

LEGISLATIVE AUDITOR
STATE OF LOUISIANA



————— LOUISIANA STATE UNIVERSITY —————
HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

ACCOUNTANT'S REVIEW REPORT
ISSUED JANUARY 14, 2005

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

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LEGISLATIVE AUDITOR

STEVE J. THERIOT, CPA

DIRECTOR OF FINANCIAL AUDIT

ALBERT J. ROBINSON, CPA

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

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Three copies of this public document were produced at an approximate cost of \$11.70. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 3418 or Report ID No. 04401456 for additional information.

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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December 20, 2004

Accountant's Review Report

**LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA**
New Orleans, Louisiana

We have reviewed the accompanying basic financial statements as listed in the table of contents of Louisiana State University Health Sciences Center, a university within the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of management of Louisiana State University (LSU) Health Sciences Center. We did not review the financial statements of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice doing business as LSU Healthcare Network and Subsidiaries, a blended component unit of the university included in the university's basic financial statements representing approximately 2% of total assets, 3% of total liabilities, 3% of total revenues, and 3% of total expenses of the LSU Health Sciences Center. We also did not review the financial statements of the Foundation for the LSU Health Sciences Center and Subsidiary, the only discretely presented component unit of the university included in the university's basic financial statements. The financial statements of LSU Healthcare Network and Subsidiaries and the Foundation for the LSU Health Sciences Center and Subsidiary were audited by other auditors whose reports thereon have been furnished to us, and the results of our review expressed herein, insofar as it relates to the amounts included for the LSU Healthcare Network and Subsidiaries and the Foundation for the LSU Health Sciences Center and Subsidiary is based solely upon the reports of the other auditors.

A review consists principally of inquiries of LSU Health Sciences Center personnel and analytical procedures applied to financial data. It 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 do not express such an opinion.

As discussed in note 1-B to the basic financial statements, the accompanying financial statements of LSU Health Sciences Center are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the Louisiana State University System that is attributable to the transactions of LSU Health Sciences Center. They do not purport to, and do not, present fairly the financial position of the Louisiana State University System or the State of Louisiana as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

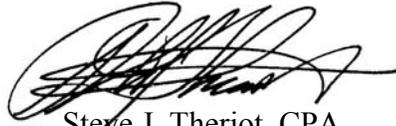
As discussed in note 1 to the basic financial statements, and as required by Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*, LSU Health Sciences Center has discretely presented the financial statements and other required note disclosures for the Foundation for the LSU Health Sciences Center and Subsidiary, a component unit of the university, as of June 30, 2004.

As discussed in note 1-P to the basic financial statements, the LSU Health Sciences Center implemented Government Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, for the year ended June 30, 2004.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. However, management did not include this information in the financial statements for the fiscal year ended June 30, 2004.

Our review was performed primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The accompanying supplementary information schedules listed in the Table of Contents are presented only for the purpose of supplementary analysis and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements. We did not become aware of any material modifications that should be made to such data based on our procedures and the report of the other auditor for the LSU Healthcare Network and Subsidiaries.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

KML:JR:PEP:dl

[LSUHSC04]

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Statement of Net Assets, June 30, 2004

ASSETS

Current Assets:

Cash and cash equivalents (note 2)	\$68,568,927
Investments (note 3)	3,685,490
Receivables, net (note 4)	89,162,219
Due from other campuses	23,718,666
Due from State Treasury (note 19)	9,864,957
Inventories	10,115,657
Deferred charges and prepaid expenses	813,368
Notes receivable, net	2,656,198
Total current assets	<u>208,585,482</u>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents (note 2)	13,436,607
Investments (note 3)	45,095,176
Notes receivable, net	8,686,686
Investments (note 3)	275,000
Capital assets, net (note 5)	296,970,034
Other noncurrent assets	345,402
Total noncurrent assets	<u>364,808,905</u>
Total assets	<u>573,394,387</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities (note 9)	44,376,874
Deferred revenues	3,167,149
Amounts held in custody for others	1,660,673
Compensated absences payable (note 11)	2,251,265
Capital lease obligations (note 12)	2,132,794
Notes payable (note 13)	64,094
Bonds payable (note 13)	245,000
Other current liabilities	306,998
Total current liabilities	<u>54,204,847</u>

(Continued)

See accompanying notes and accountant's review report.

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2004**

LIABILITIES (CONT.)

Noncurrent Liabilities:

Compensated absences payable (note 11)	\$36,969,086
Capital lease obligations (note 12)	12,608,320
Notes payable (note 13)	411,690
Bonds payable (note 13)	14,815,000
Total noncurrent liabilities	<u>64,804,096</u>
Total liabilities	<u>119,008,943</u>

NET ASSETS

Invested in capital assets, net of related debt	266,693,135
Restricted for:	
Nonexpendable (note 14)	53,625,156
Expendable (note 14)	41,653,261
Unrestricted	<u>92,413,892</u>
Total net assets	<u><u>\$454,385,444</u></u>

(Concluded)

See accompanying notes and accountant's review report.

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
AND SUBSIDIARY
Statement of Financial Position, June 30, 2004**

ASSETS

Current Assets:

Cash and cash equivalents	\$772,913
Investments (note 3)	9,966,523
Interest receivable	169,955
Unconditional promises to give, net	186,250
Note receivable, net	91,163
Cash restricted for debt service (note 13)	82,545
Other receivables	570,339
Total current assets	11,839,688

Noncurrent Assets:

Investments (note 3)	54,209,168
Unconditional promises to give, net	2,299,325
Note receivable, net	298,323
Deposits	5,028
Property and equipment, net (note 5)	1,931,136
Land (note 5)	215,027
Total noncurrent assets	58,958,007

Total assets	\$70,797,695
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued liabilities	\$626,370
Bonds payable (note 13)	65,000
Split-interest agreement	1,650
Total current liabilities	693,020

(Continued)

See accompanying notes and accountant's review report.

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
AND SUBSIDIARY
Statement of Financial Position, June 30, 2004**

LIABILITIES AND NET ASSETS (CONT.)

Noncurrent Liabilities:

Amounts held in custody for others (note 13)	\$13,117,119
Bonds payable (note 13)	1,938,182
Split-interest agreement	13,562
Total noncurrent liabilities	<u>15,068,863</u>

Total liabilities 15,761,883

NET ASSETS

Unrestricted	451,742
Temporarily restricted	14,028,948
Permanently restricted	40,555,122
Total net assets	<u>55,035,812</u>

Total liabilities and net assets \$70,797,695

(Concluded)

See accompanying notes and accountant's review report.

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**Statement of Revenues, Expenses,
and Changes in Net Assets
For the Fiscal Year Ended June 30, 2004**

OPERATING REVENUES

Student tuition and fees	\$19,615,924
Less scholarship allowances	(2,199,172)
Net student tuition and fees	<u>17,416,752</u>
Federal grants and contracts	56,846,715
State and local grants and contracts	110,595,930
Nongovernmental grants and contracts	74,858,907
Sales and services of educational departments	158,412,139
Hospital Income	218,200,770
Auxiliary enterprise revenues	22,298,834
Other operating revenues	1,797,138
Total operating revenues	<u>660,427,185</u>

OPERATING EXPENSES

Education and general:	
Instruction	206,750,078
Research	108,737,066
Public service	146,182,689
Academic support	54,160,728
Student services	3,875,268
Institutional support	62,061,280
Operations and maintenance of plant	35,906,796
Scholarships and fellowships	1,302,882
Auxiliary enterprises	21,259,838
Hospital	221,819,512
Total operating expenses	<u>862,056,137</u>

Operating loss	<u>(201,628,952)</u>
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(Continued)

See accompanying notes and accountant's review report.

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2004**

NONOPERATING REVENUES (Expenses)	
State appropriations	\$202,051,933
Gifts	1,773,476
Net investment income	1,747,453
Interest expense	(1,878,724)
Net nonoperating revenues	<u>203,694,138</u>
Income before other revenues, expenses, gains and losses	2,065,186
Capital appropriations	17,136,920
Capital grants and gifts	1,340,384
Additions to permanent endowments	11,482,959
Other deductions, net	<u>(427,626)</u>
Increase in Net Assets	31,597,823
Net Assets at Beginning of Year (Restated) (note 20)	<u>422,787,621</u>
Net Assets at End of Year	<u><u>\$454,385,444</u></u>

(Concluded)

See accompanying notes and accountant's review report.

