PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
A COMPONENT UNIT OF THE
STATE OF LOUISIANA

INDEPENDENT ACCOUNTANT'S REVIEW REPORT
FOR THE YEAR ENDED JUNE 30, 2013
ISSUED FEBRUARY 26, 2014

LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
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LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

February 12, 2014

<u>Independent Accountant's Review Report</u>

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERISTY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have reviewed the accompanying basic financial statements of the business-type activities of the Paul M. Hebert Law Center (Law Center), a campus within the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2013. We did not review the financial statements of the LSU Foundation, which is a discretely presented component unit presented in the basic financial statements of the Law Center. The financial statements of the discretely presented component unit were audited by another auditor, whose report thereon has been furnished to us, and the results of our review expressed herein, insofar as it relates to the amounts included for this component unit, are based solely upon the report of the other auditor. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Law Center management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Law Center management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review and the report of the other auditor discussed previously, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress for the Other Postemployment Benefits Plans on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or provide any assurance on it.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by this missing information.

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Net Position
June 30, 2013

ASSETS	
Current Assets:	
Cash and cash equivalents (note 2)	$3,192,530
Investments (note 3)	451,425
Receivables (note 4)	103,779
Due from state treasury (note 13)	16,446
Deferred charges and prepaid expenses	4,026
Total current assets	3,768,206
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents (note 2)	1,141,808
Investments (note 3)	4,845,882
Capital assets, net (note 5)	13,144,561
Total noncurrent assets	19,132,251
Total assets	22,900,457
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities (note 6)	396,896
Deferred revenues	280,778
Amounts held in custody for others	103,131
Compensated absences (notes 10 and 12)	91,525
Total current liabilities	872,330
Noncurrent Liabilities:	
Compensated absences (notes 10 and 12)	932,375
Other postemployment benefits payable (notes 8 and 12)	5,348,297
Total noncurrent liabilities	6,280,672
Total liabilities	7,153,002
NET POSITION	
Net investment in capital assets	13,144,561
Restricted for:	
Nonexpendable (note 14)	5,157,764
Expendable (note 14)	994,491
Unrestricted	(3,549,361)
Total net position	$15,747,455

See accompanying notes and independent accountant's review report.

Statement B

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

COMPONENT UNITS
Statement of Financial Position
June 30, 2013

	LSU Foundation
ASSETS	
Current Assets:	
Cash and cash equivalents (note 2)	$15,720,644
Investments (note 3)	6,378,830
Accrued interest receivable	569,369
Accounts receivable, net	747,093
Unconditional promises to give (note 21)	6,796,551
Other current assets	149,157
Total current assets	30,361,644
Noncurrent Assets:	
Restricted assets:	
Investments (note 3)	501,977,134
Other	2,451,173
Investments (note 3)	17,189,146
Unconditional promises to give (note 21)	6,958,089
Property and equipment, net (note 5)	8,044,967
Other noncurrent assets	799,231
Total noncurrent assets	537,419,740
Total assets	$567,781,384
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	$3,449,702
Amounts held in custody for others (note 19)	17,915,739
Compensated absences payable (note 12)	280,782
Current portion of notes payable (note 12)	539,483
Current portion of bonds payable (note 12)	628,395
Other current liabilities	18,538
Total current liabilities	22,832,639
Noncurrent Liabilities:	
Amounts held in custody for others (note 19)	100,300,853
Notes payable (note 12)	2,189,284
Bonds payable (note 12)	4,966,605
Other noncurrent liabilities	63,300
Total noncurrent liabilities	107,520,042
Total liabilities	130,352,681
NET ASSETS	
Unrestricted	37,001,311
Temporarily restricted (note 14)	186,302,576
Permanently restricted (note 14)	214,124,816
Total net assets	437,428,703
Total liabilities and net assets	$567,781,384

See accompanying notes and independent accountant's review report.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

OPERATING REVENUES	
Student tuition and fees	$16,069,166
Less scholarship allowances	(2,965,286)
Net student tuition and fees	13,103,880
Nongovernmental grants and contracts	16,298
Sales and services of educational departments	135,527
Other operating revenues	25,632
Total operating revenues	13,281,337
OPERATING EXPENSES	
Educational and general:	
Instruction	10,004,825
Research	775,213
Public service	91,559
Academic support	2,749,370
Student services	1,424,458
Institutional support	3,025,136
Operation and maintenance of plant	1,707,468
Scholarships and fellowships	1,266,395
Total operating expenses	21,044,424
Operating Loss	(7,763,087)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	5,795,929
Gifts	569,971
Net investment income	513,161
Net nonoperating revenues	6,879,061
Loss Before Other Revenues, Expenses, Gains, and Losses	(884,026)
Capital gifts and grants	4,151
Additions to permanent endowments	1,280,000
Other deductions, net	(76,206)
Change in Net Position	323,919
Net Position at Beginning of Year, Restated (note 15)	15,423,536
Net Position at End of Year	$15,747,455

See accompanying notes and independent accountant's review report.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

COMPONENT UNIT
Statement of Activities
For the Year Ended June 30, 2013

	LSU Foundation
Changes in unrestricted net assets:	
Contributions	$1,762,121
Investment earnings (loss), net	5,218,343
Service fees	1,068,607
Other revenues	200
Total unrestricted revenues	8,049,271
Net assets released from restrictions:	
Satisfaction of program expenses	28,516,032
Total unrestricted revenues and other support	36,565,303
Expenses:	
Amounts paid to benefit universities for:	
Projects specified by donors	25,267,669
Projects specified by the Board of Directors	1,919,526
Total program expenses	27,187,195
Supporting services:	
Salaries and benefits	2,565,428
Occupancy	153,034
Office operations	482,653
Travel	58,339
Professional services	666,226
Dues and subscriptions	62,594
Meetings and development	18,329
Depreciation	27,954
Total supporting services	4,034,557
Fund-raising expenses	3,776,120
Total expenses	34,997,872
Increase in unrestricted net assets	1,567,431

(Continued)

See accompanying notes and independent accountant's review report.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

COMPONENT UNIT
Statement of Activities
For the Year Ended June 30, 2013

	LSU Foundation
Changes in temporarily restricted net assets:	
Contributions	$23,907,508
Investment earnings	25,665,151
Changes in value of split interest agreements	39,660
Other	70,534
Total temporarily restricted revenues	49,682,853
Net assets released from restrictions:	
Satisfaction of program expenses	(28,505,423)
Increase in temporarily restricted net assets	21,177,430
Changes in permanently restricted net assets:	
Contributions	6,495,268
Investment earnings	64
Other	57,541
Net assets released from restrictions:	
Released from donor restrictions	(10,609)
Increase in permanently restricted net assets	6,542,264
Increase in net assets	29,287,125
Net assets at beginning of year	408,141,578
Net assets at end of year	$437,428,703

