LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
ISSUED MAY 17, 2006

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

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

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

May 3, 2006

Independent Auditor's Report on the Financial Statements

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2005, which collectively comprise the System’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of management of the Louisiana State University System. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit 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 and the Eunice Student Housing Foundation, Inc., which are nonprofit corporations included as blended component units in the basic financial statements representing approximately 1.4% of total assets, 2.3% of total liabilities, 2.9% of total revenues, and 2.6% of total expenses of the Louisiana State University System. We also did not audit the financial statements of the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are all of the discretely presented component units presented in the basic financial statements of the Louisiana State University System. The financial statements of the blended and discretely presented component units were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the LSU Foundation and the Pennington Medical Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Louisiana State University System as of June 30, 2005, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 25 to the financial statements, during August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown what economic impact recovery will have on state and local governmental operations in Louisiana. As further discussed in note 25, the Louisiana State University System lost significant assets and operational functionality as a result of the hurricanes; however, the long-term effects of these events cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2006, on our consideration of Louisiana State University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 7 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Louisiana State University System's basic financial statements. The accompanying supplementary information schedules on pages 95 through 142 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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INTRODUCTION

The following discussion and analysis has been prepared by management and is written to provide an overview of the financial position and activities of the Louisiana State University System (the System) for the year ended June 30, 2005. It should be read in conjunction with the financial statements and the notes thereto which follow this section.

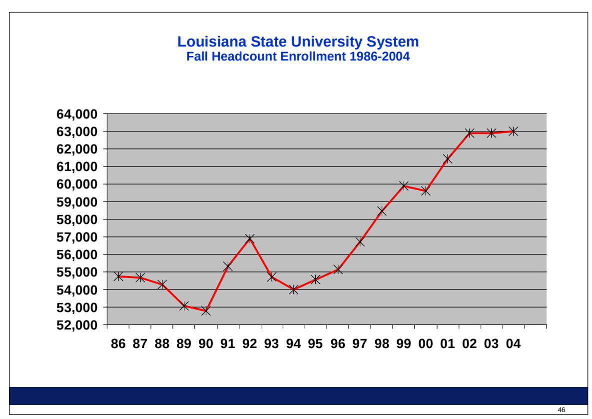
The annual report consists of a series of financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities,* as amended by GASB Statements Nos. 37 and 38.

Effective for the year ended June 30, 2004, the System implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement addresses which support organizations, such as foundations, should be included as component units and how these component units should be presented in the financial statements. The State of Louisiana has set a threshold for including component units if their total assets equal 3% or more of the assets of the university system they support. Once a component unit is selected for inclusion, it must be reported in the System's financial statements for at least three years, even if it falls below the threshold the following year.

The System has six foundations that will be discretely presented in its financial statements. These are the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the University of New Orleans Foundation, the University of New Orleans Research and Technology Foundation, and the Foundation for the LSU Health Sciences Center. The financial data of each of these foundations are presented separately in Statement of Financial Position and Statement of Activities. Additional information about the foundations is contained in the notes to the financial statements.

BACKGROUND

The System is the state's flagship system. It is also one of the most diverse and comprehensive higher education systems in the country. Enrollment during the fall 2004 semester was approximately 63,000 while the number of faculty totaled 5,233. Degrees conferred range from Associate Degree to Doctor of Philosophy. In addition, professional degrees in Law, Veterinary Medicine, Medicine, Dentistry, and the complete spectrum of Allied Health professions are conferred.



The System also includes such dedicated Centers as the Pennington Biomedical Research Center, which specializes in nutrition research and preventive medicine, and the LSU Agricultural Center, which plays an integral role in supporting agricultural industries, sustaining rural areas, and encouraging efficient use of resources through research and educational programs conducted by its 20 experiment stations and extension service.

Moreover, the System is charged with the responsibility of administering 10 public hospitals. These hospitals are the primary source of health care services for the indigent population of the state and account for over one million in-patient and out-patient visits each year. In addition, these hospitals are used by the LSU Health Sciences Centers as teaching hospitals wherein the medical and dental faculty and medical education students are used to provide the necessary medical care to patients.

FINANCIAL HIGHLIGHTS

Total operating revenues decreased from the prior fiscal year by $77.6 million, while operating expenses increased by $123.3 million. Overall, the System had an operating loss of $628.6 million at June 30, 2005. This was a $200.9 million increase in the loss from the prior year. When nonoperating revenues and expenses are included, the System had income before other revenues, expenses, gains, and losses of $11.9 million.

Of the $200.9 million increase in the operating loss, $180 million resulted from the operations of the Health Sciences Center's Health Care Services Division (HCSD). A detailed explanation of this change is included in the discussion of the Statement of Revenues, Expenses, and Changes in Net Assets below.

Net assets, which represent the residual interest in the System's assets after liabilities are deducted, increased by $71.7 million (5.9%) from the prior fiscal year to $1.28 billion. This can be compared to fiscal year 2004 where the net assets increased by $81.1 million (7.1%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The System's financial report consists of three sections: Management's Discussion and Analysis (this section), the basic financial statements including the notes to the financial statements, and supplementary information. The basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows, as well as the financial statements related to the discrete component units.

BASIC FINANCIAL STATEMENTS

The basic financial statements present information for the System as a whole. The Statement of Net Assets presents the financial position of the System at the end of the fiscal year and includes all assets and liabilities of the System. The difference between total assets and total liabilities is one way to measure the System's financial health or position, while the change in net assets is a useful indicator of whether the financial condition of the System is improving or deteriorating. Over time, increases or decreases in the System's net assets can be useful in assessing whether its financial health is improving. Other non-financial factors such as the trend in enrollment and the condition of the physical plant are also useful in evaluating the overall financial health of the System. Finally, the Statement of Cash Flows presents the significant sources and uses of cash.

STATEMENT OF NET ASSETS

Net assets are divided into three major categories.

> Invested in capital assets, net of related debt - provides the institution's equity in property, plant and equipment owned by the System.
>
> Restricted net assets - represent those assets that are available for spending only as legally or contractually obligated by legislative requirements, donor agreements, and grant requirements.
>
> Unrestricted net assets - represent those assets that are available to the System for any lawful purpose.

From the data presented, readers of the Statement of Net Assets are able to determine the following:

- The assets available to continue the operations of the System
- The liabilities of the System that include the amount owed vendors and lending institutions
- The net assets and their availability for expenditure by the System

Current assets total $636.2 million and consist primarily of cash and cash equivalents, net receivables, investments, amounts due from state treasury, and inventories. Current liabilities total $447.8 million and consist primarily of accounts payable and accrued liabilities, deferred revenues, notes payable, bonds payable, capital lease obligations, and a contingent amount for uncompensated absences.

Noncurrent assets total $1.5 billion and include capital assets of $1.2 billion. Other noncurrent assets include cash and investments that are externally restricted to make debt service payments or to maintain sinking or reserve funds and total $300.9 million.

Noncurrent liabilities total $432.7 million and include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that while scheduled to be paid within one year are to be paid from funds classified as noncurrent assets.

Restricted nonexpendable net assets total $136.4 million and consist of endowment and similar type funds, which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained intact and invested for the purpose of producing income that may either be expended or added to principal.

Restricted expendable net assets total $157.6 million and include resources that the System is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. A summarized listing of the System's assets, liabilities, and net assets at June 30, 2005, and June 30, 2004, is shown below.

Statement of Net Assets

	As of			
	June 30, 2005	June 30, 2004 (Restated)	Change	Percentage Change
Assets:				
Current assets	$636,185,582	$529,535,239	$106,650,343	20.1%
Capital assets	1,219,941,499	1,146,654,852	73,286,647	6.4%
Other assets	300,885,493	243,516,493	57,369,000	23.6%
Total Assets	2,157,012,574	1,919,706,584	237,305,990	12.4%
Liabilities:				
Current liabilities	447,838,053	374,634,541	73,203,512	19.5%
Noncurrent liabilities	432,672,503	340,220,932	92,451,571	27.2%
Total Liabilities	880,510,556	714,855,473	165,655,083	23.2%
Net Assets:				
Invested in capital assets, net of related debt	950,260,808	925,609,973	24,650,835	2.7%
Restricted - nonexpendable	136,407,383	126,617,994	9,789,389	7.7%
Restricted - expendable	157,618,474	183,859,930	(26,241,456)	(14.3%)
Unrestricted	32,215,353	(31,236,788)	63,452,141	203.1%
Total Net Assets	$1,276,502,018	$1,204,851,109	$71,650,909	5.9%

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) displays information on how the System's assets changed as a result of current year operations. This statement presents the revenues received by the System, both operating and nonoperating, and the expenses paid by the System, both operating and nonoperating.

Generally, operating revenues are received for providing goods and services to various customers and constituencies of the System. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the System. Nonoperating revenues are revenues received for which goods and services are not provided as an exchange transaction. For example, state appropriations are nonoperating because they are provided by the legislature to the System without the legislature directly receiving commensurate goods and services for those revenues.

The consolidated SRECNA at June 30, 2005, for the System indicates a net operating loss of $628.6 million calculated without including appropriations, gifts, or investment earnings and before subtracting interest expenses on debt. The net operating loss increased from the prior year by $200.9 million; of this, $180 million is associated with the HCSD and is the result of a change in methodology used for Uncompensated Care Cost (UCC) reimbursement and state appropriations. In fiscal year 2004, the HCSD received additional UCC payments because of a change in federal reimbursement levels while state appropriations were reduced. At the same time, the HCSD was required to transfer back the state share for these additional federal reimbursements to the Department of Health and Hospitals (DHH). This transfer was properly reported in the prior year as a nonoperating expense. In fiscal year 2005, DHH withheld the state share amount of Medicaid claims payments as additional contractual allowance which is ultimately reflected in operating income, rather than nonoperating expense. This same circumstance accounts for the greatest portion of the large change in nonoperating revenues (expenses) from fiscal year 2004.

However, after including nonoperating revenues such as state appropriations ($581,418,228), gifts ($45,339,026), investment income ($22,193,466), and after subtracting interest expense ($9,762,244), and including other nonoperating revenues and expenses, the System had income before other revenues, expenses, gains, or losses of $11,942,765.

Summarized below is the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Revenues, Expenses, and Changes in Net Assets

	As of			
	June 30, 2005	June 30, 2004 (Restated)	Change	Percentage Change
Operating revenues	$2,162,742,121	$2,240,373,232	($77,631,111)	(3.5%)
Operating expenses	2,791,311,713	2,668,050,920	123,260,793	4.6%
Operating income (loss)	(628,569,592)	(427,677,688)	(200,891,904)	(47.0%)
Nonoperating revenues (expenses)	640,512,357	423,471,942	217,040,415	51.3%
Income (loss) before other revenues, expenses, gains or losses	11,942,765	(4,205,746)	16,148,511	384.0%
Other revenues, expenses, gains or losses	59,708,144	62,914,866	(3,206,722)	(5.1%)
Increase in net assets	71,650,909	58,709,120	12,941,789	22.0%
Net assets at beginning of year - restated	1,204,851,109	1,146,141,989	58,709,120	5.10%
Net assets at end of year	$1,276,502,018	$1,204,851,109	$71,650,909	

Operating Revenues

Operating revenues for the System totaled $2.2 billion at June 30, 2005. Major components of operating revenues are hospital income, representing 52.8% of the total; grants and contracts, 19.4% of the total; and net tuition and fees, 11.5% of the total. The following table summarizes the System's operating revenue for the year ending June 30, 2005.

Operating Revenues (in millions)

	As of			Percentage
	June 30, 2005	June 30, 2004	Change	Change
Tuition and fees, net	$247.8	$224.3	$23.5	10.50%
Grants and contracts	418.9	392.5	26.4	6.70%
Federal appropriations	10.9	11.0	(0.1)	(0.9%)
Sales and services of educational departments	180.1	172.3	7.8	4.50%
Auxiliary enterprises, net	145.7	134.5	11.2	8.30%
Hospital income	1,141.9	1,288.1	(146.2)	(11.4%)
Other	17.4	17.7	(0.3)	(1.7%)
Total operating revenues	$2,162.7	$2,240.4	($77.7)	(3.5%)

Operating Expenses

Total operating expenses for the System amounted to $2.8 billion as of June 30, 2005. Hospital expenses represented 39.0% of all operating expenses and are the largest functional component of them. Other major components are instructional expenses, 18.9%; research expenses, 11.8%; and public service expenses, 9.8%. Shown in the following table is a summary of the System's operating expenses for the fiscal year ending June 30, 2005.

Operating Expenses (in millions)

	As of June 30, 2005	As of June 30, 2004	Change	Percentage Change
Instruction	$528.8	$436.6	$92.2	21.1%
Research	328.4	310.1	18.3	5.9%
Public service	274.0	211.5	62.5	29.6%
Academic support	107.0	125.5	(18.5)	(14.7%)
Student services	31.7	31.0	0.7	2.3%
Institutional support	130.1	127.4	2.7	2.1%
Operation and maintenance of plant	133.2	131.6	1.6	1.2%
Scholarships and fellowships	36.1	36.9	(0.8)	(2.2%)
Auxiliary enterprises	132.3	120.1	12.2	10.2%
Hospital	1,089.7	1,137.4	(47.7)	(4.2%)
Total operating expenses	$2,791.3	$2,668.1	$123.2	4.6%

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2005, the System has $1.2 billion (including $60.1 million in assets under capital leases) invested in a broad range of capital assets including land, buildings and improvements, equipment, and infrastructure, which is net of accumulated depreciation of $1.52 billion (see table below).

Capital Asset Summary

	As of June 30, 2005	As of June 30, 2004	Change	Percentage Change
Capital assets not being depreciated	$190,720,083	$249,938,908	($59,218,825)	(23.7%)
Other Capital Assets:				
Infrastructure	56,878,739	56,673,785	204,954	0.4%
Land improvements	63,208,638	58,869,428	4,339,210	7.4%
Buildings	1,478,746,164	1,362,093,717	116,652,447	8.6%
Equipment	754,116,196	682,162,898	71,953,298	10.5%
Library books	195,429,112	187,094,446	8,334,666	4.5%
Total Other Capital Assets	2,548,378,849	2,346,894,274	201,484,575	8.6%
Total cost of capital assets	2,739,098,932	2,596,833,182	142,265,750	5.5%
Less accumulated depreciation	(1,519,157,433)	(1,450,178,330)	(68,979,103)	(4.8%)
Capital assets, net	$1,219,941,499	$1,146,654,852	$73,286,647	6.4%

Capital assets not being depreciated total $190.7 million. This represents land and construction in progress.

Significant capital asset expenditures in fiscal year 2005 at the Health Sciences Center in New Orleans include $3.1 million for the student nurses residence, $1.9 million for equipment to support the financial system, $1.1 million for medical equipment, and $0.7 million for renovations to medical buildings.

The major capital expenditure recorded at the Health Sciences Center in Shreveport was $13.1 million that was related to the Feist Weiller Cancer Center.

Major capital expenditures at the HCSD included $6.2 million for life safety code modifications at Earl K. Long Medical Center, $1.9 million for a hemodynamic cat lab system at the Medical Center of Louisiana at New Orleans (MCLNO), $1.5 million for a linear accelerator at MCLNO, and $0.6 million for a special procedures room at Leonard J. Chabert Medical Center.

At LSU, major capital expenditures that were recorded in fiscal year 2005 were $1.5 million for Hatcher Hall renovations, $1.8 million for the Louisiana Transportation & Research Center, $2.1 million for Laboratory School renovations, $1.5 million for Nicholson Hall renovations, $1.2 million for the Wetlands Environmental Sciences facility, $1.8 million for Assembly Center renovations, $1.9 million for Broussard Hall renovations, and $2.9 million for the Residential College.

For the Paul M. Hebert Law Center, a $2.5 million capital expenditure was recorded for renovations to the Law Center, while at LSU at Alexandria, a capital expenditure of $1.0 million for the central utilities system upgrade was recorded.

A $15.3 million capital expenditure was recorded for buildings and land improvements at the Pennington Biomedical Research Center this past fiscal year.

In addition, the University of New Orleans had the following major additions to its capital assets during the same time period: $6.4 million for the new College of Business Administration building and $5.0 million in movable equipment and library books.

At June 30, 2005, the System has $228.4 million in bonds outstanding, $45.7 million in notes payable outstanding, and $65.4 million in capital lease obligations outstanding.

ECONOMIC OUTLOOK

This past summer, two major hurricanes, Katrina and Rita, struck Louisiana and inflicted severe damage to several of the campuses and medical institutions of the System. More importantly, these storms also caused catastrophic harm to New Orleans and that has created a fiscal crisis that is currently being addressed. While the total financial setback the state can expect in the future is not yet known, the immediate impact will likely result in significant restructuring that will occur over the next 18 to 24 months.

In response, the Governor issued an executive order reducing the budgets of our campuses along with all other state agencies. The reductions for our campuses totaled approximately $31 million and ranged from 3.6% to 11.7% of state general funds. In addition, there was a special session of the legislature where additional reductions were imposed. These reductions coupled with the withdrawal of funds from the state's rainy day fund totaled almost a billion dollars and balanced the state's budget at this point in time.

MCLNO, the HCSD's largest hospital, incurred extensive and catastrophic damage from the storm. The hospital remains closed and approximately 2,700 employees have been laid off. While the HCSD is in the process of leasing appropriate temporary replacement hospital space in New Orleans, a permanent replacement hospital in New Orleans will not likely be operational for at least three to five years in the future. Nevertheless, the Health Sciences Center's School of Medicine, Dentistry, and other related programs will be able to continue and remain accredited by increasing the use of private sector medical facilities in New Orleans as well as temporarily relocating programs to other areas in the state, principally Baton Rouge. Plans to build a replacement and expanded teaching hospital in Baton Rouge continue to progress.

While the University of New Orleans campus was less damaged than many other facilities in New Orleans, the storms reduced enrollment from nearly 17,300 to approximately 7,000 in the fall semester of 2005. The University of New Orleans reopened for the spring semester at its main campus location with an enrollment of 11,446 students.

The state has also announced that initial budget recommendations for fiscal year 2007 will be below the currently reduced budget levels. One of the responses of our Board to this and from the aftermath of the storms has been to form committees to examine the procedures and practices of the campuses for the purpose of obtaining greater efficiencies and savings from operations as well as to determine if there are opportunities for revenue enhancement.

In summary, the next few years will be challenging, but the overall stability of the enterprise is not at risk. The System will aggressively manage costs and will also seek alternative revenue streams. All debt service and other obligations can readily be satisfied and plans for expansion in selected areas will continue.

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents (note 2)	$211,516,823
Investments (note 3)	110,234,370
Receivables, net (note 4)	208,105,024
Due from state treasury, net (note 15)	55,452,935
Inventories	37,123,749
Deferred charges and prepaid expenses	5,121,844
Notes receivable	7,367,241
Other current assets	1,263,596
Total current assets	636,185,582
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents (note 2)	66,487,982
Investments (note 3)	193,252,223
Receivables, net (note 4)	16,043
Notes receivable	23,428,647
Other restricted assets	13,972,238
Investments (note 3)	15,565
Notes receivable	375
Other noncurrent assets	3,712,420
Capital assets, net (note 5)	1,219,941,499
Total noncurrent assets	1,520,826,992
Total assets	2,157,012,574
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	345,985,694
Deferred revenues	58,327,533
Amounts held in custody for others (note 12)	6,762,937
Compensated absences (note 9)	8,553,365
Capital lease obligations (note 12)	4,121,622
Notes payable (note 12)	12,546,610
Bonds payable (note 12)	9,920,000
Other current liabilities	1,620,292
Total current liabilities	447,838,053

(Continued)

The accompanying notes are an integral part of this statement.

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

LIABILITIES (CONT.)	
Noncurrent Liabilities:	
Compensated absences (note 9)	$119,219,895
Capital lease obligations (note 12)	61,316,485
Notes payable (note 12)	33,130,332
Bonds payable (note 12)	218,465,000
Other noncurrent liabilities	540,791
Total noncurrent liabilities	432,672,503
Total liabilities	880,510,556
NET ASSETS	
Investment in capital assets, net of related debt	950,260,808
Restricted for:	
Nonexpendable (note 16)	136,407,383
Expendable (note 16)	157,618,474
Unrestricted	32,215,353
Total net assets	$1,276,502,018

(Concluded)

The accompanying notes are an integral part of this statement.

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

COMPONENT UNITS
Statement of Financial Position, June 30, 2005

	LSU FOUNDATION	TIGER ATHLETIC FOUNDATION*	PENNINGTON MEDICAL FOUNDATION*
ASSETS			
Current Assets:			
Cash and cash equivalents (note 2)	$14,169,158	$2,317,767	$3,554,203
Accrued interest receivable	1,414,850		75,971
Investments (note 3)	61,371,355		87,333,303
Accounts receivable, net	537,981	262,500	10,166
Unconditional promises to give, net (note 28)	2,787,280	3,219,053	
Inventories			
Deferred charges and prepaid expenses	567,232	389,742	38,800
Notes receivable, net			
Cash restricted for debt service			
Other current assets			82,816
Total current assets	80,847,856	6,189,062	91,095,259
Noncurrent Assets:			
Restricted assets:			
Cash and cash equivalents (note 2)		90,072,300	107,350
Investments (note 3)	255,572,389		
Investments (note 3)	20,731,537		
Unconditional promises to give, net (note 28)	7,614,270	8,324,872	
Notes receivable			
Property and equipment, net (note 5)	12,045,919	87,463,602	40,437,146
Other noncurrent assets	715,927	1,172,950	
Total noncurrent assets	296,680,042	187,033,724	40,544,496
Total assets	$377,527,898	$193,222,786	$131,639,755
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	$1,216,637	$4,528,284	$600,719
Deferred revenues		3,963,349	
Amounts held in custody for others (note 26)	1,168,450	892,388	
Compensated absences payable	117,506		
Capital lease obligations			
Current portion of notes payable (note 12)		1,156,000	690,000
Current portion of bonds payable (note 12)	785,494	2,600,000	
Other current liabilities	562,249		19,759
Total current liabilities	3,850,336	13,140,021	1,310,478

(Continued)

The accompanying notes are an integral part of this statement.