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**THE FOUNDATION FOR THE LSU
HEALTH SCIENCES CENTER AND SUBSIDIARY
Statement of Activities
For the Year Ended June 30, 2004**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Revenue and other support:				
Contributions	\$82,379	\$7,079,363	\$1,547,221	\$8,708,963
Program service fees	1,193,732			1,193,732
Investment income - net	88,905	7,057,982		7,146,887
Rental income	63,927			63,927
Recovery of uncollectible promises to give			206,934	206,934
Other income	83,036			83,036
Total	<u>1,511,979</u>	<u>14,137,345</u>	<u>1,754,155</u>	<u>17,403,479</u>
Net assets released from restrictions	7,765,970	(8,235,282)	469,312	
Total revenues and other support	<u>9,277,949</u>	<u>5,902,063</u>	<u>2,223,467</u>	<u>17,403,479</u>
Expenses:				
Program services	5,869,853			5,869,853
General and administrative	2,250,811			2,250,811
Development	900,026			900,026
Transfer to Dean's Fund	165,000			165,000
Total expenses	<u>9,185,690</u>	NONE	NONE	<u>9,185,690</u>
Increase in net assets from continued operations	92,259	5,902,063	2,223,467	8,217,789
Discontinued operations - loss from disposal of subsidiary	<u>(490,841)</u>	NONE	NONE	<u>(490,841)</u>
Change in net assets	(398,582)	5,902,063	2,223,467	7,726,948
Net assets at beginning of year	<u>850,324</u>	<u>8,126,885</u>	<u>38,331,655</u>	<u>47,308,864</u>
Net assets at end of year	<u>\$451,742</u>	<u>\$14,028,948</u>	<u>\$40,555,122</u>	<u>\$55,035,812</u>

See accompanying notes and accountant's review report.

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**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Year Ended June 30, 2004**

Cash flows from operating activities:

Student tuition and fees	\$17,536,969
Grants and contracts	235,867,083
Sales and services of educational departments	155,926,667
Hospital income	221,386,334
Auxiliary enterprise receipts	23,671,881
Payments for employee compensation	(478,649,820)
Payments for benefits	(73,335,650)
Payments for utilities	(11,595,096)
Payments for supplies and services	(245,005,199)
Payments for scholarships and fellowships	(719,526)
Loans to students	(2,211,971)
Collection of loans to students	2,656,198
Other receipts	17,503,896
Net cash used by operating activities	<u>(136,968,234)</u>

Cash flows from noncapital financing activities:

State appropriations	191,406,109
Gifts and grants for other than capital purposes	1,940,373
Private gifts for endowment purposes	9,300,000
TOPS receipts	1,022,708
TOPS disbursements	(960,571)
Other disbursements	(510,201)
Net cash provided by noncapital financing sources	<u>202,198,418</u>

Cash flows from capital financing activities:

Proceeds from capital debt	310,500
Capital appropriations received	17,267,697
Capital grants and gifts received	1,340,384
Purchases of capital assets	(42,584,828)
Principal paid on capital debt and leases	(4,004,947)

(Continued)

See accompanying notes and accountant's review report.

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2004**

Cash flows from capital financing activities: (Cont.)

Interest paid on capital debt and leases	(\$1,878,719)
Other (uses)	(427,626)
Net cash used by capital financing activities	(29,977,539)

Cash flows from investing activities:

Proceeds from sales and maturities of investments	12,424,597
Interest received on investments	2,496,492
Purchase of investments	(20,202,618)
Net cash used by investing activities	(5,281,529)

Net increase in cash and cash equivalents 29,971,116

Cash and cash equivalents at beginning of year 52,034,418

Cash and cash equivalents at end of year \$82,005,534

**Reconciliation of Net Operating Revenues (Expenses) to
Net Cash Provided (used) by Operating Activities:**

Operating income (loss)	(\$201,628,952)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	30,776,401
Changes in assets and liabilities:	
Decrease in accounts receivable, net	25,270,333
Decrease in inventories	991,110
Increase in deferred charges and prepaid expenses	(399,913)
Decrease in notes receivable	444,228
Decrease in other assets	5,950,638
Increase in accounts payable and accrued liabilities	3,729,728
Decrease in deferred revenues	(3,263,444)
Decrease in amounts held in custody for others	(516,902)

(Continued)

See accompanying notes and accountant's review report.

**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2004**

**Reconciliation of Net Operating Revenues (Expenses) to
Net Cash Provided (used) by Operating Activities: (Cont.)**

Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: (Cont.)	
Changes in assets and liabilities: (Cont.)	
Increase in compensated absences	\$1,671,660
Increase in other liabilities	6,879
	<hr/>

Net Cash Used by Operating Activities (\$136,968,234)

**Reconciliation of Cash and Cash Equivalents
to the Statement of Net Assets**

Cash and cash equivalents classified as current assets	\$68,568,927
Cash and cash equivalents classified as noncurrent assets	13,436,607
	<hr/>
Cash and cash equivalents at end of year	<u><u>\$82,005,534</u></u>

(Concluded)

See accompanying notes and accountant's review report.

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INTRODUCTION

Louisiana State University Health Sciences Center (LSUHSC) is a publicly supported institution of higher education. LSUHSC is a part of the Louisiana State University System, which is a component unit of the State of Louisiana, within the executive branch of government. LSUHSC is under the management and supervision of the LSU Board of Supervisors; however, certain items like the annual budget of LSUHSC and changes to the degree programs and departments of instruction require the approval of the Board of Regents for Higher Education. As a state university, operations of LSUHSC's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

For the purposes of this report, LSUHSC center is comprised of the schools of Medicine, Dentistry, Nursing, Public Health, Allied Health Professions, and Graduate Studies in New Orleans; schools of Medicine, Allied Health Professions, and Graduate Studies in Shreveport; the Louisiana State University School of Medicine in New Orleans Faculty Group Practice (a Louisiana nonprofit corporation doing business as LSU Healthcare Network and Subsidiaries); and the Foundation for LSU Health Sciences Center and Subsidiary, a Louisiana nonprofit corporation. The LSU Healthcare Network includes the activities of the following entities: University Medical Group, LLC; University Technology Group, LLC; University Radiation Oncology Group, which is a Louisiana nonprofit corporation that was liquidated in 2004; and LSUHN Surgery Center, LLC.

LSUHSC offers associate, baccalaureate, masters, and doctorate degrees in various academic areas. Student enrollment for LSUHSC for the 2003 fall semester totaled 2,849. During fall 2003, LSUHSC had approximately 1,751 full-time and 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.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. LSUHSC is part of the Louisiana State University 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) a majority of the members of the LSU System's governing board 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 system primarily serves state residents. The

accompanying financial statements present information only as to the transactions of the programs of LSUHSC.

The LSU Healthcare Network and Subsidiaries, a nonprofit corporation and blended component unit, follows GASB statements for report presentation. The Foundation for the LSU Health Sciences Center and Subsidiary, a nonprofit corporation and discrete component unit, follows FASB Statement No. 117, *Financial Statements for Not-for-Profit Organizations*, and not GASB for report presentation and accounting, and, as such, differs from GASB.

The Louisiana State University School of Medicine in New Orleans Faculty Group Practice (a Louisiana nonprofit corporation doing business as LSU Healthcare Network and Subsidiaries) is considered a blended component unit of the university and is included in the accompanying financial statements. The component unit is included in the reporting entity because of the significance of its operational and financial relationships with the LSUHSC. Although the LSU Healthcare Network is legally separate, it is reported as a part of the LSUHSC because its purpose is to assist the LSUHSC in carrying out its medical, educational, and research functions.

The Foundation for the LSU Health Sciences Center and Subsidiary (Foundation) is being included as a discretely presented component unit of the university in the university's financial statements, in accordance with the criteria outlined in GASB Statement No. 14, as amended by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB No. 14*. The Foundation is a legally separate, tax-exempt organization supporting the university. The Foundation was organized for purposes and activities including scientific research, education, solicitation, and management of funds, including endowments and other functions for the benefit of the university. The university and the Foundation have a management agreement related to endowed chairs and professorships. This agreement is in compliance with Board of Regents policy and allows the Foundation to manage funds on behalf of the university. The Foundation includes the LSU Medical Center Institute of Professional Education, a wholly owned subsidiary, until March 31, 2004.

