LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

INDEPENDENT ACCOUNTANT'S REVIEW REPORT
FOR THE YEAR ENDED JUNE 30, 2013
ISSUED DECEMBER 18, 2013

LOUISIANA LEGISLATIVE AUDITOR
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DARYL G. PURPERA, CPA, CFE

FIRST ASSISTANT LEGISLATIVE AUDITOR AND STATE AUDIT SERVICES
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 5, 2013

Independent Accountant's Review Report

LOUISIANA STATE UNIVERISTY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERISTY SYSTEM
STATE OF LOUISIANA
Shreveport, Louisiana

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

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

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

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

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress for the Other Postemployment Benefits Plans on page 45 be presented to supplement the basic financial statements. Such information, though not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us, and we do not express an opinion or provide any assurance on it.

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

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KWB:BAC:THC:ch

LSUHSCS 2013

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Net Position
June 30, 2013

ASSETS	
Current Assets:	
Cash and cash equivalents (note 2)	$138,286,012
Investments (note 3)	38,685,541
Receivables, net (note 4)	87,223,301
Due from other campuses	4,268,146
Due from state treasury, net (note 13)	5,705,983
Due from federal government (note 4)	2,734,582
Inventories	12,767,854
Deferred charges and prepaid expenses	332,261
Notes receivable	253,245
Total current assets	290,256,925
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents (note 2)	19,113,336
Investments (note 3)	58,807,871
Notes receivable	1,312,311
Capital assets, net (note 5)	118,843,963
Total noncurrent assets	198,077,481
Total assets	488,334,406
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities (note 6)	30,180,934
Due to other campuses	230,892
Deferred revenues	2,928,725
Amounts held in custody for others	853,497
Compensated absences (notes 10 and 12)	2,393,752
Capital lease obligations (note 12)	1,468,455
Total current liabilities	38,056,255

(Continued)

See accompanying notes and independent accountant's review report.

**LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Position
June 30, 2013**

LIABILITIES (CONT.)	
Noncurrent Liabilities:	
Compensated absences (notes 10 and 12)	$23,647,032
Capital lease obligations (note 12)	4,927,059
Other postemployment benefits payable (notes 8 and 12)	182,066,891
Total noncurrent liabilities	210,640,982
Total liabilities	248,697,237
NET POSITION	
Net investment in capital assets	112,448,449
Restricted for:	
Nonexpendable (note 14)	60,780,453
Expendable (note 14)	35,705,325
Unrestricted	30,702,942
Total net position	$239,637,169

(Concluded)

See accompanying notes and independent accountant's review report.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

LOUSIANA STATE UNIVERSITY HEALTH
SCIENCES FOUNDATION IN SHREVEPORT

Statement of Financial Position
June 30, 2013

ASSETS	
Current Assets:	
Cash and cash equivalents	$1,861,564
Investments (note 3)	5,727,447
Accounts receivable, net	458,953
Unconditional promises to give	28,300
Total current assets	8,076,264
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	3,579,822
Investments (note 3)	161,023,929
Property and equipment, net	4,325,530
Other noncurrent assets	22,428
Total noncurrent assets	168,951,709
Total assets	177,027,973
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	2,077,294
Amounts held in custody for others (note 16)	62,560,128
Notes payable (note 12)	110,563
Total current liabilities	64,747,985
Noncurrent Liabilities:	
Notes payable (note 12)	424,432
Total noncurrent liabilities	424,432
Total liabilities	65,172,417

(Continued)

See accompanying notes and independent accountant's review report.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LOUSIANA STATE UNIVERSITY HEALTH
SCIENCES FOUNDATION IN SHREVEPORT
Statement of Financial Position
June 30, 2013

NET ASSETS	
Unrestricted	$13,156,330
Temporarily restricted (note 14)	86,586,654
Permanently restricted (note 14)	12,112,572
Total net assets	111,855,556
Total liabilities and net assets	$177,027,973

(Concluded)

See accompanying notes and independent accountant's review report.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

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

OPERATING REVENUES	
Student tuition and fees	$12,554,318
Less scholarship allowances	(384,068)
Net student tuition and fees	12,170,250
Federal grants and contracts	12,797,431
State and local grants and contracts	4,771,995
Nongovernmental grants and contracts	19,110,647
Sales and services of educational departments	78,058,896
Hospital income	461,134,255
Auxiliary enterprise revenues	10,672,265
Other operating revenues	247,809
Total operating revenues	598,963,548
OPERATING EXPENSES	
Educational and general:	
Instruction	55,936,037
Research	40,669,987
Public service	95,004,058
Academic support	8,789,775
Student services	1,405,384
Institutional support	23,448,400
Operation and maintenance of plant	8,259,502
Scholarships and fellowships	589,928
Auxiliary enterprises	10,227,736
Hospital	469,014,364
Total operating expenses	713,345,171
Operating Loss	(114,381,623)

(Continued)

See accompanying notes and independent accountant's review report.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

NONOPERATING REVENUES (Expenses)	
State appropriations	$78,490,190
Gifts	(103,712)
Federal nonoperating revenues	975,072
American Recovery and Reinvestment Act revenues	6,581,297
Net investment income	5,431,699
Interest expense	(387,466)
Other nonoperating expenses	(19,091,442)
Net nonoperating revenues	71,895,638
Loss Before Other Revenues and Expenses	(42,485,985)
Capital gifts and grants	188,808
Additions to permanent endowments	3,185,000
Other deductions, net	(596,973)
Change in Net Position	(39,709,150)
Net Position at Beginning of Year	279,346,319
Net Position at End of Year	$239,637,169

(Concluded)

See accompanying notes and independent accountant's review report.