LSU HEALTH SCIENCES CENTER FOUNDATION	UNIVERSITY OF NEW ORLEANS FOUNDATION	UNIVERSITY OF NEW ORLEANS RESEARCH AND TECHNOLOGY FOUNDATION	TOTAL FOUNDATIONS
$2,749,518	$21,811	$644,273	$23,456,730
164,112			1,654,933
10,972,488	1,130,743	8,127,723	168,935,612
	963,830	1,152,250	2,926,727
95,496	641,500		6,743,329
	27,824		27,824
	41,415	40,515	1,077,704
91,163			91,163
87,221			87,221
271,506	168,356	82,900	605,578
14,431,504	2,995,479	10,047,661	205,606,821
			90,179,650
	48,950,668		304,523,057
59,404,730	125,411		80,261,678
2,391,561	652,677		18,983,380
234,197			234,197
2,208,803	10,845,356	70,604,644	223,605,470
35,255	114,579		2,038,711
64,274,546	60,688,691	70,604,644	719,826,143
$78,706,050	$63,684,170	$80,652,305	$925,432,964
$774,701	$773,654	$775,313	$8,669,308
	2,291	51,178	4,016,818
	1,459,547	51,635	3,572,020
			117,506
	20,494		20,494
	3,544,219	238,578	5,628,797
70,000	106,000	3,945,000	7,506,494
1,650	711,847	715,504	2,011,009
846,351	6,618,052	5,777,208	31,542,446

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
COMPONENT UNITS
Statement of Financial Position, June 30, 2005

	LSU FOUNDATION	TIGER ATHLETIC FOUNDATION*	PENNINGTON MEDICAL FOUNDATION*
LIABILITIES (CONT.)			
Noncurrent Liabilities:			
Amounts held in custody for others (note 26)	$57,053,465		
Capital lease obligations			
Notes payable, net of current portion (note 12)		$2,975,337	$39,485,000
Bonds payable, net of current portion (note 12)	11,939,506	135,910,000	
Other noncurrent liabilities		1,508,168	
Total noncurrent liabilities	68,992,971	140,393,505	39,485,000
Total liabilities	72,843,307	153,533,526	40,795,478
NET ASSETS			
Unrestricted	28,820,670	22,060,610	90,844,277
Temporarily restricted (note 16)	123,329,436	16,797,774	
Permanently restricted (note 16)	152,534,485	830,876	
Total Net Assets	304,684,591	39,689,260	90,844,277
Total Liabilities and Net Assets	$377,527,898	$193,222,786	$131,639,755

*As of December 31, 2004

(Concluded)

The accompanying notes are an integral part of this financial statement.

LSU HEALTH SCIENCES CENTER FOUNDATION	UNIVERSITY OF NEW ORLEANS FOUNDATION	UNIVERSITY OF NEW ORLEANS RESEARCH AND TECHNOLOGY FOUNDATION	TOTAL FOUNDATIONS
$14,759,024	$12,304,539		$84,117,028
	765,426		765,426
		$7,354,546	49,814,883
1,900,000	1,618,000	790,000	152,157,506
12,926		434,205	1,955,299
16,671,950	14,687,965	8,578,751	288,810,142
17,518,301	21,306,017	14,355,959	320,352,588
744,973	3,872,847	66,296,346	212,639,723
13,118,083	8,214,016		161,459,309
47,324,693	30,291,290		230,981,344
61,187,749	42,378,153	66,296,346	605,080,376
$78,706,050	$63,684,170	$80,652,305	$925,432,964

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

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

OPERATING REVENUES	
Student tuition and fees	$291,354,620
Less scholarship allowances	(43,577,403)
Net student tuition and fees	247,777,217
Federal appropriations	10,858,261
Federal grants and contracts	230,433,626
State and local grants and contracts	112,403,334
Nongovernmental grants and contracts	76,095,226
Sales and services of educational departments	180,054,635
Hospital income	1,141,968,467
Auxiliary enterprise revenues (including revenues pledged to secure debt per note 23)	151,121,618
Less scholarship allowances	(5,388,044)
Net auxiliary revenues	145,733,574
Other operating revenues	17,417,781
Total operating revenues	2,162,742,121
OPERATING EXPENSES	
Educational and general:	
Instruction	528,794,477
Research	328,441,039
Public service	273,966,546
Academic support	106,989,093
Student services	31,736,596
Institutional support	130,125,585
Operation and maintenance of plant	133,189,761
Scholarships and fellowships	36,061,634
Auxiliary enterprises	132,322,625
Hospital	1,089,684,357
Total operating expenses	2,791,311,713
Operating Loss	(628,569,592)

(Continued)

The accompanying notes are an integral part of this financial statement.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, June 30, 2005

NONOPERATING REVENUES (Expenses)	
State appropriations	$581,418,228
Gifts	45,339,026
Net investment income	22,193,466
Interest expense	(9,762,244)
Other nonoperating revenues	1,323,881
Net nonoperating revenues	640,512,357
Income Before Other Revenues, Expenses, Gains, and Losses	11,942,765
Capital appropriations	36,336,804
Capital gifts and grants	26,590,978
Additions to permanent endowments	6,451,528
Other deductions, net	(9,671,166)
Increase in Net Assets	71,650,909
Net Assets at Beginning of Year, Restated (note 17)	1,204,851,109
Net Assets at End of Year	$1,276,502,018

(Concluded)

The accompanying notes are an integral part of this financial statement.

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

COMPONENT UNITS
Statement of Activities
For the Year Ended June 30, 2005

	LSU FOUNDATION	TIGER ATHLETIC FOUNDATION*	PENNINGTON MEDICAL FOUNDATION*
Changes in unrestricted net assets:			
Contributions	$724,322	$9,909,227	$1,569
Investment earnings	3,217,983	290,677	9,648,473
Service fees	2,838,680		
Grants and contracts			
Other revenues		3,928,964	72,320
Total unrestricted revenues	6,780,985	14,128,868	9,722,362
Net assets released from restrictions -			
satisfaction of program expenses	18,436,262	13,940,738	
Total unrestricted revenues and other support	25,217,247	28,069,606	9,722,362
Expenses:			
Amounts paid to benefit Louisiana State University for:			
Projects specified by donors	17,103,062		
Projects specified by the Board of Directors	1,160,074	3,135,404	2,751,167
Other:			
Grants and contracts			
Property operations			
Other		5,456,693	15,497,390
Total program expenses	18,263,136	8,592,097	18,248,557
Supporting services:			
Salaries and benefits	2,766,801	1,109,738	61,037
Occupancy	109,000	202,945	
Office operations	427,988	115,072	938,599
Travel	196,759	12,116	
Professional services	218,093	103,900	501,376
Dues and subscriptions	17,895	142,563	
Meetings and development	122,820	1,256,721	1,921
Depreciation	1,945,533		2,184,303
Provision for uncollectible accounts			273,000
Merchandise expense			
Loss on sale of assets			
Other		947,949	581,832
Total supporting services	5,804,889	3,891,004	4,542,068
Total expenses	24,068,025	12,483,101	22,790,625
Increase (decrease) in unrestricted net assets	1,149,222	15,586,505	(13,068,263)

(Continued)

The accompanying notes are an integral part of this statement.

LSU HEALTH SCIENCES CENTER FOUNDATION	UNIVERSITY OF NEW ORLEANS FOUNDATION	UNIVERSITY OF NEW ORLEANS RESEARCH AND TECHNOLOGY FOUNDATION	TOTAL FOUNDATIONS
$94,682	$150,111	$114,903	$10,994,814
1,061,691	496,580	154,453	14,869,857
	1,049,185		3,887,865
		10,765,611	10,765,611
192,552	1,674,388	5,218,728	11,086,952
1,348,925	3,370,264	16,253,695	51,605,099
7,663,269	6,121,605	150,000	46,311,874
9,012,194	9,491,869	16,403,695	97,916,973
6,423,266			23,526,328
		88,582	7,135,227
		5,838,344	5,838,344
	737,193	3,547,680	4,284,873
	5,920,137		26,874,220
6,423,266	6,657,330	9,474,606	67,658,992
1,469,210	1,029,304	179,938	6,616,028
35,062	18,554		365,561
253,594	62,423		1,797,676
10,974	8,145	1,903	229,897
214,851	388,653	749,419	2,176,292
17,779	12,149		190,386
33,758	138,018		1,553,238
135,771	217,025	2,189,375	6,672,007
	178,069		451,069
	519		519
	125,232		125,232
124,698	201,088	60,984	1,916,551
2,295,697	2,379,179	3,181,619	22,094,456
8,718,963	9,036,509	12,656,225	89,753,448
293,231	455,360	3,747,470	8,163,525

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
COMPONENT UNITS
Statement of Activities, June 30, 2005

	LSU FOUNDATION	TIGER ATHLETIC FOUNDATION*	PENNINGTON MEDICAL FOUNDATION*
Changes in temporarily restricted net assets:			
Contributions	$11,599,401	$9,764,527	
Investment earnings	20,798,678		
Other	108,050		
Total temporarily restricted revenues	32,506,129	9,764,527	NONE
Net assets released from restrictions - satisfaction of program expenses	(18,436,262)	(13,940,738)	NONE
Increase (decrease) in temporarily restricted net assets	14,069,867	(4,176,211)	NONE
Changes in permanently restricted net assets:			
Contributions	4,838,857	26,181	
Investment earnings	(22,856)	32,199	
Other		(1,293,459)	
Increase (decrease) in permanently restricted net assets	4,816,001	(1,235,079)	NONE
Increase (decrease) in net assets	20,035,090	10,175,215	($13,068,263)
Net assets at beginning of year	284,649,501	29,514,045	103,912,540
Net assets at end of year	$304,684,591	$39,689,260	$90,844,277

*For the period ending December 31, 2004

(Concluded)

The accompanying notes are an integral part of this financial statement.

LSU HEALTH SCIENCES CENTER FOUNDATION	UNIVERSITY OF NEW ORLEANS FOUNDATION	UNIVERSITY OF NEW ORLEANS RESEARCH AND TECHNOLOGY FOUNDATION	TOTAL FOUNDATIONS
$4,851,906	$2,458,212		$28,674,046
901,331	1,885,518		23,585,527
999,167	1,166,140		2,273,357
6,752,404	5,509,870	NONE	54,532,930
(7,663,269)	(6,121,605)	($150,000)	(46,311,874)
(910,865)	(611,735)	(150,000)	8,221,056
2,827,926	803,923		8,496,887
3,941,645	(1,941)		3,949,047
	820,230		(473,229)
6,769,571	1,622,212	NONE	11,972,705
6,151,937	1,465,837	3,597,470	28,357,286
55,035,812	40,912,316	62,698,876	576,723,090
$61,187,749	$42,378,153	$66,296,346	$605,080,376

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

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

Cash flows from operating activities	
Student tuition and fees	$249,905,053
Federal appropriations	12,266,626
Grants and contracts	458,776,902
Sales and services of educational departments	179,591,909
Hospital income	1,093,911,366
Auxiliary enterprise receipts	145,250,992
Payments for employee compensation	(1,358,055,004)
Payments for benefits	(301,341,481)
Payments for utilities	(56,972,789)
Payments for supplies and services	(903,196,470)
Payments for scholarships and fellowships	(35,830,744)
Loans to students	(7,858,605)
Collection of loans to students	7,733,376
Other receipts	26,924,735
Net cash used by operating activities	(488,894,134)
Cash flows from noncapital financing activities	
State appropriations	585,590,863
Gifts and grants for other than capital purposes	44,354,607
Private gifts for endowment purposes	688,503
TOPS receipts	51,814,712
TOPS disbursements	(49,601,214)
Other receipts	1,966,877
Net cash provided by noncapital financing sources	634,814,348
Cash flows from capital financing activities	
Proceeds from capital debt	135,553,451
Capital appropriations received	38,891,174
Capital grants and gifts received	29,601,600
Purchase of capital assets	(176,113,347)
Principal paid on capital debt and leases	(45,541,187)
Interest paid on capital debt and leases	(9,757,169)
Other uses	(9,537,577)
Net cash used by capital financing activities	(36,903,055)

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows
For the Year Ended June 30, 2005

Cash flows from investing activities	
Proceeds from sales and maturities of investments	$19,208,628
Interest received on investments	18,722,174
Purchase of investments	(151,560,461)
Net cash used by investing activities	(113,629,659)
Net decrease in cash and cash equivalents	(4,612,500)
Cash and cash equivalents at the beginning of the year	282,617,305
Cash and cash equivalents at the end of the year	$278,004,805
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($628,569,592)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	107,989,034
Changes in assets and liabilities:	
Increase in accounts receivable	(11,795,122)
Increase in inventories	(91,859)
Increase in deferred charges and prepaid expenses	(3,301,487)
Decrease in notes receivable	98,415
Increase in other assets	(37,522,379)
Increase in accounts payable and accrued liabilities	35,333,775
Increase in deferred revenue	8,136,728
Increase in amounts held in custody for others	1,373,964
Increase in compensated absences	5,485,969
Increase in other liabilities	33,968,420
Net cash used by operating activities	($488,894,134)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and cash equivalents classified as current assets	$211,516,823
Cash and cash equivalents classified as noncurrent assets	66,487,982
Cash and cash equivalents at the end of the year	$278,004,805

(Concluded)

The accompanying notes are an integral part of this financial statement.

INTRODUCTION

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

The university system is comprised of nine institutions on 10 campuses in five cities and 10 state hospitals. The system includes LSU and A&M College (LSU), the Paul M. Hebert Law Center, and the Pennington Biomedical Research Center, all in Baton Rouge; the LSU Agricultural Center (including the Louisiana Agricultural Experiment Station and the Louisiana Cooperative Extension Service) with headquarters in Baton Rouge; the University of New Orleans; LSU Shreveport; LSU Alexandria; LSU Eunice, a two-year institution; and the LSU Health Sciences Center, which includes schools of Medicine, Dentistry, Nursing, and Allied Health Professions, and a Graduate School in New Orleans, the Louisiana State University School of Medicine in New Orleans Faculty Group Practice (a Louisiana nonprofit corporation doing business as LSU Healthcare Network), the Health Care Services Division, and a School of Medicine in Shreveport with hospitals in Shreveport and Monroe. Student enrollment for the university system for the 2004 fall semester totaled approximately 63,000. During September 2004, the university system had approximately 5,233 full-time and part-time faculty members, including associates and affiliated faculty.

Louisiana Revised Statute 17:1519.1 provides for the operation of Louisiana's public hospitals by the LSU Health Sciences Center - Health Care Services Division, under the overall management of the LSU Board of Supervisors. The LSU Health Sciences Center - Health Care Services Division is comprised of eight hospitals throughout the state and a central administrative unit located in Baton Rouge. The state hospitals include Earl K. Long Medical Center in Baton Rouge, Huey P. Long Medical Center in Pineville, University Medical Center in Lafayette, W.O. Moss Regional Medical Center in Lake Charles, Lallie Kemp Regional Medical Center in Independence, Washington-St. Tammany Regional Medical Center in Bogalusa, Leonard J. Chabert Medical Center in Houma, and Medical Center of Louisiana at New Orleans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

The discrete component unit foundations, which are the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, follow the provisions of the Financial Accounting Standards Board for not-for-profit organizations.

B. REPORTING ENTITY

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

Blended Component Units

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

The governing board of LSUHN was established in August 1995 and is comprised of 15 members, seven of whom are appointed by LSU and eight of whom are from the community and not members or employees of the LSU Board of Supervisors. LSUHN began operations in March 1997, providing health care to the general public.

A cooperative endeavor agreement, dated November 1, 2000, documents the relationship between the LSU Health Sciences Center and LSUHN. The agreement provides for the LSU Health Sciences Center and LSUHN to continue as autonomous organizations with separate but complimentary missions. The agreement establishes a relationship in which the LSU Health Sciences Center will lease certain faculty, staff, and specific office space and equipment to LSUHN as its part of the agreement. LSUHN will reimburse the LSU Health Sciences Center for the use of its employees, facilities, and equipment; provide support to the academic programs; and provide access to a patient base that would not otherwise be available, as its part of the agreement.

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.

The Eunice Student Housing Foundation, a nonprofit corporation with an August 31 fiscal year-end, is considered a blended component unit of the university system and is included in the basic financial statements. The component unit is included in the reporting entity because of the significance of its operational and financial relationships with the LSU System and LSU Eunice. Although the Eunice Student Housing Foundation is a legally separate, not-for-profit organization as outlined in the Internal Revenue Code Section 501(c)(3), it is reported as a part of the university system because its purpose is to assist LSU Eunice in carrying out its educational functions.

The foundation constructed a student apartment complex, known as Bengal Village, on the LSU Eunice campus. Bengal Village consists of 58 units and is managed by Century Development Housing Management, L.P. (Century). The management agreement between the foundation and Century commenced August 1, 2002, and ends July 31, 2017. Thereafter, the agreement shall be automatically renewed for one-year periods unless terminated. All personnel employed in the leasing, management, maintenance, and operation of Bengal Village are employees of Century.

To obtain the latest audit report of the Eunice Student Housing Foundation, write to the Eunice Student Housing Foundation, 2048 Johnson Highway, Eunice, Louisiana 70535.

Discretely Presented Component Units

The LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the LSU Health Sciences Center Foundation, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation are included as discretely presented component units of the university system in the system’s basic financial statements, in accordance with the criteria outlined in GASB Statement 14, as amended by GASB Statement 39. The foundations are legally separate, tax-exempt organizations supporting the university system. The foundations have been organized to solicit, receive, hold, invest, and transfer funds for the benefit of the university system. In addition, the foundations assist the university in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. The university and the LSU Foundation, the University of New Orleans Foundation, and the LSU Health Sciences Center 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 foundations to manage funds on behalf of the university.

Other external auditors audited the Tiger Athletic Foundation and the Pennington Medical Foundation for the year ended December 31, 2004, and the LSU Foundation, the University of New Orleans Foundation, the University of New Orleans Research and Technology Foundation, and the LSU Health Sciences Center Foundation for the year ended June 30, 2005.

Each of these foundations is a nonprofit organization that reports under the Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundations' financial information in the university system's financial report for these differences.

Furthermore, each of these foundations is a legally separate, tax-exempt organization supporting the LSU System. They are included in the university's financial statements because their assets, individually, equaled 3% or more of the assets of the university system.

Each discretely presented component unit is described as follows:

> The LSU Foundation supports LSU A&M. During the year ended June 30, 2005, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of $18,263,136. Complete financial statements for the foundation can be obtained at 3838 West Lakeshore Drive, Baton Rouge, Louisiana 70808.
>
> The Tiger Athletic Foundation (TAF) supports LSU A&M. During the year ended December 31, 2004, TAF made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of $3,135,404. Complete financial statements for TAF can be obtained from P. O. Box 711, Baton Rouge, Louisiana 70821, or from the foundation's Web site at www.lsutaf.org.
>
> The Pennington Medical Foundation supports the Pennington Biomedical Research Center. During the year ended December 31, 2004, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of $18,248,557. Complete financial statements for the foundation can be obtained from Mr. Brad Jewel, CPA, 6400 Perkins Road, Baton Rouge, Louisiana 70808.

The LSU Health Sciences Center Foundation supports the LSU Health Sciences Center in New Orleans. During the year ended June 30, 2005, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of $5,132,966. Complete financial statements for the foundation can be obtained at 2000 Tulane Avenue, New Orleans, Louisiana 70112, or from the foundation's Web site at www.foundation.lsuhsc.edu.

The University of New Orleans Foundation supports the University of New Orleans. During the year ended June 30, 2005, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of $5,920,137. Complete financial statements for the foundation can be obtained at 2000 Lakeshore Drive, New Orleans, Louisiana 70148, or from the foundation's Web site at www.unofoundation.org.

The University of New Orleans Research and Technology Foundation supports the University of New Orleans. During the year ended June 30, 2005, the foundation made distributions to or on behalf of the university for either restricted or unrestricted purposes in the amount of $88,582. Complete financial statements for the foundation can be obtained at 2000 Lakeshore Drive, New Orleans, Louisiana 70148.

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

C. BASIS OF ACCOUNTING

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

The university system has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university system has elected to not apply FASB pronouncements issued after the applicable date. However, in the current fiscal year, the university system has included six nongovernmental, blended component units that follow FASB 117.

Discrete Component Units

The foundations follow the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, which establishes external financial reporting for not-for-profit organizations, and includes the financial statements and the classifications of resources into three separate classes of net assets as follows:

- Unrestricted - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.