Other external auditors audited the LSU Healthcare Network and the Foundation for the LSUHSC for the year ended June 30, 2004. To obtain the latest audit report of the LSU Healthcare Network, write to the LSU Healthcare Network, 2020 Gravier Street, Suite 507, New Orleans, Louisiana 70112. To obtain the latest audit report of the Foundation, write to the Foundation for the LSU Health Sciences Center, 2000 Tulane Avenue Ave, New Orleans, LA 70112.

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

C. BASIS OF ACCOUNTING

For financial reporting purposes, LSUHSC is considered a special purpose government engaged only in business-type activities (enterprise fund). Accordingly, LSUHSC's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

LSUHSC has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. LSUHSC has elected to not apply FASB pronouncements issued after the applicable date.

D. BUDGET PRACTICES

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

The budget amounts for fiscal year 2004 include the original approved budget and subsequent amendments approved as follows:

Original approved budget	\$501,432,721
Amendments:	
State General Fund	(97,146)
Interagency transfers	8,515,985
Other	<u>(3,160,922)</u>
Final budget	<u>\$506,690,638</u>

The other funds of LSUHSC, 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 and interest-bearing demand deposits. Cash equivalents include amounts in time deposits and money market funds. Under state law, LSUHSC 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. LSUHSC 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 Louisiana Revised Statute (R.S.) 49:327, LSUHSC 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. Investments are reported at fair value in accordance with GASB Statement No. 31. 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 Assets. Investments in open-end mutual funds are reported by LSUHSC as cash equivalents on the Statement of Net Assets. Investments maintained in investment accounts in the Foundations are authorized by policies and procedures established by the Board of Regents.

F. INVENTORIES

Inventories are valued at cost or replacement cost, except for inventory of the Dental School - New Orleans. These inventories are valued at current market prices. LSUHSC uses periodic and perpetual inventory systems and values its various inventories using the first-in, first-out and weighted-average valuation methods. LSUHSC accounts for its inventories using the consumption method.

G. NONCURRENT RESTRICTED ASSETS

Cash, investments, notes receivable, 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 Assets. Noncurrent restricted investments consist of endowments and similar type accounts 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.

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. Construction in progress costs are capitalized during construction. For movable property, LSUHSC'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 and land improvements that 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 Assets. LSUHSC 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 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. 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 university's leave policy, 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; however, sick leave is accumulated without limitation. Effective January 1, 1994, academic and unclassified employees were given the opportunity to elect to remain under the university's leave policy 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 class.

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

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 (3) other liabilities that will not be paid within the next fiscal year.

L. NET ASSETS

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

Invested in Capital Assets

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

Restricted Net Assets - Nonexpendable

Restricted nonexpendable net assets 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.

Restricted Net Assets - Expendable

Restricted expendable net assets consist of resources that LSUHSC is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets

Unrestricted net assets consist of resources derived from student tuition and fees, hospital income, 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.

M. CLASSIFICATION OF REVENUES

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

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; (3) hospital income; and (4) most federal, state, and local grants and contracts and federal appropriations.

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

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 Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by LSUHSC 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 campuses, departments, and auxiliary units of LSUHSC are eliminated for purposes of preparing the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

P. ADOPTION OF NEW ACCOUNTING PRINCIPLE

For the year ended June 30, 2004, the university implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. The implementation of this new accounting standard required additional disclosures but had no impact on the reported amounts of investments, net assets, or changes in net assets.

The Foundation for the LSU Health Sciences Center and Subsidiary, a nonprofit corporation and discrete component unit, follows FASB Statement No. 117, *Financial Statements for Not-for-Profit Organizations*, for report presentation.

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

LSUHSC 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.

FOUNDATION

**ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

A. ORGANIZATION

The Foundation for the LSU Health Sciences Center (the Foundation) supports the activities of LSUHSC. The Foundation is a nonprofit corporation organized under the laws of the State of Louisiana and is exempt from federal income tax by Section 501(c)(3) of the Internal Revenue Code of 1986. It qualifies as an organization that is not a private foundation as defined in Section 509(a) of the code. Effective July 1, 1999, the Foundation incorporated a wholly owned subsidiary, LSU Medical Center Institute of Professional Education. The Subsidiary separated from the Foundation as of March 31, 2004; however, the accounts of the Subsidiary through March 31, 2004, are blended with the accounts of the Foundation for the fiscal year ended June 30, 2004. All significant inter-organization accounts and transactions have been eliminated. The organization is supported primarily through donor contributions.

LSUHSC and the Foundation are in a management agreement related to endowed chairs and professorships. This agreement is in compliance with the Board of Regents policy and allows the Foundation to manage funds on behalf of LSUHSC according to established guidelines.

B. BASIS OF ACCOUNTING

The Foundation's and its Subsidiary's financial statements have been prepared on the accrual basis of accounting. Financial statement presentation follows the recommendations of FASB Statement No. 117, under which net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and its Subsidiary and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that the principal not be expended but rather invested to provide a permanent source of income for the Foundation's programs.

C. 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 certain amounts and disclosures. Accordingly, actual results could differ significantly from those estimates.

D. CASH AND CASH EQUIVALENTS

The Foundation considers all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents.

E. INVESTMENTS

Investments are carried at estimated current market value. Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the Statement of Financial Position.

F. CONTRIBUTIONS

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, i.e., when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

G. UNCONDITIONAL PROMISES TO GIVE

Contributions are recognized when a donor makes a promise to give to the Foundation that is, in substance, unconditional. The promises to give are recognized as assets and revenues, net of an allowance for uncollectible accounts. The allowance is based on experience and management's analysis of specific promises made. Management's estimate for the allowance of uncollectible promises to give at June 30, 2004, was

\$1,514,818. A recovery of uncollectible promises to give was recorded for the year ended June 30, 2004, as income in the amount of \$206,934.

H. PROPERTY AND EQUIPMENT

The Foundation capitalizes acquisitions of property, furniture and equipment, and accounting software purchased with unrestricted funds in excess of \$5,000. Costs of property and equipment purchased with unrestricted funds that are less than \$5,000 are charged to expense. The costs of these assets that are classified as program services expense is not capitalized by the Foundation as these assets are owned and used by departments of the LSUHSC. Acquisitions of these assets with restricted private donations are also not capitalized by the Foundation as these assets belong to the State of Louisiana. Capitalized assets are carried at cost or, if donated, at the approximate fair value at the date of donation. Accounting software purchased in prior years was capitalized as it was purchased with unrestricted funds. A building purchased May 2003 was renovated and placed in service October 2003. As of June 30, 2004, all other furniture, equipment, and accounting software owned by the Foundation were purchased with restricted private donations and have not been capitalized. Depreciation for the items being capitalized is provided on the straight-line method based on the estimated useful lives of the depreciable assets which range from four to five years to 40 years for the building.

I. NONCURRENT LIABILITIES

Noncurrent liabilities include principal amounts of bonds payable and other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

J. EXPENSE ALLOCATION

The costs of providing various programs and other activities are summarized on a functional basis in the financial statements. Accordingly, certain costs are allocated among the programs and supporting services benefited.

2. CASH AND CASH EQUIVALENTS

At June 30, 2004, LSUHSC has cash and cash equivalents (book balances) of \$82,005,534 as follows:

Petty cash	\$88,401
Interest-bearing demand deposits	81,765,520
Certificates of deposit and other	<u>151,613</u>
Total	<u><u>\$82,005,534</u></u>

NOTES TO THE FINANCIAL STATEMENTS

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

Current assets	\$68,568,927
Noncurrent assets - restricted	<u>13,436,607</u>
Total	<u><u>\$82,005,534</u></u>

Custodial credit risk is the risk that in the event of a bank failure, LSUHSC's deposits may not be recovered. Under state law, the university'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, 2004, \$31,393,082 of the LSUHSC's total bank balances of \$97,707,239 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$13,427,309
Uninsured and collateralized with securities held by the pledging institution	<u>17,965,773</u>
Total	<u><u>\$31,393,082</u></u>

FOUNDATION CASH

The Foundation maintains its cash accounts in several financial institutions. Accounts are insured by FDIC and insured for greater amounts by agreement with some accounts. At June 30, 2004, the Foundation reported \$855,458 of total cash. The Foundation at June 30, 2004, and its Subsidiary at March 31, 2004, had cash deposits in excess of federally insured limits in the amount of \$165,643 and \$983,598, respectively.

3. INVESTMENTS

At June 30, 2004, LSUHSC has investments totaling \$49,055,666.

