GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
ISSUED MARCH 22, 2006

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

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OFFICE OF
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March 13, 2006

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, a component unit of the State of Louisiana, as of and for the year ended June 30, 2005, 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 audit.

We conducted our audit 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 audit 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 audit provides a reasonable basis for our opinion.

As discussed in note 1-B, the accompanying financial statements of Grambling State University are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the University of Louisiana System that is attributable to the transactions of Grambling State University. They do not purport to, and do not, present fairly the financial position of the University of Louisiana System as of June 30, 2005, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Grambling State University as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2006, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

WMS:WJR:THC:dl

GSU05

The Management's Discussion and Analysis of Grambling State University's (GSU) financial performance presents a narrative overview and analysis of GSU's financial activities for the year ended June 30, 2005. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with GSU's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

GSU's net assets overall changed from $70.81 million to $80.34 million or 13.46% from June 30, 2004, to June 30, 2005. The overall reasons for this change included the following:

- New facility
- New endowments
- Increase in fees and tuition

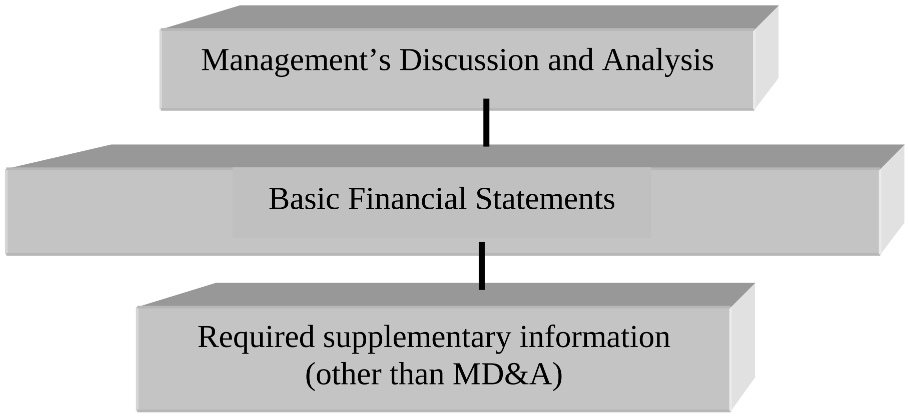
Enrollment changed from 4,673 to 5,040 from June 30, 2004, to June 30, 2005, a change of 7.85%. The reason for this change is attributed to an aggressive recruitment plan.

GSU's operating revenues changed from $44.9 million to $47.4 million or 5.57% from June 30, 2004, to June 30, 2005. Operating expenses, however, increased by 4.36% to $75.4 million for the year ended June 30, 2005. The changes in enrollment as discussed above and an increase in students' fees of $3.50 million and auxiliary revenue of $.08 million offset by a net decrease in other revenue of $1.13 million are the primary reasons for this change.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to $27.1 million in 2005 from $26.5 million in 2004 is attributed to an increase in state appropriations, an increase in investment income, and offset by a decrease in gift income.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

Basic Financial Statements

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

The Statement of Net Assets (page 13) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the GSU is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets (SRECNA) (page 15) presents information showing how GSU's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (page 17) presents information showing how GSU's cash changed as a result of current year operations. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

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

FINANCIAL ANALYSIS

Statement of Net Assets
(in thousands)

	Total	
	2005	2004
Current and other assets	$13,568	$12,422
Noncurrent assets	7,730	6,436
Capital assets	71,343	63,489
Total assets	92,641	82,347
Current liabilities	6,221	5,630
Long-term debt outstanding	6,079	5,909
Total liabilities	12,300	11,539
Net assets:		
Invested in capital assets, net of debt	67,681	59,284
Restricted	10,774	11,174
Unrestricted	1,886	350
Total net assets	$80,341	$70,808

This schedule is prepared from the GSU's Statement of Net Assets as shown on page 13, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant Statement of Net Asset changes from 2005 include:

The increase in current and other assets of $1.15 million is primarily attributable to the following:

- Cash and cash equivalents increase of $1.18 million is primarily attributable to increased net assets.

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

The increase in noncurrent assets is attributable to an increase in investments.

Restricted net assets declined because of the termination of the Perkins Loan Program and the resulting assignment of Perkins Loans to the loan clearinghouse.

Unrestricted net assets increased as a result of operating income from unrestricted net assets.

Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands)

	2005	2004
Operating revenues:		
Student tuition and fees, net	$13,781	$10,279
Grants and contracts	19,806	20,871
Auxiliary	12,490	12,413
Other	1,284	1,351
Total operating revenues	47,361	44,914
Operating expenses:		
Education and general:		
Instruction	21,932	19,754
Research	828	270
Public service	58	52
Academic support	8,001	7,573
Student services	4,462	3,636
Institutional support	11,504	13,563
Operations and maintenance of plant	4,652	3,815
Depreciation	3,199	3,825
Scholarships and fellowships	7,014	6,567
Other operating expenses	13,731	13,176
Total operating expenses	75,381	72,231
Operating loss	(28,020)	(27,317)
Nonoperating revenues (expenses)		
State appropriations	25,994	25,852
Gifts	708	800
Other nonoperating revenues (expenses)	420	(187)
Net nonoperating revenues	27,122	26,465
Loss before other revenues and expenses	(898)	(852)
Capital appropriations	10,325	3,795
Additions to permanent endowments	106	60
Increase in Net Assets	9,533	3,003
Net assets at beginning of year	70,808	67,805
Net assets at end of year	$80,341	$70,808

Student tuition and fees increased 3.4% as a result of a 3% tuition rate increase and an increase in enrollment.

Grants and contracts declined as a result of fewer grants.

The decline in institutional support is a result of better allocation of functional expenses.

Operations and maintenance increased as a result of noncapital repairs and maintenance and utilities.

Nonoperating revenues increased by 2.3% to $27.1 million, primarily attributable to an increase in investment income.

Capital appropriations increased as a result of state appropriations received for construction of the Health and PE Complex.

Investment income changed from a net loss of $.04 million to a gain of $.5 million.

GSU's total revenues increased by $ 9.62 million or 12.75%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, GSU had invested approximately $71.3 million in capital assets, net of accumulated depreciation. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately $7.8 million or 12.3% over the previous fiscal year. More detailed information about the system's capital assets is presented in the notes to the financial statements.

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

	2005	2004
Land	$992	$992
Buildings	66,990	58,951
Equipment	2,643	2,886
Library materials	718	660
Total	$71,343	$63,489

This year's major additions included the following:

- $9.6 million - Construction-in-Progress - Health & PE Complex
- $0.4 million - Construction-in-Progress - Lee Hall Renovations
- $0.4 million - Construction-in-Progress - Dining Hall Renovations

Debt

GSU had $3.66 million in bonds and notes outstanding at year-end, compared to $4.21 million last year, a decrease of 13.06% as shown in the table below.

Outstanding Debt at Year-end
(in thousands)

	2005	2004
Revenue bonds and notes	$3,655	$4,205
Capital lease obligations	7	
Compensated absences	3,250	2,446
Total	$6,912	$6,651

See the notes to the financial statements for details relating to changes in and the composition of long-term liabilities and capital leases.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The following currently known facts, decisions, or conditions are expected to have a significant effect on financial position or results of operations:

- Significant factors are:
  - Increases in current enrollment
  - Changes in tuition or fees
  - Changes in state appropriations
  - Changes in federal grant programs
  - Significant new or additional capital appropriations

CONTACTING GRAMBLING STATE UNIVERSITY'S MANAGEMENT

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

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GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statement of Net Assets, June 30, 2005

ASSETS	
Current assets:	
Cash and cash equivalents (note 2)	$10,834,146
Receivables, net (note 4)	2,339,971
Inventories	327,368
Deferred charges and prepaid expenses	64,541
Notes receivable, net (note 5)	1,146
Total current assets	13,567,172
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (note 2)	2,499,324
Investments (note 3)	3,887,623
Investments (note 3)	1,328,105
Notes receivable, net (note 5)	15,402
Capital assets, net (note 6)	71,343,110
Total noncurrent assets	79,073,564
TOTAL ASSETS	92,640,736
LIABILITIES	
Current liabilities:	
Accounts payable and accruals (note 10)	3,660,613
Due to state treasury (note 16)	3,324
Deferred revenues (note 11)	1,130,438
Compensated absences (note 12)	263,914
Capital lease obligations (note 13)	4,592
Amounts held in custody for others	589,747
Notes payable (note 15)	275,030
Bonds payable (note 15)	290,000
Other current liabilities	3,320
Total current liabilities	6,220,978

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2005

LIABILITIES (CONT.)	
Noncurrent liabilities:	
Compensated absences (note 12)	$2,986,513
Capital lease obligations (note 13)	2,527
Notes payable (note 15)	2,803,707
Bonds payable (note 15)	286,000
Total noncurrent liabilities	6,078,747
TOTAL LIABILITIES	12,299,725
NET ASSETS	
Invested in capital assets, net of related debt	67,681,387
Restricted:	
Nonexpendable (note 17)	2,251,254
Expendable (note 17)	8,522,779
Unrestricted	1,885,591
TOTAL NET ASSETS	$80,341,011