- Temporarily Restricted - Net assets whose use by the foundation is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the foundation pursuant to those stipulations.

- Permanently Restricted - Net assets whose use by the foundation is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the foundation.

D. BUDGET PRACTICES

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

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

Original approved budget	$1,277,888,020
Increases (decreases):	
State General Fund	(11,026,271)
Statutory dedication	65,130
Self-generated	7,992,281
Interagency transfers	18,564,498
Final budget	$1,293,483,658

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

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in time deposits and money market funds. Under state law, the LSU System may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States.

The university system 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, the university system is authorized to invest funds in direct U.S. government obligations, U.S. government agency obligations, mutual funds, direct security repurchase agreements, and time certificates of deposit. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are U.S. Treasury securities, mutual funds, and investments held by private foundations and are reported at fair value on the balance sheet. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. The university system's investments maintained by 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 livestock at LSU and the LSU Agricultural Center and the inventory of the Dental School of the LSU Health Sciences Center - New Orleans. These inventories are valued at current market prices. The university system uses periodic and perpetual inventory systems and values its various other inventories using the first-in, first-out and weighted-average valuation methods. The university system 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 Assets.

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the university system's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements, which total $100,000 or more and which 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. The LSU System 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.

Hospitals and medical units within the LSU Health Sciences Center are subject to federal cost reporting requirements and use capitalization and depreciation policies of the Centers for Medicare and Medicaid Services (CMS) 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 prior to the end of the fiscal year that are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

J. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that 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, non-classified 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 system leave schedule, faculty with 12-month appointments who have less than 10 years of state service and non-classified 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 university 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 non-classified 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 ASSETS

The university system's net assets are classified as follows:

(1) Invested in Capital Assets, Net of Related Debt
This represents the university system's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations related to acquisition, construction, or improvement of those capital assets.

(2) Restricted Net Assets - Expendable
Restricted expendable net assets include resources that the university system is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

(4) Unrestricted Net Assets

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

M. CLASSIFICATION OF REVENUES

The university 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, net of scholarship discounts and allowances; (3) hospital income; and (4) most federal, state, and local grants and contracts and federal appropriations.

(b) Nonoperating Revenue - Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, 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 the university and the amount that is paid by students and/or third parties making payments on the student's behalf.

O. ELIMINATING INTERFUND ACTIVITY

All activities among departments, campuses, and auxiliary units of the LSU System are eliminated for purposes of preparing the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

2. CASH AND CASH EQUIVALENTS

At June 30, 2005, the university system has cash and cash equivalents (book balances) of $278,004,805 as follows:

Petty cash	$1,275,035
Demand deposits	158,267,538
Certificates of deposit	88,368,600
Money market funds	253,527
Open-end mutual fund	29,840,105
Total	$278,004,805

Custodial credit risk is the risk that in the event of a bank failure, the system's deposits may not be recovered. Under state law, the system'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, 2005, $15,255,267 of the system's bank balance of $320,546,116 was exposed to custodial credit risk as these balances were uninsured and uncollateralized.

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

CASH AND CASH EQUIVALENTS - COMPONENT UNITS

Cash and cash equivalents of the component units totaling $113,723,601, as shown on the Statement of Financial Position, are reported under FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

The LSU Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Occasionally, the LSU Foundation has deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. The foundation's management believes the credit risk associated with these deposits is minimal. As of June 30, 2005, cash in excess of FDIC insurance limits total $1,709,300.

The Tiger Athletic Foundation maintains several bank accounts at various financial institutions. Accounts at individual institutions are insured by FDIC up to $100,000. TAF's bond agreement requires certain funds to be maintained at the bank to act as the trustee for the bonds. Cash at the institutions exceeded federal insured limits. The amount in excess of the FDIC limit totaled approximately $92,290,067 as of December 31, 2004. Restricted cash and cash equivalents are available for the following purposes:

	December 31, 2004
Bond Restrictions:	
Maintenance reserve and escrow accounts	$5,031,052
Tiger Den Suites tower account	485,562
West Side Upper Deck - Stadium Club deposits	3,943,849
West Side Upper Deck - Hibernia construction account	175,655
West Side Upper Deck - Project construction fund	66,381,385
West Side Upper Deck funds	84,379
West Side Upper Deck Trust Account	37,151
Donor restrictions	5,253,843
Board designated	7,848,548
Endowment funds	830,876
	$90,072,300

The Pennington Medical Foundation maintains its cash in deposit accounts at a financial institution. The balances are insured by FDIC up to $100,000. The balances at times may exceed federally insured limits. At December 31, 2004, the Pennington Medical Foundation's deposits did not exceed the insured limit.

The LSU Health Sciences Center 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, 2005, the LSU Health Sciences Center Foundation has cash deposits in excess of federally insured limits in the amount of $25,411.

The UNO Research and Technology Foundation maintains cash balances at several banks. Accounts at each institution are insured by FDIC up to $100,000. Balances in excess of FDIC insurance at June 30, 2005, are $526,782.

3. INVESTMENTS

At June 30, 2005, the system has investments totaling $303,502,158.

The system's established investment policy follows state law (R.S. 49:327), which authorizes the system 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.

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A summary of the system's investments follows:

	Percentage of Investments	Credit Quality Rating*	Fair Value
Type of Investment:			
Repurchase agreements[4]	13.35%		$40,510,245
Repurchase agreements	0.39%	Aaa	1,193,404
U.S. government securities:			
Bonds and Notes:			
Federal Home Loan Mortgage Corporation	7.47%	Aaa	22,684,679
Federal Home Loan Mortgage Corporation	2.02%	Aa	6,120,887
Federal National Mortgage Association	6.46%	Aaa	19,596,992
Federal Home Loan Bank	11.11%	Aaa	33,726,183
Federal Farm Credit Bank	1.51%	Aaa	4,568,277
Collateralized Mortgage Obligations			
Federal National Mortgage Association[2]	1.43%		4,354,851
Federal Home Loan Banks[2]	1.73%		5,263,113
Federal Home Loan Mortgage Corporation[2]	3.62%		10,999,605
Mortgage Backed Securities			
Federal National Mortgage Association[2]	6.93%		21,038,349
Federal Home Loan Mortgage Corporation[2]	4.61%		13,989,528
Government National Mortgage Association[1]	0.93%		2,809,845
Mutual Funds:			
Blackrock Mutual Fund[5]	0.01%		16,962
Money market mutual funds	5.91%	Aaa	17,927,282
Other:[3]			
Investments held by foundations	28.88%		87,663,620
Common and preferred stock	1.01%		3,064,017
Realty investments	1.14%		3,456,932
Certificates of deposit	0.03%		105,800
LPFA	0.01%		30,946
Interest receivable	0.38%		1,154,687
LSUE Housing Foundation	0.21%		650,954
New Orleans Regional Physician Hospital Organization	0.09%		275,000
HCN Investment Account	0.77%		2,300,000
Total investments	100.00%		$303,502,158

* Credit quality ratings obtained from Moody's Investors Service.
[1] Credit quality ratings are not required for U.S. government and agency securities that are explicitly guaranteed by the U.S. government.
[2] Securites are implicitly guaranteed by the U.S. government but are not rated by Moody's Investors Service.
[3] Credit quality ratings are not required for these investments, which do not have specified maturities.
[4] The investments and the underlying securities are not rated by Moody's Investors Service; however, the underlying securities are implicitly guaranteed by the U.S. government.
[5] The investment is not rated by Moody's Investors Service.

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

	Investment Maturities in Years			
	Less Than 1	1-5 Years	6-10	11-20
Type of Investment:				
Repurchase agreements[4]	$40,510,245			
Repurchase agreements	1,193,404			
U.S. government securities:				
Bonds and Notes:				
Federal Home Loan Mortgage Corporation	578,541	$18,375,040	$3,236,578	$494,520
Federal Home Loan Mortgage Corporation			6,120,887	
Federal National Mortgage Association	553,298	12,299,699	6,318,863	425,132
Federal Home Loan Bank	127,085	25,867,984	7,731,114	
Federal Farm Credit Bank	17,032	3,482,965	1,068,280	
Collateralized Mortgage Obligations				
Federal National Mortgage Association[2]			4,354,851	
Federal Home Loan Banks[2]		3,430,370	1,832,743	
Federal Home Loan Mortgage Corporation[2]		4,782,550	6,217,055	
Mortgage Backed Securities				
Federal National Mortgage Association[2]		6,860,118	14,178,231	
Federal Home Loan Mortgage Corporation[2]		13,128,211		861,317
Government National Mortgage Association[1]			2,655,052	154,793
Mutual Funds:				
Blackrock Mutual Fund[5]	16,962			
Money market mutual funds	17,927,282			
Other:[3]				
Investments held by foundations				
Common and preferred stock				
Realty investments				
Certificates of deposit				
LPFA				
Interest receivable				
LSUE Housing Foundation				
New Orleans Regional Physician Hospital Organization				
HCN Investment Account				
Total investments	$60,923,849	$88,226,937	$53,713,654	$1,935,762

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the system's $303,502,158 in total investments, $136,178,358 of underlying securities are held by counterparties, not in the name of the system. For U.S. Treasury obligations and U.S. government agency obligations, the system's investment policies generally require that issuers must provide the universities with safekeeping receipts, collateral agreements, and custodial agreements.

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

The open-end mutual fund amount of $29,840,105, included in cash and cash equivalents, consists of $27,200,000 invested in the Federated Investors Government Obligations Fund; $2,009,501 invested in Federated Prime Obligations Fund; and $630,604 invested in Fidelity Treasury Money Market. These funds are each rated Aaa by Moody's Investors Services. The holdings for the Federated Investors Government Obligations Fund and for the Fidelity Treasury Money Market funds consist primarily of short-term U.S. Treasury and U.S. government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. The holdings for the Federated Prime Obligations Fund consist primarily of a portfolio of short-term, high quality, fixed income securities issued by banks, corporations, and the U.S. government. These funds all minimize interest rate risk with the purchase of short-term securities.

The investments in mortgage-backed securities are based on flows from payments on the underlying mortgages that contain prepayment options that cause them to be highly sensitive to changes in interest rates. Generally, when interest rates fall, obliges tend to prepay the assets, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. This reduced cash flow diminishes the fair value of the asset-backed investment.

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. Each university is a voluntary participant. The foundations hold and manage funds received by the university as state matching funds for the Eminent Scholars Endowed Chairs and Endowed Professorship Programs. Of the $87,663,620 reported as investments held by foundations, the amounts held by its discretely presented component units are shown as follows:

Component Unit	Amount Held
LSU Foundation	$48,535,500
Pennington Medical Foundation	4,883,120
LSU Health Sciences Center Foundation	19,958,512
UNO Foundation	12,304,450
Total	$85,681,582

INVESTMENTS - COMPONENT UNITS

Component units' investments totaling $553,720,347, as shown on the Statement of Financial Position, are reported under FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40. The fair value of investments held by the foundations at June 30, 2005, follows:

Type of Investment	LSU Foundation	Pennington Medical Foundation*	LSU Health Sciences Center Foundation
Money markets/certificates of deposit	$395,000		$547,931
Government obligations	75,356,981	$229,431	
Corporate obligations	5,023,575		
Corporate stocks, common stocks, and indexed mutual funds	165,985,443		
Mortgage-backed securities and CMOs	57,502,942		
Shaw Center for the Performing Arts	20,731,537		
Land	522,652		
Royalty interest	163,336		
Equities		40,332,749	
Fixed income (Alpha Fund Notes)		26,967,600	
Meridian Diversified Fund		18,718,649	
Mineral interests		1,084,874	
U.S. government agency/mortgage-backed securities			5,649,525
U.S. government agency bonds and notes			3,695,251
Corporate bonds and notes			4,504,182
Mutual funds			55,980,329
Municipal bonds			
Federal mortgage notes			
Commercial paper			
Insurance contracts			
Hedged funds	11,913,758		
Venture capital	80,057		
Total investments	$337,675,281	$87,333,303	$70,377,218

*As of December 31, 2004

The LSU Foundation is a 50% investor in the Shaw Center for the Arts, LLC. The investment recorded on the statement of financial position in the amount of $20,731,537 at June 30, 2005, is accounted for by the equity method. The LSU Foundation had estimated remaining commitments relating to the Shaw Center for the Arts, LLC of approximately $296,827 at June 30, 2005, and that amount is classified in the Statement of Financial Position as other liabilities. The summarized unaudited financial information of the Shaw Center for the Arts, LLC is as follows:

Total assets	$42,194,233
Total liabilities	$731,159
Net income	$752,856

Type of Investment	UNO Foundation	UNO Research and Technology Foundation	Total Investments
Money markets/certificates of deposit	$5,252,302	$4,153,982	$10,349,215
Government obligations	9,731,993		85,318,405
Corporate obligations			5,023,575
Corporate stocks, common stocks, and indexed mutual funds	18,127,988		184,113,431
Mortgage-backed securities and CMOs			57,502,942
Shaw Center for the Performing Arts			20,731,537
Land			522,652
Royalty interest			163,336
Equities			40,332,749
Fixed income (Alpha Fund Notes)			26,967,600
Meridian Diversified Fund			18,718,649
Mineral interests			1,084,874
U.S. government agency/mortgage-backed securities			5,649,525
U.S. government agency bonds and notes			3,695,251
Corporate bonds and notes	4,657,649		9,161,831
Mutual funds	10,021,489		66,001,818
Federal mortgage notes		1,986,058	1,986,058
Commercial paper		1,987,683	1,987,683
Insurance contracts	2,415,401		2,415,401
Hedged funds			11,913,758
Venture capital			80,057
Total investments	$50,206,822	$8,127,723	$553,720,347

The Pennington Medical Foundation's investments are secured by Securities Investor Protection Corporation (SIPC) for up to $60 million through insurance purchased by the investment company. However, the $60 million of protection and SIPC do not insure the quality of investments or protect the Pennington Medical Foundation against losses from fluctuating market values.

4. RECEIVABLES

Receivables, which are scheduled for collection within one year, are shown on Statement A net of an allowance for doubtful accounts as follows:

	Receivables	Doubtful Accounts	Net Receivables
Student tuition and fees	$13,336,455		$13,336,455
Auxiliary enterprises	7,834,720	$16,000	7,818,720
Contributions and gifts	1,458,335		1,458,335
Federal, state, and private grants and contracts	65,582,461		65,582,461
Federal appropriations	108		108
Clinics	80,415,447	61,505,158	18,910,289
Sales and services/other	10,320,610	1,539	10,319,071
Hospital	705,186,682	614,491,054	90,695,628
Other adjustments	(205,379,841)	(205,379,841)	
Total	$678,754,977	$470,633,910	$208,121,067

Accounts receivable and doubtful accounts include $126,875,120 for fiscal year 2004 and $78,504,721 for fiscal year 2005 uncompensated care cost (disproportionate share) on the "Hospital" line that was earned by HCSD during fiscal years 2004 and 2005. Because of the federal cap and Medicaid State Plan ceiling, it has been determined that this amount is uncollectible and therefore an allowance for doubtful accounts should be established for the full amount included in Accounts Receivable and Doubtful Accounts. These amounts are eliminated on the "Other Adjustments" line.

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5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

LSU SYSTEM

	Balance June 30, 2004	Prior Period Adjustment	Restated Balance June 30, 2004
Capital assets not being depreciated:			
Land	$112,535,376		$112,535,376
Construction-in-progress	155,802,766	($18,399,234)	137,403,532
Total capital assets not being depreciated	$268,338,142	($18,399,234)	$249,938,908
Other capital assets:			
Infrastructure	$56,673,785		$56,673,785
Less accumulated depreciation	(19,168,950)		(19,168,950)
Total infrastructure	37,504,835	NONE	37,504,835
Land improvements	59,226,989	($357,561)	58,869,428
Less accumulated depreciation	(42,052,056)	641,121	(41,410,935)
Total land improvements	17,174,933	283,560	17,458,493
Buildings	1,335,246,774	26,846,943	1,362,093,717
Less accumulated depreciation	(716,921,610)	(24,097,336)	(741,018,946)
Total buildings	618,325,164	2,749,607	621,074,771
Equipment	752,060,883	(69,897,985)	682,162,898
Less accumulated depreciation	(543,351,365)	62,688,785	(480,662,580)
Total equipment	208,709,518	(7,209,200)	201,500,318
Library books	186,683,952	410,494	187,094,446
Less accumulated depreciation	(167,720,254)	(196,665)	(167,916,919)
Total library books	18,963,698	213,829	19,177,527
Total other capital assets	$900,678,148	($3,962,204)	$896,715,944
Capital asset summary:			
Capital assets not being depreciated	$268,338,142	($18,399,234)	$249,938,908
Other capital assets, at cost	2,389,892,383	(42,998,109)	2,346,894,274
Total cost of capital assets	2,658,230,525	(61,397,343)	2,596,833,182
Less accumulated depreciation	(1,489,214,235)	39,035,905	(1,450,178,330)
Capital assets, net	$1,169,016,290	($22,361,438)	$1,146,654,852

LSU SYSTEM

	Additions	Transfers	Retirements	Balance June 30, 2005
Capital assets not being depreciated:				
Land	$46,639			$112,582,015
Construction-in-progress	30,282,592	($89,548,056)		78,138,068
Total capital assets not being depreciated	$30,329,231	($89,548,056)	NONE	$190,720,083
Other capital assets:				
Infrastructure	$204,954			$56,878,739
Less accumulated depreciation	(1,289,698)			(20,458,648)
Total infrastructure	(1,084,744)	NONE	NONE	36,420,091
Land improvements	3,109,923	$1,229,287		63,208,638
Less accumulated depreciation	(1,546,737)			(42,957,672)
Total land improvements	1,563,186	1,229,287	NONE	20,250,966
Buildings	44,275,689	76,056,438	($3,679,680)	1,478,746,164
Less accumulated depreciation	(36,148,870)		3,665,596	(773,502,220)
Total buildings	8,126,819	76,056,438	(14,084)	705,243,944
Equipment	107,581,368		(35,628,070)	754,116,196
Less accumulated depreciation	(59,096,101)		34,258,590	(505,500,091)
Total equipment	48,485,267	NONE	(1,369,480)	248,616,105
Library books	11,717,709		(3,383,043)	195,429,112
Less accumulated depreciation	(9,392,304)		570,421	(176,738,802)
Total library books	2,325,405	NONE	(2,812,622)	18,690,310
Total other capital assets	$59,415,933	$77,285,725	($4,196,186)	$1,029,221,416
Capital asset summary:				
Capital assets not being depreciated	$30,329,231	($89,548,056)		$190,720,083
Other capital assets, at cost	166,889,643	77,285,725	($42,690,793)	2,548,378,849
Total cost of capital assets	197,218,874	(12,262,331)	(42,690,793)	2,739,098,932
Less accumulated depreciation	(107,473,710)	NONE	38,494,607	(1,519,157,433)
Capital assets, net	$89,745,164	($12,262,331)	($4,196,186)	$1,219,941,499

The prior period adjustments represent corrections of errors in recorded capital assets from prior years and for the change in capitalization policies for hospitals as described in note 1-H.

COMPONENT UNITS

	Balance June 30, 2004	Additions	Transfers	Retirements	Balance June 30, 2005
Capital assets not being depreciated:					
Land	$7,242,737	$120,252		($371,580)	$6,991,409
Capitalized collections	6,527,448	563,362	($222,750)	(802,437)	6,065,623
Livestock	3,000			(3,000)	
Construction-in-progress	7,826,314	28,242,168	(1,225,445)		34,843,037
Total capital assets not being depreciated	$21,599,499	$28,925,782	($1,448,195)	($1,177,017)	$47,900,069
Other capital assets:					
Infrastructure	$4,422,481	$91,397		($4,299,418)	$214,460
Less accumulated depreciation	(2,909,120)	(143,309)		3,030,015	(22,414)
Total infrastrucutre	1,513,361	(51,912)	NONE	(1,269,403)	192,046
Land improvements	1,376,997	205,604	$834,080		2,416,681
Less accumulated depreciation	(161,458)	(56,648)			(218,106)
Total land improvements	1,215,539	148,956	834,080	NONE	2,198,575
Buildings	203,485,760	1,550,258	13,291	(22,020,836)	183,028,473
Less accumulated depreciation	(16,850,310)	(4,424,812)		5,517,527	(15,757,595)
Total buildings	186,635,450	(2,874,554)	13,291	(16,503,309)	167,270,878
Equipment	30,100,091	1,584,401		(2,383,936)	29,300,556
Less accumulated depreciation	(22,080,096)	(3,132,673)		1,956,115	(23,256,654)
Total equipment	8,019,995	(1,548,272)	NONE	(427,821)	6,043,902
Total other capital assets	$197,384,345	($4,325,782)	$847,371	($18,200,533)	$175,705,401
Capital asset summary:					
Capital assets not being depreciated	$21,599,499	$28,925,782	($1,448,195)	($1,177,017)	$47,900,069
Other capital assets, at cost	239,385,329	3,431,660	847,371	(28,704,190)	214,960,170
Total cost of capital assets	260,984,828	32,357,442	(600,824)	(29,881,207)	262,860,239
Less accumulated depreciation	(42,000,984)	(7,757,442)	NONE	10,503,657	(39,254,769)
Capital assets, net	$218,983,844	$24,600,000	($600,824)	($19,377,550)	$223,605,470

REAL ESTATE HELD FOR INVESTMENT, DEVELOPMENT OR SALE - UNO FOUNDATION

In November 1993, the University of New Orleans (UNO) Foundation acquired by donation a 120,000 square foot office building located in downtown New Orleans valued at approximately $2.4 million. The building was subsequently upgraded to house the University of New Orleans Technology Enterprise Center. The university and other state agencies occupy approximately 78% of the building. Nonprofits occupy 3% and small and/or minority businesses occupy the remaining 19% in a business incubator for new and growing businesses.