LSUHSC maintains investment accounts as authorized under 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 LSUHSC’s investments follows:

	Percentage of Investments	Credit Quality Rating*	Fair Value	Investment Maturities	
				Less Than 1 Year	1 to 5 Years
Type of investment:					
Repurchase agreements	2.61%	Aaa	\$1,279,426	\$1,279,426	
U.S. government securities:					
Federal Home Loan Mortgage Corp ¹	24.27%		11,904,623	3,092,589	\$8,812,034
Federal National Mortgage Association ¹	6.88%		3,374,665	22,187	3,352,478
Federal Home Loan Bank	28.09%	Aaa	13,777,357	3,609,454	10,167,903
Federal Farm Credit Bank	0.51%	Aaa	248,769	1,817	246,952
Others: ²					
Investments held by foundations	37.03%		18,166,269		
Joint ventures	0.56%		275,000		
Common and preferred stock	0.06%		29,557		
Total investments	100.00%		\$49,055,666	\$8,005,473	\$22,579,367

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

¹ These securities are explicitly guaranteed by the U.S. government and credit ratings are not required.

² Credit quality ratings are not required for these investments that do not have specified maturities.

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 to 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. The university does not have policies to further limit credit risk.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of LSUHSC’s \$49,055,666 in total investments, \$1,554,426 of underlying securities are uninsured and unregistered with securities held by the counterparty or its trust department or agent but not in the university’s name. For U.S. Treasury obligations and U.S. government agency obligations, the university’s investment policies generally require that issuers must provide the university with safekeeping receipts, collateral agreements, and custodial agreements.

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

Investments held by private foundations in external investment pools are managed in accordance with the terms outlined in management agreements executed between the university and the foundations. The foundations hold and manage funds received by the university as state matching funds for the Eminent Scholars Endowed Chairs and Endowed Professorship Programs. LSUHSC has \$18,166,269 held by all private foundations.

NOTES TO THE FINANCIAL STATEMENTS

The LSU Healthcare Network routinely invests available operating funds in highly liquid U.S. government and agency obligations and money market mutual funds that generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government; however, management believes the credit risk related to these investments is minimal.

The LSU Healthcare Network - University Medical Group, LLC, (UMG), invested \$275,000 in the New Orleans Regional Physician Hospital Organization, Inc., (NORPHO) during the year ended June 30, 2000. NORPHO is responsible for pursuing contracts and third-party payors and for management functions such as financial services, medical management, claims management, member services and provider relations for its hospital and independent physician association members, including UMG. UMG holds an approximate 7% interest in NORPHO and accounts for the investment under the cost method.

FOUNDATION INVESTMENTS

As of June 30, 2004, Foundation investments consist of the following:

	Cost	Estimated Market Value	Unrealized Gain (Loss)
U.S. government agency mortgage-backed securities	\$5,253,023	\$5,090,753	(\$162,270)
U.S. government agency bonds and notes	3,170,256	3,859,844	689,588
Corporate bonds and notes	5,186,555	4,423,184	(763,371)
Mutual funds	44,770,261	50,497,899	5,727,638
Municipal bonds	135,000	137,820	2,820
Money market/certificate of deposit	166,191	166,191	
Total	<u>\$58,681,286</u>	<u>\$64,175,691</u>	<u>\$5,494,405</u>

Investment return for the year ending June 30, 2004, is summarized as follows:

Investment expense	(\$69,673)
Interest and dividend income	1,516,149
Realized gains	206,006
Net unrealized gain	<u>5,494,405</u>
Total investment gain	<u>\$7,146,887</u>

The Foundation's Board of Directors has been advised by legal counsel that under Louisiana state law, the gains from sales of securities and increase in market value are treated as principal and must be retained in endowment fund accounts. However, under the Uniform Management of Institutional Funds Act adopted in Louisiana, such gains and appreciation in value may be expended for the purposes designated by the donors if it is prudent in the judgment of the Board of Directors after considering the long- and short-term needs of LSUHSC, its present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions.

If any donor stipulates that realized and unrealized investment gains should not be spent on the restricted purpose for which a fund was originated, then such gains are added to investment principal and are not expendable in the future. No such stipulations are present at June 30, 2004.

4. RECEIVABLES

Receivables as shown on the university's Statement of Net Assets, net of an allowance for doubtful accounts, are composed of the following:

<u>Type</u>	<u>Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>
Student tuition and fees	\$353,101		\$353,101
Auxiliary enterprises	1,193,248	(\$16,000)	1,177,248
Federal, state, and private Clinics	49,064,685		49,064,685
	85,733,617	(47,779,746)	37,953,871
Other	613,314		613,314
	<u>613,314</u>	<u>(47,779,746)</u>	<u>613,314</u>
Total	<u>\$136,957,965</u>	<u>(\$47,795,746)</u>	<u>\$89,162,219</u>

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Balance June 30, 2003	Prior Period Adjustment	Restated Balance June 30, 2003	Additions	Transfers and Retirements	Balance June 30, 2004
Capital assets not being depreciated						
Land	\$15,555,628	\$19,000,000	\$34,555,628	\$8,781	\$1,729,620	\$36,294,029
Construction in progress	40,973,074	4,479,708	45,452,782	15,788,336	(15,990,219)	45,250,899
Total capital assets not being depreciated	\$56,528,702	\$23,479,708	\$80,008,410	\$15,797,117	(\$14,260,599)	\$81,544,928
Other capital assets						
Infrastructure				\$2,340,385	\$6,019,114	\$8,359,499
Less accumulated depreciation				(104,494)		(104,494)
Total infrastructure	NONE	NONE	NONE	2,235,891	6,019,114	8,255,005
Land improvements	\$9,427,635	\$938,235	\$10,365,870	27,886		10,393,756
Less accumulated depreciation	(6,807,585)	(106,095)	(6,913,680)	(315,027)		(7,228,707)
Total land improvements	2,620,050	832,140	3,452,190	(287,141)	NONE	3,165,049
Buildings	333,220,587	7,481,903	340,702,490	4,587,845	8,241,485	353,531,820
Less accumulated depreciation	(200,845,648)	(266,697)	(201,112,345)	(10,301,279)		(211,413,624)
Total buildings	132,374,939	7,215,206	139,590,145	(5,713,434)	8,241,485	142,118,196
Equipment	164,275,749	(128,840)	164,146,909	21,239,803	(13,091,946)	172,294,766
Less accumulated depreciation	(107,275,256)	749,737	(106,525,519)	(18,779,839)	11,225,644	(114,079,714)
Total equipment	57,000,493	620,897	57,621,390	2,459,964	(1,866,302)	58,215,052
Library books	30,207,536		30,207,536	1,955,754	(47,896)	32,115,394
Less accumulated depreciation	(26,754,063)		(26,754,063)	(1,689,527)		(28,443,590)
Total library books	3,453,473	NONE	3,453,473	266,227	(47,896)	3,671,804
Total other capital assets	\$195,448,955	\$8,668,243	\$204,117,198	(\$1,038,493)	\$12,346,401	\$215,425,106
Capital Asset Summary:						
Capital assets not being depreciated	\$56,528,702	\$23,479,708	\$80,008,410	\$15,797,117	(\$14,260,599)	\$81,544,928
Other capital assets, at cost	537,131,507	8,291,298	545,422,805	30,151,673	1,120,757	576,695,235
Total cost of capital assets	593,660,209	31,771,006	625,431,215	45,948,790	(13,139,842)	658,240,163
Less accumulated depreciation	(341,682,552)	376,945	(341,305,607)	(31,190,166)	11,225,644	(361,270,129)
Capital assets, net	\$251,977,657	\$32,147,951	\$284,125,608	\$14,758,624	(\$1,914,198)	\$296,970,034

FOUNDATION FIXED ASSETS

A summary of the Foundation's fixed assets at June 30, 2004 follows:

Accounting software	\$49,646
Internet development software	12,380
Building	1,965,479
Total	2,027,505
Less accumulated depreciation	(96,369)
Total	\$1,931,136

Depreciation of \$83,184 was recorded for the year ended June 30, 2004.

The Foundation purchased a building (2000 Tulane) on May 15, 2003, for \$1,215,166 of which \$215,027 was for land and \$1,000,139 was for the building. The foundation renovated this building at a cost of \$965,340. Renovations were completed in October 2003.