(Concluded)

See accompanying notes and independent accountant's review report.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2013

Cash flows from operating activities:	
Student tuition and fees	$13,157,854
Grants and contracts	24,500
Sales and services of educational departments	135,240
Payments for employee compensation	(10,255,653)
Payments for benefits	(3,407,804)
Payments for utilities	(455,205)
Payments for supplies and services	(3,910,563)
Payments for scholarships and fellowships	(1,237,563)
Other receipts	6,482
Net cash used by operating activities	(5,942,712)
Cash flows from noncapital financing activities:	
State appropriations	5,799,982
Gifts and grants for other than capital purposes	571,539
Private gifts for endowment purposes	76,205
Net cash provided by noncapital financing activities	6,447,726
Cash flows from capital financing activities:	
Capital gifts and grants received	4,151
Purchase of capital assets	(482,052)
Other uses	(76,206)
Net cash used by capital financing activities	(554,107)
Cash flows from investing activities:	
Interest received on investments	229,370
Net cash provided by investing activities	229,370
Net increase in cash and cash equivalents	180,277
Cash and cash equivalents at beginning of the year	4,154,061
Cash and cash equivalents at the end of the year	$4,334,338

(Continued)

See accompanying notes and independent accountant's review report.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows
For the Year Ended June 30, 2013

Reconciliation of Operating Loss to Net Cash	
Used by Operating Activities:	
Operating loss	($7,763,087)
Adjustments to reconcile operating loss to net cash	
used by operating activities:	
Depreciation expense	813,307
Changes in assets and liabilities:	
(Increase) in accounts receivable	(20,225)
Decrease in deferred charges and prepaid expenses	3,901
Increase in accounts payable and accrued liabilities	104,068
Increase in deferred revenue	70,852
(Decrease) in amounts held in custody for others	(7,563)
Increase in compensated absences	123,828
Increase in other postemployment benefits payable	751,114
(Decrease) in other liabilities	(18,907)
Net cash used by operating activities	($5,942,712)
Reconciliation of Cash and Cash Equivalents	
to the Statement of Net Position:	
Cash and cash equivalents classified as current assets	$3,192,530
Cash and cash equivalents classified as noncurrent assets	1,141,808
Cash and cash equivalents at the end of the year	$4,334,338

(Concluded)

See accompanying notes and independent accountant's review report.

INTRODUCTION

The Paul M. Hebert Law Center (Law Center), a campus within the Louisiana State University System, which is a component unit of the State of Louisiana, is a publicly supported institution of higher education under the management and supervision of the LSU Board of Supervisors; however, certain items such as the annual budgets of the universities and changes to the degree programs and departments of instruction require the approval of the Board of Regents for Higher Education. The Board of Supervisors is comprised of 15 members appointed for a six-year term by the governor, with the consent of the Senate, and one student member appointed for a one-year term by a council composed of the student body presidents of the universities. Operations of the Law Center's instructional programs are primarily funded through annual lapsing appropriations made by the Louisiana Legislature. The chief executive officer of the Law Center is the Chancellor.

Student enrollment for the Law Center for the 2012 fall semester totaled 651. During fiscal year 2013, the Law Center had approximately 46 full-time and 51 part-time faculty members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

The discrete component unit foundation, the LSU Foundation, follows the provisions of the Financial Accounting Standards Board for not-for-profit organizations.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The university system is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) the state issues bonds to finance certain construction; and (4) the university system primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of the Law Center.

Discretely Presented Component Unit

The LSU Foundation is included as a discretely presented component unit in the Law Center's basic financial statements, in accordance with the criteria outlined in GASB Statement 14, as amended by GASB Statement 39. The foundation is a legally separate, tax-exempt organization supporting multiple campuses, including the Law Center. The foundation has been organized to solicit, receive, hold, invest, and transfer funds for the benefit of the Law Center. In addition, the foundation assists the Law Center in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. The Law Center and the LSU Foundation are also in management agreements related to endowed chairs and professorships. These agreements are in compliance with Board of Regents policy and allow the foundation to manage funds on behalf of the Law Center.

The LSU Foundation is a nonprofit organization that reports under the Financial Accounting Standards Board (FASB) standards as set forth in its codification (ASC), including FASB ASC Topic 958. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the Law Center's financial report for these differences.

Furthermore, the foundation is a legally separate, tax-exempt organization supporting the Law Center. It is included in the Law Center's financial statements because its assets, individually, equaled 3% or more of the assets of the university system or the assets had equaled 3% or more of the assets of the university system in the past three years.

The discretely presented component unit is described as follows:

> The LSU Foundation supports the Law Center. During the year ended June 30, 2013, the foundation made distributions to or on behalf of the university system for both restricted and unrestricted purposes of $27,187,195. Complete financial statements for the foundation can be obtained at 3838 West Lakeshore Drive, Baton Rouge, Louisiana 70808 or from the foundation's website at www.lsufoundation.org.

The LSU System, of which the Law Center is a campus, is a component unit of the State of Louisiana. Annually, the State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying financial statements. These financial statements are audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the Law Center is considered a special-purpose government engaged only in business-type activities (enterprise fund). Accordingly, the Law Center'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-campus transactions have been eliminated.

Application of the accrual basis of accounting may, at times, require use of certain private sector standards issued by FASB prior to November 30, 1989. In determining which of those standards to apply, the University System follows the guidance included in GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA.*

Discrete Component Unit

The foundation follows the provisions of FASB ASC Topic 958, which establishes external financial reporting for not-for-profit organizations. This standard requires classifications of resources into three separate classes of net assets as follows:

- Unrestricted - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- Temporarily Restricted - Net assets whose use by the foundation is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the foundation pursuant to those stipulations.
- Permanently Restricted - Net assets whose use by the foundation is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the foundation.

D. BUDGET PRACTICES

The appropriations made for the General Fund of the Law Center are annual lapsing appropriations established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. The Joint Legislative Committee on the Budget grants budget revisions. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs and other postemployment benefits are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated, but are recognized in the succeeding year; and (4) inventories in the General Fund are recorded as expenditures at the time of purchase.

The original approved budget and subsequent amendments approved are as follows:

Original approved budget	$23,708,571
Decreases:	
State General Fund	(143,063)
Final budget	$23,565,508

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

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in time deposits and money market funds. All highly liquid investments with an original maturity of three months or less are considered cash equivalents. Under state law, the Law Center 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.

The Law Center uses an accounting system shared by seven LSU System campuses. Cash for the seven campuses is pooled. The Law Center's cash is allocated among the categories of deposits, credit risk, and collected bank balances proportionally based on its cash balance compared to the total cash for the seven campuses.