On December 30, 1994, the Foundation purchased a complex of buildings in the Lee Circle area of downtown New Orleans from a private company. The properties were purchased for $3.2 million, which was entirely financed by a local bank. The seller of the properties is leasing back a portion of the available space to use as corporate offices for $32,522 per month through 2019, periodically adjusted for increases or decreases in the prevailing rate of a five-year treasury note. Most of the remainder of the property will be used for the Ogden Museum of Southern Art ("Museum") and to support the teaching mission of the UNO Fine Arts Department. A capital campaign is being conducted to raise the necessary funds to complete development of these properties by the Ogden Museum of Southern Art, Inc., a separate 501(c)3 corporation created to operate and support the Museum. During September 2004, the Foundation amended a lease agreement related to its Lee Circle properties and received an advance lease payment of $600,000 with the understanding that title to the property would transfer to the lessee at some time before 2014. As a result of the terms, the advance lease payment has been characterized as a sale for financial reporting purposes. Therefore, the Foundation recorded this as a sale of property and recorded a gain of approximately $343,000.

The Ogden Museum Project has been segregated into two phases: Goldring Hall and the Patrick F. Taylor Memorial Library, both of which will be used as art exhibition facilities. Goldring Hall was constructed using a combination of grants from the State of Louisiana and private funds. During 1999, the Foundation transferred to the university land held for the Ogden Museum development with a carrying value of $322,025 and funds of $2,418,000 representing amounts previously collected from donors to fund the Museum's development. Goldring Hall opened on August 23, 2003.

The Patrick F. Taylor Memorial Library phase of the Ogden Museum is being financed with private funds. Through June 30, 2005, the Foundation had expended $3,582,170 in construction related costs to renovate this historic building. Work on the renovation was suspended in 2003 to allow for securing additional private funding to complete the project. As of June 30, 2005, a separate board to govern the Ogden Museum (the Museum Board) is functioning and the Foundation is no longer funding or operating the Museum. The Foundation intends to make Taylor Library available to the Museum Board for completion of renovations by the Museum Board.

In December 1996, an act of donation was executed whereby a collection of artwork was donated to the UNO Foundation contingent on completion of an appropriate museum structure to showcase the artwork. The donor is to maintain custody of the artwork until the Ogden Museum is completed. The donor agreed to maintain insurance against loss or damage of the artwork, designating the UNO Foundation as the named insured. A significant portion of the donor's artwork has been loaned to the museum for display in the Goldring Hall portion of the museum. In 2004, the UNO Foundation and the donor modified their understanding to clarify that the remainder of the artwork would be donated and title would be transferred by 2006, assuming that the Taylor Library has been completed by that time and the tunnel connecting the Taylor Library to Goldring Hall is then operational. As of June 30, 2005, the fair value of the artwork has not been established and the Taylor Library remains incomplete. Because of the contingent nature of the ultimate gift of the artwork, no amount has been recorded in the financial statements related to this proposed gift.

At June 30, 2005, real estate held for investment, development, or sale consists of the following:

Technology Enterprise Center	$2,768,065
Film Studio Center	3,060,466
Lee Circle Properties:	
Taylor Library - construction-in-progress	3,582,170
Land and commercial buildings	1,719,700
Total	11,130,401
Less accumulated depreciation	(1,535,470)
Total	$9,594,931

6. PENSION PLANS

Plan Description. Substantially all employees of the university system are members of two statewide, public employee retirement systems. Academic and unclassified employees are generally members of the Teachers' Retirement System of Louisiana (TRSLA), and classified state employees are members of the Louisiana State Employees' Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSLA is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer plan because the material portion of its activity is with one employer--the State of Louisiana. 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 5 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 the university system are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.0% (TRSLA) and 7.5% (LASERS) of covered salaries. In fiscal year 2005, the state contributed 15.5% of covered salaries to TRSLA and 17.8% of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to the university system. The employer contributions to TRSLA for the years ended June 30, 2005, 2004, and 2003, were $31,683,189; $25,864,416; and $22,800,063, respectively, and to LASERS for the years ended June 30, 2005, 2004, and 2003, were $85,757,783; $74,606,740; and $65,839,353, 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 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 university system are 15.5% of the covered payroll. The participant's contribution (8.0%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the 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 $52,280,862 and $27,010,236, respectively, for the year ended June 30, 2005.

7. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The university system provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university system’s employees become eligible for these benefits if they reach normal retirement age while working for the university system. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program, as well as the Definity Health Plan and various insurance companies whose monthly premiums are paid jointly by the employee and the university system. The university system recognizes the cost of providing these benefits to retirees (university's portion of premiums) as an expense when paid during the year. These retiree benefits for 5,982 retirees totaled $29,010,697 for the year ended June 30, 2005.

8. CONTINGENT LIABILITIES, RISK MANAGEMENT, AND CLAIMS LIABILITY

Losses arising from judgments, claims, and similar contingencies are paid by either private insurance companies or through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by General

Fund appropriation. The university system is involved in 1,497 lawsuits at June 30, 2005, of which 13 lawsuits are handled by contract attorneys. The attorneys have estimated a possible liability of $410,000 relating to four of the lawsuits. This amount has not been accrued in the accompanying financial statements. The remaining lawsuits are handled by the Office of Risk Management or the Attorney General's Office.

In addition, the university is exposed to various risks of losses related to the self-insured and self-funded Definity Health Plan, which provides health insurance benefits to active and retired university employees and which began as a pilot program for the fiscal year ended June 30, 2003. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. According to the requirements of GASB Statement No. 10, as amended by Statements 17 and 30, total claims expenditures were $52,129,483. Changes in the reported liability since June 30, 2003, resulted from the following:

	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Recoveries from Settled and Unsettled Claims	Balance at Fiscal Year-End
2002-03		$14,767,106	$12,194,106		$2,573,000
2003-04	$2,573,000	45,241,320	40,460,482	$2,219,748	5,134,090
2004-05	5,134,090	58,352,153	52,129,483	3,423,913	7,932,847

CONTINGENCIES - COMPONENT UNITS

The city property tax assessor has assessed the UNO Research and Technology Foundation with real estate property taxes, interest and penalties for certain buildings owned by the foundation in the total amount of $4,746,877 as of August 2004. The UNO Research and Technology Foundation believes that it is entitled to property tax exemptions under present law and jurisprudence because of its nonprofit status and because of the use of these buildings to further the nonprofit goals of the foundation. The foundation is engaged in ongoing discussions with the assessor. If necessary, the foundation is prepared to litigate the issue. Although the foundation believes that it has adequate defenses against the assessment, if not successful, the assessment, interest and penalties may have a significant impact on the financial condition of the foundation. The foundation's counsel is unable to predict the eventual outcome of this matter or the potential loss contingencies, if any, to which the foundation may be subject.

9. COMPENSATED ABSENCES

At June 30, 2005, employees of the university have accumulated and vested annual, sick, and compensatory leave benefits of $91,935,175; $31,185,315; and $4,652,770, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

10. OPERATING LEASES

For the year ended June 30, 2005, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed, is $11,973,893. The following is a schedule by years of future minimum annual rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year as of June 30, 2005:

Nature of Operating Lease	2006	2007	2008	2009	2010	2011-2015	2016-2020	Total Minimum Payments Required
Office space	$7,145,017	$5,926,643	$3,882,404	$3,734,434	$3,497,950	$17,036,100	$751,800	$41,974,348
Equipment	3,091,736	2,662,972	2,025,904	20,728				7,801,340
Other	1,408,789	900,114	890,161	872,119	655,700	2,620,977		7,347,860
Total	$11,645,542	$9,489,729	$6,798,469	$4,627,281	$4,153,650	$19,657,077	$751,800	$57,123,548

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 - COMPONENT UNITS

Property, Facility and Equipment Lease Agreements -
UNO Research and Technology Foundation

UNO/Avondale Maritime Technology Center for Excellence - On May 16, 1997, the UNO Research and Technology Foundation and Avondale Industries, Inc., entered into a sub-lease agreement that provides for Avondale Industries, Inc., to lease from the Foundation, the land located in Jefferson Parish together with the facilities to be constructed on the land, the facility equipment and the right of uninterrupted access to and from all streets and roads adjoining the land.

The terms of the sub-lease agreement during the first 12 years (1997-2008) provides for Avondale Industries, Inc., to pay as rental the sum of $100,000 per year by September 1 of each year provided that the state has made the annual appropriation provided for in the Cooperative Endeavor Agreement (note 24). Beginning September 1, 2009, and for each year thereafter during the term of the sub-lease, rent in the amount of $100,000 is due and payable by September 1 of each year without regard to the state appropriation.

Naval Reserve Information System Office - On January 15, 1998; April 14, 1999; and July 3, 2000, the UNO Research and Technology Foundation entered into a sub-lease agreement and amended lease modifications, respectively, with the United States of America (the government) to lease from the Foundation, approximately 300,000 square feet of administrative space, 700 hard surface parking spaces, and 15.71 acres of land located at the UNO Research and Technology Park. The terms of the facility lease agreement provide that the government will have and hold the noted facility for the term beginning on the date of completion of the facility for an initial 10-year term with 15 individual one-year renewal terms with the annual rent for the premises and maintenance services of $1 and $2,203,259, respectively.

11. LESSOR LEASES

The university system's leasing operations consist primarily of leasing property for the purposes of providing food services to students; bookstore operations; land for fraternity and sorority houses and parking spaces to foundations; office space for postal services, banking services, and university affiliated organizations; space on rooftops for communication towers; and mineral leases.

The following schedule provides an analysis of the cost and carrying amount of the university system's investment in property on operating leases and property held for lease as of June 30, 2005:

Nature of Lease	Cost	Accumulated Depreciation	Carrying Amount
Office space	$14,756,858	($8,639,798)	$6,117,060
Land	6,324,221		6,324,221
Total	$21,081,079	($8,639,798)	$12,441,281

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2005:

Nature of Operating Lease	2006	2007	2008	2009	2010	2011-2015	2016-2020	Total Minimum Future Rentals
Office space	$2,006,691	$636,227	$274,391	$100,420	$48,444	$39,192	$11,850	$3,117,215
Land	156,590	154,829	154,829	154,829	89,579	447,894	447,894	1,606,444
Other	74,069	70,546	23,130	8,018				175,763
Total	$2,237,350	$861,602	$452,350	$263,267	$138,023	$487,086	$459,744	$4,899,422

Minimum future rentals do not include contingent rentals, which may be received as stipulated in the lease contracts. These contingent rental payments occur as a result of sales volume, customer usage of services provided, or as a result of the drilling operations on mineral leases. Contingent rentals amounted to $1,574,052 for the year ended June 30, 2005.

12. LONG-TERM LIABILITIES

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

University

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Bonds payable	$177,117,583	$102,205,000	$50,937,583	$228,385,000	$9,920,000
Notes payable	39,811,071	19,322,404	13,456,533	45,676,942	12,546,610
Capital lease obligations	28,589,526	40,783,806	3,935,225	65,438,107	4,121,622
Subtotal	245,518,180	162,311,210	68,329,341	339,500,049	26,588,232
Other liabilities:					
Amounts held in custody for others	5,390,064	68,887,821	67,514,948	6,762,937	6,762,937
Compensated absences payable	122,346,789	23,065,061	17,638,590	127,773,260	8,553,365
Contracts payable	337,554		337,554		
Subtotal	128,074,407	91,952,882	85,491,092	134,536,197	15,316,302
Total long-term liabilities	$373,592,587	$254,264,092	$153,820,433	$474,036,246	$41,904,534

Component Units

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Bonds payable	$77,004,000	$90,000,000	$7,340,000	$159,664,000	$7,506,494
Notes payable	64,171,376		8,083,101	56,088,275	5,628,797
Capital lease obligations	816,523		30,603	785,920	20,494
Subtotal	141,991,899	90,000,000	15,453,704	216,538,195	13,155,785
Other liabilities:					
Amounts held in custody for others	79,753,051	8,461,510	525,513	87,689,048	3,572,020
Compensated absences payable	98,625	18,881		117,506	117,506
Subtotal	79,851,676	8,480,391	525,513	87,806,554	3,689,526
Total long-term liabilities	$221,843,575	$98,480,391	$15,979,217	$304,344,749	$16,845,311

Notes Payable

The university has entered into a number of installment purchase agreements for the purchase of computer equipment, copiers, vehicles, et cetera. These agreements require scheduled payments either on a monthly, semiannual, or annual basis and have interest rates ranging from zero to 9.55%. The following is a summary of installment notes payable by the university for the year ended June 30, 2005:

Balance at July 1, 2004	$16,978,628
Adjustment	22,832,443
Installment purchases in 2005	16,446,278
Installment payments in 2005	(10,580,407)
Installment notes payable at June 30, 2005	$45,676,942

Certain contracts of the LSU Health Sciences Center - Health Care Services Division (HCSD), which were reported as part of capital lease payable in prior years, were reevaluated and determined to be notes payable because the payments are made to a third-party vendor. Those contracts, totaling $22,832,443 at July 1, 2004, were removed from capital leases payable and reported as notes payable for the year ended June 30, 2005.

The following is a summary of future minimum installment payments as of June 30, 2005:

Fiscal Year Ending June 30:	
2006	$14,223,155
2007	14,052,595
2008	9,010,838
2009	5,352,534
2010	5,547,199
2011-2015	1,668,187
2016-2020	1,116,303
Total minimum installment payments	50,970,811
Less - amount representing interest	(5,293,869)
Total	$45,676,942

The majority of the installment purchase agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for its continuation during any future fiscal period.

Included in the installment purchase agreements, the university system has entered into loan agreements with the Louisiana Public Facilities Authority (LPFA) on October 31, 1988. The LPFA loan agreement totaling $28,500,000 is for financing, refinancing, or reimbursing the cost of facilities; improvements and expansions of the LSU Athletic Department; construction of the Student Recreation Sports Center for LSU; improvements for parking and safety at LSU; improvements to residential life facilities ($26,200,000); additions to the parking garage at the LSU Health Sciences Center in New Orleans ($1,000,000); and building a child care center at the University of New Orleans ($1,300,000). The loan repayments are payable from the fees, rates, rentals, charges, grants, or other receipts or income derived by or in connection with the facilities, equipment, and improvements. According to terms of the loan agreement, the university system is to repay principal and interest on the obligation on the 28th day of each month for 20 years commencing August 28, 1991. The university system made principal payments during the year totaling $1,826,668. At June 30, 2005, the outstanding balance is $11,732,916, which is included in installment notes payable.

NOTES PAYABLE - COMPONENT UNITS

The component units have entered into a number of notes payable agreements for various purposes. These agreements require scheduled payments either on a monthly, semiannual, or annual basis with interest rates ranging from zero to 7.50%. The following is a summary of notes payable by component unit as of June 30, 2005:

Component Unit	Principal Outstanding June 30, 2004	Redeemed	Principal Outstanding June 30, 2005
Tiger Athletic Foundation*	$9,420,544	($5,289,207)	$4,131,337
Pennington Medical Foundation*	40,815,000	(640,000)	40,175,000
UNO Foundation	5,450,000	(1,905,781)	3,544,219
UNO Research and Technology Foundation	8,485,832	(248,113)	8,237,719
Total	$64,171,376	($8,083,101)	$56,088,275

* For the year ended December 31, 2004

The unamortized discount relative to the note payable for the UNO Research and Technology Foundation totaled $644,595 at June 30, 2005, which is reported by the foundation as a reduction of the note payable. Notes payable totaling $55,443,680 are reflected on Statement B.

The following is a summary of future minimum installment payments, net of unamortized discount for the component units as of June 30, 2005:

Fiscal Year Ending June 30:	
2006	$5,628,797
2007	2,228,590
2008	2,379,118
2009	1,521,426
2010	1,192,801
2011-2015	7,923,417
2016-2020	10,342,515
2021-2025	11,852,184
2026-2030	12,374,832
Total	$55,443,680

Bonds and Contracts Payable - System

Detailed summaries, by issues, of all bond and reimbursement contract debt outstanding at June 30, 2005, including future interest payments of $99,359,583 for LSU; $19,438,007 for the LSU Health Sciences Center; $17,818,748 for the University of New Orleans; and $10,925,594 for LSU at Eunice follow:

Bonds Payable

Issue	Date of Issue	Original Issue	Outstanding July 1, 2004	Issued
LSU				
Building Bonds of 1965 - Series B	July 1, 1965	$1,545,000	$38,000	
Student Housing System Bonds - 1966:				
Series B	July 1, 1966	2,175,000	185,000	
Series C	July 1, 1966	1,250,000	65,000	
1968 - Series B	July 1, 1968	1,275,000	110,000	
1996 Revenue Bonds	September 5, 1996	33,485,000	29,725,000	
1997 Auxiliary Revenue Bonds	December 1, 1997	6,500,000	5,000,000	
2000 Auxiliary Revenue Bonds	June 28, 2000	27,000,000	26,100,000	
2002 Auxiliary Revenue Bonds	October 3, 2002	11,435,000	11,305,000	
2004 Auxiliary Revenue Refunding Bonds	April 6, 2004	16,035,000	16,035,000	
2004 Auxiliary Revenue Bonds - Series B	October 26, 2004	51,885,000		$51,885,000
2005 (Series A and B) Auxiliary Revenue Refunding Bonds (advance refunding note 14)	June 2, 2005	41,840,000		41,840,000
LSU Health Sciences Center				
New Orleans - Building Revenue Bonds - Series 2000	January 1, 2000	15,910,000	15,060,000	
Health Care Services Division - Revenue Bonds, Series 2002	December 1, 2002	36,600,000	32,530,000	
University of New Orleans				
Jefferson Center, 1996-A	August 1, 1996	4,485,000	2,715,000	
Revenue Bonds of 1997 - Series A	January 15, 1997	5,965,000	5,240,000	
Revenue Bonds of 1998	August 15, 1998	15,915,000	15,265,000	
Revenue Bonds of 2004 - Series A	June 17, 2004	9,440,000	9,440,000	
Revenue Bonds of 2004 - Series B (advance refunding note 14)	October 19, 2004	8,480,000		8,480,000
LSU at Eunice				
1998 Auxiliary Revenue Bonds	June 1, 1998	1,650,000	1,304,583	
2002 Auxiliary Revenue Bonds	January 17, 2002	7,000,000	7,000,000	
Total Bonds Payable		$299,870,000	$177,117,583	$102,205,000

During the year ended June 30, 2005, LSU issued $51,885,000 of 2004 Auxiliary Revenue Bonds, Series B. The proceeds of the bonds will be used to (1) finance or reimburse a portion of the costs of the planning and construction of major repairs to the buildings and facilities at the university; (2) fund a reserve fund through the purchase of a debt service reserve insurance policy; and (3) pay the costs of issuance of the bonds.

Bonds Payable

Issue	Redeemed	Outstanding June 30, 2005	Maturities	Interest Rates	Future Interest Payments June 30, 2005
LSU					
Building Bonds of 1965 - Series B	$38,000				
Student Housing System Bonds - 1966:					
Series B	90,000	$95,000	2005-2006	3%	$2,850
Series C	50,000	15,000	2005-2006	3%	450
1968 - Series B	50,000	60,000	2005-2008	3%	1,950
1996 Revenue Bonds	29,725,000				
1997 Auxiliary Revenue Bonds	5,000,000				
2000 Auxiliary Revenue Bonds	650,000	25,450,000	2005-2030	Variable	22,977,000
2002 Auxiliary Revenue Bonds	140,000	11,165,000	2005-2032	Variable	10,000,462
2004 Auxiliary Revenue Refunding Bonds		16,035,000	2005-2015	4.0% - 5.25%	4,762,318
2004 Auxiliary Revenue Bonds - Series B	65,000	51,820,000	2005-2030	2.0% - 5.25%	43,902,839
2005 (Series A and B) Auxiliary Revenue Refunding Bonds (advance refunding note 14)	1,615,000	40,225,000	2005-2034	3% - 5%	17,711,714
LSU Health Sciences Center					
New Orleans - Building Revenue Bonds - Series 2000	245,000	14,815,000	2006-2031	5%	15,674,757
Health Care Services Division - Revenue Bonds, Series 2002	4,180,000	28,350,000	2006-2011	3.12%	3,763,250
University of New Orleans					
Jefferson Center, 1996-A	2,715,000				
Revenue Bonds of 1997 - Series A	4,960,000	280,000	2006-2007	3.75% - 5.65%	10,558
Revenue Bonds of 1998	290,000	14,975,000	2005-2031	3.9% - 5%	11,671,236
Revenue Bonds of 2004 - Series A	850,000	8,590,000	2005-2014	3% - 4.125%	1,732,713
Revenue Bonds of 2004 - Series B (advance refunding note 14)	215,000	8,265,000	2005-2026	3% - 4.67%	4,404,241
LSU at Eunice					
1998 Auxiliary Revenue Bonds	59,583	1,245,000	2005-2018	5%	478,500
2002 Auxiliary Revenue Bonds		7,000,000	2006-2033	7.35%	10,447,093
Total Bonds Payable	$50,937,583	$228,385,000			$147,541,931

BONDS PAYABLE - COMPONENT UNITS

Issue	Date of Issue	Original Issue	Outstanding July 1, 2004	Issued
LSU Foundation				
Pooled Loan Program Revenue Bonds,				
Series 2003A	April 1, 2003	$12,725,000	$12,725,000	
LSU Health Sciences Center Foundation				
Equipment and Capital Facilities Pooled Loan				
Program Revenue Bonds, Series 2002A	January 1, 2002	2,035,000	2,035,000	
University of New Orleans Foundation				
Regions Bank Bonds	July 11, 2001	2,000,000	1,824,000	
UNO Research and Technology Foundation				
Louisiana Local Government Environmental Facilities				
and Community Development Authority	October 20, 1999	24,950,000	8,775,000	
Tiger Athletic Foundation*				
Revenue Bonds, Series 1999	March 4, 1999	43,575,000	43,575,000	
Revenue Bonds, Series 2001	July 26, 2001	10,200,000	8,070,000	
Revenue Bonds, Series 2004	March 23, 2004	90,000,000		$90,000,000
Total Bonds Payable		$185,485,000	$77,004,000	$90,000,000

*As of January 1 and December 31, 2004

In March 2004, the Tiger Athletic Foundation issued Revenue Bonds Series 2004 for a principal amount of $90,000,000. The bonds are secured by the pledged revenues on a parity with the Series 1999 and 2001 bonds. The proceeds of the loan are being used to finance or reimburse a portion of the costs of the acquisition and construction of certain improvements and renovations to Tiger Stadium and a football operations center at LSU, including funding the interest and costs associated with the project. The bonds are subject to a remarking agreement with an underlying letter of credit issued by Hibernia National Bank.

