net assets	1,814	3,374	-46.2%
Total net assets, beginning of the year	<u>65,991</u>	<u>62,617</u>	5.4%
Total net assets, end of the year	<u><u>\$67,805</u></u>	<u><u>\$65,991</u></u>	2.7%

Nonoperating revenues (expenses) increased 3.3% to \$26.3 million. This increase is primarily attributable to an increase in direct support from state appropriation and general restricted gifts. The decline in capital appropriation is the direct result of funds provided to pay building construction costs that were completed during 2002.

Table A-3
Grambling State University
University of Louisiana System
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Education and general expenses:			
Instruction	\$20,641	\$19,229	7.3%
Research	381	1,043	-63.5%
Public service	1	26	96.2%
Academic support	6,346	6,419	-1.1%
Student services	3,471	3,443	0.8%
Institutional support	12,865	11,486	12.0%
Operations and maintenance of plant	4,308	4,153	3.7%
Depreciation	3,010	2,939	2.4%
Scholarships and fellowships	<u>7,000</u>	<u>7,079</u>	-1.1%
Total	<u><u>\$58,023</u></u>	<u><u>\$55,817</u></u>	4.0%

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

The increase in education and general expenses is as follows:

- The increase in instruction is primarily the result of the increased cost of hiring replacement faculty.
- The decline in research resulted from the completion of research grants in 2002 that were not continued or replaced with new grants.
- The increase in institutional support primarily represents personnel cost of filling 2002 vacant positions during 2003 and paying for professional accounting fees associated with the 2002 audit and information technology upgrades and consultants.

Statement of Cash Flows

The Statement of Cash Flows provides another tool to assess the financial health of Grambling State University. The Statement of Cash Flows allows readers to assess:

- The ability to generate future cash flows
- The ability to meet obligations as they come due
- A need for external financing

Table A-4
Grambling State University
University of Louisiana System
Statement of Cash Flows
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Cash and cash equivalents provided (used) by:			
Operating activities	(\$24,050)	(\$20,701)	-16.2%
Capital financing activities	(1,585)	(1,486)	-6.7%
Noncapital financing activities	25,719	23,800	8.1%
Investing activities	<u>(2,058)</u>	<u>2,534</u>	-181.2%
Net increase (decrease) in cash and cash equivalents	(1,974)	4,147	-147.6%
Cash and cash equivalents:			
Beginning of year	<u>12,084</u>	<u>7,937</u>	52.2%
End of year	<u>\$10,110</u>	<u>\$12,084</u>	-16.3%

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**
Management's Discussion and Analysis (Concluded)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2003, GSU had invested approximately \$141.4 million in capital assets, net of accumulated depreciation. GSU's net capital assets at June 30, 2003 totaled approximately \$62.2 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$2.8 million or 4.6% over June 30, 2002.

Debt Administration

GSU's debt outstanding at June 30, 2003, is \$7,628,636 including \$1,266,778 due during 2004. All debt covenants have been met.

**CONTACTING GRAMBLING STATE
UNIVERSITY'S MANAGEMENT**

This financial report is intended to provide the Louisiana Legislature and other state officials, the Louisiana Legislative Auditor's Office, patrons, and other interested parties with a general overview of GSU's finances and demonstrate GSU's financial accountability. 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**

**Statements of Net Assets
June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$7,689,393	\$9,851,798
Receivables (net):		
Tuition and fees	819,090	672,796
Due from State of Louisiana	2,440,361	1,624,146
Grants and contracts	874,341	2,519,058
Inventories	452,821	489,238
Deferred charges and prepaid expenses	128,765	28,119
Notes receivable (net)	84,966	103,917
Total current assets	<u>12,489,737</u>	<u>15,289,072</u>
Noncurrent assets:		
Restricted cash and cash equivalents	2,420,654	2,232,645
Investments	2,423,035	304,710
Notes receivable (net)	444,678	524,055
Capital assets (net)	62,160,712	59,421,275
Total noncurrent assets	<u>67,449,079</u>	<u>62,482,685</u>
TOTAL ASSETS	<u>79,938,816</u>	<u>77,771,757</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accruals	3,131,073	1,910,895
Deferred revenues	848,962	1,104,115
Compensated absences	726,252	222,004
Amounts held in custody for others	374,686	292,273
Notes payable - current portion	255,526	246,310
Bonds payable - current portion	285,000	265,000
Other current payables	150,052	849,167
Total current liabilities	<u>5,771,551</u>	<u>4,889,764</u>
Noncurrent liabilities:		
Compensated absences	2,157,025	2,145,650
Bonds payable	861,000	1,146,000
Notes payable	3,343,833	3,599,359
Total noncurrent liabilities	<u>6,361,858</u>	<u>6,891,009</u>
TOTAL LIABILITIES	<u>12,133,409</u>	<u>11,780,773</u>

(Continued)

The accompanying notes are an integral part of this statement.

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statements of Net Assets, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$57,415,487	\$54,164,740
Restricted for:		
Nonexpendable	7,186,633	6,878,636
Expendable	4,576,687	5,729,212
Unrestricted (deficit)	<u>(1,373,400)</u>	<u>(781,604)</u>
TOTAL NET ASSETS	<u><u>\$67,805,407</u></u>	<u><u>\$65,990,984</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statements of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Years Ended June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$9,700,420 in 2003 and \$9,681,425 in 2002)	\$8,251,134	\$8,370,177
Federal grants and contracts	18,769,751	17,239,256
State and local grants and contracts	2,397,905	1,372,543
Nongovernmental grants and contracts	51,551	2,225
Sales and services of educational departments	206,685	252,764
Auxiliary enterprise revenues (net of scholarship allowances of \$423,463 in 2003 and \$333,497 in 2002)	10,128,103	10,360,117
Other operating revenues	1,412,608	1,799,292
Total operating revenues	<u>41,217,737</u>	<u>39,396,374</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	20,641,195	19,228,635
Research	380,869	1,042,765
Public service	694	26,214
Academic services	6,345,765	6,418,980
Student services	3,471,116	3,443,483
Institutional support	12,865,115	11,485,998
Operations and maintenance of plant	4,308,156	4,153,323
Depreciation	3,010,112	2,939,201
Scholarships and fellowships	7,000,628	7,079,245
Auxiliary enterprises	12,650,813	11,963,125
Other operating expenses		55,571
Total operating expenses	<u>70,674,463</u>	<u>67,836,540</u>
OPERATING LOSS	<u>(29,456,726)</u>	<u>(28,440,166)</u>
NONOPERATING REVENUES (Expenses)		
State appropriations	25,429,691	24,647,930
Gifts	958,533	772,458
Investment income	59,649	203,597
Interest expense	(162,747)	(172,794)
Other nonoperating revenues		4,718
Total nonoperating revenues (expenses)	<u>26,285,126</u>	<u>25,455,909</u>
Loss before contributions	(3,171,600)	(2,984,257)

(Continued)

The accompanying notes are an integral part of this statement.