The Law Center may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. In accordance with R.S. 49:327, the Law Center is authorized to invest funds in direct U.S. government obligations, U.S. government agency obligations, mutual funds, direct security repurchase agreements, and time certificates of deposit. 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. Treasury securities, mutual funds, and investments held by private foundations and are reported at fair value on the balance sheet. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position.

In accordance with provisions of Article VII, Section 14 of the Louisiana Constitution and R.S. 49:327(C)(3)(b), the Law Center may invest publicly funded permanently endowed funds in the stock of any corporation listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations display on the National

Association of Securities Dealers Automated Quotations System, provided that the total investment in such stocks at any one time shall not exceed 35% of the market value of all publicly endowed funds of the Law Center. The Law Center's investment of endowed chairs and professorships funded by the Board of Regents and maintained by the foundation are authorized by policies and procedures established by the Board of Regents.

F. INVENTORIES

Inventories are valued at cost or replacement cost. The Law Center uses periodic and perpetual inventory systems and values its various other inventories using the first-in, first-out and weighted-average valuation methods. The Law Center accounts for its inventories using the consumption method.

G. NONCURRENT RESTRICTED ASSETS

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

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the university system'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 total $100,000 or more and significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property. Depreciation expense is charged directly to the various functional categories of operating expenses on the Statement of Revenues, Expenses, and Changes in Net Position. The Law Center uses the group or composite method for library book depreciation if the books are considered to have a useful life of greater than one year.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees before the end of the fiscal year that 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. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and notes payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other postemployment benefit liabilities that will not be paid within the next fiscal year; and (3) other liabilities that will not be paid within the next fiscal year.

K. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. Faculty with 12-month appointments who have over 10 years of state service, nonclassified employees with over 10 years of state service, and classified employees regardless of years of state service accumulate leave without limitation. According to the Law Center leave schedule, faculty with 12-month appointments who have less than 10 years of state service and nonclassified employees with less than 10 years of state service can only accumulate 176 hours of annual leave; sick leave is accumulated without limitation. Effective January 1, 1994, academic and unclassified employees were given the opportunity to elect to remain under the Law Center leave schedule or change to the Louisiana State Civil Service annual leave accrual schedule under which there is no limit on the accumulation of annual leave. Nine-month faculty members accrue sick leave but do not accrue annual leave; however, they are granted faculty leave during holiday periods when students are not in classes. 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 unclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

L. NET POSITION

The Law Center's net position is classified as follows:

(1) Net Investment in Capital Assets

This represents the Law Center's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations related to acquisition, construction, or improvement of those capital assets.

(2) Restricted Net Position - Expendable

Restricted expendable net position includes resources that the Law Center is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

(3) Restricted Net Position - Nonexpendable

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

(4) Unrestricted Net Position

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

M. CLASSIFICATION OF REVENUES

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

(a) Operating Revenue - Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances and (2) most federal, state, and local grants and contracts and federal appropriations.

(b) Nonoperating Revenue - Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, investment income, and grants that do not have the characteristics of exchange transactions.

N. 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 Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Law Center and the amount that is paid by students and/or third parties making payments on the student's behalf.

O. ELIMINATING INTERFUND ACTIVITY

All activities among departments, campuses, and auxiliary units of the Law Center are eliminated for purposes of preparing the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

P. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Q. DEFERRED OUTFLOWS AND DEFERRED INFLOWS

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time. The Law Center had no deferred outflows or deferred inflows at June 30, 2013.

R. ACCOUNTING CHANGES

Accounting Standards

Four new GASB standards were implemented this year.

GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*, addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement had no effect on the financial statements of the Law Center.

GASB Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements 14 and 34*, modifies certain requirements for inclusion of component units in a government's financial statements. In addition, GASB Statement 61 amends the requirement in GASB Statement 14 for determining and reporting major component units; clarifies the reporting of equity interests in legally separate organizations; expands note disclosures explaining the rationale for the classification of each component unit; and requires disclosure of blended component units for governments using single column enterprise fund presentation.

GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, codifies certain accounting and financial reporting guidance included in the FASB Statements and

Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures that were issued on or before November 30, 1989, and do not conflict with current GASB pronouncements. This Statement brings into GASB's authoritative literature applicable accounting and financial reporting guidance previously residing only in the FASB and AICPA pronouncements. It eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments.

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. This Statement changes the name and presentation of the statement of net assets to statement of net position.

2. CASH AND CASH EQUIVALENTS

At June 30, 2013, the Law Center has cash and cash equivalents (allocated book balances) of $4,334,338 as follows:

Petty cash	$150
Demand deposits	3,126,376
Certificates of deposit	1,198,585
Open-end mutual fund	9,227
Total	$4,334,338

Custodial credit risk is the risk that, in the event of a bank failure, the Law Center's deposits may not be recovered. Under state law, the Law Center's deposits 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 System or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

As of June 30, 2013, the Law Center's allocated share of collected bank balances is $5,304,337. These deposits are fully secured from risk by federal deposit insurance and pledged securities.

Disclosures required for the open-end mutual fund reported above as cash equivalents are included in note 3.

CASH AND CASH EQUIVALENTS - COMPONENT UNIT

Cash and cash equivalents of the component unit totaling $15,720,644, as shown on the Statement of Financial Position, are reported under FASB ASC Topic 958, *Financial Reporting for Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement 40, *Deposit and Investment Risk Disclosures*.

The LSU Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Occasionally, the LSU Foundation has deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. The Foundation's management believes the credit risk associated with these deposits is minimal.

3. INVESTMENTS

At June 30, 2013, the Law Center has investments totaling $5,297,307.

The Law Center's established investment policy follows state law (R.S. 49:327), which authorizes the Law Center 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. In addition, 35% of the Law Center's publicly funded permanent endowment funds may be invested in common stocks listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations on the National Association of Securities Dealers Automated Quotations System.

A summary of the Law Center's investments follows:

	Investments	Carrying Value
Type of Investment:		
Investments held through foundation (total balance)	100%	$5,297,307
Total investments		$5,297,307

Interest rate risk is the risk applicable to debt instruments with fair values that are sensitive to changes in interest rate. One indicator of the measure of interest rate risk is the dispersion of maturity dates of debt instruments. The Law Center does not have any interest rate risk at June 30, 2013.

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

Ratings issued by the major rating agencies which indicate the level of credit risk for holdings of the Law Center are as follows:

Rating Agency Used	Rating	Fair Value
	Unrated	$5,297,307
Total		$5,297,307

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Law Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the Law Center's investments are exposed to custodial credit risk. For U.S. Treasury obligations and U.S. government agency obligations, the Law Center's investment policies generally require that issuers must provide the universities 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 Law Center has a policy to limit concentration of credit risk with regard to the investment of equities. However, it does not have a policy to limit interest rate risk or the concentration of debt securities with any one issuer.