The unamortized bond issuance costs for the Health Sciences Center Foundation totaled $30,227 at June 30, 2005. The unamortized premium relative to the bond for the UNO Research and Technology Foundation totaled $1,803 at June 30, 2005.

BONDS PAYABLE - COMPONENT UNITS

Issue	Redeemed	Outstanding June 30, 2005	Maturities	Interest Rates	Future Interest Payments June 30, 2005
LSU Foundation					
Pooled Loan Program Revenue Bonds,					
Series 2003A		$12,725,000	2006-2025	3.19%	$4,623,540
LSU Health Sciences Center Foundation					
Equipment and Capital Facilities Pooled Loan					
Program Revenue Bonds, Series 2002A	$65,000	1,970,000	2006-2024	variable	
University of New Orleans Foundation					
Regions Bank Bonds	100,000	1,724,000	2005-2017	5.3%-7.5%	604,838
UNO Research and Technology Foundation					
Louisiana Local Government Environmental Facilities					
and Community Development Authority	4,040,000	4,735,000	2005-2007	5%	148,995
Tiger Athletic Foundation*					
Revenue Bonds, Series 1999		43,575,000	2010-2028	variable	
Revenue Bonds, Series 2001	3,135,000	4,935,000	2005-2011	variable	
Revenue Bonds, Series 2004		90,000,000	2005-2033	variable	
Total Bonds Payable	$7,340,000	$159,664,000			$5,377,373

*As of January 1 and December 31, 2004

REIMBURSEMENT CONTRACTS PAYABLE - SYSTEM

Issue	Date of Issue	Original Issue	Outstanding June 30, 2004	Redeemed	Outstanding June 30, 2005
LSU and Related Campuses					
LSU Union Additions Bonds, Series 1984-B	July 31, 1984	$2,700,000	$337,544	$337,554	NONE

The annual requirements to amortize all university bonds outstanding at June 30, 2005, are presented in the following schedule. The schedule uses rates as of June 30, 2005, for debt service requirements of the variable-rate bonds and interest rate swap payments, assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year	Interest Rate Swap (Note 13)	Principal	Interest	Total
2006	$22,522	$9,920,000	$10,684,113	$20,626,635
2007	22,522	10,135,000	10,317,452	20,474,974
2008	22,522	11,450,000	9,910,766	21,383,288
2009	22,522	11,925,000	9,448,074	21,395,596
2010	22,522	12,460,000	8,914,429	21,396,951
2011-2015	112,611	45,925,000	37,551,767	83,589,378
2016-2020	96,550	32,335,000	28,298,868	60,730,418
2021-2025	51,560	39,205,000	20,093,680	59,350,240
2026-2030	10,468	36,980,000	10,285,810	47,276,278
2031-2035	2,602	18,050,000	2,036,972	20,089,574
Total	$386,401	$228,385,000	$147,541,931	$376,313,332

The annual requirements to amortize all component unit bonds outstanding at June 30, 2005, are as follows:

Fiscal Year	Principal	Interest*	Total
2006	$7,506,494	$658,746	$8,165,240
2007	4,269,395	519,474	4,788,869
2008	3,566,395	473,854	4,040,249
2009	3,657,395	444,306	4,101,701
2010	3,014,395	415,499	3,429,894
2011-2015	22,723,975	1,634,068	24,358,043
2016-2020	27,293,975	900,905	28,194,880
2021-2025	33,056,976	330,521	33,387,497
2026-2030	33,645,000		33,645,000
2031-2035	20,930,000		20,930,000
Total	$159,664,000	$5,377,373	$165,041,373

*Excludes floating interest rate amounts for Tiger Athletic Foundation Revenue Bond Series 1999, Series 2001, and Series 2004.

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

Bond Issue	Cash/ Investment Reserves Available	Reserve Requirement	Excess
Auxiliary Plant:			
LSU	$1,339,313	$170,100	$1,169,213
University of New Orleans	152,250	152,250	
Total	$1,491,563	$322,350	$1,169,213
Educational Plant:			
LSU Health Sciences Center - Health Care Services Division	$3,660,000	$3,660,000	
University of New Orleans	73,395	73,395	
Total	$3,733,395	$3,733,395	NONE

As permitted by the Bond Resolution for the Auxiliary Revenue Bonds of 2005, Series A and B, LSU obtained a surety bond issued by an insurance company as a substitute for the reserve requirement for the bonds. The surety bond meets the definition as a “Reserve Fund Investment” and guarantees payment of principal and interest on the bonds when they are due in the event of nonpayment.

As permitted by the Bond Resolution for the Revenue Bonds of 2004, Series B, the University of New Orleans obtained a Municipal Bond Debt Service Reserve Fund Policy issued by an insurance company as a substitute for the reserve requirement for the bonds. The insurance policy meets the definition as a “Reserve Fund Investment” and guarantees payment of principal and interest on the bonds when they are due in the event of nonpayment.

As permitted by the Bond Resolution for the Revenue Bonds of 2004, Series A, the University of New Orleans obtained a Municipal Bond Debt Service Reserve Fund Policy issued by an insurance company as a substitute for the reserve requirement for the bonds. The insurance policy meets the definition as a “Reserve Fund Investment” and guarantees payment of principal and interest on the bonds when they are due in the event of nonpayment.

As permitted by the Bond Resolution for the Auxiliary Revenue Refunding Bonds, Series 2004, LSU obtained a surety bond issued by an insurance company as a substitute for the reserve requirement for the bonds. The surety bond meets the definition as a “Reserve Fund Investment” and guarantees payment of principal and interest on the bonds when they are due in the event of nonpayment.

As permitted by the Bond Resolution for the Auxiliary Revenue Bonds, Series 2002, the university system obtained an irrevocable letter of credit issued by a bank as a substitute for the reserve requirement for the bonds. The letter of credit meets the definition as a “Reserve Fund Investment” and guarantees payment of an amount not to exceed $11,833,502 in the aggregate for the payment of principal and interest.

As permitted by the Bond Resolution for the Auxiliary Revenue Bonds, Series 2000, the university system obtained a surety bond issued by an insurance company as a substitute for the reserve requirement for the bonds. The surety bond meets the definition as a “Reserve Fund Investment” and guarantees payment of principal and interest on the bonds when they are due in the event of nonpayment.

As permitted by the Bond Resolution for the Revenue Bonds, Series 2000, the LSU Health Sciences Center obtained a surety bond issued by an insurance company as a substitute for the reserve requirement for the bonds. The surety bond meets the definition as a "Reserve Fund Investment" and guarantees payment of an amount not to exceed $1,176,841 to fund the Reserve Requirement.

As permitted by the Bond Resolution for the Revenue and Refunding Bonds, (Wellness Center Project) Series 1998, the university system obtained a surety bond issued by an insurance company as a substitute for the reserve requirement for the bonds. The surety bond meets the definition as a “Reserve Fund Investment” and guarantees payment of an amount not to exceed $1,041,250 to fund the Reserve Requirement.

As permitted by the Bond Resolution for the Auxiliary Revenue Bonds, Series 1998, (LSU at Eunice Project) the university system obtained a surety bond issued by an insurance company as a substitute for the reserve requirement for the bonds. The surety bond meets the definition as a “Reserve Fund Investment” and guarantees payment of an amount not to exceed $134,750 to fund the Reserve Requirement.

Capital Leases

The university system 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, 2005:

Fiscal Year Ending June 30:	
2006	$7,230,954
2007	6,797,060
2008	6,514,560
2009	5,410,106
2010	4,974,430
2011-2015	25,022,005
2016-2020	25,779,457
2021-2025	16,693,300
Total minimum lease payments	98,421,872
Less - amounts representing interest	(32,983,765)
Present value of net minimum lease payments	$65,438,107

13. INTEREST RATE SWAP AGREEMENT

In fiscal year 2005, LSU entered into an interest rate swap agreement with Deutsche Bank to reduce the impact of changes in interest rates on its Series 2005B Variable Rate Auxiliary Revenue and Refunding Bonds.

Objective of the interest rate swap: As a means to lower its borrowing costs, when compared against fixed-rate bonds, LSU entered into the interest rate swap agreement, the intention of which was to effectively change the variable interest rate on the bonds to a fixed rate of 3.52% for the duration of the agreement.

Terms: The bonds and the related swap agreement mature on July 1, 2034, and the swap's notional amount of $22,935,000 matches the principal amount of the variable-rate bonds. On June 2, 2005, the swap agreement was entered at the same time the bonds were issued. Starting in fiscal year 2016, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the university pays Deutsche Bank a fixed payment of 3.52% and receives a variable payment computed as 70% of the London Interbank Offered Rate (LIBOR) plus 20 basis points. Conversely, the university is required to pay the floating Bond Market Association Municipal Swap Index (BMA) rate on the variable-rate bonds.

Fair value: The fair value of the swap agreement as of June 30, 2005, which is not reported in the financial statements, was $443,689 in favor of Deutsche Bank. The fair value was provided by Deutsche Bank and is based on mid-market levels at the close of business on June 30, 2005.

Credit risk: Credit risk is the risk that a counterparty will not fulfill its obligations. At June 30, 2005, the university was not exposed to credit risk because the fair value of the swap was in Deutsche Bank's favor. However, should interest rates change and the fair value of the swap become in the university's favor, the university would be exposed to credit risk in the amount of the derivative's fair value. Deutsche Bank was rated "Aa3" by Moody's Investors Service and "AA-" by Standard & Poor's as of June 30, 2005. To mitigate the potential for credit risk, the swap agreement includes provisions for collateral thresholds and transfer amounts that correspond to the credit rating of the swap counterparty's senior unsecured debt and rating.

Interest rate risk: Interest rate risk is the risk that an adverse change in variable interest rates will increase the overall cost of borrowing for the university. Interest rate swap agreements used to hedge variable rate demand bonds that extend through the maturity of the related debt effectively eliminate the interest rate risk, unless the swap agreement is terminated prior to maturity. The university fully intends to maintain this agreement until the maturity of the related variable-rate bonds.

Basis risk: Basis risk arises when variable interest rates on an interest rate swap and an associated bond are based on different indices. The university is exposed to basis risk because the interest rate on the bonds is based on the BMA rate while the interest rate received on the swap is based on LIBOR. This variance can adversely affect the university's payments and/or synthetic interest rates and anticipated cost savings might not be realized. To effectively minimize basis risk, LSU adds sufficient additional basis points to the model used to calculate the savings.

Termination risk: Termination risk is the risk that an unscheduled early termination of the swap agreement will affect the university's asset/liability strategy or will result in a significant unanticipated termination payment to the counterparty. The university or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may also be terminated by the university or the counterparty if the other party's credit quality rating falls below "Baa3" as issued by Moody's Investors Service or "BBB-" as issued by Standard & Poor's. If the swap is terminated, the variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a fair value in favor of Deutsche Bank, the university would be liable to the counterparty for a payment equal to the swap's fair value.

14. ADVANCE REFUNDING OF BONDS

In June 2005, LSU issued $41,840,000 of nontaxable Auxiliary Revenue Bonds 2005, Series A and B. The primary purpose of this borrowing was to advance refund the Series 1996 and 1997 auxiliary revenue bonds, and the trustee bank, the Bank of New York, currently holds in escrow approximately $31.6 million for the 1996 issue and $5.3 million for the 1997 issue. The proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1996 and Series 1997 auxiliary revenue bonds. As a result, these bond issues are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets. In addition, approximately $5 million in new funds were borrowed for the construction of the new elementary wing of the LSU Laboratory School. This advanced refunding of the 1996 and 1997 issues resulted in the return of $2.9 million in debt service reserve funds to LSU, to be used for additional capital improvements by the Department of Residential Life, the Athletic Department, and the golf course. The refunding also resulted in a reduction in total university debt service payments of approximately $4.7 million over the next 21 years, giving LSU a net present value economic gain of 9.6%.

In October 2004, the University of New Orleans issued $8,480,000 of nontaxable Revenue Bonds, Series 2004B. The purpose of the issue was to provide monies to advance refund the Series 1996A and portions of the 1997A bonds. To refund the bonds, portions of the proceeds of the new issue ($8,117,878) were deposited and held in an irrevocable trust fund with an escrow agent. The fund was created pursuant to an escrow deposit agreement dated October 1, 2004, between the LSU Board of Supervisors and the escrow trustee. The amount in the escrow, together with interest earnings, will be used to pay the principal (redemption premium) and interest when due. As a result, portions of the liability for those bonds are considered defeased and have been removed from the statement of net assets. The refunding resulted in reducing the total debt service payments by almost $419,167 and gave the University of New Orleans a net present economic gain of $310,298. Of the debt considered defeased in substance, $280,000 is outstanding as of June 30, 2005.

15. DUE FROM STATE TREASURY

As shown on Statement A, the university system has a total of $55,452,935 (net) due from the state treasury at June 30, 2005. This amount consists of the following:

Description	Due (to)/from
Support Education in Louisiana First (SELF) funds	$1,124,101
Tobacco Tax funds	5,077,387
Medicaid cost report settlements	49,487,393
Refund from prior year orders	(250)
Unclaimed property	(77,642)
Grant overpayment owed DHH	(11,861)
Unexpended appropriation - current year	(83,863)
Unexpended appropriation - prior year	(43,872)
Recovery of accounts previously written off	(18,458)
Total	$55,452,935

16. RESTRICTED NET ASSETS

The university system had the following restricted expendable net assets as of June 30, 2005:

Restricted Expendable Net Assets

Account Title	Amount
Student fees	$9,892,318
Grants and contracts	20,786,177
Gifts	10,999,776
Endowment earnings	22,937,667
Auxiliary enterprises	22,653,539
Student loan fund	37,399,090
Capital construction	16,338,477
Debt service	6,102,462
Other	10,508,968
Total	$157,618,474

The university system's restricted nonexpendable net assets of $136,407,383 as of June 30, 2005, are comprised entirely of endowment funds.

RESTRICTED NET ASSETS - COMPONENT UNITS

Restricted net assets for the LSU Foundation, Tiger Athletic Foundation, and the UNO Foundation are as follows:

	LSU Foundation	Tiger Athletic Foundation*	UNO Foundation
Temporarily restricted:			
Chairs and professorships	$32,196,276		
Scholarships and fellowships	16,894,542		$736,723
Specific academic and research projects	20,508,878		
Academic support	10,486,371		1,146,887
Capital outlay and improvements	29,302,509		2,109,150
Research support	2,546,089		759,193
Institutional support	11,394,771		3,367,225
Faculty - salary supplements			94,838
Donor restrictions		$5,253,849	
Restricted contributions receivable		11,543,925	
Total temporarily restricted	$123,329,436	$16,797,774	$8,214,016

*As of December 31, 2004

	LSU Foundation	Tiger Athletic Foundation*	UNO Foundation
Permanently restricted:			
Chairs and professorhips	$85,610,211		
Scholarships and fellowships	36,573,352		$2,894,333
Specific academic and research projects	20,397,005		
Academic support	4,348,838		11,697,236
Capital outlay and improvements	1,165,461		
Research support	1,545,031		11,863,836
Institutional support	2,894,587		1,641,604
Endowment funds		$830,876	
Faculty - salary supplements			2,194,281
Total permanently restricted	$152,534,485	$830,876	$30,291,290

*As of December 31, 2004

At December 31, 2004, the Pennington Medical Foundation reported no restricted net assets. At June 30, 2005, the UNO Research and Technology Foundation reported no restricted net assets.

At June 30, 2005, the LSU Health Sciences Center Foundation has $13,118,083 in temporarily restricted net assets and $47,324,693 in permanently restricted net assets.

17. RESTATEMENT OF BEGINNING NET ASSETS

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

Net assets at June 30, 2004	$1,227,246,148
Property, plant, and equipment - Health Care Services Division	(23,201,083)
Capitalization of movable equipment - LSU and Related Campuses	625,813
Capitalization of library books - LSU and Related Campuses	410,494
Accumulated depreciation of library books - LSU and Related Campuses	(196,666)
Reclassification of revenue - LSUHSC at Shreveport	(29,915)
Unclaimed property expense - Health Care Services Division	(34,562)
Other - Healthcare Network	30,880
Net assets at July 1, 2004, restated	$1,204,851,109

18. FUNCTIONAL VERSUS NATURAL CLASSIFICATION OF EXPENSES

Function	Employee Compensation	Benefits	Utilities	Supplies and Services
Instruction	$364,814,238	$73,237,099	$153,089	$77,025,675
Research	173,582,931	38,399,098	2,010,156	98,233,904
Public service	175,414,089	21,902,355	923,040	71,873,106
Academic support	61,631,374	14,801,675	145,745	17,395,379
Student services	18,945,138	4,103,415	433,063	7,596,444
Institutional support	58,744,434	20,391,597	688,091	46,173,244
O & M of plant	37,825,139	10,017,847	28,665,111	27,144,924
Scholarships and fellowships				
Auxiliary enterprises	43,947,263	9,653,525	7,889,374	68,876,210
Hospital	480,914,989	112,289,875	16,964,772	448,967,668
Total operating expenses	$1,415,819,595	$304,796,486	$57,872,441	$863,286,554

Function	Scholarships and Fellowships	Depreciation	Compensated Absences	Total
Instruction		$11,922,496	$1,641,880	$528,794,477
Research		15,029,266	1,185,684	328,441,039
Public service		3,141,195	712,761	273,966,546
Academic support		12,531,101	483,819	106,989,093
Student services		604,496	54,040	31,736,596
Institutional support		3,654,048	474,171	130,125,585
O & M of plant		29,221,702	315,038	133,189,761
Scholarships and fellowships	$36,061,634			36,061,634
Auxiliary enterprises		1,748,748	207,505	132,322,625
Hospital		30,135,982	411,071	1,089,684,357
Total operating expenses	$36,061,634	$107,989,034	$5,485,969	$2,791,311,713

19. FOUNDATIONS

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

LSU Alumni Association
Pennington Biomedical Research Foundation
LSU Medical Alumni Association
LSU School of Dentistry Alumni Association
LSU School of Nursing Alumni Association
LSU in Shreveport Foundation
LSU in Shreveport Alumni Association
LSU in Shreveport Realty, L.L.C.
LSU Health Sciences Center in Shreveport Foundation
Biomedical Research Foundation of Northwest Louisiana
Louisiana State University at Alexandria Foundation
Louisiana State University at Eunice Foundation
Health Care Services Foundation, Inc.
Louisiana State University System Research and Technology Foundation

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

20. DEFERRED COMPENSATION PLAN

Certain employees of the LSU System 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.

21. ON-BEHALF PAYMENTS

On-behalf payments for fringe benefits and salaries 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 fringe benefits and salaries included in Statement B for fiscal year ended June 30, 2005, was $458,099. There were no on-behalf payments made as contributions to a pension plan for which the university is not legally responsible.

22. IMPROVEMENTS TO PLANT ON BEHALF OF THE UNIVERSITY

Improvements at University of New Orleans

The University of New Orleans Research and Technology Foundation, a separate corporation created for or on behalf of the University of New Orleans, issued long-term debt instruments for infrastructure improvements and the construction of facilities on land owned by the university and leased to the foundation. The improvements, valued at $55,654,923 at June 30, 2005, were completely financed by the University of New Orleans Research and Technology Foundation through private lending and the sale of bonds through the Louisiana Public Facilities Authority, the Louisiana Local Government Environmental Facilities and Community Development Authority, and bank notes. The university leases the land to the University of New Orleans Research and Technology Foundation in accordance with terms outlined in the ground leases. The improvements are owned by the University of New Orleans Research and Technology Foundation but upon the expiration of the ground leases will revert to the university.