6. PENSION PLANS

Plan Description. Substantially all employees of LSUHSC are members of two statewide, public employee retirement systems. Academic employees are generally members of the Teachers Retirement System of Louisiana (TRSLA), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. TRSLA 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 TRSLA 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 LSUHSC are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRSLA) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.8% of covered salaries to TRSLA and 15.8% of covered salaries to LASERS for fiscal year 2004. The State of Louisiana, through the annual appropriation to the LSUHSC, funds the university's employer contribution. The employer contributions to TRSLA for the years ended June 30, 2004, 2003, and 2002 were \$7,142,551, \$6,231,942, and \$5,696,897, respectively, and to LASERS for the years ended June 30, 2004, 2003, and 2002 were \$17,752,635, \$16,002,942, and \$14,051,818, respectively, equal to the required contributions for each year.

In December 1997, the LSU Healthcare Network established a 401(k) plan for the benefit of its employees. The plan permits employees to contribute up to 15% of their compensation to the plan, subject to certain limitations. At its discretion, the LSU Healthcare Network may make contributions to the 401(k) plan for the benefit of participating employees. For the year ended June 30, 2004, 401(k) plan expenses were \$362,854.

FOUNDATION RETIREMENT PLAN

Effective July 1, 2002, the Foundation established a Tax Deferred Annuity or 403(b) Plan. The Foundation's total contributions expense was \$46,557 as of June 30, 2004, which is included in salaries and benefits.

The Foundation contributes to the LSU Health Sciences Center Foundation 403(b) Plan, which is intended to be an ERISA Section 404(c) participant-directed plan. Participants exercise control over the assets in their accounts, which is funded exclusively through the purchase of annuity contracts for the Variable Annuity Life Insurance Company. Employees are eligible to participate upon the date of employment. Under the plan, the Foundation matches \$1 for \$1 amounts contributed up to 6% of the employee's compensation only if the employee has completed 12 months of service and is at least 21 years of age.

7. 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 TRSLA for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

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

Total contributions by the LSUHSC are 13.8% of the covered payroll for fiscal year 2004. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the actuarial committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligations of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$16,316,622 and \$9,473,905, respectively, for the year ended June 30, 2004.

8. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

LSUHSC 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 LSUHSC. The university recognizes the cost of providing these benefits to retirees (LSUHSC's portion of premiums) as an expense when paid during the year. These benefits for 1,098 retirees totaled \$5,457,787 for the year ended June 30, 2004.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a summary of LSUHSC’s accounts payable and accrued liabilities at June 30, 2004:

<u>Account Name</u>	
Vendor payables	\$20,037,326
Accrued salaries and payroll deductions	21,576,776
Accrued interest	159,444
Other	<u>2,603,328</u>
Total	<u><u>\$44,376,874</u></u>

10. REVENUE USED AS SECURITY ON REVENUE BONDS

The revenues of certain auxiliary enterprises at LSUHSC are restricted by terms in the covenants of certain debt instruments. The revenues reported on the Statement of Revenues, Expenses, and Changes in Net Assets include all auxiliary enterprise revenues but exclude sales to other LSUHSC departments or campuses, in accordance with accounting principles generally accepted in the United States of America. The following represents those restricted auxiliary enterprise revenues of certain auxiliary enterprises at LSUHSC that are used as security for revenue bonds; however, these amounts do include sales to other LSUHSC departments and campuses for the year ended June 30, 2004.

<u>Account Name</u>	
Residential life	\$1,244,383
Student union services, including bookstore	9,901,802
Miscellaneous	<u>15,446,460</u>
Total	<u><u>\$26,592,645</u></u>

11. COMPENSATED ABSENCES

At June 30, 2004, employees of the LSUHSC have accumulated and vested annual and sick leave benefits of \$29,556,411 and \$9,663,940, respectively. These amounts were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

12. LEASE OBLIGATIONS

Operating Leases

LSUHSC’s total rental expenses for all operating leases is \$5,708,358 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS

LSUHSC's lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period. Following are schedules by years of future minimum annual rental payments required under operating leases:

Nature of Operating Lease	2005	2006	2007	2008	2009	2010-2014	2015-2019
Office space	\$4,969,648	\$4,143,276	\$3,882,220	\$3,754,839	\$3,626,469	\$17,377,287	\$3,840,313
Equipment	161,871						
Other	132,660	104,100	34,700				
Total	<u>\$5,264,179</u>	<u>\$4,247,376</u>	<u>\$3,916,920</u>	<u>\$3,754,839</u>	<u>\$3,626,469</u>	<u>\$17,377,287</u>	<u>\$3,840,313</u>

Capital Leases

LSUHSC records items that are above the capitalization threshold under capital leases as assets and obligations in the accompanying financial statements. The following is a schedule of future minimum lease payments under these capital leases, together with the present value of minimum lease payments at June 30, 2004:

<u>Fiscal Year Ending June 30, 2004</u>	
2005	\$2,813,198
2006	2,726,239
2007	2,384,113
2008	2,251,747
2009	1,221,993
2010-2014	3,772,901
2015-2019	4,009,365
Total minimum lease payments	<u>19,179,556</u>
Less - amount representing executory costs	NONE
Net minimum lease payments	<u>19,179,556</u>
Less - amount representing interest	<u>(4,438,442)</u>
Present value of net minimum lease payments	<u>\$14,741,114</u>

Lessor - Operating Lease

The leasing operations consist primarily of the leasing of property to provide office space for various purposes.

The following schedule provides an analysis of the university's investment in property on operating leases and property held for lease by major classes as of June 30, 2004:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Office space	<u>\$51,442</u>	<u>(\$36,772)</u>	<u>\$14,670</u>

The following is a schedule by years of minimum future rentals on noncancellable operating leases as of June 30, 2004:

Nature of <u>Operating Lease</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2014</u>	<u>2015-2019</u>
Office space	\$3,144	\$3,144	\$3,144	\$3,144	\$3,144	\$15,720	\$15,720
Other	<u>63,482</u>	<u>46,795</u>	<u>43,124</u>	<u>25,291</u>	<u>8,768</u>		
Total	<u>\$66,626</u>	<u>\$49,939</u>	<u>\$46,268</u>	<u>\$28,435</u>	<u>\$11,912</u>	<u>\$15,720</u>	<u>\$15,720</u>

Minimum future rentals do not include contingent rentals that may be received as stipulated in the lease contracts. These contingent rental payments occur as a result of sales volume or customer usage of services provided. Contingent rentals received from operating leases for the year ended June 30, 2004, were \$64,184.

FOUNDATION LEASE OBLIGATIONS

Operating Lease

As of September 1, 2000, the Foundation and its Subsidiary had entered into an operating lease agreement for the rental of office space, expiring on August 31, 2003. The Foundation's rent expense for the year ended June 30, 2004, was \$15,993. The Foundation moved into a building it purchased in September 2003. On October 1, 2003, the Subsidiary entered into an agreement with the University of New Orleans Foundation to lease office space in the amount of \$1,874 per month. The Subsidiary had rent expense for the nine months ended March 31, 2004, in the amount of \$18,565.

Lessor Leases - Operating and Capital

The Foundation entered into a lease agreement with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College in November 2003. The lease terms include 60 monthly payments of \$10,295 for office space leased on three floors of the Foundation's building (2000 Tulane). Partial payments on the lease were received for November 2003 to February 2004 as all three floors were not occupied by the tenant until March 2004. Rental income for the year ended June 30, 2004, was \$63,927.

NOTES TO THE FINANCIAL STATEMENTS

Minimum future lease payments to be received as of June 30, 2004, are as follows for (2000 Tulane):

<u>Year Ending June 30</u>	
2005	\$123,540
2006	123,540
2007	123,540
2008	123,540
2009	<u>59,613</u>
 Total	 <u><u>\$553,773</u></u>

The Foundation purchased a building (1825 Tulane Avenue) for \$606,275 on September 4, 2002. On the same day, the Foundation entered into an agreement with LSUHSC to lease this building for a term of three years ending on September 4, 2005, with a monthly payment of \$18,500. On September 25, 2003, the Foundation entered into a supplemental agreement with LSUHSC to renegotiate the terms of the lease of this building for a term of six years and two months ending on August 5, 2009, with a monthly payment of \$7,597. The terms of lease meet the criteria for a capital lease as defined by Statement of Financial Accounting Standards (SFAS) Number 13. As a result, a note receivable was recorded in fiscal 2004 in the amount of \$747,175. Unearned interest income of \$140,900 was recorded and netted against the note receivable. The fixed interest rate on the note receivable is 7.50%. At June 30, 2004, the note receivable, net is \$389,486 consisting of a note receivable of \$471,012 with unearned interest of \$81,526.