(Concluded)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

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

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $9,053,574)	$13,780,623
Federal grants and contracts	17,245,797
State and local grants and contracts	2,298,131
Nongovernmental grants and contracts	261,825
Sales and services of educational departments	222,287
Auxiliary enterprise revenues (net of scholarship allowances of $638,371)	12,490,125
Other operating revenues	1,061,813
Total operating revenues	47,360,601
OPERATING EXPENSES	
Education and general:	
Instruction	21,931,667
Research	827,765
Public service	57,920
Academic support	8,001,182
Student services	4,462,094
Institutional support	11,504,198
Operations and maintenance of plant	4,651,849
Depreciation (note 6)	3,198,697
Scholarships and fellowships	7,014,277
Auxiliary enterprises	13,730,745
Total operating expenses	75,380,394
Operating Loss	(28,019,793)

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2005

NONOPERATING REVENUES (Expenses)	
State appropriations	$25,994,591
Gifts	707,959
Net investment income	547,009
Interest expense	(127,330)
Net nonoperating revenues (expenses)	27,122,229
Loss before contributions and other revenues	(897,564)
Capital appropriations	10,325,310
Additions to permanent endowments	105,547
Increase in net assets	9,533,293
Net assets - beginning of year	70,807,718
Net assets - end of year	$80,341,011

(Concluded)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2005

Cash flows from operating activities:	
Tuition and fees	$22,968,085
Grants and contracts	19,878,877
Sales and services of educational departments	209,402
Auxiliary enterprise receipts	13,303,496
Payments for employee compensation	(35,281,769)
Payments for benefits	(9,186,349)
Payments for utilities	(2,569,288)
Payments for supplies and services	(16,356,806)
Payments for scholarships and fellowships	(17,200,804)
Other receipts	1,234,949
Net cash used by operating activities	(23,000,207)
Cash flows from noncapital financing activities:	
State appropriations	26,075,242
Gifts and grants for other than capital purposes	707,959
Private gifts and grants for endowment purposes	105,547
TOPS receipts	386,630
TOPS disbursements	(386,630)
Federal Family Education Loan program receipts	29,169,040
Federal Family Education Loan program disbursements	(29,169,040)
Net cash provided by noncapital financing sources	26,888,748
Cash flows from capital financing activities:	
Capital appropriations received	10,325,310
Purchase of capital assets	(11,550,864)
Principal paid on capital debt and leases	(542,975)
Interest paid on capital debt and leases	(127,330)
Other sources	497,851
Net cash used by capital financing activities	(1,398,008)

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2005

Cash flows from investing activities:	
Proceeds from sales and maturities of investments	$1,317,675
Interest received on investments	539,802
Purchase of investments	(3,167,179)
Net cash used by investing activities	(1,309,702)
Net increase in cash and cash equivalents	1,180,831
Cash at beginning of year	12,152,639
Cash at end of year	$13,333,470
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	($28,019,793)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	3,198,697
Changes in assets and liabilities:	
Decrease in accounts receivable, net	296,003
Increase in receivables from grants and contracts	(5,457)
Decrease in inventories	107,443
Increase in deferred charges and prepaid expenses	(53,811)
Decrease in notes receivable	173,136
Increase in accounts payable and accrued liabilities	348,863
Increase in deferred revenue	78,581
Increase in amounts held in custody for others	125,834
Increase in compensated absences	804,293
Decrease in other liabilities	(53,996)
Net cash used by operating activities	($23,000,207)

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

Grambling State University is a publicly supported institution of higher education. The university is a component unit of the State of Louisiana, within the executive branch of government. The university is under the management and supervision of the University of Louisiana System Board of Supervisors; however, the annual budget of the university and changes to the degree programs, department of instruction, et cetera, require the approval of the Board of Regents for Higher Education. As a state university, operations of the university's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

Grambling State University is located in Grambling, Louisiana, and serves as a cultural and educational center for north Louisiana. The university offers associate, baccalaureate, and selected masters and specialist degrees in the areas of liberal arts, education, business administration, the sciences and science-related technologies, nursing, and social work. Enrollment at the university was 1,932; 5,040; and 4,923, respectively, during the summer, fall, and spring semesters of fiscal year 2005. At June 30, 2005, the university has approximately 807 full-time faculty and staff members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. Grambling State University is part of the University of Louisiana System, which is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the majority of the members of the governing boards are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the universities within the system primarily serve state residents. The accompanying financial statements present information only as to the transactions of the programs of Grambling State University as authorized by Louisiana statutes and administrative regulations.