Expansion of Tiger Stadium

On December 21, 1998, LSU entered into a cooperative endeavor agreement with the Tiger Athletic Foundation (TAF) for an addition to the east side of Tiger Stadium. TAF agrees to lease a parcel of land located adjacent to Tiger Stadium for up to 50 years and to construct additional seats on the land as part of Tiger Stadium, including approximately 70 sky boxes. LSU will lease these stadium improvements from TAF for $2 million per year for a 35-year lease term or until TAF donates such improvements to LSU. The estimated value to LSU of this addition over the term of the agreement is approximately $49,000,000. The cooperative endeavor agreement will end on April 4, 2049.

On September 26, 2003, LSU entered into a cooperative endeavor agreement with TAF for the expansion and renovation of the west side of Tiger Stadium. TAF agrees to lease land and certain existing improvements for the purpose of expanding and renovating facilities and to complete general stadium improvements. Effective September 1, 2005, LSU will lease these improvements from TAF for $2.5 million per year for a 35-year lease term or until TAF donates such improvements to LSU. The estimated value to LSU of this addition over the term of the agreement is approximately $100,000,000. This agreement is scheduled to expire on March 31, 2041.

LSU Health Sciences Center - New Orleans
Cooperative Endeavor for District Energy Services

Effective November 1, 1998, the LSU Board of Supervisors on behalf of the LSU Health Sciences Center - New Orleans (LSUHSC) entered into a cooperative endeavor agreement with Entergy Thermal (Entergy), a division of Entergy Business Solutions, Inc., and New Orleans Medical Complex, Inc. (NORMC), a Louisiana private, nonprofit corporation. The term of the agreement ends September 30, 2020, with options to renew the lease for two 5-year periods.

Under the agreement, the LSUHSC leases to NORMC a parcel of land located in New Orleans at the northeastern corner of South Claiborne Avenue and Gravier Street. NORMC pays the LSU Health Sciences Center $40,000 annually for the lease, which may be adjusted every 5 years for inflation. NORMC is responsible for the construction of a combined use facility, which is comprised of its office, a multi-level parking garage, and a thermal energy production facility. For the period of the agreement, LSUHSC and NORMC entered into a reciprocal lease, which, in lieu of rent, gives each the right of occupancy of the combined use facility. Upon the expiration or sooner termination of the ground lease, the title to the combined use facility will automatically become vested in the LSU Board of Supervisors.

NORMC is subleasing the combined use facility to Entergy, which is responsible for the construction and financing of the thermal energy production facility within the combined use facility. Under the terms of the reciprocal lease, Entergy is also responsible for the operations, repair, replacement, and maintenance of the central plants located at the Medical Center of Louisiana at New Orleans and LSUHSC (the central plants). For the term of the agreement, LSUHSC is obligated to purchase its thermal energy from Entergy. The LSUHSC total monetary obligation is not determinable since the obligation will be based on energy consumption.

During the term of the agreement, title to the thermal equipment within the combined use facility is vested in Entergy. Upon the expiration or termination of the agreement, Entergy will have the right, but not the obligation, to remove equipment it has installed provided that the removal of the equipment does not materially damage the thermal energy production facility space in the combined use facility. The LSU Board of Supervisors has the option to purchase the equipment upon expiration or termination of the agreement. The title to the thermal equipment installed within the central plants is vested in NORMC until the expiration or termination of the agreement, at which time title shall automatically pass to and become vested in the LSU Board of Supervisors.

23. REVENUE USED AS SECURITY FOR REVENUE BONDS

The revenues of certain auxiliary enterprises at LSU, LSU in Eunice, the University of New Orleans, and the LSU Health Sciences Center 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 of all campuses, but exclude sales to other LSU 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 LSU, LSU in Eunice, the University of New Orleans, and the LSU Health Sciences Center that are used as security for revenue bonds; however, these amounts do include sales to other LSU departments and campuses for the year ended June 30, 2005.

Auxiliary Enterprises

Residential life	$28,875,699
Student union services, including bookstore	29,565,349
Student Health Center	5,862,304
Athletics	61,230,490
Golf course	1,105,447
Procurement auxiliary services	14,184,615
Contracted auxiliary services	1,406,391
Parking, traffic, and transportation	7,333,500
Health Sciences Center stores	12,562,651
LSU Press	1,918,118
Student media	1,801,791
Miscellaneous	4,994,131
Total	$170,840,486

24. COOPERATIVE ENDEAVOR AGREEMENTS

On June 1, 1998, UNO entered into a cooperative endeavor agreement with the Office of Naval Research for the purposes of fostering research in domestic shipbuilding technology. The estimated value of this cooperative endeavor agreement to UNO is $45,133,146. The agreement was extended to March 31, 2006, at no additional cost. The agreement officially ended on March 31, 2006.

On October 1, 2003, the LSU Health Sciences Center-New Orleans entered into two cooperative endeavor agreements with the Louisiana Cancer Research Center of LSU Health Sciences Center in New Orleans/Tulane Health Sciences Center. These agreements are for research and smoking cessation programs.

The Louisiana Cancer Research Center of LSU Health Sciences Center in New Orleans/Tulane Health Sciences Center was authorized by Act 41 of the First Extraordinary Session of 2002. The funds that are passed through to the consortium are available as a result of an increase in tobacco taxes enacted into law via Act 19 of the Regular Session of 2002. Act 19 has specific provisions including:

> Subject to an annual appropriation by the legislature, forty-two and eight-tenths percent of the monies collected under authority of R.S. 47:841(B)(4) in the fund shall be used solely for the purpose of providing funding for the Louisiana Cancer Research Center of LSU Health Sciences Center in New Orleans/Tulane Health Sciences Center, and twenty-nine and two-tenths percent of monies collected under authority of R.S. 47:841(B)(4) shall be used solely for the purposes of funding for the creation of smoking prevention mass media programs and evidence-based tobacco control programs within the public hospital system and the public school system and community development programs directed at cessation among children and pregnant women and the screening, prevention, and treatment of tobacco use and dependence among individuals with diseases caused or exacerbated by tobacco use.

The funds are budgeted in Other Charges for flow through to the Louisiana Cancer Research Center via cooperative endeavor agreement. The Louisiana Cancer Research Center is responsible for spending the funds in accordance with the General Appropriations Act, Act 19 of the 2002 Regular Session, Act 41 of the First Extraordinary Session of 2002, and the terms and conditions of the cooperative endeavor. The two cooperative endeavor agreements will expire on June 30, 2005.

On December 1, 2004, the Board of Supervisors, acting on behalf of UNO, entered into a cooperative endeavor agreement with DeCyphor Processing Solutions, LLC, doing business as ADMNI 701 to foster the operation of a public/private partnership to improve the university's admission process. UNO paid DeCyphor $148,275 in fiscal year 2005.

COOPERATIVE ENDEAVOR AGREEMENTS - COMPONENT UNIT

University of New Orleans/Avondale Maritime Technology Center of Excellence

General

On May 16, 1997, the State of Louisiana (the State), the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College acting on behalf of UNO (the University), the University of New Orleans Research and Technology Foundation, Inc. (the Foundation), and Avondale Industries, Inc., entered into a Cooperative Endeavor Agreement (the Agreement) for an initial term of 15 years and from one-to-seven additional five-year periods.

The Agreement and related amendment provided for the use of annually appropriated state funds and the corporate guarantee by Avondale of certain financial obligations incurred by the Foundation for the purpose of enhancing or maintaining the economic well-being of the State. As a material inducement to the State to enter into the Agreement, Avondale represented that it was awarded a contract for the construction of certain U.S. Department of Navy vessels that will provide a substantial economic benefit to the State. The Foundation and Avondale represented that the economic benefit occurring as a result of the payment or performance of the State's obligation will equal or exceed the value of the State's obligations.

Obligations

Avondale donated certain property to the university which is leased to the Foundation pursuant to the terms of a Ground Lease. A ship design facility including a laboratory and support area (the Facility) for the UNO School of Naval Architecture and Marine Engineering has been built on such property by the Foundation and is subleased to Avondale. Also, the Foundation has equipped the facility and leases such equipment to Avondale.

The State will pay to the Foundation no more than the remaining present value of $40,000,000, which amount may be paid in one or more installments on or before September 1 of each year as follows:

On or before September 1, 2005	$4,366,469
On or before September 1, 2006	796,598

The Foundation shall submit to the State on or before November 1, documentation supporting the amount to be appropriated for the immediately following year in satisfaction of the State's obligation. On July 1, 2005, the Foundation submitted a request totaling $4,366,469 to the State's Department of Economic Development for the 2005 funding. Such amount was received in July 2005.

In addition, Avondale agreed that:

- It will use the Facilities for the design and construction of vessels pursuant to the Navy LPD-17 Contract and other contracts. Avondale agrees that it will fulfill its obligations pursuant to said NAVY LPD-17 Contract and other contracts. Furthermore, Avondale agrees that it will provide support to the UNO School of Naval Architecture and Marine Engineering by providing the University a Right of Use of space constituting initially 12,000 square feet, which was increased to 21,000 square feet in the Facility subleased by Avondale from the Foundation.

- In the event the costs of the project required to be expended by the Foundation in constructing the Facility and acquiring the equipment exceed the amounts paid by the State, Avondale will pay to the Foundation the amounts required for the Foundation to fulfill the obligations to construct and equip the Facility.

Louisiana Educational Television Authority

General

On February 15, 2002, the State of Louisiana, the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, Louisiana Educational Television Authority (LETA), the Greater New Orleans Educational Television Foundation (WYES-TV), the Educational Broadcasting Foundation, Inc. (WLAE-TV), and the UNO Research and Technology Foundation entered into a Cooperative Endeavor Agreement.

The Cooperative Agreement provides for the development of a state of the art digital facility known as the New Orleans Teleplex, which will be capable of broadcasting in high definition television. This facility is expected to create a positive economic impact for the New Orleans area.

LETA made an initial payment of $500,000 to the Foundation, through an appropriation by the State of Louisiana in 2001, for the development phase of the Teleplex. As of June 30, 2005, the Foundation has received a total of $2,500,000 from LETA to fund planning and development costs. WYES-TV and WLAE-TV have pledged to provide an aggregate of $3,000,000 toward the construction of the Teleplex and an aggregate $1,000,000 toward equipping the Teleplex as a joint obligation.

25. SUBSEQUENT EVENTS

LSU Health Sciences Center-New Orleans

The LSU Health Sciences Center-New Orleans incurred significant damage from Hurricane Katrina and cannot currently be occupied for operations. Classes have been relocated to various locations in Baton Rouge and clinical sites for students and residents have been located throughout the state. It is still too early in the recovery process to accurately predict when particular buildings will be ready for occupancy. It is also too early in the process to estimate the financial impact of Hurricane Katrina on the university.

LSU Health Sciences Center Health Care Services Division

On August 29, 2005, and September, 23, 2005, hurricanes Katrina and Rita, respectively, significantly damaged the State of Louisiana and thereby a significant and material portion of the facilities of the LSU Hospital System (Health Care Services Division). Hurricane Katrina caused substantial damage and interruption of services at Leonard J. Chabert, Washington St. Tammany, and Lallie Kemp Medical Center. The storm caused catastrophic damage to the Medical Center of Louisiana (MCLNO) facilities in New Orleans [Avery Alexander Campus (Charity) and University Campus]. The MCLNO facilities were subsequently evacuated and remain closed and environmentally dangerous, as of this date. Preliminary estimates indicate that both MCLNO campuses are damaged beyond repair and the physical plants may be a total loss. Salvageable movable property and equipment still remain to be determined.

Preliminary damage estimates as reported to the LSU Board of Supervisors indicate that the MCLNO Avery Alexander Campus sustained more than $257 million in damage and another $117 million at the University Campus. No total damage or loss estimates have been placed on the movable property and equipment at this time or the other structures and facilities that were a part of the MCLNO operation.

Preliminary damage estimates for Bogalusa Medical Center (BMC) in repair costs have been estimated at about $175,000. In mitigation costs, BMC’s estimate is in the range of $500,000. There are outstanding issues with air quality and building assessments going on presently at the BMC acute campus for which an estimate is currently pending. Preliminary damage estimates for Lallie Kemp appear to be less than $100,000.

Other LSU Hospital System facilities incurred damages from Hurricane Katrina where estimates are still being determined.

Hurricane Rita extensively damaged W.O. Moss Regional Medical Center in Lake Charles, Louisiana, which was closed for a short period of time. Damage estimates are undeterminable at this time.

While the expectation is that the Federal Emergency Management Agency (FEMA) and the State of Louisiana, Office of Risk Management (ORM), will provide significant grant monies and insurance coverage to cover a significant amount of the damage sustained and reconstitution expenses, as well as business interruption coverage, no reasonable estimate of the total losses sustained nor the extent of the recovery effort or the amounts estimated to be recovered from all sources to mitigate the losses is available at this time.

University of New Orleans

As a result of Hurricane Katrina and the subsequent flooding that occurred on August 29, 2005, in the metropolitan New Orleans area, the UNO campus sustained both wind and water damage. Approximately one-third of the campus (western end), which included Bienville Hall, Lafitte Village, and Privateer Place (student housing); the engineering building; food service operations; and the physical plant services building, had water damage. The remaining two-thirds of the campus and east campus facilities incurred wind damage. Because of this catastrophic situation, the campus was closed and faculty, staff, and students were compelled to relocate.

On August 30, 2005, the Chancellor and senior administrators established a base of operation in the offices of the LSU System. These quarters allowed the university to perform essential functions. Between August 30, 2005, and October 9, 2005, academic deans collaborated in an all out effort to meet the needs of a displaced student body by exploring on-line options in place of regular courses. On October 10, 2005, the UNO Jefferson Center located in Jefferson Parish on Causeway Boulevard opened two of its four floors to students. In addition to the 800 on-line course offerings, the Jefferson campus was also able to accommodate 167 courses on-site. Many of the campus administrators relocated to the Jefferson Center at this time.

In January 2006, the main campus reopened for the spring semester. Understandably, enrollment was reduced. Had Hurricane Katrina not occurred, UNO would likely have had an enrollment of approximately 17,300 students for the fall semester. Instead, the headcount enrollment was approximately 7,000 students. However, enrollment for the spring semester has increased to 11,446 and the university continues to work to restore services to the campus.

The receipt of federal aid, significant belt tightening, the fact that UNO did not close in the fall semester, and the relatively large number of students in the spring semester have allowed UNO to balance its budget for the 2005-2006 academic year. However, UNO is expecting significant financial difficulties, of which is the reduction in the anticipated number of students. To maintain the quality of its academic offerings, UNO requested the LSU Board of Supervisors to approve a declaration of financial exigency. This declaration was approved by the LSU Board of Supervisors on April 21, 2006, and will apply to the 2006-2007 fiscal year.

LSU Agricultural Center

The Agricultural Center has experienced a decline in budgetary resources resulting in elimination of 238 positions since fiscal year 2001, with over 60 additional current year position vacancies frozen. In addition, reductions to all support categories and deferral of critical equipment and maintenance needs have been made for fiscal year 2006. The Agricultural Center determined that it could no longer address budget shortfalls in this manner and still maintain the quality of its programs.

The Agricultural Center has reached this point because of the current budget reductions, which are in addition to multiple years of limited funding and because of the twin disasters of hurricanes Katrina and Rita. Therefore, the Agricultural Center requested that the LSU Board of Supervisors approve a declaration of financial exigency for FY 2006-2007. This declaration was approved by the Board of Supervisors at its March 10, 2006, meeting.

SUBSEQUENT EVENT - COMPONENT UNITS

LSU Health Sciences Center Foundation

On August 29, 2005, Hurricane Katrina caused catastrophic property damage to New Orleans. New Orleans was evacuated and, as a result, the LSU Health Sciences Foundation has temporarily relocated its operations. The impact of the hurricane on the Foundation's future revenues and its operations is indeterminable at this time. In addition, any uninsured losses to the Foundation's property and equipment are not estimable as of the date of the auditor's report.

UNO Foundation

Some of the Foundation's properties suffered damage from Hurricane Katrina and the subsequent flooding because of levee failures. The Technology Enterprise Center and the Chevron Building, which is used as a research facility by University faculty, both experienced flooding. The film studio properties received minor wind damage.

These properties are insured by the State of Louisiana, Office of Risk Management (ORM), and management expects to recover most or all of the cost of repairing the facilities. Tenants of the properties are responsible for their contents; the Foundation will, however, assist them through its remediation and repair contracts. Management expects all facilities to be restored to working order with the possible exception of the Chevron Building.

The Foundation will not receive rent for the period during which the damaged properties cannot be occupied by tenants. Management expects to recover most of the net revenue lost through ORM's business interruption insurance; however, some tenants may be lost because of relocation.

UNO Research and Technology Foundation

The Foundation was adversely affected by Hurricane Katrina. The Foundation is currently assessing the impact of the hurricane on subsequent year's support and revenues.

The Foundation believes that the disruption in operations will not affect its ability to make timely debt payments and believes it will continue as an ongoing entity.

26. AMOUNTS HELD IN CUSTODY FOR OTHERS - COMPONENT UNITS

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

Entity	LSU Foundation	Tiger Athletic Foundation*	LSU Health Sciences Center Foundation	UNO Foundation	UNO Research and Technology Foundation	Total
LSU at Alexandria Foundation	$7,428,580					$7,428,580
LSU at Eunice Foundation	884,226					884,226
State matching funds managed for LSU	48,566,394					48,566,394
Charitable remainder trusts	1,342,715					1,342,715
Coaches' escrow accounts		$892,388				892,388
UNO eminent scholars				$12,304,539		12,304,539
Various affiliated organizations				1,459,547		1,459,547
Building tenant security deposits					$51,635	51,635
State matching funds managed for LSUHSC in New Orleans			$14,759,024			14,759,024
Total temporarily restricted	$58,221,915	$892,388	$14,759,024	$13,764,086	$51,635	$87,689,048

*As of December 31, 2004

27. RELATED PARTY TRANSACTIONS - COMPONENT UNIT

The Pennington Medical Foundation had architectural contracts in the amount of $3,910,823 with a trustee of the Foundation of which approximately $138,347 was incurred during 2004. As of December 31, 2004, a total of $3,910,823 has been incurred. The Foundation entered into a new architectural contract in December 2004 for an addition to the existing building with the same trustee for approximately $280,000.

28. UNCONDITIONAL PROMISES TO GIVE - COMPONENT UNITS

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

	LSU Foundation	Tiger Athletic Foundation*	LSU Health Sciences Center Foundation	UNO Foundation
Promises to give expected to be collected in:				
Less than one year	$2,787,280	$3,219,053	$95,496	$641,500
One to five years	5,033,994		2,938,719	627,000
More than five years	5,288,018	10,508,246	1,328,329	531,037
Subtotal	13,109,292	13,727,299	4,362,544	1,799,537
Less discount on promises to give	(2,434,331)	(1,442,574)	(348,845)	(296,001)
Less allowance for uncollectible accounts	(273,411)	(740,800)	(1,526,642)	(209,359)
Subtotal	(2,707,742)	(2,183,374)	(1,875,487)	(505,360)
Net unconditional promises to give	$10,401,550	$11,543,925	$2,487,057	$1,294,177

*As of December 31, 2004

At December 31, 2004, and June 30, 2005, the Pennington Medical Foundation and the UNO Research and Technology Foundation report no unconditional promises to give. Total unconditional promises to give (current and noncurrent) of $25,726,709 are reported on Statement B.

The material presented in this section is designed to provide the reader with additional information supporting the financial statements. Schedules of Net Assets and Schedules of Revenues, Expenses, and Changes in Net Assets are presented for each campus.

Included in the separate Schedules of Net Assets are amounts due to and due from the other campuses and the state treasury. While these due to and due from amounts have been reported at net or eliminated in the consolidated statements, they are shown when discretely presenting individual campus financial information.

The accounting staff of the Louisiana State University and Agricultural & Mechanical College also prepares the financial statements for the Louisiana State University at Alexandria, the Louisiana State University at Eunice, the Louisiana State University Agricultural Center, the Paul M. Hebert Law Center, the Pennington Biomedical Research Center, and the Louisiana State University Board of Supervisors and System Administration (referred to collectively as the LSU and Related Campuses). While a separate Schedule of Net Assets and a separate Schedule of Revenues, Expenses, and Changes in Net Assets have been prepared for each of the above campuses, only one Schedule of Cash Flows has been prepared for the LSU and Related Campuses combined. The University of New Orleans, the Louisiana State University at Shreveport, and the Louisiana State University Health Sciences Center have separate Schedules of Cash Flows that are included with their presented financial schedules.