Minimum future lease payments to be received under capital leases as of June 30, 2004, and in the aggregate are:

<u>Year Ending June 30</u>	
2005	\$91,163
2006	91,163
2007	91,163
2008	91,163
2009	91,163
2010	<u>15,197</u>
Total	471,012
Less interest	<u>(81,526)</u>
 Present value of net minimum lease	 <u><u>\$389,486</u></u>

13. LONG-TERM LIABILITIES

The following is a summary of the university's bond and other long-term debt transactions for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Bonds payable	\$15,290,000		(\$230,000)	\$15,060,000	\$245,000
Notes payable	598,234		(122,450)	475,784	64,094
Capital lease obligations	15,326,665	\$2,416,236	(3,001,787)	14,741,114	2,132,794
Subtotal	31,214,899	2,416,236	(3,354,237)	30,276,898	2,441,888
Other liabilities - accrued compensated absences payable	37,576,142	5,159,784	(3,515,575)	39,220,351	2,251,265
Total	\$68,791,041	\$7,576,020	(\$6,869,812)	\$69,497,249	\$4,693,153

Details of all debt outstanding for the year ending June 30, 2004, follows:

Bonds Payable

Issue	Date of Issue	Original Issue	Outstanding June 30, 2003	(Redeemed)	Outstanding June 30, 2004	Interest Rates	Interest Outstanding June 30, 2004
LSUHSC - New Orleans Building Revenue Bonds - Series 2000	Feb. 3, 2000	\$15,910,000	\$15,290,000	(\$230,000)	\$15,060,000	4.9%	\$16,605,721

All of the university's auxiliary enterprise revenues are available as security for the outstanding revenue bonds at June 30, 2004.

The annual requirements to amortize the university's bonds to maturity including interest of \$16,605,721 at June 30, 2004, are as follows:

NOTES TO THE FINANCIAL STATEMENTS

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$245,000	\$930,964	\$1,175,964
2006	255,000	918,714	1,173,714
2007	265,000	905,708	1,170,708
2008	280,000	892,061	1,172,061
2009	295,000	877,361	1,172,361
2010-2014	1,745,000	4,120,936	5,865,936
2015-2019	2,345,000	3,519,167	5,864,167
2020-2024	3,170,000	2,690,236	5,860,236
2025-2029	4,315,000	1,543,386	5,858,386
2030-2034	2,145,000	207,188	2,352,188
Total	<u><u>\$15,060,000</u></u>	<u><u>\$16,605,721</u></u>	<u><u>\$31,665,721</u></u>

Notes Payable

The future annual requirements to amortize the notes outstanding at June 30, 2004, to maturity are as follows:

<u>LSUHSC - New Orleans</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$64,094		\$64,094
2006	68,085		68,085
2007	72,120		72,120
2008	76,638		76,638
2009	81,038		81,038
2010	104,886		104,886
2011	8,923		8,923
Total	<u><u>\$475,784</u></u>	<u><u>NONE</u></u>	<u><u>\$475,784</u></u>

On September 1, 2003, LSU Healthcare Network Surgery Center entered into a revolving credit facility with Chase secured by the center's accounts receivable. Interest is payable monthly at 3%, and \$300,000 has been drawn as of June 30, 2004.

FOUNDATION BONDS PAYABLE

Bonds payable of the Foundation at June 30, 2004, are as follows:

Bonds payable net, variable rate, issued January 2002	<u><u>\$2,003,182</u></u>
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The Foundation issued bonds totaling \$2,035,000 to finance the renovation of the new building in January 2002. Bond amortization expense for fiscal year ended June 30, 2004, was \$1,592. Unamortized bond issuance costs at June 30, 2004, is \$31,818. Bond proceeds available at

LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER _____

June 30, 2004, are held by the trustee in restricted cash accounts. Restricted cash at year end totaled \$82,545. No principal payments were made on the bonds for the year ended June 30, 2004. Interest was paid on the bonds in the amount of \$27,915. Interest in the amount of \$6,427 was capitalized as building and building renovations. Interest in the amount of \$21,488 was expensed for the fiscal year.

Future maturities of the Foundation's revenue bonds, by year, at June 30, 2004, are as follows:

Year Ending June 30:	
2005	\$65,000
2006	70,000
2007	75,000
2008	75,000
2009	80,000
2010-2014	445,000
2015-2019	550,000
2020-2023	<u>675,000</u>
Total	<u><u>\$2,035,000</u></u>

Amounts Held in Custody for Others

Under agreements with LSU Agricultural and Mechanical College, the Foundation holds and manages funds received by LSU as state matching funds for various accounts of the Eminent Scholars Endowed Chairs and Endowed Professorship Programs. Funds held in custody were \$13,117,119 on June 30, 2004.

14. RESTRICTED NET ASSETS

LSUHSC has the following restricted net assets at June 30, 2004:

Nonexpendable - endowments	<u><u>\$53,625,156</u></u>
Expendable:	
Student fees	\$441,208
Grants and contracts	13,355,185
Gifts	101,932
Endowment earnings	4,595,732
Student loan funds	14,513,660
Capital construction	3,663,037
Other	<u>4,982,507</u>
Total expendable	<u><u>\$41,653,261</u></u>

15. CONTINGENT LIABILITIES

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. LSUHSC (including the Healthcare Network) is involved in five lawsuits at June 30, 2004. In the opinion of the legal counsel of the university, there is no exposure to the university for three of the cases and the exposure is unknown for the remaining two cases. This does not include any lawsuits filed with the university system or the Office of Risk Management.

16. FOUNDATIONS

As indicated previously, the accompanying financial statements include the accounts of the Foundation for the LSU Health Sciences Center and Subsidiary. This organization is a separate corporation whose financial statements are subject to audit by independent certified public accountants.

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

- LSU Medical Alumni Association
- LSU School of Dentistry Alumni Association
- LSU School of Nursing Alumni Association
- LSU Health Sciences Center in Shreveport Foundation

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

LSUHSC contracted with the Foundation to invest the university's Endowed Chairs for Eminent Scholars endowment funds and Endowed Professorship Program endowment funds, which were created in accordance with R.S. 17:3384. The Endowed Chairs for Eminent Scholars are established for \$1,000,000 each, with \$600,000 of private contributions and \$400,000 of state matching portion allocated by the Board of Regents for Higher Education. The Endowed Professorship Program endowment funds are established for \$100,000 each, with \$60,000 of private contributions and \$40,000 of state matching portion allocated by the Board of Regents for Higher Education.

FOUNDATION DISCLOSURE

Some of the medical education courses provided by the Foundation's Subsidiary are sponsored by various medical departments at the LSUHSC School of Medicine - New Orleans. The School of Medicine shares in the revenue and expenses of these courses. For the fiscal year ended June 30, 2004, the Subsidiary accrued approximately \$121,000 payable to the School of Medicine for its portion of net income of specific courses.

Effective March 31, 2004, the Foundation’s Subsidiary changed its sole member from the Foundation to the LSU School of Medicine - New Orleans Medical Alumni Association, a Louisiana nonprofit corporation. The change was approved by the Foundation and the Subsidiary’s Board of Directors. The Subsidiary’s assets, liabilities, and net assets as of March 31, 2004, were \$1,136,979, \$646,138, and \$490,841, respectively. The June 30, 2004, financial statements of the Foundation include the accounts of the Subsidiary through March 31, 2004.

17. 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. The amount of on-behalf payments for salaries and fringe benefits included in the university’s accompanying financial statements for the fiscal year ended June 30, 2004, was \$161,921.

18. 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.

19. DUE FROM (TO) STATE TREASURY

<u>Description</u>	
SELF funds	\$172,484
Tobacco tax	9,691,401
Faculty pay plan	105,462
Unclaimed property	(56,238)
Unexpended appropriation return	<u>(48,152)</u>
Total	<u><u>\$9,864,957</u></u>

20. RESTATED BEGINNING NET ASSETS

The following adjustments were made to beginning net assets as reflected on Statement C:

Net Assets, June 30, 2003, previously reported	\$372,325,409
Adjustments:	
Transfer of New Orleans Adolescent Hospital	25,808,540
Deferred revenue adjustment	19,283,245
Corrections of property, plant, and equipment	6,339,411
Reclass free care anesthesia	(1,394,102)
Restate FY03 medicaid receivable amounts	<u>425,118</u>
Beginning Net Assets, July 1, 2003, as restated	<u><u>\$422,787,621</u></u>

Combining Schedule of Net Assets - by Campus

Schedule 1 presents the current and long-term portions of assets and liabilities and net assets for each campus.