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

**LOUSIANA STATE UNIVERSITY HEALTH
SCIENCES FOUNDATION IN SHREVEPORT
Statement of Activities
For the Year Ended June 30, 2013**

Changes in unrestricted net assets:	
Contributions	$586,506
Investment earnings	554,242
Service fees	2,091,788
Other revenues	66,843
Total unrestricted revenues	3,299,379
Net assets released from restrictions:	
Reclassification in net assets	(77,027)
Satisfaction of program expenses	5,786,246
Total unrestricted revenues and other support	9,008,598
Expenses:	
Amounts paid to benefit LSUHSC-S for:	
Projects specified by donors	5,786,246
Projects specified by the Board of Directors	1,622,693
Other:	
Property operations	150,438
Other	36,425
Total program expenses	7,595,802
Supporting services:	
Salaries and benefits	690,939
Occupancy	45,571
Office operations	55,097
Travel	5,515
Professional services	329,438
Dues and subscriptions	7,130
Meetings and development	62,413
Depreciation	72,922
Other	1,818
Total supporting services	1,270,843

(Continued)
See accompanying notes and independent accountant's review report.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LOUSIANA STATE UNIVERSITY HEALTH
SCIENCES FOUNDATION IN SHREVEPORT
Statement of Activities
For the Year Ended June 30, 2013

Changes in unrestricted net assets: (Cont.)	
Fund-raising expenses	$119,351
Total expenses	8,985,996
Increase in unrestricted net assets	22,602
Changes in temporarily restricted net assets:	
Contributions	4,728,817
Investment earnings	9,051,967
Total temporarily restricted revenues	13,780,784
Net assets released from restrictions:	
Reclassification in net assets	666,944
Satisfaction of program expenses	(5,666,879)
Increase in temporarily restricted net assets	8,780,849
Changes in permanently restricted net assets:	
Contributions	120,500
Investment earnings	1,395,112
Net assets released from donor restrictions:	
Reclassification in net assets	(589,917)
Released from donor restrictions	(119,367)
Increase in permanently restricted net assets	806,328
Increase in net assets	9,609,779
Net assets at beginning of year	102,245,777
Net assets at end of year	$111,855,556

(Concluded)
See accompanying notes and independent accountant's review report.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

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

Cash flows from operating activities	
Student tuition and fees	$12,389,662
Grants and contracts	36,699,355
Sales and services of educational departments	78,548,358
Hospital income	431,420,202
Auxiliary enterprise receipts	10,671,978
Payments for employee compensation	(362,867,196)
Payments for benefits	(101,951,910)
Payments for utilities	(8,566,704)
Payments for supplies and services	(202,103,769)
Payments for scholarships and fellowships	(589,928)
Loans to students	(188,234)
Collection of loans to students	233,304
Other receipts	984,310
Net cash used by operating activities	(105,320,572)
Cash flows from noncapital financing activities	
State appropriations	78,148,865
Gifts and grants for other than capital purposes	(103,712)
Private gifts for endowment purposes	3,185,000
Taylor Opportunity Program for Students receipts	84,206
Taylor Opportunity Program for Students disbursements	(84,206)
American Recovery and Reinvestment Act receipts	6,581,297
Direct lending receipts	17,926,704
Direct lending disbursements	(17,926,704)
Other disbursements	(21,343,663)
Net cash provided by noncapital financing activities	66,467,787
Cash flows from capital financing activities	
Capital gifts and grants received	144,933
Purchase of capital assets	(11,181,173)
Principal paid on capital debt and leases	(1,396,135)
Interest paid on capital debt and leases	(387,466)
Other sources	18,853
Net cash used by capital financing activities	(12,800,988)

(Continued)

See accompanying notes and independent accountant's review report.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Cash flows from investing activities	
Proceeds from sales and maturities of investments	$180,756,840
Interest received on investments	6,854,366
Purchase of investments	(154,332,780)
Net cash provided by investing activities	33,278,426
Net decrease in cash and cash equivalents	(18,375,347)
Cash and cash equivalents at the beginning of the year	175,774,695
Cash and cash equivalents at the end of the year	$157,399,348
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($114,381,623)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	26,173,699
Changes in assets and liabilities:	
(Increase) in accounts receivable	(22,034,746)
(Increase) in inventories	(557,382)
(Increase) in deferred charges and prepaid expenses	(117,840)
Decrease in notes receivable	32,432
(Decrease) in accounts payable and accrued liabilities	(11,540,186)
Increase in deferred revenue	613,781
Increase in amounts held in custody for others	736,501
(Decrease) in compensated absences	(2,925,077)
Increase in other postemployment benefits payable	18,679,869
Net cash used by operating activities	($105,320,572)

(Continued)

See accompanying notes and independent accountant's review report.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash and cash equivalents classified as current assets	$138,286,012
Cash and cash equivalents classified as noncurrent assets	19,113,336
Cash and cash equivalents at the end of the year	$157,399,348
Noncash Investing, Capital and Financing Activities:	
Capital gifts	$43,875

(Concluded)

See accompanying notes and independent accountant's review report.

INTRODUCTION

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

The Center, located in Shreveport, Louisiana, serves as a university teaching hospital and offers degrees in medicine, allied health programs, and graduate studies. Student enrollment at the Center for the 2012 fall semester totaled 888.

Act 906 of the 2003 Regular Session of the Louisiana Legislature assigned responsibility of all programs and facilities of E.A. Conway Medical Center (EAC) to the Center. EAC has a 244-bed capacity and serves as a teaching facility using the same teachers and faculty that are employed by the Center. See note 17 regarding upcoming privatization of this facility.