Statement B

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statements of Revenues, Expenses, and
Changes in Net Assets, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Capital appropriations	\$4,838,642	\$6,357,791
Additions to permanent endowments	147,381	NONE
Increase in net assets	<u>1,814,423</u>	<u>3,373,534</u>
NET ASSETS		
Net assets - beginning of year	<u>65,990,984</u>	<u>62,617,450</u>
Net assets - end of year	<u><u>\$67,805,407</u></u>	<u><u>\$65,990,984</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statements of Cash Flows
For the Fiscal Years Ended June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Tuition and fees	\$17,528,137	\$18,314,523
Grants and contracts	22,819,121	22,509,126
Payments to suppliers	(15,681,237)	(16,832,544)
Payments for utilities	(2,315,312)	(1,767,340)
Payments to employees	(32,851,004)	(32,013,496)
Payments for benefits	(7,835,300)	(6,410,008)
Payments for scholarships and fellowships	(17,973,295)	(17,094,167)
Loans issued to students and employees	(65,946)	(306,767)
Auxiliary enterprise charges	10,551,566	10,693,614
Sales and services of educational departments	206,685	252,764
Other receipts	1,566,440	1,953,166
Net cash used by operating activities	<u>(24,050,145)</u>	<u>(20,701,129)</u>
Cash flows from noncapital financing activities:		
State appropriations	24,613,476	23,023,784
Gifts and grants for other than capital purposes	958,533	772,778
Private gifts for endowments purposes	147,380	
Student organization agency transactions		3,709
Net cash provided by noncapital financing sources	<u>25,719,389</u>	<u>23,800,271</u>
Cash flows from capital financing activities:		
Capital appropriations received	4,838,642	6,357,791
Purchases of capital assets	(5,831,826)	(7,189,189)
Principal paid on capital debt and leases	(511,310)	(478,720)
Interest paid on capital debt and leases	(162,747)	(172,794)
Other sources (uses)	82,277	(2,595)
Net cash used in capital financing activities	<u>(1,584,964)</u>	<u>(1,485,507)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	6,618,557	2,337,149
Interest received on investments	140,449	203,544
Purchase of investments	(8,817,682)	(6,960)
Net cash provided (used) by investing activities	<u>(2,058,676)</u>	<u>2,533,733</u>

(Continued)

The accompanying notes are an integral part of this statement.

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statements of Cash Flows, 2003 and 2002**

Net increase (decrease) in cash and cash equivalents	(\$1,974,396)	\$4,147,368
Cash at the beginning of the year	<u>12,084,443</u>	<u>7,937,075</u>
Cash at year-end	<u><u>\$10,110,047</u></u>	<u><u>\$12,084,443</u></u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	(\$29,456,726)	(\$28,440,166)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	3,010,112	2,939,201
Correction of errors		230,037
Changes in assets and liabilities:		
Increase in accounts receivables, net	(146,294)	(49,873)
(Increase) decrease in notes receivables, net	98,328	(155,941)
Decrease in inventories	36,417	59,702
Decrease in receivables from grants and contracts	1,644,717	4,174,050
(Increase) decrease in prepaid expenses	(100,646)	215,213
Increase in accounts payable	1,220,178	36,640
(Decrease) in deferred revenues	(255,153)	(680,029)
Increase in amounts held in custody for others	82,413	60,179
Increase in compensated absences	515,623	60,691
Increase (decrease) in other current payables	<u>(699,114)</u>	<u>849,167</u>
Net Cash Used by Operating Activities	<u><u>(\$24,050,145)</u></u>	<u><u>(\$20,701,129)</u></u>

(Concluded)

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

**GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

Notes to the Financial Statements
For the Years Ended June 30, 2003 and 2002

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 2,018; 4,462; and 4,343, respectively, during the summer, fall, and spring semesters of fiscal year 2003 and 1,932; 4,500; and 4,430, respectively, during the summer, fall, and spring semesters of fiscal year 2002. At June 30, 2003 and 2002, the university had approximately 765 and 714, respectively, 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.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. As a component unit of the State of Louisiana, Grambling State University is required to adopt GASB 34 and 35, as amended by GASB 36, 37, and 38. The financial statement presentation required by GASB 34 and 35 replaces the fund-group perspective previously required and provides a comprehensive, entity-wide perspective of the institution's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. Grambling State University is a publicly supported institution of higher education within the state and is a university within the University of Louisiana System. Therefore, the University of Louisiana System, including Grambling State University, is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide a large percentage of total revenues; and (4) the state issues bonds to finance certain construction. The accompanying financial statements present information only as to the transactions of the programs of Grambling State University as authorized by Louisiana statutes and administrative regulations.

Annually, the University of Louisiana System and the State of Louisiana issue basic financial statements, which include the activity contained in the accompanying financial statements. These financial statements are audited by the Louisiana Legislative Auditor.

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 within a single proprietary (enterprise) fund. Accordingly, Grambling State 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-agency transactions have been eliminated.

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The institution 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 branches of state government. The Joint Legislative Committee on the Budget grants budget revisions. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are prorated to the year

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

earned; (4) certain capital leases are not recorded; and (5) certain inventories are recorded as expenditures at the time of purchase. A formal budgetary comparison is not required by GASB reporting standards for proprietary funds and, therefore, budgetary comparisons are not presented.

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The university defines cash and cash equivalents as cash on hand, demand deposits, interest-bearing demand deposits, 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 negotiable certificates of deposit, regardless of maturity. These terms are also used in the preparation of the Statement of Cash Flows.

In accordance with Louisiana Revised Statute (R.S.) 49:327, the university is authorized to invest funds in direct United States Treasury obligations, United States government agency obligations, and money market funds. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are United States 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. INVENTORY

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 CASH AND INVESTMENTS

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

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the institution's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if they exceed \$100,000. Any infrastructure exceeding \$3 million 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 non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave that would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

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

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and notes payable with maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets. Revenue bonds and notes payable are reported at face value.