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

C. BASIS OF ACCOUNTING

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities. 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-university 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 not prorated, but are recognized in the succeeding year; (4) the long-term portion of capital leases is not recognized; and (5) certain inventories are recorded as expenditures at the time of purchase.

The budget amounts for fiscal year 2005 include the original approved budget and subsequent amendments approved as follows:

Original approved budget	$47,842,113
Amendments:	
State General Fund	1,529,150
Statutory dedication	3,136
Final Budget	$49,374,399

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

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

F. 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 RESTRICTED ASSETS

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.

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

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

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual 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 consist of endowments and similar type funds for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

(d) Unrestricted net assets consist of resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university and may be used at the discretion of the governing board to meet current expenses and for any purpose.

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

N. CLASSIFICATION OF REVENUES

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

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

(b) Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

O. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for 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, 2005, the university has cash (book balances) totaling $13,333,470 as follows:

Demand deposits:	
Interest-bearing	$12,929,072
Noninterest-bearing	(2,020,119)
Time certificates of deposit	2,422,817
Petty cash	1,700
Total	$13,333,470

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

Current assets	$10,834,146
Noncurrent assets - restricted	2,499,324
Total	$13,333,470

Custodial risk is the risk that in the event of a bank failure, the university's deposits may not be recovered. 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, 2005, the university has $15,224,599, in deposits (collected bank balances), which is secured from risk by federal deposit insurance plus pledged securities.

3. INVESTMENTS

At June 30, 2005, the university has investments totaling $5,215,728. The investments are reported at fair value as required by GASB Statement 31. These investments were secured from risk by federal deposit insurance or other appropriate pledged securities.

The university's investment policy follows state law (R.S. 49:327), which authorizes the university to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds.

A summary of the university's investments follows:

				Investment Maturity (in years)		
Investment Type	Fair Value	Credit Quality Ratings*	Percent of Investment	Less Than 1	1 to 5	6 to 10
Federal Home Loan Bank (FHLB) Bonds	$98,840	Aaa	1.9%			$98,840
Federal Home Loan Mortgage Corporation (FHLMC) Bonds	2,379,047	Aaa	45.6%			2,379,047
Federal National Mortgage Association (FNMA) Bonds	549,120	Aaa	10.5%			549,120
Oppenheimer Capital Income Class A Mutual Fund	1,317,132		25.3%	$1,317,132		
Proctor & Gamble Common Stock	4,589		0.1%	4,589		
Certificates of deposit	867,000	Un-rated	16.6%	260,000	$510,000	97,000
Total Investments	$5,215,728		100.0%	$1,581,721	$510,000	$3,124,007

*Credit quality ratings obtained from Moody's Investor's Service.

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For U.S. Treasury obligations and U.S. government agency obligations, the university's investment policy generally requires that issuers must provide the university with safekeeping receipts, collateral agreements, and custodial agreements.

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

The university's investments reported on the Statement of Net Assets are as follows:

Noncurrent assets:	
Restricted investments	$3,887,623
Noncurrent, nonrestricted investments	1,328,105
Total	$5,215,728

4. RECEIVABLES

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

Type	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Student tuition and fees	$5,407,703	($4,445,276)	$962,427
Federal, state, and private grants and contracts	593,168	(30,340)	562,828
Due from State of Louisiana	151,701		151,701
Auxiliary enterprises	472,055		472,055
Other	190,960		190,960
Total	$6,815,587	($4,475,616)	$2,339,971

5. NOTES RECEIVABLE

The university administers the Nursing Student Loan program. Notes receivables are comprised of loans to students under this program. If loans are determined to be uncollectible and not eligible for reimbursement by the federal government, the loans can be written off and assigned to the Department of Health and Human Services (DHHS). Loans are no longer issued under the Nursing Student Loan program, but collections are still being made on outstanding loans and remitted quarterly to the DHHS. Notes receivable totaling $16,548 is shown on Statement A net of an allowance for doubtful accounts of $99,841.