The open-end mutual fund amount of $9,227 included in cash and cash equivalents consists of $7,238 invested in JPMorgan U.S. Government Plus Money Market Fund and $1,989 invested in JPMorgan U.S. Treasury Plus Money Market Fund. The holdings for the JP Morgan Treasury Money Market Fund and the JPMorgan U.S. Government Money Market Fund consist primarily of short-term U.S. Treasury and U.S. government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. These funds all minimize interest rate risk with the purchase of short-term securities.

Investments held by private foundation in external investment pools are managed in accordance with the terms outlined in management agreements executed between the Law Center and the foundation. Each campus is a voluntary participant. The foundation holds and manages funds received by the Law Center as state matching funds for the Eminent Scholars Endowed Chairs and Endowed Professorship Programs. All of these investments are held by the universities' discretely presented component unit.

INVESTMENTS - COMPONENT UNIT

The carrying amount, which is equal or approximately equal to the fair value of investments held by the component unit foundation at June 30, 2013, follows:

Type of Investment	LSU Foundation
Debt obligations	$92,135,274
Corporate stocks, common stocks, and indexed mutual funds	81,171,765
Shaw Center for the Arts, LLC	17,189,146
Royalty interest	154,084
Mutual funds	225,392,892
Private equity	27,371,857
Hedged funds	77,714,936
Venture capital	48,058
Municipal bonds	4,367,098
Total investments	$525,545,110

The LSU Foundation is a 50% investor in the Shaw Center for the Arts, LLC. The investment recorded on the Statement of Financial Position for $17,189,146 at June 30, 2013, is accounted for by the equity method. The summarized unaudited financial information of the Shaw Center for the Arts, LLC, is as follows:

Total assets	$34,505,936
Total liabilities	$127,644
Net income (loss)	($840,307)

The LSU Foundation serves as trustee for various charitable remainder trusts for which the Foundation is not the irrevocable beneficiary. The funds are held and administered by a third-party financial institution as an agent of the Foundation. The fair market value of the funds held is reported as an asset and corresponding liability in the statements of financial position. As of June 30, 2013, the fair market value of these charitable remainder trusts totaled $461,037.

The LSU Foundation is the irrevocable beneficiary of two split-interest agreements for which the funds are held and administered by third parties. The Foundation's interest in the funds held by the third parties is measured at its present value and reported as an asset in the statements of financial position as other restricted noncurrent assets. As of June 30, 2013, the fair value of the beneficial interests totaled $1,990,136.

The LSU Foundation has several charitable gift annuity arrangements with donors in which the Foundation has received assets from a donor in exchange for the Foundation's promise to pay the donor or his or her designee a fixed amount over a specified period of time. The assets are held as investments of the LSU Foundation and are reported as investments on the statements of financial position at their fair value of $4,588,903 as of June 30, 2013. The present value of the amount due to these donors or their designees as of June 30, 2013, totaled $2,351,168 and is included in the amounts held in custody liability.

4. RECEIVABLES

Receivables are scheduled for collection within one year and are shown on Statement A as follows:

	Receivables
Student tuition and fees	$79,548
Contributions and gifts	23,626
Sales and services/other	605
Total	$103,779

5. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

LAW CENTER

	Balance June 30, 2012	Prior Period Adjustment	Restated Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not being depreciated:						
Construction-in-progress				$28,961		$28,961
Total capital assets not being depreciated	NONE	NONE	NONE	$28,961	NONE	$28,961
Other capital assets:						
Buildings	$20,883,880		$20,883,880			$20,883,880
Less accumulated depreciation	(8,356,351)		(8,356,351)	($398,443)		(8,754,794)
Total buildings	12,527,529	NONE	12,527,529	(398,443)	NONE	12,129,086
Equipment (including library books)	6,021,805	$20,730	6,042,535	419,779	($218,486)	6,243,828
Less accumulated depreciation	(5,060,936)		(5,060,936)	(414,864)	218,486	(5,257,314)
Total equipment	960,869	20,730	981,599	4,915	NONE	986,514
Total other capital assets	$13,488,398	$20,730	$13,509,128	($393,528)	NONE	$13,115,600
Capital asset summary:						
Capital assets not being depreciated	NONE	NONE	NONE	$28,961	NONE	$28,961
Other capital assets, at cost	$26,905,685	$20,730	$26,926,415	419,779	($218,486)	27,127,708
Total cost of capital assets	26,905,685	20,730	26,926,415	448,740	(218,486)	27,156,669
Less accumulated depreciation	(13,417,287)		(13,417,287)	(813,307)	218,486	(14,012,108)
Capital assets, net	$13,488,398	$20,730	$13,509,128	($364,567)	NONE	$13,144,561

See independent accountant's review report.

COMPONENT UNIT

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not being depreciated:				
Land	$6,922,559		($4,368,109)	$2,554,450
Capitalized collections	4,307,862	$20,000	(55,000)	4,272,862
Construction-in-progress	907,919	1,378,323	(1,182,321)	1,103,921
Total capital assets not being depreciated	$12,138,340	$1,398,323	($5,605,430)	$7,931,233
Other capital assets:				
Equipment (including library books)	$1,598,678	$57,344	($38,286)	$1,617,736
Less accumulated depreciation	(1,514,334)	(27,954)	38,286	(1,504,002)
Total equipment	84,344	29,390	NONE	113,734
Total other capital assets	$84,344	$29,390	NONE	$113,734
Capital asset summary:				
Capital assets not being depreciated	$12,138,340	$1,398,323	($5,605,430)	$7,931,233
Other capital assets, at cost	1,598,678	57,344	(38,286)	1,617,736
Total cost of capital assets	13,737,018	1,455,667	(5,643,716)	9,548,969
Less accumulated depreciation	(1,514,334)	(27,954)	38,286	(1,504,002)
Capital assets, net	$12,222,684	$1,427,713	($5,605,430)	$8,044,967

6. DISAGGREGATION OF ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

Activity	Amount
Vendors	$396,553
Other payables	343
Total	$396,896

7. PENSION PLANS

Plan Description. Substantially all employees of the Law Center are members of two statewide, public employee retirement systems. Academic and unclassified employees are generally members of the Teachers' Retirement System of Louisiana (TRSL), and classified 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 defined benefit pension 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. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after five years of service for TRSL and 10 years of service for LASERS. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446, and/or the Louisiana State Employees' Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of employee plan members and the university system are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. For fiscal year 2013, employees contribute 8% (TRSL) and 7.5% (LASERS) of covered salaries. Act 75 of the 2005 Regular Legislative Session now requires that employees hired on or after July 1, 2006, must contribute 8% of covered salaries to LASERS. For fiscal year 2013, the state contributed 24.4% of covered salaries to TRSL and 29.1% of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to the university system. The employer contributions to TRSL for the years ended June 30, 2013, 2012, and 2011, were $738,668; $787,241; and $756,229, respectively, and to LASERS for the years ended June 30, 2013, 2012, and 2011, were $151,120; $147,145; and $167,159, respectively, equal to the required contributions for each year.