**Combining Schedule of Revenues, Expenses,
and Changes in Net Assets - by Campus**

Schedule 2 presents information showing how the assets of each campus changed as a result of current year operations.

Combining Schedule of Cash Flows - by Campus

Schedule 3 presents information showing how each campus' cash changed as a result of current year operations.

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**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM**

**Combining Schedule of Net Assets - by Campus
For the Year Ended June 30, 2004**

	<u>NEW ORLEANS</u>	<u>SHREVEPORT</u>	<u>ELIMINATION</u>	<u>TOTAL</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$22,153,685	\$46,415,242		\$68,568,927
Investments	1,279,426	2,406,064		3,685,490
Receivables, net	57,030,503	32,192,708	(\$60,992)	89,162,219
Due from other campuses	22,915,656	806,866	(3,856)	23,718,666
Due from State Treasury	8,209,388	1,655,569		9,864,957
Inventories	2,728,988	7,386,669		10,115,657
Deferred charges and prepaid expenses	680,086	133,282		813,368
Notes receivable, net	2,202,361	453,837		2,656,198
Total current assets	<u>117,200,093</u>	<u>91,450,237</u>	<u>(64,848)</u>	<u>208,585,482</u>
Noncurrent Assets				
Restricted assets:				
Cash and cash equivalents		13,436,607		13,436,607
Investments	15,982,125	29,113,051		45,095,176
Notes receivable, net	7,791,357	895,329		8,686,686
Investments	275,000			275,000
Capital assets, net	182,537,842	114,432,192		296,970,034
Other noncurrent assets	345,402			345,402
Total noncurrent assets	<u>206,931,726</u>	<u>157,877,179</u>	<u>NONE</u>	<u>364,808,905</u>
Total Assets	<u>324,131,819</u>	<u>249,327,416</u>	<u>(64,848)</u>	<u>573,394,387</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	31,537,782	12,903,940	(64,848)	44,376,874
Deferred revenues	1,198,237	1,968,912		3,167,149
Amounts held in custody for others	1,612,211	48,462		1,660,673
Compensated absences payable	1,311,741	939,524		2,251,265
Capital lease obligations	96,322	2,036,472		2,132,794
Notes payable	64,094			64,094
Bonds payable	245,000			245,000
Other current liabilities	300,000	6,998		306,998
Total current liabilities	<u>36,365,387</u>	<u>17,904,308</u>	<u>(64,848)</u>	<u>54,204,847</u>
Noncurrent Liabilities				
Compensated absences payable	19,622,500	17,346,586		36,969,086
Capital lease obligations	351,029	12,257,291		12,608,320
Notes payable	411,690			411,690
Bonds payable	14,815,000			14,815,000
Total noncurrent liabilities	<u>35,200,219</u>	<u>29,603,877</u>	<u>NONE</u>	<u>64,804,096</u>
Total Liabilities	<u>71,565,606</u>	<u>47,508,185</u>	<u>(64,848)</u>	<u>119,008,943</u>
NET ASSETS				
Invested in capital assets, net of related debt	166,554,706	100,138,429		266,693,135
Restricted for:				
Nonexpendable	17,312,652	36,312,504		53,625,156
Expendable	22,019,822	19,633,439		41,653,261
Unrestricted	46,679,033	45,734,859		92,413,892
Total Net Assets	<u>\$252,566,213</u>	<u>\$201,819,231</u>	<u>NONE</u>	<u>\$454,385,444</u>

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**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM**

**Combining Schedule of Revenues, Expenses,
and Changes in Net Assets - by Campus
For the Year Ended June 30, 2004**

	NEW ORLEANS	SHREVEPORT	TOTAL
OPERATING REVENUES			
Student tuition and fees	\$14,854,078	\$4,761,846	\$19,615,924
Less scholarship allowances	(1,956,206)	(242,966)	(2,199,172)
Net student tuition and fees	12,897,872	4,518,880	17,416,752
Federal grants and contracts	41,225,879	15,620,836	56,846,715
State and local grants and contracts	92,020,057	18,575,873	110,595,930
Nongovernmental grants and contracts	64,931,887	9,927,020	74,858,907
Sales and services of educational departments	75,164,773	83,247,366	158,412,139
Hospital income		218,200,770	218,200,770
Auxiliary enterprise revenues	13,537,261	8,761,573	22,298,834
Other operating revenues	773,242	1,023,896	1,797,138
Total operating revenues	300,550,971	359,876,214	660,427,185
OPERATING EXPENSES			
Educational and general:			
Instruction	159,304,886	47,445,192	206,750,078
Research	72,545,873	36,191,193	108,737,066
Public service	88,785,966	57,396,723	146,182,689
Academic support	49,213,810	4,946,918	54,160,728
Student services	2,988,164	887,104	3,875,268
Institutional support	35,705,396	26,355,884	62,061,280
Operation and maintenance of plant	17,162,816	18,743,980	35,906,796
Scholarships and fellowships	714,611	588,271	1,302,882
Auxiliary enterprises	13,170,384	8,089,454	21,259,838
Hospital	1,466,203	220,353,309	221,819,512
Total operating expenses	441,058,109	420,998,028	862,056,137
Operating loss	(140,507,138)	(61,121,814)	(201,628,952)
NONOPERATING REVENUES AND (EXPENSES)			
State appropriations	141,798,071	60,253,862	202,051,933
Gifts	1,789,731	(16,255)	1,773,476
Net investment income	731,666	1,015,787	1,747,453
Interest expense	(1,164,029)	(714,695)	(1,878,724)
Net nonoperating revenues	143,155,439	60,538,699	203,694,138
Income (loss) before other revenues, expenses, gains, and losses	2,648,301	(583,115)	2,065,186
Capital appropriations	4,334,607	12,802,313	17,136,920
Capital gifts and grants	1,340,384		1,340,384
Additions to permanent endowments	2,182,959	9,300,000	11,482,959
Other deductions, net		(427,626)	(427,626)
Increase in net assets	10,506,251	21,091,572	31,597,823
Net assets at beginning of year (restated)	242,059,962	180,727,659	422,787,621
Net assets at end of year	\$252,566,213	\$201,819,231	\$454,385,444

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**LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM**

**Combining Schedule of Cash Flows - by Campus
For the Year Ended June 30, 2004**

	NEW ORLEANS	SHREVEPORT	SNA ELIMINATION	TOTAL
Cash flows from operating activities				
Student tuition and fees	\$12,765,486	\$4,771,483		\$17,536,969
Grants and contracts	190,620,957	45,774,758	(\$528,632)	235,867,083
Sales and services of educational departments	70,909,620	85,017,047		155,926,667
Hospital income		221,386,334		221,386,334
Auxiliary enterprise receipts	14,929,956	8,741,925		23,671,881
Payments for employee compensation	(250,515,667)	(228,604,112)	469,958	(478,649,821)
Payments for benefits	(33,692,361)	(39,686,138)	42,849	(73,335,650)
Payments for utilities	(7,162,070)	(4,448,850)	15,825	(11,595,095)
Payments for supplies and services	(118,404,957)	(126,600,242)		(245,005,199)
Payments for scholarships and fellowships	(139,258)	(580,268)		(719,526)
Loans to students	(1,967,655)	(244,316)		(2,211,971)
Collection of loans to students	2,202,361	453,837		2,656,198
Other receipts	16,466,739	1,037,157		17,503,896
Net cash used by operating activities	<u>(103,986,849)</u>	<u>(32,981,385)</u>	NONE	<u>(136,968,234)</u>
Cash flows from noncapital financing activities				
State appropriations	133,505,129	57,900,980		191,406,109
Gifts and grants for other than capital purposes	1,956,628	(16,255)		1,940,373
Private gifts for endowment purposes		9,300,000		9,300,000
TOPS receipts	985,140	37,568		1,022,708
TOPS disbursements	(923,003)	(37,568)		(960,571)
Other disbursements		(510,201)		(510,201)
Net cash provided by noncapital financing sources	<u>135,523,894</u>	<u>66,674,524</u>	NONE	<u>202,198,418</u>
Cash flows from capital financing activities				
Proceeds from capital debt	310,500			310,500
Capital appropriations received	4,465,384	12,802,313		17,267,697
Capital grants and gifts received	1,340,384			1,340,384
Purchase of capital assets	(19,882,684)	(22,702,144)		(42,584,828)
Principal paid on capital debt and leases	(490,806)	(3,514,141)		(4,004,947)
Interest paid on capital debt and leases	(1,164,024)	(714,695)		(1,878,719)
Other (uses)		(427,626)		(427,626)
Net cash used by capital financing activities	<u>(15,421,246)</u>	<u>(14,556,293)</u>	NONE	<u>(29,977,539)</u>
Cash flows from investing activities				
Proceeds from sales and maturities of investments		12,424,597		12,424,597
Interest received on investments	1,105,051	1,391,441		2,496,492
Purchase of investments		(20,202,618)		(20,202,618)
Net cash provided (used) by investing activities	<u>1,105,051</u>	<u>(6,386,580)</u>	NONE	<u>(5,281,529)</u>
Net increase in cash and cash equivalents	17,220,850	12,750,266	NONE	29,971,116
Cash and cash equivalents at beginning of year	<u>4,932,835</u>	<u>47,101,583</u>	NONE	<u>52,034,418</u>
Cash and cash equivalents at end of year	<u>\$22,153,685</u>	<u>\$59,851,849</u>	NONE	<u>\$82,005,534</u>