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2005, follows:

	Balance, July 1, 2004	Additions	Transfers	Retirements	Balance, June 30, 2005
Capital assets not being depreciated:					
Land	$992,089				$992,089
Construction-in-progress	2,149,418	$10,325,310	($771,253)	($14,201)	11,689,274
Total capital assets not being depreciated	$3,141,507	$10,325,310	($771,253)	($14,201)	$12,681,363
Other capital assets:					
Land improvements	$467,099				$467,099
Less accumulated depreciation	(467,099)				(467,099)
Total land improvements	NONE	NONE	NONE	NONE	NONE
Buildings	112,360,544		$771,253		113,131,797
Less accumulated depreciation	(55,559,302)	($2,271,933)			(57,831,235)
Total buildings	56,801,242	(2,271,933)	771,253	NONE	55,300,562
Equipment	11,710,141	437,896		($355,517)	11,792,520
Less accumulated depreciation	(8,823,897)	(669,452)		343,716	(9,149,633)
Total equipment	2,886,244	(231,556)	NONE	(11,801)	2,642,887
Library books	13,764,035	315,809		(128,133)	13,951,711
Less accumulated depreciation	(13,104,234)	(257,312)		128,133	(13,233,413)
Total library books	659,801	58,497	NONE	NONE	718,298
Total other capital assets	$60,347,287	($2,444,992)	$771,253	($11,801)	$58,661,747
Capital Asset Summary:					
Capital assets not being depreciated	$3,141,507	$10,325,310	($771,253)	($14,201)	$12,681,363
Other capital assets, at cost	138,301,819	753,705	771,253	(483,650)	139,343,127
Total cost of capital assets	141,443,326	11,079,015	NONE	(497,851)	152,024,490
Less accumulated depreciation	(77,954,532)	(3,198,697)	NONE	471,849	(80,681,380)
Capital assets, net	$63,488,794	$7,880,318	NONE	($26,002)	$71,343,110

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 Teachers' Retirement System of Louisiana (TRSL), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSL is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer plan because the material portion of its activity is with one employer--the State of Louisiana. TRSL 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 TRSL after five years of service and with LASERS after 10 years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123 or by calling (225) 925-6446 and/or the Louisiana State Employees Retirement

System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213 or by calling (225) 922-0600.

Funding Policy. The contribution requirements of plan members and the university are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRSL) and 7.5% (LASERS) of covered salaries. The state is required to contribute 15.5% of covered salaries to TRSL and 17.8% of covered salaries to LASERS for fiscal year 2005. The State of Louisiana, through the annual appropriation to the university, funds the university's employer contribution. The university's employer contributions to TRSL for the years ended June 30, 2005, 2004, and 2003 were $2,358,513; $2,100,095; and $1,970,591, respectively, and to LASERS for years ended June 30, 2005, 2004, and 2003 were $1,267,523; $1,125,766; and $999,184, 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 TRSL for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

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

Total contributions by the university are 15.5% of covered payroll for fiscal year 2005. 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 TRSL 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 TRSL 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 TRSL. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled $1,107,620 and $571,674, respectively, for the year ended June 30, 2005.

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 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 $1,533,354 for the year. The total number of retirees at June 30, 2005, is 284.

10. PAYABLES

The following is a summary of payables and accrued expenses on Statement A:

Account Name	
Vendor payables	$1,725,728
Accrued salaries and payroll deductions	1,924,659
Other	10,226
Total payables	$3,660,613

11. DEFERRED REVENUES

The following is a summary of deferred revenues on Statement A:

Account Name	
Prepaid tuition and fees	$597,544
Prepaid athletic ticket sales	73,967
Grants and contracts	458,927
Total deferred revenues	$1,130,438

12. COMPENSATED ABSENCES

At June 30, 2005, employees of the university have accumulated and vested annual leave, sick leave, and compensatory leave of $1,969,014; $471,045; and $810,368, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

13. LEASE OBLIGATIONS

Operating Leases

The university's total rental expense for operating leases is $331,074 for the year ended June 30, 2005. The university's lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the legislature does not make for its continuation during any future fiscal period. The university's lease agreements have no future minimum annual rental payments at June 30, 2005.

Capital Leases

The university records an item under capital lease as an asset and obligation in the accompanying financial statements. The university's capital lease at June 30, 2005, consists of an equipment lease. The following is a schedule of future minimum lease payments under this capital lease, together with the present value of minimum lease payments:

Fiscal Year Ending June 30:	
2006	$5,637
2007	2,675
Total minimum lease payments	8,312
Less - amount representing executory costs	NONE
Net minimum lease payments	8,312
Less - amount representing interest	(1,193)
Present value of net minimum lease payments	$7,119

14. LONG-TERM LIABILITIES

The following is a summary of bond and other long-term debt transactions of the university for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds and notes payable:					
Revenue bonds payable	$861,000		$285,000	$576,000	$290,000
Notes payable	3,343,831		265,094	3,078,737	275,030
Capital lease obligations		$8,960	1,841	7,119	4,592
Total bonds and notes payable	4,204,831	8,960	551,935	3,661,856	569,622
Other liabilities - accrued compensated absences payable	2,446,134	804,293	NONE	3,250,427	263,914
Total long-term liabilities	$6,650,965	$813,253	$551,935	$6,912,283	$833,536