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

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

M. NET ASSETS

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

- (a) Invested in capital assets, net of related debt - consists of the university's total investment in capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted net assets - nonexpendable - consists of endowments and similar type funds for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- (c) Restricted net assets - expendable - consists 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 - consists of resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university and may be used at the discretion of the governing board to meet current expenses and for any purpose.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

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 services (tuition and fees) 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, 2003 and 2002, the university has cash (book balances) totaling \$10,110,047 and \$12,084,443, respectively. A summary of the university's cash and cash equivalents follows:

	<u>2003</u>	<u>2002</u>
Petty cash	\$3,200	\$3,200
Demand deposits:		
Noninterest-bearing	(1,489,482)	2,373,068
Interest-bearing	9,248,300	7,475,530
Time certificates of deposit	<u>2,348,029</u>	<u>2,232,645</u>
Total	<u>\$10,110,047</u>	<u>\$12,084,443</u>

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. 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. At June 30, 2003 and 2002, the university has \$11,527,310 and \$14,908,822, respectively, in deposits (collected bank balances) that are secured from risk, in the following manner:

	June 30, 2003		
	Cash	Certificates of Deposit	Total
Deposits in bank accounts	<u>\$9,179,281</u>	<u>\$2,348,029</u>	<u>\$11,527,310</u>
Bank balances (collected balances):			
Insured or collateralized with securities held by the entity or its agent in the entity's name - GASB Category 1	\$172,625	\$300,000	\$472,625
Collateralized with securities held by the pledging institution's trust department or agent in the entity's name - GASB Category 2	<u>9,006,656</u>	<u>2,048,029</u>	<u>11,054,685</u>
Total bank balances	<u>\$9,179,281</u>	<u>\$2,348,029</u>	<u>\$11,527,310</u>
	June 30, 2002		
	Cash	Certificates of Deposit	Total
Deposits in bank accounts	<u>\$12,676,177</u>	<u>\$2,232,645</u>	<u>\$14,908,822</u>
Bank balances (collected balances):			
Insured or collateralized with securities held by the entity or its agent in the entity's name - GASB Category 1	\$200,000	\$300,000	\$500,000
Collateralized with securities held by the pledging institution's trust department or agent in the entity's name - GASB Category 2	12,476,177	1,916,303	14,392,480
Uncollateralized - GASB Category 3		<u>16,342</u>	<u>16,342</u>
Total bank balances	<u>\$12,676,177</u>	<u>\$2,232,645</u>	<u>\$14,908,822</u>

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

3. INVESTMENTS

At June 30, 2003 and 2002, the university has investments totaling \$2,423,035 and \$304,710, respectively, as shown on Statement A. These investments include unrealized losses of \$80,800 for 2003 and \$348 for 2002. These funds are to be invested in accordance with the Louisiana Board of Regents Eminent Scholars and Endowed Professorship Program Statement of Investment Policy and Objectives. In accordance with GASB Codification Section 150.125, the various types of investments are listed and presented by category of credit risk assumed by the university. Category 1 represents those investments insured or registered in the university's name or securities held by the university or its agent in the university's name. Category 2 represents investments uninsured and unregistered, with securities held by the counterparty's trust department or agent in the university's name. Category 3 represents investments unsecured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the university's name.

A summary of university investments follows:

	Fair Value	
	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Category 1:		
Equity stock	\$3,835	\$3,840
U.S. Treasury notes and bonds	2,118,600	
Total categorized investments	<u>2,122,435</u>	<u>3,840</u>
Investments not categorized - corporate bonds	<u>300,600</u>	<u>300,870</u>
Total	<u><u>\$2,423,035</u></u>	<u><u>\$304,710</u></u>

4. RECEIVABLES

Receivables are shown on Statement A net of an allowance for doubtful accounts at June 30, 2003 and 2002. These receivables are composed of the following:

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

<u>Type</u>	<u>Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Accounts Receivable (Net)</u>
June 30, 2003:			
Student tuition and fees	\$4,922,673	(\$4,214,983)	\$707,690
Auxiliary enterprises	171,394	(72,796)	98,598
Due from State of Louisiana	2,440,361		2,440,361
Federal, state, and private grants and contracts	904,681	(30,340)	874,341
Other	12,802		12,802
	<u>\$8,451,911</u>	<u>(\$4,318,119)</u>	<u>\$4,133,792</u>
June 30, 2002:			
Student tuition and fees	\$4,083,422	(\$3,547,820)	\$535,602
Auxiliary enterprises	137,194		137,194
Due from State of Louisiana	1,624,146		1,624,146
Federal, state, and private grants and contracts	2,759,748	(240,690)	2,519,058
Other	384,859	(384,859)	
	<u>\$8,989,369</u>	<u>(\$4,173,369)</u>	<u>\$4,816,000</u>

5. NOTES RECEIVABLE

Notes receivables are comprised of loans to students under the Federal Perkins Loan, Nursing Student Loan, and short-term student loan programs. The university administers the Perkins and Nursing Student Loan programs. Restricted federal and state contributions and interest on the loans provide the funding for the Perkins Loan program. The Perkins program provides for the cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. 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 U.S. Department of Education. Loans are no longer issued under the Nursing Student Loan program, but collections are still made on outstanding loans. Short-term student loans are funded from self-assessed student fees and are available to qualified students for limited personal and emergency financial needs.

Notes receivable are shown on Statement A net of an allowance for doubtful accounts at June 30, 2003 and 2002. These receivables are composed of the following:

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

<u>Type</u>	<u>Notes Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Notes Receivable (Net)</u>
June 30, 2003:			
Federal Perkins Loans	\$1,978,209	(\$1,456,152)	\$522,057
Nursing Student Loans	107,986	(101,354)	6,632
Short-term student loans	955		955
	<u>\$2,087,150</u>	<u>(\$1,557,506)</u>	<u>\$529,644</u>
June 30, 2002:			
Federal Perkins Loans	\$2,076,217	(\$1,456,152)	\$620,065
Nursing Student Loans	129,661	(122,364)	7,297
Short-term student loans	610		610
	<u>\$2,206,488</u>	<u>(\$1,578,516)</u>	<u>\$627,972</u>

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal years ended June 30, 2003 and 2002, follows:

	<u>Fiscal Year Ended June 30, 2003</u>				<u>Balance, June 30, 2003</u>
	<u>Balance, July 1, 2002</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	
Capital assets not being depreciated:					
Land	\$989,239	\$2,850			\$992,089
Construction-in-progress	5,353,307	4,287,342		(\$4,567,450)	5,073,199
	<u>\$6,342,546</u>	<u>\$4,290,192</u>	<u>NONE</u>	<u>(\$4,567,450)</u>	<u>\$6,065,288</u>
Other capital assets:					
Land improvements	\$467,099				\$467,099
Less accumulated depreciation	(467,099)				(467,099)
Total land improvements	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
Buildings	100,683,458		\$4,998,752		105,682,210
Less accumulated depreciation	(51,169,609)	(\$2,099,110)			(53,268,719)
Total buildings	<u>49,513,849</u>	<u>(2,099,110)</u>	<u>4,998,752</u>	<u>NONE</u>	<u>52,413,491</u>
Equipment	15,064,419	704,381			15,768,800
Less accumulated depreciation	(12,085,298)	(668,640)			(12,753,938)
Total equipment	<u>2,979,121</u>	<u>35,741</u>	<u>NONE</u>	<u>NONE</u>	<u>3,014,862</u>
Library books	13,105,275	405,951		(\$82,277)	13,428,949
Less accumulated depreciation	(12,519,516)	(242,362)			(12,761,878)
Total library books	<u>585,759</u>	<u>163,589</u>	<u>NONE</u>	<u>(82,277)</u>	<u>667,071</u>
Total other capital assets	<u>53,078,729</u>	<u>(1,899,780)</u>	<u>4,998,752</u>	<u>(82,277)</u>	<u>56,095,424</u>