During the 2007 Regular Session of the Louisiana Legislature, Act 220 merged Huey P. Long Medical Center (HPL) in Pineville with the Center. The effective date of this merger was July 1, 2007. HPL is licensed for a 56-bed capacity. It had served as a teaching facility for Tulane residents who rotate. See note 17 regarding upcoming privatization of this facility.

During September 2012, the Center had approximately 701 full-time and part-time faculty members, including associates and affiliated faculty.

The Center has one foundation that is discretely presented in its financial statements. This is the Louisiana State University Health Sciences Foundation in Shreveport (Foundation), whose financial data has been presented separately in the Statement of Financial Position and Statement of Activities. Additional information about the Foundation is contained in the notes to the financial statements below.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

Governmental Accounting and Financial Reporting Standards, published by the GASB. The Center's accompanying financial statements have been prepared in accordance with such principles.

B. REPORTING ENTITY

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

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

Criteria described in GASB Codification Section 2100 were used to evaluate whether potential component units should be blended with the Center, discretely presented, disclosed in the notes to the financial statements, or excluded from the reporting entity. This evaluation was made to identify those component units for which the Center is financially accountable and other organizations for which the nature and significance of their relationship with the Center are such that exclusion would cause the financial statements of the Center to be misleading or incomplete.

Discrete Component Unit

The Louisiana State University Health Sciences Foundation in Shreveport (Foundation) is a legally separate, tax-exempt organization formed in 1997 supporting the Center. The Foundation has been organized to solicit, receive, hold, invest, and transfer funds for the benefit of the Center. In addition, the Foundation assists the Center in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. The Center and the Foundation are also in management agreements related to endowed chairs and professorships. These agreements are in compliance with Board of Regents policy and allow the Foundation to manage funds on behalf of the Center. During the year ended June 30, 2013, the Foundation made distributions to or on behalf of the Center for either restricted or unrestricted purposes for $7,408,939.

Other external auditors audited the Foundation for the years ended June 30, 2013 and 2012. A copy of the audit report can be obtained at 920 Pierremont, Suite 407, Shreveport, Louisiana 71106 or from the Foundation's website at www.lsuhsfoundation.org.

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

C. BASIS OF ACCOUNTING

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

In the current fiscal year, the Center has included a discrete component unit that follows FASB Accounting Standards Codification (ASC) Topic 958.

Discrete Component Unit

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

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

D. BUDGET PRACTICES

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

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in time deposits and money market funds. All highly liquid investments with an original maturity of three months or less are considered cash equivalents. Under state law, the Center may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the Center may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

In accordance with R.S. 49:327, the Center is authorized to invest funds in direct U.S. government obligations, U.S. government agency obligations, mutual funds, direct security repurchase agreements, and time certificates of deposit. In addition, funds derived from gifts and grants, and endowments may be invested as stipulated by the conditions of the gift instrument. The majority of these investments are U.S. Treasury securities, mutual funds, and investments held by the private Foundation and are reported at fair value on the Statement of Net Position. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position.

In accordance with provisions of Article VII, Section 14 of the Louisiana Constitution and R.S. 49:327(C)(3)(b), the Center may invest publicly funded permanently endowed funds in the stock of any corporation listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations display on the National Association of Securities Dealers Automated Quotations System, provided that the total investment in such stocks at any one time shall not exceed 35% of the market value of all publicly endowed funds of the Center. The Center's investment of endowed chairs and professorships funded by the Board of Regents and maintained by the Foundation is authorized by policies and procedures established by the Board of Regents.

F. INVENTORIES

Inventories are valued at cost or replacement cost at current market value. The Center uses periodic and perpetual inventory systems and accounts for its inventories using the consumption method.

G. NONCURRENT RESTRICTED ASSETS

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

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the Center's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that total $100,000 or more and significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property. Depreciation expense is charged directly to the various functional categories of operating expenses on the Statement of Revenues, Expenses, and Changes in Net Position. The Center uses the group or composite method for library book depreciation if the books are considered to have a useful life of greater than one year. Library collections regardless of age, with a total acquisition value of $5,000,000 or more will be capitalized and depreciated.

Hospitals and medical units within the Center are subject to federal cost reporting requirements and use capitalization and depreciation policies of the Centers for Medicare and Medicaid Services to ensure compliance with federal regulations. These capitalization policies include capitalizing all assets above $5,000, depreciable lives greater than 40 years on some assets, and recognizing one-half year of depreciation in the year of acquisition and in the final year of useful life.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities before the end of the fiscal year that are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

J. NONCURRENT LIABILITIES

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

K. COMPENSATED ABSENCES

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

Upon separation of employment, both classified and nonclassified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and unclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

L. NET POSITION

The Center's net position is classified as follows:

(1) Net Investment in Capital Assets

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

(2) Restricted - Nonexpendable

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

(3) Restricted - Expendable

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

(4) Unrestricted

Unrestricted net position represents resources derived from student tuition and fees, state appropriations, hospital income, sales and services of educational departments and certain auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Center and may be used at the discretion of the governing board to meet current expenses and for any purpose.

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

M. CLASSIFICATION OF REVENUES

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

(a) Operating Revenue - Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) hospital income; and (4) most federal, state, and local grants and contracts.

(b) Nonoperating Revenue - 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 Position. Scholarship discounts and allowances are the differences between the stated charge for goods and services provided by the Center and the amount that is paid by students and/or third parties making payments on the students' behalf.