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

15. REVENUE BONDS AND NOTES PAYABLE

Revenue bonds and notes payable consisted of the following:

	Date of Issue	Original Issue	Principal Outstanding June 30, 2004	Redeemed	Principal Outstanding June 30, 2005	Maturities	Interest Rates	Interest Outstanding June 30, 2005
Revenue Bonds								
Student Housing System:								
1965 Series B	October 1, 1965	$4,000,000	$345,000	$170,000	$175,000	2005	3.0%	$2,625
1968 Series B	October 1, 1986	3,000,000	516,000	115,000	401,000	2008	3.0%	20,505
Total Bonds Payable		7,000,000	861,000	285,000	576,000			23,130
Notes Payable								
U.S. Department of Education	May 1, 1993	3,500,000	2,609,836	100,205	2,509,631	2023	3.0%	778,817
Ford Motor Credit Company								
for telephone equipment	August 30, 2001	1,165,931	733,995	164,889	569,106	2008	4.1%	38,810
Total Notes Payable		4,665,931	3,343,831	265,094	3,078,737			817,627
Total bonds and notes payable		$11,665,931	$4,204,831	$550,094	$3,654,737			$840,757

All auxiliary enterprise revenues are available as security for the outstanding revenue bonds at June 30, 2005.

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

	Bonds Payable		Notes Payable		
Fiscal Year	Principal	Interest	Principal	Interest	Total
2006	$290,000	$12,930	$275,029	$94,699	$672,658
2007	125,000	6,705	285,345	84,383	501,433
2008	125,000	2,955	296,055	73,671	497,681
2009	36,000	540	144,712	65,037	246,289
2010			116,292	61,462	177,754
2011-2015			636,357	252,413	888,770
2016-2020			738,518	150,252	888,770
2021-2025			586,429	35,711	622,140
Total	$576,000	$23,130	$3,078,737	$817,628	$4,495,495

The following is a summary of the debt service reserve requirements of the various bond and note issues outstanding at June 30, 2005:

	Reserves Available	Reserve Requirement	Excess
Student Housing System Repair and Replacement Reserve Account	$1,121,717	$600,000	$521,717
Student Housing System Revenue Bonds	511,700	511,700	
U.S. Department of Education note	423,000	423,000	
Total	$2,056,417	$1,534,700	$521,717

The university is required by the U.S. Department of Education (DOE) 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.

16. DUE TO STATE TREASURY

The $3,324 due to the state treasury at June 30, 2005, is for unclaimed property, which is to be remitted when the appropriate reports are filed.

17. RESTRICTED NET ASSETS

The university has the following restricted expendable net assets at June 30, 2005:

	Amount
Grants and contracts	$4,469,542
Endowment earnings	289,981
Student loans	72,427
University plant projects	1,634,412
Debt service requirements	2,056,417
Total	$8,522,779

The university's restricted nonexpendable net assets of $2,251,245 as of June 30, 2005, are comprised entirely of endowment funds.

18. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are considered state liabilities and paid upon appropriation by the legislature and not the university. In fiscal year 2004, the university notified the DOE of its intent to close out the Perkins Loan Program. As of June 30, 2005, the university assigned the balance of all outstanding loans to DOE, except for 64 loans totaling $70,647 which the university was required to purchase. The university is in the final stages of program close-out and management believes it will have no further exposure to loss. The university is involved in two lawsuits at June 30, 2005, that are handled by contract attorneys. The attorneys have estimated a possible liability of $13,000 relating to one of the lawsuits. This amount has not been accrued in the accompanying financial statements. This does not include any lawsuits filed with the university system or the Office of Risk Management, the agency responsible for the state's risk management program.

19. FOUNDATIONS

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

Grambling University National Alumni Association
Grambling University Athletic Foundation
Grambling Black and Gold Foundation

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

20. 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 university's accompanying financial statements for fiscal year ended June 30, 2005, is $23,680.

21. DEFERRED COMPENSATION PLAN

Certain employees of the university participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

22. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board of Regents to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. At June 30, 2005, net appreciation of $120,205 is available to be spent and is restricted to specific purposes.