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Fiscal Year Ended June 30, 2003				Balance, June 30, 2003
	Balance, July 1, 2002	Additions	Transfers	Retirements	
Capital Asset Summary:					
Capital assets not being depreciated	\$6,342,546	\$4,290,192		(\$4,567,450)	\$6,065,288
Other capital assets, at cost	129,320,251	1,110,332	\$4,998,752	(82,277)	135,347,058
Total cost of capital assets	135,662,797	5,400,524	4,998,752	(4,649,727)	141,412,346
Less accumulated depreciation	(76,241,522)	(3,010,112)	NONE	NONE	(79,251,634)
Capital assets, net	<u>\$59,421,275</u>	<u>\$2,390,412</u>	<u>\$4,998,752</u>	<u>(\$4,649,727)</u>	<u>\$62,160,712</u>
	Fiscal Year Ended June 30, 2002				Balance, June 30, 2002
	Balance, July 1, 2001	Additions	Transfers	Retirements	
Capital assets not being depreciated:					
Land	\$989,239				\$989,239
Construction-in-progress	4,976,089	\$6,357,791		(\$5,980,573)	5,353,307
Total capital assets not being depreciated	<u>\$5,965,328</u>	<u>\$6,357,791</u>	<u>NONE</u>	<u>(\$5,980,573)</u>	<u>\$6,342,546</u>
Other capital assets:					
Land improvements	\$2,297,099			(\$1,830,000)	\$467,099
Less accumulated depreciation	(2,297,099)			1,830,000	(467,099)
Total land improvements	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
Buildings	94,871,172		\$5,812,286		100,683,458
Less accumulated depreciation	(49,195,467)	(\$1,974,142)			(51,169,609)
Total buildings	<u>45,675,705</u>	<u>(1,974,142)</u>	<u>5,812,286</u>	<u>NONE</u>	<u>49,513,849</u>
Equipment	13,393,307	1,671,112			15,064,419
Less accumulated depreciation	(11,432,088)	(653,210)			(12,085,298)
Total equipment	<u>1,961,219</u>	<u>1,017,902</u>	<u>NONE</u>	<u>NONE</u>	<u>2,979,121</u>
Library books	12,976,780	326,217		(197,722)	13,105,275
Less accumulated depreciation	(12,405,389)	(311,849)		197,722	(12,519,516)
Total library books	<u>571,391</u>	<u>14,368</u>	<u>NONE</u>	<u>NONE</u>	<u>585,759</u>
Total other capital assets	<u>\$48,208,315</u>	<u>(\$941,872)</u>	<u>\$5,812,286</u>	<u>NONE</u>	<u>\$53,078,729</u>
Capital Asset Summary:					
Capital assets not being depreciated	\$5,965,328	\$6,357,791		(\$5,980,573)	\$6,342,546
Other capital assets, at cost	123,538,358	1,997,329	\$5,812,286	(2,027,722)	129,320,251
Total cost of capital assets	129,503,686	8,355,120	5,812,286	(8,008,295)	135,662,797
Less accumulated depreciation	(75,330,043)	(2,939,201)	NONE	2,027,722	(76,241,522)
Capital assets, net	<u>\$54,173,643</u>	<u>\$5,415,919</u>	<u>\$5,812,286</u>	<u>(\$5,980,573)</u>	<u>\$59,421,275</u>

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

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

Funding Policy. The contribution requirements of plan members and the 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. 11:1102. Employees contribute 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.1% of covered salaries to TRS and 14.1% of covered salaries to LASERS for fiscal year 2003 and 13.1% of covered salaries to TRS and 13% of covered salaries to LASERS for fiscal year 2002. The State of Louisiana, through the annual appropriation to the university, funds the university's employer contribution. The university's employer contributions to TRS for the years ended June 30, 2003, 2002, and 2001 were \$1,970,591, \$2,511,955, and \$2,585,071, respectively, and to LASERS for years ended June 30, 2003, 2002, and 2001 were \$999,184, \$977,353, and \$1,154,829, respectively, equal to the required contributions for each year.

8. OPTIONAL RETIREMENT SYSTEM

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

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

rather than the TRS and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the university are 13.1% of covered payroll for fiscal years 2003 and 2002. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligation of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made.

Employer contributions to the optional retirement plan totaled \$734,662 and \$691,808 for the years ended June 30, 2003, and June 30, 2002, respectively.

**9. 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 totaled \$1,167,892 and \$1,057,047 for the years ended June 30, 2003, and June 30, 2002, respectively. The total number of retirees at June 30, 2003, and June 30, 2002, is 278 and 262, respectively.

10. COMPENSATED ABSENCES

At June 30, 2003, employees of the university have accumulated and vested annual leave, sick leave, and compensatory leave of \$1,914,224, \$634,870, and \$334,183, respectively. At June 30, 2002, employees of the university have accumulated and vested annual leave, sick leave, and compensatory leave of \$1,791,698, \$348,589, and \$227,367, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

11. DEFERRED REVENUES

The following is a summary of deferred revenues at June 30, 2003 and 2002:

<u>Account Name</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Prepaid tuition and fees	\$531,764	\$616,121
Prepaid athletic ticket sales	21,903	35,943
Grants and contracts	295,295	452,051
Total deferred revenues	<u>\$848,962</u>	<u>\$1,104,115</u>

12. PAYABLES

The following is a summary of payables at June 30, 2003 and 2002:

<u>Account Name</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Vendor payables	\$1,664,164	\$539,652
Accrued salaries and payroll deductions	1,466,909	1,365,393
Other		5,850
Total payables	<u>\$3,131,073</u>	<u>\$1,910,895</u>

13. LONG-TERM LIABILITIES

The following is a summary of bonds and notes payable and other long-term transactions of the university for the years ended June 30, 2003 and 2002.