O. ELIMINATING INTERFUND ACTIVITY

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

P. USE OF ESTIMATES

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

Q. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2013, the Center implemented the following accounting standards:

- **GASB Statement 61**, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements 14 and 34.* This statement sets forth additional requirements for identifying component units, presenting condensed combining information for blended component units, and accounting for certain equity interests. The criteria in this Statement were used to identify the Foundation as a discrete component unit.

- **GASB Statement 62,** *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements. The implementation of Statement 62 had no significant impact on the financial statements or notes.

- **GASB Statement 63**, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for reporting deferred outflows and inflows of resources, and net position in a statement of financial position and related note disclosures. The implementation of this Statement primarily affected the Center by replacing the term “net assets” with “net position.”

2. CASH AND CASH EQUIVALENTS

At June 30, 2013, the Center has cash and cash equivalents (book balances) of $157,399,348 as follows:

Petty cash	$43,642
Demand deposits	156,232,455
Money market	1,123,251
Total	$157,399,348

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

At June 30, 2013, the Center has $165,306,643 in deposits (collective bank balances), which are secured from risk by federal deposit insurance plus pledged securities.

CASH AND CASH EQUIVALENTS - FOUNDATION

Cash and cash equivalents of the Foundation totaling $1,861,564, as shown on the Statement of Financial Position, are reported under FASB ASC Topic 958, *Financial Reporting for Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The Foundation considers cash to include amounts on hand and amounts on deposit at financial institutions. The Foundation, at times, may have deposits in excess of FDIC insured limits. Management believes the credit risk associated with these deposits is minimal.

3. INVESTMENTS

At June 30, 2013, the Center has investments totaling $97,493,412.

The Center's investment policy follows state law (R.S. 49:327), which authorizes the Center to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, mutual funds, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds. In addition, 35% of the Center's publicly funded permanent endowment funds may be invested in common stocks listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations on the National Association of Securities Dealers Automated Quotations System.

A summary of the Center's investments follows:

Type of Investment	Investments	Carrying Value	Investment Maturity in Years: Less Than 1	1-5	6-10	11-20	21-30	>30
U.S. Government Agency securities:								
Bonds and Notes:								
Federal National Mortgage Association	19.56%	$19,071,091				$19,071,091		
Federal Home Loan Bank	12.85%	12,523,169			$3,681,263	8,841,906		
Federal Farm Credit Bank	0.96%	938,332			938,332			
Corporate debt obligations	28.33%	27,619,636	$4,903,600	$16,315,297	5,338,886	51,765	$50,979	$959,109
Municipal obligations	19.34%	18,858,390	1,804,978	3,660,176	5,942,410	5,823,957	1,626,869	
Debt mutual funds	7.09%	6,912,062		6,912,062				
Equity mutual funds	4.26%	4,157,563						
Investments held through Foundation (total balance)	7.59%	7,403,497						
Common and preferred stock	0.01%	9,672						
Total investments	100%	$97,493,412	$6,708,578	$26,887,535	$15,900,891	$33,788,719	$1,677,848	$959,109

Interest rate risk is the risk applicable to debt instruments with fair values that are sensitive to changes in interest rate. One indicator of the measure of interest rate risk is the dispersion of maturity dates of debt instruments. The above table shows the Center's fixed-income investments and maturities at June 30, 2013.

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

See independent accountant's review report.

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

Rating Agency Used	Rating	Fair Value Agency
	Unrated	$7,403,497
Moody's	A1	1,174,853
Moody's	A2	1,625,704
Moody's	A3	2,540,774
Moody's	Baa1	4,153,991
Moody's	Baa2	2,263,116
Moody's	Baa3	9,796,946
Moody's	Aa1	513,044
Moody's	Aa2	1,465,811
Moody's	Aa3	4,742,776
Moody's	Aaa	1,467,075
S&P	A	6,544,415
S&P	A+	312,334
S&P	A-	978,579
S&P	AA	208,096
S&P	AA+	33,661,020
S&P	AA-	2,913,230
S&P	BBB	992,850
S&P	BBB+	3,656,004
Total		$86,414,115

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

The Center's concentrations are as follows:

Issuer	Amount	Percent of Total
Federal National Mortgage Association	$19,071,091	19.56%
Federal Home Loan Bank	12,523,169	12.85%
Federal Farm Credit Bank	938,332	0.96%
Total	$32,532,592	

Investments held by the private foundation in an external investment pool are managed in accordance with the terms outlined in a funds management agreement executed between the LSU Board of Supervisors and the Foundation, with the Center being a voluntary participant. The Foundation holds and manages funds received by the Center as state matching funds for the Eminent Scholars Endowed Chairs and Endowed Professorships Programs. All of these investments are held by the Center's discretely presented component unit. Investments included in two separate funds management agreements between the Center and the Foundation are for quasi-endowment and endowed chair funds held by the Center.

INVESTMENTS - FOUNDATION

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

Type of Investment	
Money markets/certificates of deposit	$2,958,439
Debt obligations	7,399,386
Corporate stocks, common stocks, and indexed mutual funds	14,848,338
Mutual funds	35,901,753
Hedged funds	3,638,145
Municipal bonds	5,972,228
Commingled funds	39,029,570
Structured investments	1,846,887
Agency investments for the Center	55,156,630
Total investments	$166,751,376

4. RECEIVABLES

Receivables and amounts due from the federal government (net) are scheduled for collection within one year and are shown on Statement A, net of an allowance for doubtful accounts as follows:

Type	Receivables	Allowance for Doubtful Accounts	Net Receivable
Student tuition and fees	$355,536		$355,536
Auxiliary enterprises	1,796		1,796
Federal grants and contracts	2,734,582		2,734,582
State and private grants and contracts	5,369,919		5,369,919
Sales and services	2,660,012		2,660,012
Clinics	4,068,171		4,068,171
Hospitals	181,297,213	$146,815,997	34,481,216
Other - uncompensated care	40,286,651		40,286,651
Total	$236,773,880	$146,815,997	$89,957,883

See independent accountant's review report.

5. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2012	Additions	Reclassifications	Retirements	Balance June 30, 2013
Capital assets not being depreciated:					
Land	$3,454,186	$19,036			$3,473,222
Construction-in-progress	3,082,153	131,496	($210,867)	($981,593)	2,021,189
Total capital assets not being depreciated	$6,536,339	$150,532	($210,867)	($981,593)	$5,494,411
Other capital assets:					
Land improvements	$7,970,531			($19,036)	$7,951,495
Less accumulated depreciation	(7,720,304)	($47,770)			(7,768,074)
Total land improvements	250,227	(47,770)	NONE	(19,036)	183,421
Buildings	273,498,245	863,984		(3,215,252)	271,146,977
Less accumulated depreciation	(204,753,500)	(7,445,876)		3,204,931	(208,994,445)
Total buildings	68,744,745	(6,581,892)	NONE	(10,321)	62,152,532
Equipment (including library books)	189,310,870	11,257,085	$210,867	(16,153,417)	184,625,405
Less accumulated depreciation	(141,670,059)	(14,243,770)		15,566,947	(140,346,882)
Total equipment	47,640,811	(2,986,685)	210,867	(586,470)	44,278,523
Software (internally generated and purchased)	15,205,906	243,160			15,449,066
Less accumulated amortization	(4,277,707)	(4,436,283)			(8,713,990)
Total intangible assets	10,928,199	(4,193,123)	NONE	NONE	6,735,076
Total other capital assets	$127,563,982	($13,809,470)	$210,867	($615,827)	$113,349,552
Capital Asset Summary:					
Capital assets not being depreciated	$6,536,339	$150,532	($210,867)	($981,593)	$5,494,411
Other capital assets, at cost	485,985,552	12,364,229	210,867	(19,387,705)	479,172,943
Total cost of capital assets	492,521,891	12,514,761	NONE	(20,369,298)	484,667,354
Less accumulated depreciation	(358,421,570)	(26,173,699)	NONE	18,771,878	(365,823,391)
Capital assets, net	$134,100,321	($13,658,938)	NONE	($1,597,420)	$118,843,963

See independent accountant's review report.

CAPITAL ASSETS - FOUNDATION

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not being depreciated:				
Land	$2,932,516			$2,932,516
Total capital assets not being depreciated	$2,932,516	NONE	NONE	$2,932,516
Other capital assets:				
Buildings	$1,609,160			$1,609,160
Less accumulated depreciation	(176,863)	($57,361)		(234,224)
Total buildings	1,432,297	(57,361)	NONE	1,374,936
Equipment	93,890			93,890
Less accumulated depreciation	(60,251)	(15,561)		(75,812)
Total equipment	33,639	(15,561)	NONE	18,078
Total other capital assets	$1,465,936	($72,922)	NONE	$1,393,014
Capital Asset Summary:				
Capital assets not being depreciated	$2,932,516			$2,932,516
Other capital assets, at cost	1,703,050			1,703,050
Total cost of capital assets	4,635,566	NONE	NONE	4,635,566
Less accumulated depreciation	(237,114)	($72,922)	NONE	(310,036)
Capital assets, net	$4,398,452	($72,922)	NONE	$4,325,530

6. DISAGGREGATION OF ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Activity	
Vendors	$10,930,922
Salaries and benefits	19,039,236
Other payables	210,776
Total	$30,180,934

See independent accountant's review report.

7. PENSION PLANS

Plan Description - Substantially all employees of the Center are members of two statewide, public employee retirement systems. Academic and unclassified employees are generally members of the Teachers' Retirement System of Louisiana (TRSL), and classified state employees are members of the Louisiana State Employees' Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSL is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer defined benefit pension plan because the material portion of its activity is with one employer--the State of Louisiana. TRSL and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after five years of service for TRSL and 10 years of service for LASERS. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, online at www.trsl.org, or by calling (225) 925-6446, and/or the Louisiana State Employees' Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, online at www.lasersonline.org, or by calling (225) 922-0600.

Funding Policy - The contribution requirements of employee plan members and the Center are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. For fiscal year 2013, employees contribute 8% (TRSL) and 7.5% (LASERS) of covered salaries. Act 75 of the 2005 Regular Legislative Session now requires that employees hired on or after July 1, 2006, must contribute 8% of covered salaries to LASERS. Per provisions of Act 992 of 2010, employees in hazardous duty positions prior to January 1, 2011, are eligible to join the HAZ Plan and must contribute 9.5% to LASERS. For fiscal year 2013, the state contributed 24.4% of covered salaries to TRSL and 29.1% or 28% (hazardous duty) of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to the Center. The employer contributions to TRSL for the years ended June 30, 2013, 2012, and 2011, were $11,246,814; $9,761,289; and $7,087,881, respectively, and to LASERS for the years ended June 30, 2013, 2012, and 2011, were $40,497,102; $36,883,942; and $32,436,913, respectively, equal to the required contributions for each year.

Optional Retirement System

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

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

Total contributions by the Center are 24.4% of the covered payroll for fiscal year 2013. The participant's contribution (8.0%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSL pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the actuarial committee. The TRSL retains the balance of the employer contribution for application to the unfunded accrued liability of the Center. Benefits payable to participants are not the obligations of the State of Louisiana or the TRSL. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled $12,179,385 and $4,002,846, respectively, for the year ended June 30, 2013.

8. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

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

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

Plan Descriptions

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

The System administers and offers eligible employees, retirees, and their beneficiaries the opportunity to participate in comprehensive health and preventive care coverage under its Health Plan that gives members a unique, consumer-driven health-care approach to pay routine health expenses and provides coverage for major health care expenses. Within the Health Plan, members have a choice of selecting Option 1 or Option 2. Option 1, shown in the schedule of total monthly premium rates on page 34, is more costly, but features both lower yearly deductibles and out-of-network coinsurance requirements.

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

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

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

State OGB Plan

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

Funding Policy

LSU System Health Plan

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

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

State OGB Plan

The contribution requirements of plan members and the Center are established and may be amended by R.S. 42:801-883. Employees do not contribute to their postemployment benefits cost until they become retirees and begin receiving those benefits. The retirees contribute to the cost of retiree health care based on a service schedule. Contribution amounts vary depending on what health care provider is selected from the plan and if the member has Medicare coverage. OGB offers three standard plans for both active and retired employees: the Preferred Provider Organization (PPO) Plan, the Health Maintenance Organization (HMO) Plan, and the Medical Home HMO Plan. OGB also offers the Consumer Driven Health Plan with a Health Savings

Account (CDHP with HSA) to active employees. OGB also offered the Regional HMO Plan for the first part of the fiscal year which ended December 31, 2012. Retired employees who have Medicare Part A and Part B coverage also have access to three OGB Medicare Advantage plans: the Peoples Health HMO-POS Plan, the Vantage HMO-POS Plan, and the Vantage Zero-Premium HMO-POS Plan. There is also a Health Exchange Plan which is not an OGB plan; however, OGB is partnering with Extend Health to offer access to multiple Medicare plans. There are no premiums to the state for the Vantage Zero-Premium HMO-POS Plan or the Health Exchange Plan. During calendar year 2012, OGB offered five Medicare Advantage plans: Humana HMO Plan, Peoples Health HMO-POS Plan, Vantage HMO-POS Plan, Humana PPO Plan, and United Healthcare PPO Plan.

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

OGB also provides eligible retirees and their spouses Basic Term Life, Basic Plus Supplemental Term Life, Dependent Term Life and Employee Accidental Death and Dismemberment coverage, which is underwritten by The Prudential Insurance Company of America. Effective January 1, 2013, the total premium is approximately $1 per thousand dollars of coverage of which the employer pays fifty cents for retirees. Maximum coverage is capped at $50,000 with a reduction formula of 25% at age 65 and 50% at age 70, with accidental death and dismemberment coverage ceasing at age 70 for retirees.

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

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

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

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

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

The following table shows the Medicare Advantage Plans monthly premium rates in effect for the plan year 2012-2013.

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

Annual OPEB Cost and Net OPEB Obligation

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

	LSU System Health Plan	State OGB Plan	Total
Annual required contribution (ARC)	$16,062,358	$10,239,400	$26,301,758
Interest on Net OPEB Obligation (NOO)	2,360,073	4,307,700	6,667,773
ARC adjustment	(1,997,638)	(4,115,100)	(6,112,738)
Annual OPEB cost	16,424,793	10,432,000	26,856,793
Employer contributions	(2,191,561)	(5,985,363)	(8,176,924)
Increase in net OPEB obligation	14,233,232	4,446,637	18,679,869
Net OPEB obligation - beginning of year (restated)	55,693,494	107,693,528	163,387,022
Net OPEB obligation - end of year	$69,926,726	$112,140,165	$182,066,891

Funding Trend

	LSU System Health Plan			State OGB Plan		
	2013	2012	2011	2013	2012	2011
OPEB cost	$16,424,793	$15,337,307	$13,915,358	$10,432,000	$16,341,700	$21,670,400
Percent contributed	13.34%	12.60%	12.00%	57.38%	36.63%	24.29%
Ending NOO	$69,926,726	$55,693,494	$42,288,881	$112,140,165	$107,693,528	$97,337,773

Funded Status and Funding Progress

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

	LSU System Health Plan	State OGB Plan
Actuarial accrued liability (AAL)	$199,368,154	$172,917,100
Actuarial value of plan assets	NONE	NONE
Unfunded actuarial accrued liability (UAAL)	$199,368,154	$172,917,100
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Annual covered payroll (active plan members)	$109,305,738	$92,592,255
UAAL as a percentage of covered payroll	182.4%	186.8%

See independent accountant's review report.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The RP 2000 Mortality Table was used in making actuarial assumptions. Retirement rate assumptions differ by employment group and date of plan participation. The state's UAAL is being amortized as a level percentage of projected payroll over an open amortization period of 30 years. Annual per capita medical claims costs were updated to reflect an additional year of actual experience.

A summary of the actuarial assumptions are presented as follows:

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

See independent accountant's review report.

9. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are paid by either private insurance companies or through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by General Fund appropriation. The Center had not incurred any claims and/or litigation cost for the fiscal year ended June 30, 2013. The Center's attorneys estimate that potential claims not covered by insurance would not materially impact the financial statements. All other lawsuits are handled by either the Office of Risk Management or the Attorney General's Office.