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU BOARD OF SUPERVISORS AND SYSTEM ADMINISTRATION

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$124,263
Investments	76,239
Accounts receivable, net	264,490
Deferred charges and prepaid expenses	1,240
Total current assets	466,232
Noncurrent assets - capital assets, net	551,411
Total assets	1,017,643
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	7,942,041
Compensated absences	23,661
Total current liabilities	7,965,702
Noncurrent liabilities - compensated absences	586,927
Total liabilities	8,552,629
NET ASSETS	
Investment in capital assets, net of related debt	551,411
Restricted for - expendable	(9,266,313)
Unrestricted	1,179,916
Total net assets	($7,534,986)

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU BOARD OF SUPERVISORS AND SYSTEM ADMINISTRATION

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

OPERATING REVENUES	
Nongovernmental grants and contracts	$4,226
Other operating revenues	1,045,140
Total operating revenues	1,049,366
OPERATING EXPENSES	
Educational and general:	
Institutional support	2,552,777
Operation and maintenance of plant	183,330
Scholarships and fellowships	500
Total operating expenses	2,736,607
Operating Loss	(1,687,241)
NONOPERATING REVENUES	
State appropriations	1,805,689
Gifts	96,039
Net investment income	32,073
Net nonoperating revenues	1,933,801
Income Before Other Revenues, Expenses, Gains, and Losses	246,560
Other deductions, net	(6,328,484)
Decrease in Net Assets	(6,081,924)
Net Assets at Beginning of Year	(1,453,062)
Net Assets at End of Year	($7,534,986)

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
PENNINGTON BIOMEDICAL RESEARCH CENTER

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$5,901,141
Investments	206,000
Accounts receivable, net	3,071,196
Due from state treasury	3,919
Inventories	48,592
Deferred charges and prepaid expenses	13,869
Total current assets	9,244,717
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	2,048
Investments	4,677,120
Capital assets, net	51,102,698
Total noncurrent assets	55,781,866
Total assets	65,026,583
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	689,606
Deferred revenues	4,477,794
Amounts held in custody for others	25,947
Compensated absences	142,273
Total current liabilities	5,335,620
Noncurrent Liabilities -	
compensated absences	1,599,559
Total liabilities	6,935,179
NET ASSETS	
Investment in capital assets, net of related debt	51,102,698
Restricted for:	
Nonexpendable	4,677,120
Expendable	2,416,528
Unrestricted	(104,942)
Total net assets	$58,091,404

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
PENNINGTON BIOMEDICAL RESEARCH CENTER

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

OPERATING REVENUES	
Federal grants and contracts	$17,327,826
State and local grants and contracts	1,686,713
Nongovernmental grants and contracts	6,008,342
Sales and services of educational departments	68,016
Other operating revenues	13,837
Total operating revenues	25,104,734
OPERATING EXPENSES	
Educational and general:	
Research	27,706,500
Public service	432,502
Academic support	2,527,810
Institutional support	3,510,510
Operation and maintenance of plant	5,701,101
Total operating expenses	39,878,423
Operating Loss	(14,773,689)
NONOPERATING REVENUES	
State appropriations	10,035,780
Gifts	3,175,864
Net investment income	293,397
Net nonoperating revenues	13,505,041
Loss Before Other Revenues, Expenses, Gains, and Losses	(1,268,648)
Capital appropriations	112,749
Capital gifts and grants	15,613,501
Additions to permanent endowments	1,200,000
Increase in Net Assets	15,657,602
Net Assets at Beginning of Year, Restated	42,433,802
Net Assets at End of Year	$58,091,404

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AND AGRICULTURAL AND MECHANICAL COLLEGE

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$43,539,680
Investments	99,142,771
Accounts receivable, net	33,828,677
Due from other campuses	564,343
Due from state treasury	417,561
Inventories	2,434,823
Deferred charges and prepaid expenses	2,439,877
Notes receivable	3,355,849
Other current assets	1,263,596
Total current assets	186,987,177
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	40,441,958
Investments	100,755,803
Accounts receivable	16,000
Notes receivable	10,756,064
Other restricted assets	13,170,171
Capital assets, net	463,344,851
Total noncurrent assets	628,484,847
Total assets	815,472,024
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	26,300,854
Due to other campuses	54,990,969
Deferred revenues	39,041,283
Amounts held in custody for others	2,945,701
Compensated absences	1,706,868
Capital lease obligations	768,506
Notes payable	2,820,655
Bonds payable	3,875,000
Other current liabilities	1,263,596
Total current liabilities	133,713,432

(Continued)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AND AGRICULTURAL AND MECHANICAL COLLEGE
Schedule of Net Assets, June 30, 2005

Noncurrent Liabilities:	
Compensated absences	$23,030,441
Capital lease obligations	38,580,061
Notes payable	10,390,215
Bonds payable	140,990,000
Other noncurrent liabilities	414,040
Total noncurrent liabilities	213,404,757
Total liabilities	347,118,189
NET ASSETS	
Investment in capital assets, net of related debt	321,065,777
Restricted for:	
Nonexpendable	47,328,132
Expendable	82,683,337
Unrestricted	17,276,589
Total net assets	$468,353,835

(Concluded)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AND AGRICULTURAL AND MECHANICAL COLLEGE

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

OPERATING REVENUES	
Student tuition and fees	$165,641,802
Less scholarship allowances	(22,341,756)
Net student tuition and fees	143,300,046
Federal grants and contracts	92,846,458
State and local grants and contracts	33,073,237
Nongovernmental grants and contracts	9,335,432
Sales and services of educational departments	8,281,121
Auxiliary enterprise revenues	104,677,096
Less scholarship allowances	(4,198,069)
Net auxiliary revenues	100,479,027
Other operating revenues	5,542,967
Total operating revenues	392,858,288
OPERATING EXPENSES	
Educational and general:	
Instruction	207,511,594
Research	102,832,639
Public service	25,888,429
Academic support	49,746,399
Student services	13,759,855
Institutional support	24,093,309
Operation and maintenance of plant	66,402,428
Scholarships and fellowships	16,930,587
Auxiliary enterprises	89,001,539
Total operating expenses	596,166,779
Operating Loss	(203,308,491)

(Continued)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AND AGRICULTURAL AND MECHANICAL COLLEGE
Schedule of Revenues, Expenses,
and Changes in Net Assets, June 30, 2005

NONOPERATING REVENUES (Expenses)	
State appropriations	$186,179,883
Gifts	7,556,081
Net investment income	9,309,644
Interest expense	(5,058,190)
Other nonoperating revenues	764,100
Net nonoperating revenues	198,751,518
Loss Before Other Revenues, Expenses, Gains, and Losses	(4,556,973)
Capital appropriations	12,101,377
Capital gifts and grants	4,516,578
Additions to permanent endowments	2,725,028
Other deductions, net	(2,146,669)
Increase in Net Assets	12,639,341
Net Assets at Beginning of Year, Restated	455,714,494
Net Assets at End of Year	$468,353,835

(Concluded)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AT ALEXANDRIA

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$2,005,289
Investments	64,065
Accounts receivable, net	772,605
Due from state treasury	12,087
Inventories	5,127
Deferred charges and prepaid expenses	4,477
Total current assets	2,863,650
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	645,234
Investments	588,481
Accounts receivable	43
Notes receivable	2,335
Other restricted assets	71,987
Capital assets, net	10,027,404
Total noncurrent assets	11,335,484
Total assets	14,199,134
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	150,233
Deferred revenues	531,312
Amounts held in custody for others	30,042
Compensated absences	52,182
Total current liabilities	763,769
Noncurrent Liabilities:	
Compensated absences	615,803
Other noncurrent liabilities	28,096
Total noncurrent liabilities	643,899
Total liabilities	1,407,668
NET ASSETS	
Investment in capital assets, net of related debt	10,027,404
Restricted for:	
Nonexpendable	588,481
Expendable	761,783
Unrestricted	1,413,798
Total net assets	$12,791,466

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AT ALEXANDRIA

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

OPERATING REVENUES	
Student tuition and fees	$7,654,015
Less scholarship allowances	(3,118,016)
Net student tuition and fees	4,535,999
Federal grants and contracts	4,062,792
State and local grants and contracts	859,493
Nongovernmental grants and contracts	46,620
Sales and services of educational departments	14,153
Auxiliary enterprise revenues	1,165,485
Less scholarship allowances	(148,445)
Net auxiliary revenues	1,017,040
Other operating revenues	15,909
Total operating revenues	10,552,006
OPERATING EXPENSES	
Educational and general:	
Instruction	8,987,648
Public service	239,904
Academic support	1,130,459
Student services	1,139,146
Institutional support	2,356,946
Operation and maintenance of plant	2,815,398
Scholarships and fellowships	1,014,663
Auxiliary enterprises	1,209,287
Total operating expenses	18,893,451
Operating Loss	(8,341,445)
NONOPERATING REVENUES	
State appropriations	7,249,808
Gifts	100,168
Net investment income	135,433
Net nonoperating revenues	7,485,409
Loss Before Other Revenues, Expenses, Gains, and Losses	(856,036)
Capital appropriations	1,219,241
Capital gifts and grants	169,914
Additions to permanent endowments	41,067
Other additions, net	115
Increase in Net Assets	574,301
Net Assets at Beginning of Year	12,217,165
Net Assets at End of Year	$12,791,466

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AT EUNICE

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$2,496,967
Investments	27,967
Accounts receivable, net	903,220
Due from state treasury	12,284
Inventories	334,372
Deferred charges and prepaid expenses	4,747
Notes receivable	67,553
Total current assets	3,847,110
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	698,290
Investments	923,456
Notes receivable	522,798
Other restricted assets	15,595
Notes receivable	375
Capital assets, net	20,574,023
Total noncurrent assets	22,734,537
Total assets	26,581,647
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	422,251
Deferred revenues	476,703
Amounts held in custody for others	40,155
Compensated absences	53,819
Bonds payable	70,000
Total current liabilities	1,062,928
Noncurrent Liabilities:	
Compensated absences	596,741
Bonds payable	8,175,000
Other noncurrent liabilities	(46,150)
Total noncurrent liabilities	8,725,591
Total liabilities	9,788,519
NET ASSETS	
Investment in capital assets, net of related debt	14,147,381
Restricted for:	
Nonexpendable	289,835
Expendable	2,325,320
Unrestricted	30,592
Total net assets	$16,793,128

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AT EUNICE

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

OPERATING REVENUES	
Student tuition and fees	$5,167,764
Less scholarship allowances	(3,277,803)
Net student tuition and fees	1,889,961
Federal grants and contracts	4,983,746
State and local grants and contracts	558,830
Nongovernmental grants and contracts	28,656
Sales and services of educational departments	36,138
Auxiliary enterprise revenues	2,468,882
Less scholarship allowances	(295,087)
Net auxiliary revenues	2,173,795
Other operating revenues	82,686
Total operating revenues	9,753,812
OPERATING EXPENSES	
Educational and general:	
Instruction	7,267,103
Academic support	600,104
Student services	1,286,136
Institutional support	1,822,830
Operation and maintenance of plant	2,957,570
Scholarships and fellowships	773,809
Auxiliary enterprises	2,350,437
Total operating expenses	17,057,989
Operating Loss	(7,304,177)
NONOPERATING REVENUES (Expenses)	
State appropriations	7,117,172
Gifts	25,008
Net investment income	200,833
Interest expense	(60,042)
Net nonoperating revenues	7,282,971
Loss Before Other Revenues, Expenses, Gains, and Losses	(21,206)
Capital appropriations	98,374
Capital gifts and grants	15,065
Additions to permanent endowments	475
Other additions, net	17,945
Increase in Net Assets	110,653
Net Assets at Beginning of Year	16,682,475
Net Assets at End of Year	$16,793,128

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

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$1,617,327
Investments	124,449
Accounts receivable, net	197,793
Due from state treasury	19,437
Deferred charges and prepaid expenses	30,733
Total current assets	1,989,739
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	120,905
Investments	2,033,282
Other restricted assets	137,789
Capital assets, net	17,074,504
Total noncurrent assets	19,366,480
Total assets	21,356,219
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	270,974
Deferred revenues	185,522
Amounts held in custody for others	118,482
Compensated absences	50,773
Total current liabilities	625,751
Noncurrent Liabilities:	
Compensated absences	811,978
Other noncurrent liabilities	21
Total noncurrent liabilities	811,999
Total liabilities	1,437,750
NET ASSETS	
Investment in capital assets, net of related debt	17,074,504
Restricted for:	
Nonexpendable	2,291,230
Expendable	391,647
Unrestricted	161,088
Total net assets	$19,918,469

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

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

OPERATING REVENUES	
Student tuition and fees	$9,073,055
Less scholarship allowances	(1,087,574)
Net student tuition and fees	7,985,481
Federal grants and contracts	210,134
State and local grants and contracts	9,220
Nongovernmental grants and contracts	72,154
Sales and services of educational departments	149,562
Other operating revenues	4,259
Total operating revenues	8,430,810
OPERATING EXPENSES	
Educational and general:	
Instruction	7,969,088
Research	664,540
Public service	18,443
Academic support	2,803,805
Student services	956,451
Institutional support	2,305,365
Operation and maintenance of plant	2,093,580
Scholarships and fellowships	298,666
Total operating expenses	17,109,938
Operating Loss	(8,679,128)
NONOPERATING REVENUES	
State appropriations	7,852,778
Gifts	412,008
Net investment income	245,115
Net nonoperating revenues	8,509,901
Loss Before Other Revenues, Expenses, Gains, and Losses	(169,227)
Capital appropriations	2,686,001
Capital gifts and grants	4,971
Additions to permanent endowments	403,611
Increase in Net Assets	2,925,356
Net Assets at Beginning of Year	16,993,113
Net Assets at End of Year	$19,918,469

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AGRICULTURAL CENTER

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$11,445,218
Investments	106,908
Accounts receivable, net	4,991,553
Due from state treasury	661,609
Inventories	5,230,421
Deferred charges and prepaid expenses	55,271
Total current assets	22,490,980
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	2,997,264
Investments	1,138,615
Other restricted assets	576,696
Capital assets, net	27,513,466
Total noncurrent assets	32,226,041
Total assets	54,717,021
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	274,756
Deferred revenues	2,911,368
Amounts held in custody for others	77,457
Compensated absences	500,618
Total current liabilities	3,764,199
Noncurrent Liabilities:	
Compensated absences	8,699,778
Other noncurrent liabilities	2,949
Total noncurrent liabilities	8,702,727
Total liabilities	12,466,926
NET ASSETS	
Investment in capital assets, net of related debt	27,513,466
Restricted for:	
Nonexpendable	1,138,615
Expendable	4,432,615
Unrestricted	9,165,399
Total net assets	$42,250,095

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AGRICULTURAL CENTER

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

OPERATING REVENUES	
Federal appropriations	$10,858,261
Federal grants and contracts	7,927,206
State and local grants and contracts	8,938,581
Nongovernmental grants and contracts	3,914,524
Sales and services of educational departments	5,177,378
Other operating revenues	4,335,044
Total operating revenues	41,150,994
OPERATING EXPENSES	
Educational and general:	
Research	58,527,493
Public service	43,590,023
Academic support	3,464,697
Institutional support	9,272,528
Operation and maintenance of plant	4,924,303
Scholarships and fellowships	138,595
Total operating expenses	119,917,639
Operating Loss	(78,766,645)
NONOPERATING REVENUES	
State appropriations	75,528,835
Gifts	2,475,754
Net investment income	622,941
Other nonoperating revenues	1,040,025
Net nonoperating revenues	79,667,555
Income Before Other Revenues, Expenses, Gains, and Losses	900,910
Capital appropriations	765,056
Capital gifts and grants	733,839
Additions to permanent endowments	122,017
Other additions, net	68,740
Increase in Net Assets	2,590,562
Net Assets at Beginning of Year, Restated	39,659,533
Net Assets at End of Year	$42,250,095

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AND RELATED CAMPUSES

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

Cash flows from operating activities	
Student tuition and fees	$160,069,141
Federal appropriations	12,266,626
Grants and contracts	194,609,750
Sales and services of educational departments	14,520,504
Auxiliary enterprise receipts	104,642,512
Payments for employee compensation	(424,748,142)
Payments for benefits	(96,891,369)
Payments for utilities	(22,721,323)
Payments for supplies and services	(196,967,726)
Payments for scholarships and fellowships	(19,200,807)
Loans to students	(3,755,103)
Collection of loans to students	3,642,921
Other receipts	42,107,940
Net cash used by operating activities	(232,425,076)
Cash flows from noncapital financing activities	
State appropriations	295,944,954
Gifts and grants for other than capital purposes	13,799,233
Private gifts for endowment purposes	(331,497)
TOPS receipts	47,131,350
TOPS disbursements	(47,123,581)
Other receipts	1,892,449
Net cash provided by noncapital financing sources	311,312,908
Cash flows from capital financing activities	
Proceeds from capital debt	131,812,750
Capital appropriations received	21,624,441
Capital grants and gifts received	22,591,389
Purchase of capital assets	(106,891,199)
Principal paid on capital debt and leases	(40,598,457)
Interest paid on capital debt and leases	(5,115,303)
Other uses	(8,122,333)
Net cash provided by capital financing activities	15,301,288
Cash flows from investing activities	
Proceeds from sales and maturities of investments	9,693,064
Interest received on investments	9,200,591
Purchase of investments	(128,962,565)
Net cash used by investing activities	(110,068,910)
Net decrease in cash and cash equivalents	(15,879,790)
Cash and cash equivalents at the beginning of the year	127,915,374
Cash and cash equivalents at the end of the year	$112,035,584

(Continued)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU AND RELATED CAMPUSES
Schedule of Cash Flows, 2005

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($322,860,816)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	44,440,501
Changes in assets and liabilities:	
Decrease in accounts receivable	3,234,678
Increase in inventories	(220,667)
Increase in deferred charges and prepaid expenses	(64,578)
Decrease in notes receivable	111,613
Increase in other assets	(927,666)
Increase in accounts payable and accrued liabilities	3,134,214
Increase in deferred revenue	6,165,747
Increase in amounts held in custody for others	341,261
Increase in compensated absences	2,040,840
Increase in other liabilities	32,179,797
Net cash used by operating activities	($232,425,076)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and cash equivalents classified as current assets	$67,129,885
Cash and cash equivalents classified as noncurrent assets	44,905,699
Cash and cash equivalents at the end of the year	$112,035,584

(Concluded)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
UNIVERSITY OF NEW ORLEANS

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$15,580,280
Accounts receivable, net	18,180,387
Due from state treasury	131,329
Inventories	1,221,834
Deferred charges and prepaid expenses	600,494
Notes receivable	889,535
Total current assets	36,603,859
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	14,543,445
Investments	12,918,228
Notes receivable	4,054,814
Investments	15,565
Capital assets, net	170,598,603
Other noncurrent assets	28,534
Total noncurrent assets	202,159,189
Total assets	238,763,048
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	9,465,785
Due to other campuses	8,954
Deferred revenues	4,481,520
Amounts held in custody for others	1,876,672
Compensated absences	573,972
Capital lease obligations	525,700
Notes payable	88,510
Bonds payable	1,405,000
Total current liabilities	18,426,113
Noncurrent Liabilities:	
Compensated absences	7,366,895
Capital lease obligations	10,149,112
Notes payable	446,393
Bonds payable	30,705,000
Other noncurrent liabilities	75,251
Total noncurrent liabilities	48,742,651
Total liabilities	67,168,764
NET ASSETS	
Investment in capital assets, net of related debt	140,238,618
Restricted for:	
Nonexpendable	14,352,414
Expendable	18,144,466
Unrestricted	(1,141,214)
Total net assets	$171,594,284

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
UNIVERSITY OF NEW ORLEANS

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

OPERATING REVENUES	
Student tuition and fees	$69,540,626
Less scholarship allowances	(8,912,121)
Net student tuition and fees	60,628,505
Federal grants and contracts	30,576,126
State and local grants and contracts	15,502,957
Nongovernmental grants and contracts	9,887,267
Sales and services of educational departments	105,390
Auxiliary enterprise revenues	14,422,866
Less scholarship allowances	(529,576)
Net auxiliary revenues	13,893,290
Other operating revenues	5,082,348
Total operating revenues	135,675,883
OPERATING EXPENSES	
Educational and general:	
Instruction	70,212,372
Research	25,334,370
Public service	6,708,424
Academic support	16,861,446
Student services	9,309,312
Institutional support	18,212,564
Operation and maintenance of plant	21,199,056
Scholarships and fellowships	11,615,352
Auxiliary enterprises	12,554,144
Total operating expenses	192,007,040
Operating Loss	(56,331,157)
NONOPERATING REVENUES (Expenses)	
State appropriations	54,885,110
Gifts	682,375
Net investment income	1,524,553
Interest expense	(1,261,167)
Net nonoperating revenues	55,830,871
Loss Before Other Revenues, Expenses, Gains, and Losses	(500,286)
Capital appropriations	6,404,935
Capital gifts and grants	2,568,222
Other deductions, net	(836,050)
Increase in Net Assets	7,636,821
Net Assets at Beginning of Year	163,957,463
Net Assets at End of Year	$171,594,284