	Year Ended June 30, 2003				Amounts Due Within One Year
	Balance, July 1, 2002	Additions	Reductions	Balance, June 30, 2003	
Bonds and notes payable:					
Revenue bonds payable	\$1,411,000		(\$265,000)	\$1,146,000	\$285,000
Notes payable	3,845,669		(246,310)	3,599,359	255,526
Total bonds and notes payable	5,256,669	NONE	(511,310)	4,745,359	540,526
Other liabilities - accrued compensated absences	2,367,654	\$515,623	NONE	2,883,277	726,252
Total long-term liabilities	<u>\$7,624,323</u>	<u>\$515,623</u>	<u>(\$511,310)</u>	<u>\$7,628,636</u>	<u>\$1,266,778</u>

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Year Ended June 30, 2002				Amounts Due Within One Year
	Balance, July 1, 2001	Additions	Reductions	Balance, June 30, 2002	
Bonds and notes payable:					
Revenue bonds payable	\$1,676,000		(\$265,000)	\$1,411,000	\$265,000
Notes payable	2,893,457	\$1,165,931	(213,719)	3,845,669	246,310
Total bonds and notes payable	4,569,457	1,165,931	(478,719)	5,256,669	511,310
Other liabilities - accrued compensated absences	2,306,963	60,691	NONE	2,367,654	222,004
Total long-term liabilities	\$6,876,420	\$1,226,622	(\$478,719)	\$7,624,323	\$733,314

The additions and reductions to compensated absences during the two fiscal years ended June 30, 2003, represent the net change during the years because the additions and deductions could not readily be determined.

14. REVENUE BONDS AND NOTES PAYABLE

Revenue bonds and notes payable consisted of the following for the two years ended June 30, 2003:

	Date of Issue	Original Issue	Outstanding June 30, 2001
Revenue bonds			
Student Housing System:			
1965 Series B	October 1, 1965	\$4,000,000	\$835,000
1968 Series B	October 1, 1968	3,000,000	841,000
Total bonds payable		7,000,000	1,676,000
Notes payable			
U.S. Department of Education	May 1, 1993	3,500,000	2,893,154
Ford Motor Credit Company for telephone equipment	August 30, 2001	1,165,931	
Total notes payable		4,665,931	2,893,154
Total bonds and notes payable		\$11,665,931	\$4,569,154

<u>Redeemed (Issued) June 30, 2002</u>	<u>Redeemed June 30, 2003</u>	<u>Outstanding June 30, 2003</u>	<u>Final Maturity Year</u>	<u>Interest Rates</u>	<u>Interest Outstanding June 30, 2003</u>
\$160,000	\$160,000	\$515,000	2005	3.7%	\$23,513
105,000	105,000	631,000	2008	3.0%	51,465
<u>265,000</u>	<u>265,000</u>	<u>1,146,000</u>			<u>74,978</u>
91,640	94,411	2,707,102	2023	3.0%	936,856
(1,044,155)	151,899	892,257	2008	4.1%	99,607
<u>(952,515)</u>	<u>246,310</u>	<u>3,599,359</u>			<u>1,036,463</u>
<u><u>(\$687,515)</u></u>	<u><u>\$511,310</u></u>	<u><u>\$4,745,359</u></u>			<u><u>\$1,111,441</u></u>

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

All auxiliary enterprise revenues are available as security for the outstanding revenue bonds at both June 30, 2003 and 2002.

The scheduled maturities of the revenue bonds and notes payable at June 30, 2003, are as follows:

<u>Fiscal Year</u>	<u>Bonds Payable</u>		<u>Notes Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004	\$285,000	\$30,293	\$255,526	\$114,202	\$685,021
2005	285,000	21,555	265,094	104,633	676,282
2006	290,000	12,930	275,030	94,698	672,658
2007	125,000	6,705	285,345	84,383	501,433
2008	125,000	2,955	296,056	73,672	497,683
2009-2013	36,000	540	631,399	289,367	957,306
2014-2018			695,819	192,950	888,769
2019-2023			895,090	82,558	977,648
Total	<u>\$1,146,000</u>	<u>\$74,978</u>	<u>\$3,599,359</u>	<u>\$1,036,463</u>	<u>\$5,856,800</u>

The following is a summary of the debt service reserve requirements of the various bond issues outstanding at June 30, 2003.

	<u>Cash/ Investment Reserves Available</u>	<u>Reserve Requirements</u>	<u>Excess</u>
Student Housing System Repair and Replacement Reserve Account	\$1,061,860	\$600,000	\$461,860
U.S. Department of Education note	353,000	353,000	
Student Housing System revenue bonds	511,700	511,700	
Total	<u>\$1,926,560</u>	<u>\$1,464,700</u>	<u>\$461,860</u>

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.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

15. RESTRICTED NET ASSETS

The university has the following restricted net assets at June 30, 2003 and 2002:

<u>For fiscal year 2003</u>	
Nonexpendable:	
Endowments	\$2,680,788
Student loans (federal and institutional capital contributions)	<u>4,505,845</u>
Total nonexpendable	<u><u>\$7,186,633</u></u>
Expendable:	
Grants and contracts	\$4,630,669
Student loans	(3,634,407)
University plant projects	1,653,865
Debt service requirements	<u>1,926,560</u>
Total expendable	<u><u>\$4,576,687</u></u>
<u>For fiscal year 2002</u>	
Nonexpendable:	
Endowments	\$2,372,792
Student loans (federal and institutional capital contributions)	<u>4,505,844</u>
Total nonexpendable	<u><u>\$6,878,636</u></u>
Expendable:	
Grants and contracts	\$4,232,826
Student loans	(2,046,539)
University plant projects	1,692,511
Debt service requirements	<u>1,850,414</u>
Total expendable	<u><u>\$5,729,212</u></u>

After further review it was determined that certain net assets totaling \$1,615,306 were actually board designated (internally restricted) and were incorrectly classified as restricted expendable net assets at June 30, 2002. These funds have been reclassified as unrestricted net assets as of June 30, 2003.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

16. CONTINGENT LIABILITIES AND RISK MANAGEMENT

The university is involved in no lawsuits at June 30, 2003. Any losses arising from judgments, claims, and similar contingencies would be paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund. The Office of Risk Management insures any of these lawsuits. During fiscal years 2003 and 2002, no direct claims and litigation costs were incurred by the university.

17. RELATED PARTY TRANSACTIONS

During fiscal year ended June 30, 2000, the university established relationships with two affiliate organizations, Grambling University National Alumni Association, Inc. (GUNAA) and the Grambling University Athletic Foundation, Inc. (GUAF). Both of these organizations have affiliation agreements. The GUNAA has a corporate endeavor with the university to coordinate the ancillary activities of the Bayou Classic weekend. The GUAF has a corporate endeavor with the university to coordinate the Sports Radio Network and the concession for home sporting events. The GUNAA corporate endeavor extends through the 2004 event, and the GUAF corporate endeavor extends to June 30, 2005.