Optional Retirement System

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in recruiting employees who may not be expected to remain in TRSL for five 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 system are 24.4% of the covered payroll. The participant's contribution (8.0%), 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 the 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 obligations 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 $1,347,952 and $441,951, respectively, for the year ended June 30, 2013.

8. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Law Center provides certain continuing health care and life insurance benefits for its retired employees. Substantially all Law Center employees become eligible for these benefits if they reach normal retirement age while working for the Law Center.

The Law Center offers its employees the opportunity to participate in one of two medical coverage plans. One plan is from the state's Office of Group Benefits (OGB) which also offers a life insurance plan, and the other plan is with the LSU System Health Plan. GASB Statement No. 45 promulgates the accounting and financial reporting requirements by employers that offer other postemployment benefits (OPEB) besides pensions. Both of the medical coverage plans and the life insurance plan available would be subject to the provisions of this statement. Information about each of these two plans is presented below.

Plan Descriptions

<u>LSU System Health Plan</u> (Health Plan)

The LSU System (System) administers and offers eligible employees, retirees, and their beneficiaries the opportunity to participate in comprehensive health and preventive care coverage under its Health Plan that gives members a unique, consumer-driven health-care approach to pay routine health expenses and provides coverage for major health care expenses. Within the Health Plan, members have a choice of selecting Option 1 or Option 2. Option 1, shown in the schedule of total monthly premium rates on page 28, is more costly, but features both lower yearly deductibles and out-of-network coinsurance requirements.

Employees in a limited number of other state agencies may also participate but that participation is not material and, as such, the plan is identified as a single-employer defined benefit health care plan that is not administered as a trust or equivalent arrangement.

The System selects claim and pharmaceutical administrators to administer its program. Both claim and pharmacy administrators are selected through a formal Request for Proposals process followed by negotiations between the System and qualified vendors.

The Health Plan originally began as a pilot program within OGB, the office that provides health benefits to state employees pursuant to the provisions of R.S. 42:851. The Health Plan does not issue a publicly available financial report, but it is included in the System's audited financial report.

State OGB Plan

The Law Center employees may also participate in the state's other OPEB Plan, an agent multiple-employer defined benefit OPEB Plan that provides medical and life insurance to eligible active employees, retirees, and their beneficiaries. OGB administers the plan. R.S. 42:801-883 provides the authority to establish and amend benefit provisions of the plan. OGB does not issue a publicly available financial report of the OPEB Plan; however, it is included in the Louisiana Comprehensive Annual Financial Report (CAFR). You may obtain a copy of the CAFR on the Office of Statewide Reporting and Accounting Policy's website at www.doa.la.gov/osrap.

Funding Policy

LSU System Health Plan

While actuarially determined, the plan rates must be approved by OGB under R.S. 42:851(b). Plan rates are in effect for one year and members have the opportunity to switch providers during the open enrollment period, which usually occurs during October.

The plan is financed on a pay-as-you-go basis. The pay-as-you-go expense is the net expected cost of providing retiree benefits. This expense includes all expected claims and related expenses and is offset by retiree contributions.

State OGB Plan

The contribution requirements of plan members and the Law Center are established and may be amended by R.S. 42:801-883. Employees do not contribute to their postemployment benefits cost until they become retirees and begin receiving those benefits. The retirees contribute to the cost of retiree health care based on a service schedule. Contribution amounts vary depending on what health care provider is selected from the plan and if the member has Medicare coverage. OGB offers three standard plans for both active and retired employees: the Preferred Provider Organization (PPO) Plan, the Health Maintenance Organization (HMO) Plan, and the Medical Home HMO Plan. OGB also offers a Consumer Driven Health Plan with a Health Savings Account option (CPHP-HSA) for active employees. Retired employees who have Medicare Part A and Part B coverage also have access to five OGB Medicare Advantage plans (three HMO plans and two PPO plans) during calendar years 2012 and 2013. The three HMO plans are Humana HMO Plan, Peoples Health HMO-POS Plan, and Vantage HMO-POS Plan. The two PPO plans are Humana PPO Plan and United Healthcare PPO Plan.

The plan is financed on a pay-as-you-go basis. As of June 30, 2013, the state does not use an OPEB trust. A trust was established with an effective date of July 1, 2008, but was not funded, has no assets, and hence has a funded ratio of zero.

OGB also provides eligible retirees and their spouses Basic Term Life, Basic Plus Supplemental Term Life, Dependent Term Life and Employee Accidental Death and Dismemberment coverage, which is underwritten by The Prudential Insurance Company of America. Effective

January 1, 2013, the total premium is approximately $1 per thousand dollars of coverage of which the employer pays 50% for retirees. Maximum coverage is capped at $50,000 with a reduction formula of 25% at age 65 and 50% at age 70, with accidental death and dismemberment coverage ceasing at age 70 for retirees.

Employees hired before January 1, 2002, pay approximately 25% of cost of medical coverage (except single retirees under age 65 pay approximately 25% of the active employee cost). For both plans, employees hired on or after January 1, 2002, pay a percentage of the total contribution rate upon retirement based on the following schedule:

Service	Employee Contribution Percentage
Under 10 years	81%
10 - 14 years	62%
15 - 19 years	44%
20+ years	25%

The following table shows the rates in effect at June 30, 2013:

	LSU System Health Plan		State OGB Plans			
	Option 1	Option 2	PPO	HMO	CDHP w/HAS	Medical Home HMO
Active						
Single	$576	$505	$576	$544	$447	$536
With Spouse	1,106	965	1,223	1,156	950	1,122
With Children	702	640	702	664	545	651
Family	1,267	1,111	1,290	1,219	1,001	1,183
Retired, No Medicare and Re-employed Retiree						
Single	$1,071	$1,014	$1,071	$1,015	N/A	$985
With Spouse	1,833	1,780	1,892	1,793	N/A	1,727
With Children	1,193	1,124	1,193	1,131	N/A	1,095
Family	1,883	1,787	1,883	1,784	N/A	1,719
*Retired, with 1 Medicare						
Single	$340	$294	$348	$336	N/A	$330
With Spouse	1,207	1,044	1,287	1,228	N/A	1,180
With Children	603	581	603	578	N/A	561
Family	1,666	1,457	1,715	1,634	N/A	1,567
*Retired, with 2 Medicare						
With Spouse	$605	$523	$626	$602	N/A	$582
Family	775	704	775	746	N/A	717

Medicare Supplemental Rates	Calendar Year 2013 Retired with 1 Medicare	Calendar Year 2013 Retired with 2 Medicare	Calendar Year 2012 Retired with 1 Medicare	Calendar Year 2012 Retired with 2 Medicare
Humana PPO			$150	$300
Humana HMO			156	312
People's Health HMO	$234	$468	167	334
United Healthcare PPO			214	428
Vantage HMO	184	369	279	558

*All members who retire on or after July 1, 1997, must have Medicare Parts A and B to qualify for the reduced premium rates.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of each plan's annual OPEB cost for the year ending June 30, 2013, the amount actually contributed to the plan, and changes in the plan's net OPEB obligation to the retiree health plan.