(Continued)

LOUISIANA STATE UNIVERSITY HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
Combining Schedule of Cash Flows - by Campus, 2004

	NEW ORLEANS	SHREVEPORT	SNA ELIMINATION	TOTAL
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities				
Operating loss	(\$140,507,138)	(\$61,121,814)		(\$201,628,952)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	11,659,571	19,116,830		30,776,401
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable, net	18,217,263	6,524,439	\$528,632	25,270,334
(Increase) decrease in inventories	10,434	980,676		991,110
(Increase) decrease in deferred charges and prepaid expenses	(476,334)	76,421		(399,913)
(Increase) decrease in notes receivable	234,707	209,521		444,228
(Increase) decrease in other assets	5,950,638			5,950,638
Increase (decrease) in accounts payable and accrued liabilities	3,802,680	455,679	(528,632)	3,729,727
Increase (decrease) in deferred revenues	(3,778,239)	514,795		(3,263,444)
Increase (decrease) in amounts held in custody for others	(530,165)	13,263		(516,902)
Increase (decrease) in compensated absences	1,429,734	241,926		1,671,660
Increase (decrease) in other liabilities		6,879		6,879
Net cash provided (used) by operating activities	<u>(\$103,986,849)</u>	<u>(\$32,981,385)</u>	<u>NONE</u>	<u>(\$136,968,234)</u>
Reconciliation of Cash and Cash Equivalents to the SNA				
Cash and cash equivalents classified as current assets	\$22,153,685	\$46,415,242		\$68,568,927
Cash and cash equivalents classified as noncurrent assets		13,436,607		13,436,607
Cash and cash equivalents at year-end	<u>\$22,153,685</u>	<u>\$59,851,849</u>	<u>NONE</u>	<u>\$82,005,534</u>

(Concluded)

Management Letter



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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December 20, 2004

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
New Orleans, Louisiana

We have reviewed the financial statements of Louisiana State University Health Sciences Center, as of and for the year ended June 30, 2004, and have issued our accountant's review report thereon dated December 20, 2004. Louisiana State University Health Sciences Center is a university within the Louisiana State University System, a component unit of the State of Louisiana. The university's accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion. 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 accountant's review report referred to previously.

We did not review the financial statements of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice doing business as LSU Healthcare Network and Subsidiaries, a blended component unit of the university included in the university's basic financial statements representing approximately 2% of total assets, 3% of total liabilities, 3% of total revenues, and 3% of total expenses of the LSU Health Sciences Center. We also did not review the financial statements of the Foundation for the LSU Health Sciences Center and Subsidiary, a discretely presented component unit of the university included in the university's basic financial statements. The financial statements of LSU Healthcare Network and Subsidiaries and the Foundation for the LSU Health Sciences Center and Subsidiary were audited by other auditors whose reports thereon have been furnished to us, and the results of our review expressed herein, insofar as it relates to the amounts included for the LSU Healthcare Network and Subsidiaries and the Foundation for the LSU Health Sciences Center and Subsidiary is based solely upon the reports of the other auditors.

Our review of the financial statements did not disclose any transactions entered into by the university 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 university'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 Louisiana State University Health Sciences 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.

In our prior years' management letters on Louisiana State University Health Sciences Center, we reported findings relating to no formal disaster recovery plan and noncompliance with record retention law. The finding pertaining to record retention has been resolved by management. The disaster recovery plan finding has not been sufficiently resolved by management and will be repeated.

No Formal Disaster Recovery Plan

For the second consecutive year, Louisiana State University Health Sciences Center (LSUHSC) does not have a formal disaster recovery/contingency plan to provide for continued business processing functions in the event that normal data processing facilities are unavailable for an extended period of time. Good internal control requires that the university develop a written and functional disaster recovery plan that will allow for continued operation of critical services in the event of an unexpected interruption. In addition, provisions of the plan should be tested periodically to ensure a timely and orderly return to regular operations.

Although the LSUHSC Office of Computer Services has addressed issues related to file backup and offsite storage, current policies and procedures do not include a comprehensive plan related to disaster recovery. Failure to develop a written, functional, and tested disaster recovery plan increases the risk that in the event of a disaster, critical data may be lost or there may be an untimely or excessive delay in processing critical data.

LSUHSC should develop a disaster recovery plan that identifies critical system hardware, software, and telecommunication components. The university should also test the plan to ensure that it provides for an orderly restoration of services in the event of an unexpected interruption in operations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A).

The recommendation in this letter represents, in our judgment, that most likely to bring about beneficial improvement to the operations of LSUHSC. The nature of the recommendation, its implementation costs, and its potential impact on the operations of the LSUHSC should be considered in reaching decisions on courses of action.

This management letter is intended solely for the information and use of Louisiana State University Health Sciences Center and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under state law, this letter is a public record.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

KML:JR:PEP:dl

[LSUHSC04]

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



School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

August 17, 2004

Re: Response to Audit Finding: No Formal Disaster Recovery Plan

Mr. Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

I concur with the finding and recommendation.

Corrective action plan:

LSUHSC is an active participant in the LSU System Office Committee on Information Security. Originally created to develop a comprehensive information security program to address compliance with 45 CFR §164.308 (HIPAA Security Rule) its scope has been expanded to address compliance with 16 CFR §314 (Gramm Leach Bliley Safeguard Rule), 21 CFR §11 and Louisiana State OIT policies for all LSU campuses. This workgroup has the following initiatives underway:

- Met with Michael Gusky, Chief Information Security Officer for the State Office of Information Technology to coordinate efforts.
- Began a risk assessment process of all information technology assets.
- On August 2, 2004 completed a Resource Inventory which identified all applications in use by LSU campuses and ranked them according to several areas of criticality.
- Began development of a set of information security policies including a business continuity/disaster recovery policy.

Still to be accomplished are the following:

- Complete development of the business continuity/disaster recovery policy.
- Complete a follow-up survey on applications identified as being critical to LSU operations documenting existing risks and controls in place.

- Use information gained from surveys to identify additional controls to mitigate documented risks.
- Develop implementation plan for additional controls.
- Use information gained from surveys to complete the formal written disaster plan in accordance with international standard ISO 17799-11.1 and NIST standard 800-34.
- Development of a testing and revision strategy.

Anticipated Completion Date:

The target date to complete the formal disaster recovery plan is fourth quarter of FY '05 although the implementation timeframes of specific controls may be affected by the availability of funds.

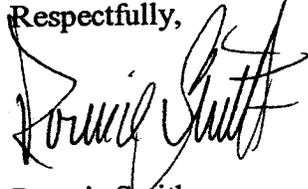
Person responsible for corrective action:

David Troendle, Assistant Vice Chancellor for Information Technology

Phone: 504-568-6130

Email: dtroen@lsuhsc.edu

Respectfully,



Ronnie Smith

Vice Chancellor for Administration and Finance