18. ON-BEHALF PAYMENTS FOR SALARIES AND FRINGE BENEFITS

On-behalf payments for salaries and fringe benefits are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. For example, a nongovernmental fund-raising foundation affiliated with a governmental university (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 accompanying financial statement for fiscal years ended June 30, 2003 and 2002, is \$162,997 and \$82,097, respectively, and is summarized as follows:

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

<u>Employee Name</u>	<u>Title</u>	<u>2003 Payment</u>	<u>2002 Payment</u>
Grambling University National Alumni Association, Inc.			
Reimbursement for moving expenses:			
Billy R. Owens	Vice President for Finance		\$2,852
Niena Williams	Assistant Director of Human Resources		1,157
On-behalf/compensation payments:			
Scott Boatwright	Media Consultant for Bayou Classic (BC)		1,200
Janis Bluford	Clerical Assistant - BC President	\$500	500
Valencia W. Clemons	BC Administrative Assistant	1,007	2,000
Wanda Currie	Coordinator - BC vendors		1,000
Albert Dennis	Athletic Director	1,500	
Gwendolyn Douglas	Consultant - BC pageant		650
Bobbie Ethridge	Clerical Assistant - BC pageant		300
Becky Fields	Administrative Secretary/Vending	400	
Stephan Fontenot	Coordinator - BC Friday Night Extravaganza	2,500	2,000
Vickie Gant-Jackson	Vision Magazine/BC promotions	5,700	4,700
Leroy Hawthorne	Music consultant - BC pageant		100
Dr. Ruby D. Higgins	Coordinator - BC pageant		3,000
Aaron James	BC Interim Coordinator/Quadrant Sales	3,500	4,000
Vickie Joe	Assistant Alumni Director		6,850
Eddie M. Jones	Consultant - BC pageant		250
Shirley Kidd	Consultant - BC pageant		400
Russell LeDay	BC Fiscal Officer	4,000	4,000
Matthew Latson	Driver - BC pageant		150
Roderick Mosley	Interim Assistant Sports Information Director	1,500	
Johnny Patterson	Acting Head/Associate Professor	1,500	
Herbert Simmons, Jr., Esquire	Alumni Director/BC Coordinator	9,000	9,000
Linda Stringfellow	Clerical Assistant		1,500
Melanie Thomas	Instructor of English	656	
Charles Walker	Lighting consultant - BC pageant		300
Doug Williams	Head Football Coach	10,500	
Grambling University Athletic Foundation, Inc.			
On-behalf/compensation payments:			
Joe Barnette	Mobile Equipment Operator	3,318	
Donald Broussard	Strength & Conditioning Coord.	2,000	
Wanda Currie	Assistant to the Head Football Coach	1,000	
Leslie Dawson	Equipment Manager	1,300	
Marshall Hayes	Assistant Football Coach	3,000	
Charlie Lewis	Videographer	2,000	
Russell LeDay	Consultant/manager		1,500
Terry Lilly	Aerobics Instructor	550	250
Dianne A. Maroney	Orchesis Director	850	500
Roderick Mosley	Interim Sports Information Director	220	
Gabe Northern	Assistant Football Coach	3,300	
Heishma Northern	Assistant Football Coach	3,000	

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

<u>Employee Name</u>	<u>Title</u>	<u>2003 Payment</u>	<u>2002 Payment</u>
Grambling University Athletic Foundation, Inc. (Cont.)			
On-behalf/compensation payments: (Cont.)			
Richard Paul	Assistant Football Coach	\$2,000	
David Ponton, Jr.	Head Women Basketball Coach	16,000	\$20,000
Michael Roach	Assistant Football Coach	4,000	
Chris Scott	Assistant Football Coach	600	
Patricia Simmons	Secretary 2 - Football Office	500	
Gloria N. Smallwood	Clerical Assistant	6,196	6,188
Melvin Spears	Assistant Football Coach	4,000	
Dr. Edwin Thomas	Assistant Band Director		250
Ray Torbor	Helper	3,300	
Melva Kristi Turner	Program Advisor/Night Manager	1,000	
Sammie White	Assistant Football Coach	3,000	
Douglas Williams	Head Football Coach	59,000	7,500
Brandon Willis	Interim Assist. Sports Info. Dir.	600	
Total		<u>\$162,997</u>	<u>\$82,097</u>

19. DONOR RESTRICTED ENDOWMENTS

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

At June 30, 2003 and 2002, the value of endowments equal the donated amount. The university limits endowment spending to the income earned in a given year for purposes specified by donors. The donated portion of the endowments is reported in restricted net assets - nonexpendable in the Statement of Net Assets; the endowment income is reported in restricted net assets - expendable.

20. ACCREDITATION

On December 10, 2002, the Commission on Colleges - Southern Association of Colleges and Schools denied reaffirmation of accreditation. However, the Commission continued the university's accreditation with probation for "good cause" for one year. The university is on probation for failure to comply with Section 6.3.1 (Financial Resources). Grambling State University must provide evidence to the commission that it is in compliance by October 15, 2003.

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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



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October 2, 2003

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the 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 Grambling State University, a university within the University of Louisiana System, which is a component unit of the State of Louisiana, as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated October 2, 2003. 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.

Compliance

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

Noncompliance With Movable Property Regulations

Grambling State University has not developed and implemented adequate internal controls to ensure compliance with the state's movable property regulations. Good internal control requires that adequate control procedures are in place and working to ensure that (1) the acquisition, valuation, and disposition of movable property is accurately reflected in the accounting records; (2) the location of all movable items is monitored and updated frequently; and (3) the amounts recorded in the financial statements are materially correct. In addition, good internal control should ensure that movable property is properly safeguarded against loss arising from unauthorized use. Furthermore, Louisiana Administrative Code 34:VII.307 requires all acquisitions of qualified property to be tagged and pertinent inventory information sent to Louisiana Property Assistance Agency (LPAA) within 60 days of receipt of the property. A review

LEGISLATIVE AUDITOR

GRAMBLING STATE UNIVERSITY UNIVERSITY OF LOUISIANA SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

October 2, 2003

Page 2

of the university's movable property policies, procedures, accounting records, and correspondence along with a test of 14 acquisitions indicated the following:

- A property count for annual certification performed in December 2002 indicated that 400 items originally costing \$884,087 were not located. A subsequent count completed in June 2003 indicated that only 94 of the items costing \$224,040 were located. The remaining 306 items costing \$660,047 were still not located. Furthermore, as of August 13, 2003, the university is unable to provide the final results of the June 2003 physical inventory.
- Eleven of the 14 applicable items tested costing \$326,666 were not reported to LPAA within the required 60 days. The delays in reporting the property to LPAA ranged from two to 86 days beyond the 60-day requirement.
- Policies and procedures established and implemented by the university are very general and apparently insufficient for managing its movable property inventory. In addition, property control personnel have not received adequate training.