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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

STEVE J. THERIOT, CPA
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March 13, 2006

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

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

We have audited the basic financial statements of 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 year ended June 30, 2005, and have issued our report thereon dated March 13, 2006. 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.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Athletic Revenue Control Weaknesses

Grambling State University has not implemented adequate internal controls over its athletic revenues. Good internal control and sound business practices require (1) the assignment of incompatible duties to separate individuals and, where this is not possible, upper management should review the work performed; (2) the terms of financial arrangements be specified in writing and signed to establish responsibility for all parties and to identify penalties and remedies for nonperformance of any provision of a contract; and (3) adequate procedures be in place to ensure the proper accounting for all athletic tickets printed and sold. A review of the internal controls in the university's Athletic Department disclosed the following weaknesses:

- The athletic business manager collects cash, prepares deposits, controls ticket stock and prints tickets for sale, prepares the reconciliation of tickets sold to cash collected, establishes accounts receivables, and prepares journal vouchers without review by a member of upper management.

- The university has not obtained signed contracts for all sporting events. A test of 15 game contracts from football, baseball, and tennis events indicated five (33%) missing or unsigned contracts. This weakness was also reported as a finding in our 2002 audit.

- The university has not reconciled athletic ticket sales timely. A test of ticket sales for 11 football games revealed incomplete reconciliations for all games because of unresolved shortages and overages resulting in a net overage for all games of $1,677.

University management has not placed sufficient emphasis on maintaining adequate segregation of duties within the Athletic Department, obtaining signed athletic game contracts, reconciling ticket sales timely, and developing adequate policies and procedures to address these issues. These weaknesses increase the risk that errors or fraud could occur and not be detected timely. In addition, the provisions of an unsigned contract would be unenforceable in the event of a violation, cancellation, or breach.

University management should implement internal controls within the university's Athletic Department to ensure that adequate segregation of duties is established and maintained. Management should also require that a formal written contract be properly prepared and signed before any sporting event occurs. In addition, management should establish the policies and procedures necessary to reconcile ticket sales for sporting events timely. Management did not concur with the finding and recommendation because, in its opinion, it has adequate compensating controls with the Ticket Master System and its internal audit department. Furthermore, management feels that formal contracts for conference play are not needed; however, signed contracts are obtained for all non-conference games. In regard to reconciling athletic ticket sales, management feels that "reconciliations do not change this risk, but merely reveal differences" (see Appendix A, pages 1-2).

Additional Comments: Management states that it believes it has compensating controls using the Ticket Master System and its internal audit department to review reconciliations and supporting documentation. We believe that these controls do not adequately mitigate the risk of error or fraud resulting from the incompatible functions performed by the athletic business manager particularly in light of the significant amount of cash, checks, and credit card transactions that are processed through the Athletic Ticket Office. However, the incompatible functions could be segregated by assigning some of these duties to the athletic director.

We further believe that the university should execute formal contracts for all sporting events whether conference or non-conference. In addition, the university failed to obtain a contract for at least one non-conference football game during fiscal year 2005.

We also disagree with the statement that "reconciliations do not change this risk, but merely reveal differences." Timely reconciliations are a key element of any well developed internal control system. Reconciliations are vital in identifying differences that should be investigated in a timely manner to detect error or fraud.

Unlocated Movable Property

Grambling State University identified unlocated movable property items totaling $906,570 as a result of its annual property inventory certification procedures. Of that amount, items totaling $44,849 were removed from the property records because these items had not been located for three consecutive years. Of the unlocated property reported on the university's property inventory certification, the amount of unlocated computers and computer-related equipment totaled $457,450; audio visual equipment totaled $130,339; office equipment totaled $117,852; educational equipment totaled $89,717; and shop equipment totaled $70,773. In addition, our tests of movable property revealed two of 23 (9%) items could not be located; four of 28 (14%) items were not in the correct location; and two of 23 (9%) items did not indicate the correct cost.

Louisiana Revised Statute 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated items to Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted. The university's certification of annual property inventory, submitted to LPAA on October 4, 2004, disclosed $22,033,144 in total movable property.

University management has not enforced and consistently applied its existing policies and procedures for tracking the movement of property across campus and conducting the annual inventory. According to the property control officer, a major problem occurs when the personnel responsible for safeguarding property items fail to report items received, missing, or moved to other locations in a timely manner. Furthermore, once the annual inventory is taken and items are identified as unlocated, the property control officer either does not perform an extensive search or does not always receive timely assistance from university personnel to locate the items.