	LSU System Health Plan	State OGB Plan	Total
Annual required contribution (ARC)	$715,840	$297,255	$1,013,095
Interest on Net OPEB Obligation (NOO)	75,897	112,800	188,697
ARC adjustment	(64,242)	(107,700)	(171,942)
Annual OPEB cost	727,495	302,355	1,029,850
Employer contributions	(137,637)	(141,099)	(278,736)
Increase in net OPEB obligation	589,858	161,256	751,114
Net OPEB obligation - beginning of year	1,776,558	2,820,625	4,597,183
Net OPEB obligation - end of year	$2,366,416	$2,981,881	$5,348,297

Funding Trend

	LSU System Health Plan 2013	LSU System Health Plan 2012	LSU System Health Plan 2011	State OGB Plan 2013	State OGB Plan 2012	State OGB Plan 2011
OPEB cost	$727,495	$474,431	$448,342	$302,355	$346,644	$504,433
Percent contributed	18.92%	25.13%	19.32%	46.67%	41.49%	22.99%
Ending NOO	$2,366,416	$1,776,558	$1,421,370	$2,981,881	$2,820,625	$2,617,799

Funded Status and Funding Progress

The funded status of the plans as of July 1, 2012, was as follows:

See independent accountant's review report.

	LSU System Health Plan	State OGB Plan
Actuarial accrued liability (AAL)	$9,127,028	$4,639,221
Actuarial value of plan assets	NONE	NONE
Unfunded actuarial accrued liability (UAAL)	$9,127,028	$4,639,221
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Annual covered payroll (active plan members)	$6,833,117	$1,558,608
UAAL as a percentage of covered payroll	133.6%	297.7%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Furthermore, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of the actuarial assumptions are presented as follows:

	LSU System Health Plan	State OGB Plan
Actuarial valuation date	July 1, 2012	July 1, 2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percentage of payroll	Level percentage of payroll
Amortization period	30 years, open	30 years, open
Asset valuation method	None	None
Actuarial assumptions:		
Discount rate	4.25% annual rate	4% annual rate
Projected salary increases	4% per annum	3% per annum
Health care inflation rate	8.5% initial	6% - 8% initial
	5% ultimate	4.5% ultimate

9. CONTINGENT LIABILITIES, RISK MANAGEMENT, AND CLAIMS LIABILITY

Losses arising from judgments, claims, and similar contingencies are paid by either private insurance companies or 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 General Fund appropriation. The Law Center is not involved in any lawsuits at June 30, 2013.

CONTINGENCIES - COMPONENT UNIT

The LSU Foundation has contractual commitments associated with projects for improvements to the Hilltop Arboretum facilities and a new Foundation office building. The total contract amounts for these projects total approximately $2,779,000 and the remaining commitment as of June 30, 2013, totals approximately $1,678,000. The Foundation also has a contractual commitment associated with an equine lameness facility, for which fundraising efforts are ongoing, with a total contract amount and remaining commitment as of June 30, 2013, of approximately $41,000.

The LSU Foundation committed $1,350,000 to Louisiana Fund I, L.P., a Delaware Limited Partnership in October 2004. As of June 30, 2013, capital contributions have totaled $1,228,500. The Foundation also committed a total of approximately $41,520,500 to various Private Equity Funds during 2005 through 2013. As of June 30, 2013, capital contributions have totaled approximately $25,113,024.

10. COMPENSATED ABSENCES

At June 30, 2013, employees of the Law Center have accumulated and vested annual, sick, and compensatory leave benefits of $486,285; $537,615; and $0, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

11. OPERATING LEASES - COMPONENT UNIT

LSU Foundation - The Foundation leases office space from the LSU Alumni Association under an agreement which has options for renewal periods extending through November 30, 2016. The current lease agreement expires on May 31, 2014. For the year ended June 30, 2013, rent expense incurred under this agreement totaled $145,661.

12. LONG-TERM LIABILITIES

The following is a summary of bond and other long-term liability transactions of the Law Center and its component unit for the year ended June 30, 2013:

Law Center

	Restated Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Compensated absences payable	$900,072	$227,047	$103,219	$1,023,900	$91,525
Other liabilities	18,907		18,907		
OPEB payable	4,597,183	1,029,850	278,736	5,348,297	
Total	$5,516,162	$1,256,897	$400,862	$6,372,197	$91,525

Component Unit

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Notes and bonds payable:					
Notes payable	$7,323,125		$4,594,358	$2,728,767	$539,483
Bonds payable	6,225,000		630,000	5,595,000	628,395
Subtotal	13,548,125	NONE	5,224,358	8,323,767	1,167,878
Other liabilities:					
Compensated absences payable	286,198	NONE	5,416	280,782	280,782
Total long-term liabilities	$13,834,323	NONE	$5,229,774	$8,604,549	$1,448,660

NOTES PAYABLE - COMPONENT UNIT

The component unit has entered into a number of notes payable agreements for various purposes. These agreements require scheduled payments either on a monthly, semiannual, or annual basis. The following is a summary of notes payable by component unit as of June 30, 2013:

Component Unit	Principal Outstanding June 30, 2012	Issued	Reductions	Principal Outstanding June 30, 2013	Amounts Due Within One Year
LSU Foundation	$7,323,125		($4,594,358)	$2,728,767	$539,483
Total	$7,323,125	NONE	($4,594,358)	$2,728,767	$539,483

In January 2010, the LSU Foundation borrowed $2,720,839 in connection with the construction of the new business education complex. The note accrues interest at a variable rate equal to the greater of one-month LIBOR plus 175 basis points or 1% plus 175 basis points (2.75% at June 30, 2013), requires quarterly interest payments, and matures on January 18, 2015. The note is secured by pledges related to the new complex, and the LSU Foundation applies all pledges received against the outstanding balance on the note payable.

On October 1, 2011, the LSU Foundation converted a line of credit to a note payable in the amount of $7,742,414. The note accrues interest at a fixed rate equal to 3.00% and is uncollateralized. The outstanding balance at June 30, 2013 was $2,024,284.