The unlocated property is the result of university personnel not having adequate training, supervision, and detailed policies and procedures to follow. The poorly trained and supervised personnel include not only the property control personnel but also all personnel of the university since many are responsible for the safekeeping of property in their respective areas. As a result, the university has placed its movable property at greater risk of being lost, stolen, or misused as indicated by the large amount of unlocated movable property and its inability to finalize the June 2003 physical inventory. The university reports \$15,768,800 of movable property at June 30, 2003.

Grambling State University should review and evaluate existing policies and procedures, both formal and informal, to determine where improvements must be made. It should then develop and implement new policies and procedures in sufficient detail so all employees clearly understand their duties and responsibilities relative to movable property. Employees should be properly supervised and adequately trained to ensure that all employees are familiar with the new policies and procedures and their responsibilities. Finally, employees should be held accountable for failure to comply with the new policies and procedures. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 1-2).

LEGISLATIVE AUDITOR

GRAMBLING STATE UNIVERSITY UNIVERSITY OF LOUISIANA SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

October 2, 2003

Page 3

Failure to Submit a Document Retention Schedule to State Archives

Grambling State University failed to submit a document retention schedule to State Archives as required by state law. Louisiana Revised Statute (R.S.) 44:411(A)(1) requires the head of every agency to submit to the state archivist record retention schedules proposing the length of time each state record series warrants retention for administrative, legal, or fiscal purposes after it has been created or received by the agency.

Management was not aware of the requirement to submit the required documentation to State Archives. Failure to submit and receive an approved retention schedule increases the risk of untimely destruction of vital information that could be needed in the future or of the campus incurring excessive storage cost for documents that will never be needed.

Grambling State University should obtain the necessary information to prepare and submit a suitable retention schedule to State Archives as soon as possible. Once the retention schedule is approved, it should be implemented immediately. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 3).

Failure to Report and Transfer Abandoned Property

Grambling State University did not report or transfer abandoned property as defined by state law to the Louisiana Department of the Treasury (administrator). R.S. 9:159(D) requires the holder of property presumed to be abandoned to make a report to the administrator before November first of each year covering the twelve months preceding July first of that year. R.S. 9:160(A) requires the holder of property presumed abandoned to pay, transfer, or cause to be paid or transferred to the administrator the property described in the report as unclaimed. A review of bank reconciliations and other financial records indicates that \$113,319 of outstanding checks qualify as abandoned property that the university has not reported or transferred to the administrator. Management indicated it was not aware of the state law requiring abandoned property to be reported and transferred to the state treasury. The university's failure to report and transfer the abandoned property violates state law.

LEGISLATIVE AUDITOR

GRAMBLING STATE UNIVERSITY UNIVERSITY OF LOUISIANA SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

October 2, 2003

Page 4

Grambling State University should immediately review all property assumed to be abandoned to determine if it meets the criteria. It should then immediately report and transfer all abandoned property to the administrator as required by state law. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 4).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grambling State University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted the matter relating to noncompliance with movable property regulations, as mentioned in the compliance section of this report, which we consider to be a reportable condition. In addition, we noted the matter that follows involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Ineffective Collection Procedures for Student Receivables

For the second consecutive audit, Grambling State University has not established effective collection procedures governing its student receivables, valued at \$707,690 at June 30, 2003, which is reported net of an estimated allowance for doubtful accounts of \$4,214,983. Due diligence and fiscal responsibility require management to establish policies and procedures that enable the university to effectively manage its student receivables and make every effort legally available to collect amounts owed the university. Louisiana Administrative Code 4: XIII. Chapter 1, "Collection Policy and Procedure," requires each state agency to establish its own comprehensive collection policies and procedures, which should subsequently be approved by the Cash Management and Review Board. Our audit procedures indicate that the university:

- Has not developed and sent to the Cash Management Review Board formal written policies and procedures defining when student receivables are considered delinquent or the process to be used for handling such receivables.
- Does not have the capability of monitoring or reporting on a monthly basis student receivables that are 30, 60, or 90 days, and older.

LEGISLATIVE AUDITOR

GRAMBLING STATE UNIVERSITY UNIVERSITY OF LOUISIANA SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

October 2, 2003

Page 5

- Does not turn over delinquent accounts to the attorney general or a collection agency for further processing.
- Does not periodically evaluate the methodology of estimating the allowance for doubtful accounts. The total amount of student receivables due to the university increased by \$839,251 during fiscal year 2003, while the estimated allowance for doubtful accounts increased by \$667,163. An allowance account that is not reasonably estimated could significantly misstate the financial statements. The Cash Management Review Board should also be asked to approve the university's method for estimating the allowance.

Management was not aware of the requirements of the Louisiana Administrative Code. In addition, management has been unable to generate aging information needed for estimating its allowance for doubtful accounts from its accounting system. As a result, public assets may be lost since the university is not pursuing all possible avenues to collect amounts owed. Furthermore, the university is in noncompliance with the Louisiana Administrative Code.

Grambling State University should ensure that effective collection policies and procedures are developed and approved by the Cash Management Review Board. Once approved the policies and procedures should be implemented to ensure that the university is making reasonable collection efforts relative to student receivables. Furthermore, management should ensure that its accounting system is capable of providing aged student receivables in the format required by the administrative code and that an allowance for doubtful accounts can reasonably be estimated and appropriately included in the financial statements. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 5-6).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do consider the reportable condition described previously to be a material weakness.

LEGISLATIVE AUDITOR

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Compliance and Internal Control Report
October 2, 2003
Page 6

This report is intended solely for the information and use of the university and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Findings applicable to the June 30, 2002, year were included in our prior report on compliance and internal control over financial reporting, which was dated September 25, 2002. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large initial "G" and "A".

Grover C. Austin, CPA
First Assistant Legislative Auditor

WMS:WJR:AJR:dl

[GSU03]

Appendix A

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



Grambling State University

OFFICE OF THE PRESIDENT

Grambling, Louisiana 71245

P.O. DRAWER 607

September 10, 2003

(318) 274-6117

FAX: (318) 274-6172

REVISED

Mr. Grover C. Austin
First Assistant Legislative Auditor
OFFICE OF THE LEGISLATIVE AUDITOR
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

Management concurs with the finding's facts that unlocated items of property reported to Louisiana Property Assistance Agency (LPAA) in December 2002 totaled \$884,087. Subsequent to December 2002, 94 items totaling \$224,040 were located, leaving \$660,047 in new unlocated items. These unlocated items represent 2.85% of the University's total capital and non-capital movable property (\$23,122,950).