Failure to enforce existing policies and procedures and put forth additional effort to locate unlocated items subjects the university's movable property to increased risk of loss and/or unauthorized use and subjects the university to noncompliance with movable property laws and regulations. Furthermore, because of the nature of the services provided by the university, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

University management should enforce and consistently apply its existing policies and procedures for reporting movable property acquisitions timely, tracking the movement of property items and conducting the annual property inventory. In addition, management should strengthen its procedures to require more extensive searches for unlocated items and require university personnel to immediately respond to the property control officer's requests concerning unlocated property. Finally, management needs to devote additional efforts to locating movable property reported as unlocated in previous years and comply with all applicable requirements of LPAA. Management partially concurred with the finding and recommendation stating that the total property unlocated is comprised of items purchased between 1969 and 2003 and LPAA approved the Certification of Annual Physical Inventory for the years in question (see Appendix A, pages 3-4).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the matter of noncompliance with movable property regulations caused by the inadequate controls, as mentioned in the internal control section of this report, that is required to be reported under *Government Auditing Standards*.

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

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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

Grambling State University
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Grambling, Louisiana 71245

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October 26, 2005

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

Dear Mr. Theriot:

Management acknowledges the finding on Athletic Revenue Control Weaknesses with regards to (1) inadequate segregation of duties in the ticket office; (2) not all games contracts were signed; and (3) incomplete reconciliations; however, we do not concur. We offer the following comments:

1. The athletic ticket office has two full-time employees, which makes it virtually impossible to have adequate segregation of duties. As compensating controls, the University uses the Ticket Master System (TMS) to print and account for tickets printed and the revenues collected. Blank ticket stock is pre-numbered and the TMS prints ticket numbers on each ticket for accounting purposes. The TMS has an excellent audit trail for every transaction. Additionally, the Internal Auditor reviews the reconciliations and verifies the supporting documentation. Since implementing these controls in calendar year 2002, neither the internal auditor nor the external auditors have uncovered large differences. When the new Senior Women's Administrator reports to work, she will be required to maintain a logbook of blank ticket stock. The Athletic Department cannot afford to hire additional staff. Additionally, risk of loss of athletic ticket revenue is not cost justified to hire additional staff to further segregate duties.

2. GSU's Athletic Department signs all game contracts, but is unable to get all of its Southwestern Athletic Conference (SWAC) opponents to sign. Pleas have been made to the presidents and athletic directors to sign the game contracts to no avail. The SWAC membership agreement requires each member school to play conference games designated by its Board (school presidents). The agreement allows all home teams to collect and retain all revenues. If a team refuses to play, they are subject to a $30,000 fine by the SWAC Office. If the visiting team refuses to play, the home team can bring suit for loss of revenue. The above remedy and procedures are followed in the absence of a game contract. There is virtually no risk of loss if a contract is not signed for SWAC games. The University does obtain signed contracts for non-conference and classic (promotional) games.

3. Overages and shortages are inherent risks of sales transactions. It is important that these differences be kept to a minimum. Reconciliations do not change this risk, but merely reveal differences. Since 2002, neither the internal auditor nor the external auditors have uncovered malfeasance.

Management is committed to having a strong system of internal controls to reduce the risk of loss in the University's assets.

Sincerely,

Horace A. Judson

Horace A. Judson
President

HAJ:jj

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October 26, 2005

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

Dear Mr. Theriot:

We concur in part with the comment that Grambling State University has not enforced and consistently applied its existing policies and procedures for tracking the movement of property across campus and conducting the annual inventory.

The amount reported in this finding represents cumulative movable equipment totaling $861,721 including $307,708, $342,579 and $211,434 for fiscal years 2002, 2003 and 2004, respectively. The total property is comprised of items purchased between 1969 through 2003 and represents 1.34%, 1.55%, and .99% of the total movable property for fiscal years 2002, 2003 and 2004, respectively. Louisiana Property Assistance Agency (LPAA) approved the Certification of Annual Property Inventory for fiscal years 2003 and 2004. Beginning with FY 2002, a full campus-wide inventory was conducted by the Finance staff. Consequently, the number of unlocated items increased and the certification was not approved. Shrinkage for all three years was below the four percent (4%) threshold of acceptance by LPAA.

Under the directions of the Vice President for Finance and the Associate Vice President for Finance & Controller, the following steps were implemented in an effort to ensure compliance with state movable property laws:

1. The state's Property Assistance Manager conducted a workshop with faculty and staff members on state laws and regulations governing movable property. Management constantly reinforces the importance of adhering to the movable property policy.

2. The Property Oficer, other finance staff members and other departments have assisted with additional searches for unlocated movable property in an effort to reduce the number of unlocated items.

3. The University purchased Protégé inventory scanners which are used to help input changes in location of property.

Our efforts have reduced, but have not been successful in eliminating, unlocated items. The remedy of personal liability, deemed to have the greatest impact, has not been viewed favorably. Consequently, we continue to seek additional solutions to address this challenge while reiterating our current policies and procedures.

Sincerely,

HaJudson

Horace A. Judson
President

HAJ:jj