CONTINGENCIES - FOUNDATION

During the fiscal year ended June 30, 2010, the Foundation was asked by the Chancellor of the Center to consider an infusion of funds into the Orthopaedic Surgery Department to rebuild the program. The Board of Directors voted and approved to donate a total of $2.5 million of unrestricted funds in five $500,000 annual installments to begin during the fiscal year ending June 30, 2011. As of June 30, 2013, $1.5 million of unrestricted funds has been segregated for the Orthopaedic Surgery Department. The balance of the segregated funds as of June 30, 2013, is $1,314,808 which is classified as unrestricted board designated net assets.

During the fiscal year ended June 30, 2011, the Foundation was asked by the Chancellor of the Center to consider an infusion into the Otolaryngology Department for growth and development. The Board of Directors voted and approved to donate up to $2.5 million over the next five years. The first year's funding allocation of $500,000 will come from the Feist-Weiller Investment account, with the remainder from the Feist Legacy account going forward. During 2013, $500,000 was segregated for the Otolaryngology Department, of which $369,195 remained as of June 30, 2013, and is included as temporarily restricted net assets.

On July 15, 2009, the Board of Directors approved an Operating Reserve Policy to establish guidelines for achieving an operating reserve sufficient for the Foundation to adequately support its annual budget, ensure continued growth of current and future programs, fulfill its mission even during times of harsh economic conditions, and provide financial stability and the means for development of its principal activity. The policy states that the operating reserve of $1 million shall be established beginning in fiscal year ending June 30, 2011, and shall be fully funded by the end of the fiscal year ending June 30, 2016, through designation of unrestricted funds given to the Foundation. The reserve shall be invested in highly liquid U.S. Treasury obligations or FDIC insured accounts and may be used only for unanticipated and unbudgeted expenses or loss of revenue. Reserves may not be accessed in the absence of a plan for their replenishment over a reasonable period of time. On October 19, 2011, the Executive Committee of the Board of Directors voted to fully fund the Operating Reserve of $1 million from unrestricted funds of the Foundation rather than partially funding the reserve between the remaining fiscal years ending June 30, 2012 through June 30, 2016.

10. COMPENSATED ABSENCES

At June 30, 2013, employees of the Center have accumulated and vested annual and sick leave benefits of $22,488,784 and $3,552,000, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

11. OPERATING LEASES

For the year ended June 30, 2013, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed is $6,369,118. The following is a schedule by year of future minimal annual rental payments required under operating leases that have initial or minimum lease terms in excess of one year as of June 30, 2013:

	Fiscal Year						Total Minimum Payments Required
Operating Lease	2014	2015	2016	2017	2018	2019-2023	
Office space	$4,134,736	$4,107,154	$4,070,276	$4,062,900	$4,062,900	$20,314,500	$40,752,466
Equipment	1,094,824	186,423					1,281,247
Other	415,151						415,151
Total	$5,644,711	$4,293,577	$4,070,276	$4,062,900	$4,062,900	$20,314,500	$42,448,864

The 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.

OPERATING LEASES - FOUNDATION

The Foundation leases office space under an operating lease which expires on February 28, 2014. In addition, the Foundation leases a copier/printer/scanner under an operating lease which expires on September 30, 2014. Included in management and general expense is $49,926 in rent and equipment rental expense for the year ended June 30, 2013.

12. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the Center for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Notes payable	$42,600		($42,600)		
Compensated absences payable	28,965,861		(2,925,077)	$26,040,784	$2,393,752
Capital lease obligations	7,440,931	$308,118	(1,353,535)	6,395,514	1,468,455
Other postemployment benefits payable	163,387,022	26,856,793	(8,176,924)	182,066,891	
Total long-term liabilities	$199,836,414	$27,164,911	($12,498,136)	$214,503,189	$3,862,207

Capital Leases

The Center records items under capital leases as assets and obligations in the accompanying financial statements. Assets under capital lease are included as capital assets in note 5. The following is a schedule of future minimum lease payments under capital leases, together with the present value of minimum lease payments at June 30, 2013:

Fiscal Year Ending June 30:	
2014	$1,793,983
2015	1,783,983
2016	1,264,867
2017	779,260
2018	751,542
2019-2023	1,003,197
Total minimum lease payments	7,376,832
Less - amount representing interest	(981,318)
Present value of net minimum lease payments	$6,395,514

See independent accountant's review report.

NOTES PAYABLE - FOUNDATION

The following is a summary of notes payable by the Foundation as of June 30, 2013:

	Balance June 30, 2012	Addition	Reduction	Balance June 30, 2013	Amount Due Within One Year
Notes Payable	$786,406	NONE	$251,411	$534,995	$110,563

The Foundation had four notes payable agreements for which the principal outstanding was paid in full for three agreements during fiscal year 2013. The remaining agreement has principal outstanding of $534,995 at June 30, 2013, with a 5% fixed interest rate. Monthly installments of $10,600, including interest, began on March 31, 2011, with principal and interest due in full on March 31, 2018.

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

Fiscal Year Ending June 30:	
2014	$127,200
2015	127,200
2016	127,200
2017	127,200
2018	95,400
Total minimum lease payments	604,200
Less - amount representing interest	(69,205)
Present value of net minimum lease payments	$534,995

See independent accountant’s review report.

13. DUE TO/FROM STATE TREASURY

As shown on Statement A, the Center has a total of $5,705,983 (net) due from the state treasury at June 30, 2013. This amount consists of the following:

Description	Due (to)/from
Tobacco Tax funds	$1,090,028
Statutory dedications - Support Education in Louisiana First	110,744
Statutory dedications - Overcollections	1,250,000
LSUHSC - EAC DHH Medicaid Stimulus	2,314,802
LSUHSC - HPL DHH Medicaid Stimulus	1,065,487
Due from state treasury	5,831,061
Unclaimed property	(45,150)
LSUHSC-S State General Fund Direct	(79,928)
Due to state treasury	(125,078)
Total	$5,705,983

14. RESTRICTED NET POSITION/NET ASSETS

The Center's restricted nonexpendable net position of $60,780,453 as of June 30, 2013, is comprised entirely of endowment funds.