1. The new GSU Property Manager reported the unlocated movable property (items that cost \$1,000 and over) to LPAA in December 2002 following a physical observation of equipment. In May 2003, a physical observation of movable property was conducted by the Property Manager and the GSU Finance staff to identify areas of concern. There are additional items that must be located prior to the annual certification in October 2003.
2. Prior to observing inventory in 2002, the long-time Property Manager resigned. Immediately after hiring a new Property Manager, the LPAA regional representative trained the Property Manager, two senior accountants, and one general accountant on the use of the State's property system and the State's property regulations. This training was reinforced with a number of follow-up visits.
3. Management believes that the unlocated property was the result of (1) self-reporting without the benefit of independent physical observation; and (2) the lack of detailed policies and procedures to supplement LPAA's regulations that address the consequences for not accounting for movable property significantly contributed to unlocated property.
4. BF-11 Forms were completed by departments at the time that property was removed in mass from all departments and buildings on campus, but were later unaccounted.
5. The University's new Property manager and other members of the Finance staff are adequately trained. However, university-wide employees must be trained and policies and procedures revised to ensure compliance with LPAA regulations and department and unit heads are aware of the requirement to account for property assigned to them. However, systems of internal controls are based on the integrity of those responsible for the movable property. The President and vice presidents have reminded deans, department and unit heads in monthly Interdepartmental Council meetings and other meetings regarding their responsibility and accountability for movable property assigned to their respective areas.

Mr. Grover C. Austin
September 10, 2003
Page 2

The Vice President for Finance and Associate Vice President for Finance/Controller have overall oversight responsibility, and the Property Manager, area vice presidents, deans, department and unit heads have direct responsibility and accountability of all movable property. The corrective action plan is as follows:

1. The Vice President for Finance will revise the movable property policies and procedures by September 30, 2003 to include sign-offs for movable property assigned to each department or unit, and establish responsibility criteria for not adhering to the policies. Further, he will ensure that all employees are trained on the property policies and procedures.
2. The Vice President for Finance will ensure that the Finance staff continues its efforts to locate items of movable property and ensure that unlocated items are reported to LPAA in accordance with its rules and regulations and federal guidelines, where appropriate.
3. Area vice presidents, deans, department and unit heads, and the property manager will be required to provide explanations for all items of property that are not located by September 30, 2003. They will also ensure that appropriate employees are held accountable and are aware of the consequences of not properly accounting for movable property.
4. The University will continue its new policy of recording the location of property in the LPAA's system and Banner. Further, the Internal Auditor and the Property Manager will begin the process of taking periodic counts throughout the years to verify location of property.

The University is committed to safeguarding and maintaining control over its movable property in accordance with LPAA and federal rules and regulations.

Sincerely,



Neri F. Warner
Acting President

NFW:jj



Grambling State University

OFFICE OF THE PRESIDENT

Grambling, Louisiana 71245

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September 10, 2003

Mr. Grover C. Austin
First Assistant Legislative Auditor
OFFICE OF THE LEGISLATIVE AUDITOR
State of Louisiana
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

Management concurs with the finding on "Failing to Submit a Document Retention Schedule to State Archives."

The President will designate a records officer by September 20, 2003 who will be responsible for all matters related to records management and will act as liaison between the Division of Archives, Records Management and History, and Grambling State University.

The records officer will gather information from all Grambling State University's operating units and departments in accordance with the retention schedule established by the Louisiana State Department of Archives.

As a point of reference, the Division of Finance historically maintains records in accordance with Federal and State rules and regulations.

Sincerely,

Neari F. Warner (BFW)

Neari F. Warner
Acting President

NFW:jj



Grambling State University

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September 10, 2003

Mr. Grover C. Austin
First Assistant Legislative Auditor
OFFICE OF THE LEGISLATIVE AUDITOR
State of Louisiana
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

Management concurs with the finding on "Failure to Report and Transfer Abandoned Property."

Outstanding checks meeting the abandoned property criteria are currently being reviewed. All outstanding checks meeting the unclaimed property criteria are being reviewed to determine proper reporting to the Louisiana Department of Treasury.

The Senior and General Accountants, working under the direction of the Associate Vice President for Finance/Controller, will review and verify all outstanding checks dated prior to July 1, 2002 and submit a report of unclaimed property to the Louisiana Department of the Treasury by November 1, 2003.

Additional procedures have been implemented as of September 9, 2003 that requires the bank reconciliation accountants to research the legitimacy of checks outstanding longer than three months. Procedures will be reviewed relative to deposits and changed as necessary.

Sincerely,

Neari F. Warner (BRO)

Neari F. Warner
Acting President

NFW:jj



Grambling State University

OFFICE OF THE PRESIDENT

Grambling, Louisiana 71245

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September 12, 2003

Mr. Grover C. Austin
First Assistant Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

Management concurs with the finding on "Ineffective Collection Procedures for Student Receivables." Management was unaware of the requirements of the Louisiana Administrative Code (LAC) 4: XIII Chapter 1, "Collection Policy and Procedure." Management became aware when the Division of Administrative Services sent correspondence to the auditors in June and July, 2003. Additionally, management has been unable to generate aging information required by the code and needed for estimating its allowance for doubtful accounts from its Financial Accounting and Reporting System (Banner). SCT Banner ages payments by term (date of original charges). This system advances the charge without regards to when the payments are made.

Example: If a student registers in August with a \$500 balance and agrees to pay \$125 per month in September, October and November, an aging run in Banner for November will show the November balance (\$125) as 90 days and over past due. Most systems would show the balance as current because payments were made on schedule.

The Vice President for Finance has overall responsibility and the Associate Vice President for Finance/Controller and the Assistant Controller of Revenue/Director of Grants Management have direct responsibility for implementing policies and procedures and for collection of accounts receivable. Management will take the following actions to ensure compliance with the Louisiana Administrative Code.

- Amend the Student Receivable Billing and Collections Policy and promissory note by September 15, 2003, to include other collections due diligence and requirements from the state's collections policy that are not already included in our policy. Additionally, the amended policy will be sent to the Cash Management Review Board.

Mr. Grover C. Austin
September 12, 2003
Page 2

- Consult with SCT Corporation (Banner) and GSU programmers to develop a program that will age receivables as prescribed in the Administrative Code. Until developed, management will continue to report its quarterly receivable aging (30, 60, 90 days) to the Division of Administration using the standard Banner report.
- Identify three collection agencies and sign contracts by September 20, 2003. The existing accounts that are one year past due will be turned over for collections. Future accounts will be turned over for collections when they are six months past due. Some accounts may be turned over to the state's Attorney General's Office.
- Continue monthly billings. Further enhance the collection process with follow-up telephone calls to individuals with delinquent accounts and using skip tracing software services to locate and correct bad addresses.
- Monitor its accounts receivable aging and make adjustments to the allowance for doubtful accounts as necessary. Management believes that the information generated from its Banner System is sufficient to establish a reasonable allowance for doubtful accounts.

The Vice President for Finance will ensure that reasonable policies and procedures are implemented to ensure collections from those owing the University.

Sincerely,



Neari F. Warner
Acting President

NFW:jj