The following is a summary of future minimum installment payments, net of unamortized discount for the component unit as of June 30, 2013:

Fiscal Year Ending June 30:	
2014	$619,585
2015	2,226,524
Total minimum installment payments	2,846,109
Less - amount representing interest	(117,342)
Total	$2,728,767

Bonds Payable - Component Unit

All bond debt outstanding at June 30, 2013, including future interest payments, follow:

Issue	Date of Issue	Original Issue	Outstanding July 1, 2012	Issued (Redeemed)	Outstanding June 30, 2013	Maturities	Interest Rates	Future Interest Payments June 30, 2013
LSU Foundation								
Pooled Loan Program Revenue Bonds, Series 2003A	May 1, 2003	$12,725,000	$6,225,000	($630,000)	$5,595,000	2014-2022	variable	$278,601

On May 1, 2003, the LSU Foundation participated in borrowing, along with several other organizations, the proceeds of revenue bonds totaling $31,555,000 issued by the Louisiana Public Facilities Authority (LPFA). The Foundation's portion of the borrowing was $12,725,000. The Foundation is scheduled to repay the funds borrowed in 2022. The borrowed proceeds from the issuance were used to help fund several construction projects including the Shaw Center for the Arts. Interest is currently being paid using a weekly rate as determined by the remarketing agent. The interest rate at June 30, 2013, was 1.00%. Total interest expense incurred on the bonds for the year ended June 30, 2013, was $53,352. The bonds are collateralized by future revenues of the LSU Foundation.

Debt Service Requirements

The annual requirements to amortize all component unit bonds outstanding at June 30, 2013, are as follows:

See independent accountant's review report.

Fiscal Year Ending	Principal	Interest	Total
2014	$628,395	$56,207	$684,602
2015	628,395	49,894	678,289
2016	628,395	43,581	671,976
2017	628,395	37,269	665,664
2018	628,395	30,956	659,351
2019	628,395	24,643	653,038
2020	628,395	18,330	646,725
2021	628,395	12,017	640,412
2022	567,840	5,704	573,544
Total	$5,595,000	$278,601	$5,873,601

13. DUE FROM STATE TREASURY

As shown on Statement A, the Law Center has a total of $16,446 due from the state treasury at June 30, 2013. This amount consists of the following:

Description	Due from
Statutory dedications - Support Education in Louisiana First	$16,446
Due from state treasury	$16,446

14. RESTRICTED NET POSITION

The Law Center's restricted nonexpendable net position of $5,157,764 as of June 30, 2013, was comprised entirely of endowment funds.

The Law Center had the following restricted expendable net position as of June 30, 2013:

Restricted Expendable Net Position

Account Title	Amount
Student fees	$442,860
Gifts	4,407
Endowment earnings	547,224
Total	$994,491

Of the total restricted net position reported on Statement A for the year ended June 30, 2013, a total of $377,901 is restricted by enabling legislation.

RESTRICTED NET ASSETS - COMPONENT UNIT

Restricted net assets for the LSU Foundation are as follows:

	LSU Foundation
Temporarily restricted:	
Chairs and professorships	$53,230,108
Scholarships and fellowships	32,676,216
Academic support	74,213,336
Capital outlay and improvements	15,661,432
Research support	6,653,067
Institutional support	3,868,417
Total temporarily restricted	$186,302,576

	LSU Foundation
Permanently restricted:	
Chairs and professorhips	$114,371,766
Scholarships and fellowships	53,237,089
Academic support	44,379,074
Capital outlay and improvements	185,925
Research support	1,950,962
Total permanently restricted	$214,124,816

15. RESTATEMENT OF BEGINNING NET POSITION

The beginning net position as reflected on Statement C has been restated to reflect the following changes:

Law Center

Net position at June 30, 2012	$15,367,265
Correct cost and accumulated depreciation for movable equipment acquired prior to FY13	20,730
Compensated absences liability	35,541
Net position at June 30, 2012, as restated	$15,423,536

16. FUNCTIONAL VERSUS NATURAL CLASSIFICATION OF EXPENSES

Function	Employee Compensation	Benefits	Utilities	Supplies and Services	Scholarships and Fellowships	Depreciation	Compensated Absences	OPEB Expense	Total
Instruction	$6,023,421	$2,060,598		$1,410,372		$38,947	$106,933	$364,554	$10,004,825
Research	528,697	180,282		6,728			1,308	58,198	775,213
Public service	74,215	5,535		3,712				8,097	91,559
Academic support	1,064,950	357,945		954,275		321,707	3,807	46,686	2,749,370
Student services	796,252	266,311		283,577		6,711	10,646	60,961	1,424,458
Institutional support	1,714,241	535,037		542,735		8,788	1,134	223,201	3,025,136
Operations and maintenance of plant	6,000	2,096	$455,205	817,596		437,154		(10,583)	1,707,468
Scholarships and fellowships					$1,266,395				1,266,395
Total operating expenses	$10,207,776	$3,407,804	$455,205	$4,018,995	$1,266,395	$813,307	$123,828	$751,114	$21,044,424

17. FOUNDATIONS

The accompanying financial statements do not include the accounts of the following foundations, which do not meet the criteria for discretely presented component units as described in note 1-B:

- LSU Alumni Association

These foundations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

18. DEFERRED COMPENSATION PLAN

Certain employees of the Law Center 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's website at www.lla.la.gov.

19. AMOUNTS HELD IN CUSTODY FOR OTHERS - COMPONENT UNIT

The discretely presented component unit reported amounts held in custody for others as follows:

Entity	LSU Foundation
LSU at Alexandria Foundation	$15,799,323
LSU at Eunice Foundation	2,102,398
State matching funds	87,048,596
Split-interest agreements	2,812,205
Tiger Athletic Foundation	10,454,070
Total amounts held in custody	$118,216,592

20. RELATED PARTY TRANSACTIONS - COMPONENT UNIT

The LSU Foundation has certain transactions in the normal course of operations with the Law Center. The transactions consist of reimbursement for salaries, which are processed by the Law Center and reimbursement for certain expenses paid by the Law Center on behalf of the Foundation, such as payments of scholarships. The amount owed to the LSU System at June 30, 2013, for these types of expenses was $2,509,934.

21. UNCONDITIONAL PROMISES TO GIVE - COMPONENT UNIT

The discretely presented component unit reported unconditional promises to give as follows:

	LSU Foundation
Promises to give expected to be collected in:	
Less than one year	$6,987,101
One to five years	7,297,990
More than five years	42,770
Subtotal	14,327,861
Less discount on promises to give	(382,671)
Less allowance for uncollectible accounts	(190,550)
Subtotal	(573,221)
Net unconditional promises to give	$13,754,640

Total unconditional promises to give (current and noncurrent) of $13,754,640 are reported on Statement B.

See independent accountant’s review report.