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

Restricted Expendable Net Position

Account Title	Amount
Student fees	$108,646
Grants and contracts	17,914,626
Endowment earnings	15,113,760
Student loan funds	1,968,870
Capital construction	599,423
Total	$35,705,325

Of the total restricted net position reported on Statement A for the year ended June 30, 2013, a total of $108,646 is restricted by enabling legislation.

The Center has donor restricted endowments. If a donor has not provided specific instructions, state law permits the Board of Regents to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. The Center's endowments are composed of approximately 90% private and 10% Board of Regents. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. At June 30, 2013, net appreciation of $1,772,511 is available to be spent and is restricted to specific purposes.

RESTRICTED NET ASSETS - FOUNDATION

Restricted net assets reported for the Foundation are as follows:

Temporarily restricted:	
Chairs and professorships	$2,488,709
Academic support	2,649,883
Capital outlay and improvements	61,804
Research support	79,129,242
Institutional support	2,107,561
Donor restrictions	149,455
Total temporarily restricted	$86,586,654
Permanently restricted:	
Chairs and professorhips	$9,681,667
Endowment funds	2,430,905
Total permanently restricted	$12,112,572

The Foundation has donor restricted endowments for which the endowment income reported on Statement D of $10,447,079 represents the combination of net realized and unrealized gains and losses on investments and the income on the investments.

15. DEFERRED COMPENSATION PLAN

Certain employees of the Center participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor's website at www.lla.la.gov.

16. AMOUNTS HELD IN CUSTODY FOR OTHERS - FOUNDATION

The Foundation reported amounts held in custody for others on Statement B as follows:

State matching funds	$7,403,497
Malcolm Feist Funds Management	46,113,131
Endowed Chairs held by state	9,043,500
Total amounts held in custody	$62,560,128

17. SUBSEQUENT EVENTS

Beginning October 1, 2013, the Center's hospitals in Shreveport and Monroe (EAC) will be operated and managed by Biomedical Research Foundation Hospital Holdings, L.L.C. (BRFHH). The public/private partnership agreement includes the following parties: Biomedical Research Foundation of Northwest Louisiana (BRF), Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU), Department of Health and Hospitals (DHH) and the Division of Administration (DOA). Through the public/private partnership, BRFHH would provide inpatient and outpatient hospital services, including services currently provided through the hospitals and continue to serve as the primary training site for the LSU sponsored residency programs. This partnership seeks to stabilize and assure a sustainable graduate medical education program that provides the bulk of the state's healthcare workforce.

The transition of the Center’s hospital in Pineville (HPL) is projected to occur by June 30, 2014. This transition should be a public/private partnership among CHRISTUS Health Central Louisiana (CHRISTUS); Rapides Healthcare System, L.L.C. (Rapides); Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU); and DHH and DOA. Through the public/private partnership, CHRISTUS and Rapides should provide certain inpatient and outpatient hospital services, including services currently provided through the hospital.

The public purpose sought through these partnerships is to prevent further loss of care for the vulnerable and needy patients who are uninsured, high risk Medicaid, and inmate populations under the care of the state.

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

The schedule of funding progress is required supplementary information that presents certain specific data regarding the funding progress for the Other Postemployment Benefits Plans, including the unfunded actuarial accrued liability.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
STATE OF LOUISIANA

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

LSU System Health Plan

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
FY 2011	07/01/10	NONE	$126,957,452	$126,957,452	0.00%	$123,084,321	103.1%
FY 2012	07/01/11	NONE	$133,557,783	$133,557,783	0.00%	$122,131,950	109.4%
FY 2013	07/01/12	NONE	$199,368,154	$199,368,154	0.00%	$109,305,738	182.4%

State Office of Group Benefits Plan

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
FY 2011	07/01/10	NONE	$259,699,500	$259,699,500	0.00%	$96,220,923	269.90%
FY 2012	07/01/11	NONE	$196,398,100	$196,398,100	0.00%	$99,023,358	198.30%
FY 2013	07/01/12	NONE	$172,917,100	$172,917,100	0.00%	$92,592,255	186.80%

See accompanying notes and independent accountant's review report.

EXHIBIT A

Management Letter

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 5, 2013

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Shreveport, Louisiana

We have reviewed the financial statements of the Louisiana State University Health Sciences Center in Shreveport (Center), as of and for the year ended June 30, 2013, and have issued our independent accountant's review report thereon dated December 5, 2013. The Center is a campus within the Louisiana State University System (System), a component unit of the State of Louisiana. The Center's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the objective of which is the expression of an opinion regarding the basic financial statements. Accordingly, we did not express such an opinion in our independent accountant's review report referred to previously.

We also did not review the financial statements of the Louisiana State University Health Sciences Foundation in Shreveport (Foundation), a discretely presented component unit of the Center. The financial statements of this component unit were audited by another auditor whose report thereon has been furnished to us, and the results of our review expressed herein, insofar as it relates to the amounts for that component unit, is based solely upon the report of the other auditor. The separate audit report for the Foundation is available at the address listed in note 1-B to the financial statements.

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

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

Because our review procedures were substantially less in scope than an audit in accordance with *Government Auditing Standards*, identifying matters affecting the 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. During our review procedures, we found no significant matters that should be communicated to management.

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

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KWB:BAC:THC:ch

LSUHSCS 2013