22. SUBSEQUENT EVENTS

The LSU 2015 Transition Advisory Team presented its final report to the Board in September 2013. SSA Consultants (SSA), who have facilitated the process, detailed the work of the team and its five sub-committees and multiple task forces and work groups. In the past six months, the Transition Advisory Team has:

- Held 50 meetings, watched by more than 700 people via a live online stream on the LSU 2015 website;
- Spent more than 134 hours collaborating with stakeholders in the LSU System;
- Consulted 16 national experts on LSU's reorganization process; and
- Surveyed 2,752 faculty members, staff and students from the 10 institutions of the LSU System.

SSA detailed the vision statement LSU 2015 has produced, particularly to "build a cohesive, accountable and sustainable operating model for the 21st century and offered the board members some of the transformational priorities designated by the Transition Advisory Team, including the need to recruit aggressively for all campuses; to build a globally competitive LSU research enterprise; project a single, globally competitive LSU; and generate new revenue and savings through streamlining policies and procedures." The board received the full report and will begin working with a team to set priorities in the reorganization process.

On August 22, 2013, a BA-7 requesting approval to carry forward $481,502 under LA Granting Resources and Autonomy for Diplomas Act provisions was submitted for the Law Center for consideration by the Joint Legislative Committee on the Budget at its October 18, 2013, meeting. The BA-7 was approved.

23. NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, is effective to the Law Center for the fiscal 2015 year. This standard will require, among other things, the university system recognize a liability for its proportionate share of the net pension liability, as defined by the standard, of the defined benefit pension plans presented in note 7. The impact to the Law Center's net position is expected to be significant.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for the
Other Postemployment Benefits Plans

The schedule of funding progress is required supplementary information that presents certain specific data regarding the funding progress of the other postemployment benefits plans, including the unfunded actuarial accrued liability.

See independent accountant's review report.

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Schedule of Funding Progress for the Other Postemployment Benefits Plans
Fiscal Year Ended June 30, 2013

LSU System Health Plan

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
FY 2011	07/01/2010	NONE	$4,636,464	$4,636,464	0.0%	$5,997,032	77.3%
FY 2012	07/01/2011	NONE	$5,510,324	$5,510,324	0.0%	$5,214,601	105.7%
FY 2013	07/01/2012	NONE	$9,127,028	$9,127,028	0.0%	$6,833,117	133.6%

State Office of Group Benefits Plan

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
FY 2011	07/01/2010	NONE	$7,325,362	$7,325,362	0.0%	$2,165,046	338.3%
FY 2012	07/01/2011	NONE	$5,100,159	$5,100,159	0.0%	$1,460,218	349.3%
FY 2013	07/01/2012	NONE	$4,639,221	$4,639,221	0.0%	$1,558,608	297.7%

See independent accountant's review report.

Management Letter

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

February 12, 2014

PAUL M. HEBERT LAW CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have reviewed the financial statements of the Paul M. Hebert Law Center (Law Center), as of and for the year ended June 30, 2013, and have issued our independent accountant's review report thereon dated February 12, 2014. The Law Center is a campus within the Louisiana State University System, a component unit of the State of Louisiana. The Law Center's accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the objective of which is the expression of an opinion regarding the basic financial statements. Accordingly, we did not express such an opinion in our independent accountant's review report referred to previously.

We did not review the financial statements of the LSU Foundation which is a nonprofit corporation included as a discretely presented component unit in the basic financial statements of the Law Center. These component unit financial statements were audited by another auditor whose report thereon has been furnished to us, and the results of our review expressed herein, insofar as it relates to the amounts included for that component unit, are based solely upon the report of the other auditor. The separate audit reports for the foundations are available at the addresses listed in note 1-B to the financial statements.

Our review of the financial statements did not disclose any transactions entered into by the Law Center during the year that were both significant and unusual or transactions for which there is a lack of authoritative guidance.

For purposes of this letter, a disagreement with management is defined as a matter, whether or not resolved to our satisfaction, concerning a financial accounting or reporting matter that could be significant to the Law Center's financial statements or the accountant's report. No such disagreements arose during our review procedures.

Because our review procedures were substantially less in scope than an audit in accordance with *Government Auditing Standards*, identifying matters affecting the Law Center's internal control, compliance with applicable laws and regulations, and operational efficiencies was not an objective of our procedures. Accordingly, our review procedures cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, during our review procedures, we noted one significant internal control matter requiring communication to management as documented below.

Inadequate Controls over Capital Asset Valuation

Louisiana State University and Related Campuses (LSU), which includes the Law Center, did not ensure that all costs had been accurately reflected in the valuation of movable property in its Equipment Records Inventory (ERI) System.

LSU Property Management records movable property and related values into its ERI System based on purchase order or invoice amounts or other payment documentation available at the time of input rather than the final acquisition cost. There is no university policy in place requiring LSU Property Management to follow up on final cost. Purchasing departments are also not required to report differences between the purchase order and final invoice of an asset to LSU Property Management. Therefore, the total actual acquisition cost of an asset may not be properly reflected in the ERI System and in the Law Center's financial statements.

In accordance with accounting standards, the capitalized amount should be reported at historical cost (or estimated fair value for a donated capital asset) and should include any charges necessary to put the asset into place such as freight and transportation charges, site preparation costs, and professional fees.

LSU should establish controls to ensure that movable property is properly valued in LSU's ERI System and financial statements. Management concurred with the finding and provided a corrective action plan (see Appendix A).

The recommendation in this letter represents, in our judgment, that which is most likely to bring about beneficial improvements to the operations of the Law Center. The nature of the recommendation, its implementation cost, and its potential impact on the operations of the Law Center should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this letter is a public document and it has been distributed to appropriate public officials.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CST:JPT:EFS:THC:ch
LSULAW13

Management's Corrective Action Plan and Response to the Finding and Recommendation

LSU
LOUISIANA STATE UNIVERSITY
Office of the Chancellor

October 28, 2013

Mr. Daryl G. Purpera, CPA
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

In conjunction with the legislative audit of LSU, we wish to respond to the audit finding concerning inadequate controls over capital asset valuation for LSU and related campuses. We concur with the finding addressed in the letter dated October 15, 2013. As requested in the letter, the following response is issued for the finding:

Finding:
LSU and related campuses did not ensure that all costs had been accurately reflected in the valuation of movable property in its Equipment Records Inventory (ERI) system.

Response to Finding: Anticipated Completion Date: 03/01/2014
LSU will formulate and adopt a Finance and Administrative Services Operating Procedure that will define a process for ensuring movable property is properly valued in ERI and the financial statements.

Contact Person(s):
Marie Frank, Executive Director of Procurement Services and Property Management
Donna Torres, Associate Vice Chancellor for Accounting & Financial Services

If you have any questions or need any additional information, please feel free to contact me.

Sincerely,

F. King Alexander

F. King Alexander
President and Chancellor

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