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
UNIVERSITY OF NEW ORLEANS

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

Cash flows from operating activities	
Student tuition and fees	$60,089,379
Grants and contracts	56,786,149
Sales and services of educational departments	1,097,262
Auxiliary enterprise receipts	14,180,113
Payments for employee compensation	(96,664,788)
Payments for benefits	(21,407,091)
Payments for utilities	(4,916,312)
Payments for supplies and services	(47,483,398)
Payments for scholarships and fellowships	(11,803,954)
Loans to students	(1,245,293)
Collection of loans to students	1,036,151
Other receipts	6,550,049
Net cash used by operating activities	(43,781,733)
Cash flows from noncapital financing activities	
State appropriations	54,471,132
Gifts and grants for other than capital purposes	514,807
TOPS receipts	2,347,377
TOPS disbursements	(101,771)
Net cash provided by noncapital financing sources	57,231,545
Cash flows from capital financing activities	
Proceeds from capital debt	121,898
Capital appropriations received	6,404,935
Capital grants and gifts received	2,811,331
Purchase of capital assets	(13,929,600)
Principal paid on capital debt and leases	(2,131,906)
Interest paid on capital debt and leases	(1,261,167)
Other uses	(957,948)
Net cash used by capital financing activities	(8,942,457)
Cash flows from investing activities	
Interest received on investments	966,020
Net cash provided by investing activities	966,020
Net increase in cash and cash equivalents	5,473,375
Cash and cash equivalents at the beginning of the year	24,650,350
Cash and cash equivalents at the end of the year	$30,123,725

(Continued)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
UNIVERSITY OF NEW ORLEANS
Schedule of Cash Flows, 2005

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($56,331,157)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	10,378,578
Changes in assets and liabilities:	
Decrease in accounts receivable	1,922,930
Increase in inventories	(69,546)
Increase in deferred charges and prepaid expenses	(48,246)
Increase in notes receivable	(209,142)
Decrease in accounts payable and accrued liabilities	(727,224)
Decrease in deferred revenue	(344,955)
Increase in amounts held in custody for others	1,467,701
Increase in compensated absences	179,328
Net cash used by operating activities	($43,781,733)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and cash equivalents classified as current assets	$15,580,280
Cash and cash equivalents classified as noncurrent assets	14,543,445
Cash and cash equivalents at the end of the year	$30,123,725

(Concluded)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU IN SHREVEPORT

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$5,115,771
Investments	105,448
Accounts receivable, net	1,965,995
Inventories	474,106
Deferred charges and prepaid expenses	209,255
Total current assets	7,870,575
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	325,990
Investments	1,982,300
Capital assets, net	30,824,807
Total noncurrent assets	33,133,097
Total assets	41,003,672
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	1,467,937
Due to state treasury	18,458
Deferred revenues	815,445
Amounts held in custody for others	223,310
Compensated absences	74,158
Capital lease obligations	11,220
Total current liabilities	2,610,528
Noncurrent Liabilities:	
Compensated absences	1,950,208
Capital lease obligations	2,993
Total noncurrent liabilities	1,953,201
Total liabilities	4,563,729
NET ASSETS	
Investment in capital assets, net of related debt	30,810,594
Restricted for:	
Nonexpendable	1,923,592
Expendable	1,594,581
Unrestricted	2,111,176
Total net assets	$36,439,943

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU IN SHREVEPORT

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

OPERATING REVENUES	
Student tuition and fees	$12,170,333
Less scholarship allowances	(2,334,364)
Net student tuition and fees	9,835,969
Federal grants and contracts	4,653,031
State and local grants and contracts	4,468,425
Nongovernmental grants and contracts	1,368,993
Sales and services of educational departments	22,520
Auxiliary enterprise revenues	3,333,205
Less scholarship allowances	(216,867)
Net auxiliary revenues	3,116,338
Other operating revenues	299,180
Total operating revenues	23,764,456
OPERATING EXPENSES	
Educational and general:	
Instruction	14,219,536
Research	494,093
Public service	2,322,092
Academic support	4,072,430
Student services	1,527,164
Institutional support	4,352,757
Operation and maintenance of plant	3,347,770
Scholarships and fellowships	3,938,337
Auxiliary enterprises	3,398,162
Total operating expenses	37,672,341
Operating Loss	(13,907,885)
NONOPERATING REVENUES	
State appropriations	13,030,236
Gifts	290,282
Net investment income	207,570
Net nonoperating revenues	13,528,088
Loss Before Other Revenues, Expenses, Gains, and Losses	(379,797)
Additions to permanent endowments	120,000
Other deductions, net	(144,893)
Decrease in Net Assets	(404,690)
Net Assets at Beginning of Year	36,844,633
Net Assets at End of Year	$36,439,943

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU IN SHREVEPORT

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

Cash flows from operating activities	
Student tuition and fees	$10,016,822
Grants and contracts	10,185,235
Sales and services of educational departments	22,520
Auxiliary enterprise receipts	3,125,513
Payments for employee compensation	(17,658,502)
Payments for benefits	(5,438,293)
Payments for utilities	(591,106)
Payments for supplies and services	(8,245,350)
Payments for scholarships and fellowships	(3,938,337)
Other receipts	222,047
Net cash used by operating activities	(12,299,451)
Cash flows from noncapital financing activities	
State appropriations	13,030,236
Gifts and grants for other than capital purposes	290,282
Private gifts for endowment purposes	120,000
TOPS receipts	1,803,103
TOPS disbursements	(1,803,103)
Net cash provided by noncapital financing sources	13,440,518
Cash flows from capital financing activities	
Purchase of capital assets	(774,087)
Principal paid on capital debt and leases	(10,106)
Other uses	(155,426)
Net cash used by capital financing activities	(939,619)
Cash flows from investing activities	
Interest received on investments	209,464
Purchase of investments	(228,380)
Net cash used by investing activities	(18,916)
Net increase in cash and cash equivalents	182,532
Cash and cash equivalents at the beginning of the year	5,259,229
Cash and cash equivalents at the end of the year	$5,441,761

(Continued)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU IN SHREVEPORT
Schedule of Cash Flows, 2005

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($13,907,885)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	1,979,789
Changes in assets and liabilities:	
Increase in accounts receivable	(235,309)
Decrease in inventories	68,033
Increase in deferred charges and prepaid expenses	(135,369)
Decrease in accounts payable and accrued liabilities	(236,910)
Increase in deferred revenue	76,499
Decrease in amounts held in custody for others	(43,628)
Increase in compensated absences	125,210
Increase in other liabilities	10,119
Net cash used by operating activities	($12,299,451)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and cash equivalents classified as current assets	$5,115,771
Cash and cash equivalents classified as noncurrent assets	325,990
Cash and cash equivalents at the end of the year	$5,441,761

(Concluded)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU HEALTH SCIENCES CENTER

Schedule of Net Assets, June 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$123,690,887
Investments	10,380,523
Accounts receivable, net	143,929,108
Due from other campuses	54,990,969
Due from state treasury	54,213,167
Inventories	27,374,474
Deferred charges and prepaid expenses	1,761,881
Notes receivable	3,054,304
Total current assets	419,395,313
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	6,712,848
Investments	68,234,938
Notes receivable	8,092,636
Capital assets, net	428,329,732
Other noncurrent assets	3,683,886
Total noncurrent assets	515,054,040
Total assets	934,449,353
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	299,001,257
Due to other campuses	555,389
Deferred revenues	5,406,586
Amounts held in custody for others	1,425,171
Compensated absences	5,375,041
Capital lease obligations	2,816,196
Notes payable	9,637,445
Bonds payable	4,555,000
Other current liabilities	356,696
Total current liabilities	329,128,781
Noncurrent Liabilities:	
Compensated absences	73,961,565
Capital lease obligations	12,584,319
Notes payable	22,293,724
Bonds payable	38,610,000
Other noncurrent liabilities	66,584
Total noncurrent liabilities	147,516,192
Total liabilities	476,644,973
NET ASSETS	
Investment in capital assets, net of related debt	337,728,955
Restricted for:	
Nonexpendable	63,817,964
Expendable	54,134,510
Unrestricted	2,122,951
Total net assets	$457,804,380

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU HEALTH SCIENCES CENTER

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

OPERATING REVENUES	
Student tuition and fees	$22,107,025
Less scholarship allowances	(2,505,769)
Net student tuition and fees	19,601,256
Federal grants and contracts	67,846,307
State and local grants and contracts	47,305,878
Nongovernmental grants and contracts	45,429,012
Sales and services of educational departments	166,200,357
Hospital income	1,141,968,467
Auxiliary enterprise revenues	25,054,084
Other operating revenues	996,411
Total operating revenues	1,514,401,772
OPERATING EXPENSES	
Educational and general:	
Instruction	212,627,136
Research	112,881,404
Public service	194,766,729
Academic support	25,781,943
Student services	3,758,532
Institutional support	61,645,999
Operation and maintenance of plant	23,565,225
Scholarships and fellowships	1,351,125
Auxiliary enterprises	23,809,056
Hospital	1,089,684,357
Total operating expenses	1,749,871,506
Operating Loss	(235,469,734)
NONOPERATING REVENUES (Expenses)	
State appropriations	217,732,937
Gifts	30,525,447
Net investment income	9,621,907
Interest expense	(3,382,845)
Other nonoperating expenses	(480,244)
Net nonoperating revenues	254,017,202
Income Before Other Revenues, Expenses, Gains, and Losses	18,547,468
Capital appropriations	12,949,071
Capital gifts and grants	2,968,888
Additions to permanent endowments	1,839,330
Other deductions, net	(301,870)
Increase in Net Assets	36,002,887
Net Assets at Beginning of Year, Restated	421,801,493
Net Assets at End of Year	$457,804,380

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU HEALTH SCIENCES CENTER

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

Cash flows from operating activities	
Student tuition and fees	$19,729,711
Grants and contracts	197,195,768
Sales and services of educational departments	163,951,623
Hospital income	1,093,911,366
Auxiliary enterprise receipts	23,302,854
Payments for employee compensation	(818,983,572)
Payments for benefits	(177,604,728)
Payments for utilities	(28,744,048)
Payments for supplies and services	(650,499,996)
Payments for scholarships and fellowships	(887,646)
Loans to students	(2,858,209)
Collection of loans to students	3,054,304
Other payments	(21,955,301)
Net cash used by operating activities	(200,387,874)
Cash flows from noncapital financing activities	
State appropriations	222,144,541
Gifts and grants for other than capital purposes	29,750,285
Private gifts for endowment purposes	900,000
TOPS receipts	532,882
TOPS disbursements	(572,759)
Other receipts	74,428
Net cash provided by noncapital financing sources	252,829,377
Cash flows from capital financing activities	
Proceeds from capital debt	3,618,803
Capital appropriations received	10,861,798
Capital grants and gifts received	4,198,880
Purchase of capital assets	(54,518,461)
Principal paid on capital debt and leases	(2,800,718)
Interest paid on capital debt and leases	(3,380,699)
Other uses	(301,870)
Net cash used by capital financing activities	(42,322,267)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	9,515,564
Interest received on investments	8,346,099
Purchase of investments	(22,369,516)
Net cash used by investing activities	(4,507,853)
Net increase in cash and cash equivalents	5,611,383
Cash and cash equivalents at the beginning of the year	124,792,352
Cash and cash equivalents at the end of the year	$130,403,735

(Continued)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
LSU HEALTH SCIENCES CENTER
Schedule of Cash Flows, 2005

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($235,469,734)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	51,190,166
Changes in assets and liabilities:	
Increase in accounts receivable	(16,717,421)
Decrease in inventories	130,321
Increase in deferred charges and prepaid expenses	(3,053,294)
Decrease in notes receivable	195,944
Increase in other assets	(36,594,713)
Increase in accounts payable and accrued liabilities	33,163,695
Increase in deferred revenue	2,239,437
Decrease in amounts held in custody for others	(391,370)
Increase in compensated absences	3,140,591
Increase in other liabilities	1,778,504
Net cash used by operating activities	($200,387,874)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and cash equivalents classified as current assets	$123,690,887
Cash and cash equivalents classified as noncurrent assets	6,712,848
Cash and cash equivalents at the end of the year	$130,403,735

(Concluded)

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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

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

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

May 3, 2006

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

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units, which collectively comprise the basic financial statements of the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2005, and have issued our report thereon dated May 3, 2006. We did not audit 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 and the Eunice Student Housing Foundation, Inc., which are nonprofit corporations included as blended component units in the basic financial statements of the Louisiana State University System. We also did not audit the financial statements of the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are discretely presented component units presented in the basic financial statements. The financial statements of the blended and discretely presented component units were audited by other auditors whose reports have been furnished to us, and this report, insofar as it relates to the amounts reported for those component units, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the LSU Foundation and the Pennington Medical Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana State University System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters described below involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Louisiana State University System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Unlocated Movable Property

The Louisiana State University (LSU) System did not have adequate internal control over movable property at all campuses (including hospitals) within the LSU System. Certain campuses within the LSU System reported unlocated movable property items totaling $15,957,129 as a result of property inventory certification procedures for the four-year period from fiscal year 2002 through fiscal year 2005. Good internal control and the Louisiana Administrative Code prescribe that efforts should be made to locate all movable property items for which there are no explanations available for their disappearance. Assets should be adequately monitored to safeguard against loss or theft, and periodic counts of property inventory, as well as the search for missing items, should be thorough.

Annual property certifications for the LSU and A&M College, the Health Sciences Center in Shreveport, the Medical Center of Louisiana at New Orleans, the Health Sciences Center in New Orleans, and LSU in Shreveport disclosed the following:

- LSU and A&M College's inventory certification, which includes LSU, System Administration, Agriculture Center, Alexandria, and Eunice campuses, identified unlocated movable property items totaling $6,371,247. Of that amount, items totaling $1,008,982 were removed from the property records because they had not been located for three consecutive years. Of the unlocated total, the amount of unlocated computers and computer-related equipment totaled $3,037,072 (48%). The certification of property inventory disclosed $297,139,831 in total movable property administered by these campuses.

- The Health Sciences Center in Shreveport's inventory certification identified unlocated movable property items totaling $3,364,327. Of that amount, items totaling $356,211 were removed from the property records because they had not been located for three consecutive years. Of the unlocated total, the amount of unlocated computers and computer-related equipment totaled $1,566,600 (47%). The certification of property inventory disclosed $113,689,329 in total movable property administered by the Health Sciences Center in Shreveport.

- The Medical Center of Louisiana at New Orleans' inventory certification identified unlocated movable property items totaling $3,251,897. Of that amount, items totaling $445,370 were removed from the property records because they had not been located for three consecutive years. Of the unlocated total, the amount of unlocated computers and computer-related equipment totaled $915,787 (28%). The certification of property inventory disclosed $71,718,342 in total movable property administered by the Medical Center of Louisiana at New Orleans.

- The Health Sciences Center in New Orleans' inventory certification identified unlocated movable property items totaling $2,600,159. Of that amount, items totaling $261,437 were removed from the property records because they had not been located for three consecutive years. Of the unlocated total, the amount of unlocated computers and computer-related equipment totaled $1,012,339 (39%). The certification of property inventory disclosed $86,392,031 in total movable property administered by the Health Sciences Center in New Orleans.

- LSU in Shreveport's inventory certification identified unlocated movable property items totaling $369,499. Of that amount, items totaling $58,200 were removed from the property records because they had not been located for three consecutive years. Of the unlocated total, the amount of unlocated computers and computer-related equipment totaled $152,417 (41%). The certification of property inventory disclosed $13,637,261 in total movable property administered by LSU in Shreveport.

Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects the campuses to noncompliance with state laws and regulations. Also, the risk exists that sensitive information could be improperly retrieved from the missing computers and/or computer-related equipment, which could compromise the campuses' data integrity.

Management should strengthen its internal controls over movable property, including procedures for securing its movable assets and conducting its physical inventories, and should devote additional efforts to locating movable property reported as unlocated in previous years for all campuses within the LSU System. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-9).

No Formal Disaster Recovery Plan

The LSU System did not ensure that all of its campuses have written comprehensive disaster recovery/business continuity plans that are periodically tested to ensure that they work as intended in emergency situations. Good internal control requires that the universities develop written and functional disaster recovery plans that will allow for continued operation of critical services in the event of an unexpected interruption. In addition, the state Office of Information Technology Policy No. 11 requires each state agency to develop, test, and maintain a disaster recovery/business continuity plan that is designed to ensure the availability of mission-critical services and functions in the event of a disaster or unscheduled event that would impact the agency's information technology and telecommunications systems.

Although the universities have taken steps to ensure that data files and computer programs are backed up and stored at offsite facilities, our reviews of the universities' disaster recovery plans disclosed the following deficiencies:

- Louisiana State University and A&M College does not have a formal written comprehensive disaster recovery/business continuity plan.

- The University of New Orleans' disaster recovery plan does not provide a schedule for testing the plan to ensure it works as intended and the plan does not state a specific site where operations could be continued.

Failure to develop, implement, and test comprehensive disaster recovery/business continuity plans increases the risk that in the case of a disaster, there will be an untimely or excessive delay in processing critical data and that critical data including public records may be lost.

Management should take the necessary measures to develop and implement a written, comprehensive disaster recovery/business continuity plan to allow critical operations to be reestablished and data to be restored from an alternative location within an acceptable time frame should a disaster occur. In addition, the plan should be periodically tested and updated as necessary to ensure that it works as intended in emergency situations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 10-14).

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

Compliance and Other Matters

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

Donation of Public Funds

The LSU Health Sciences Center-New Orleans (LSUHSC-NO) School of Medicine (SOM) may have violated the Louisiana State Constitution when it instructed the LSU Healthcare Network (HCN), a blended component unit of the LSUHSC-NO, to donate $2,000,000 of funds designated for the SOM to the LSU School of Medicine - New Orleans Medical Alumni, Inc. (Alumni Association). The Louisiana Constitution, Article VII, Section 14, states, "Except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private."

The HCN is a private tax-exempt entity established to assist the SOM in the attainment of its educational and research missions and goals. The relationship between the LSUHSC-NO and the HCN are established and defined by agreement as follows:

- A Cooperative Endeavor Agreement, dated November 1, 2000, was established to define the relationship between the LSUHSC-NO and the HCN. This agreement provides that the HCN bills and collects professional fees on behalf of the SOM and its physician employees whose professional services are leased by the HCN. This agreement also provides that certain funds generated by the HCN should be used to benefit the SOM.

- The LSUHSC-NO and the HCN have also entered into an Operating Agreement, dated November 1, 2000, to better describe the purpose and obligations as defined in the above Cooperative Endeavor Agreement. Pursuant to the terms and conditions of that Operating Agreement, the HCN, at the request of the SOM, internally designates fund balances for departments of the SOM. The funds designated to the SOM are from clinical revenues, less practice expenses and other internally designated allocations.

The donation from the HCN to the Alumni Association was made based upon the following two agreements:

- The SOM and the HCN's Executive/Finance Committee adopted a Joint Resolution that the HCN donate $2,000,000 to the Alumni Association for development of a Learning Center for the education of students and physician employees of the SOM. The funds donated are from reserves designated to specific departments of the SOM.

- The donation was made with an Agreement to Donate Funds between the HCN and the Alumni Association. The agreement states that the funds are for the exclusive and dedicated purpose of developing the Learning Center.

Because the HCN's donation was from funds that were designated for the SOM, which is a public entity, the donation is not actually a donation from the HCN to the Alumni Association, but rather a donation from the SOM to the Alumni Association. This donation appears to be prohibited by the state's constitution. The constitution and courts direct that the donation of public funds is prohibited even if the goal of the donation is for a worthwhile cause.

Management of LSUHSC-NO should ensure that all transactions involving funds dedicated to the SOM, which are considered public funds by their designation to the SOM, are administered in accordance with the constitution and state laws. In addition, LSUHSC-NO should consider requesting an Attorney General's Opinion regarding this donation and determine courses of action if the donation is found to be prohibited by the constitution. Management did not concur with the substance of the finding and expressed that the transfer was appropriate to further the public purposes of the SOM. However, to cure any problems or misunderstandings about this transaction, which was characterized as a donation, LSUHSC-NO has requested and received a check from the Alumni Association to return the monies to the HCN. Management stated that a new transaction will be prepared in proper substance and form to accomplish the original objective of expanding the Learning Center (see Appendix A, pages 15-17).

Other Reports

Other external auditors audited the LSU Healthcare Network and the Eunice Student Housing Foundation, which are blended component units included in the LSU System's basic financial statements for the year ended June 30, 2005. In addition, other external auditors audited the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the LSU Health Sciences Center Foundation, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are discretely presented component units included in the basic financial statements. To obtain copies of those reports, refer to note 1-B to the basic financial statements for mailing addresses.

As a part of our audit of the LSU System's basic financial statements for the year ended June 30, 2005, we performed certain procedures on campuses and hospitals within the LSU System. Our reports on those procedures for those campuses and hospitals are listed as follows:

	Issue Date
LSU and Related Campuses	May 10, 2006
LSU Health Sciences Center-New Orleans	May 10, 2006
LSU Health Care Services Division	April 19, 2006
University of New Orleans	March 16, 2006
LSU in Shreveport	December 21, 2005

Those reports contain compliance and internal control findings, where applicable, relating to those facilities. Management's responses are also included in those reports. Copies of those reports are available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor and can also be found on the Internet at www.lla.state.la.us.

To provide financial information required for applications for accreditation by SACS, we have issued our audit reports for the following campuses:

Paul M. Hebert Law Center	March 29, 2006
LSU Health Sciences Center-Shreveport	January 25, 2006

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

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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LSU05

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

Louisiana State University System
3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Office of the Senior Executive Vice President
and Chief Operating Officer

225 / 578-6935
225 / 578-5524 fax

April 19, 2006

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

Dear Mr. Theriot:

In regard to the finding that the LSU System did not have adequate internal control over moveable property, we concur that the cited campuses should account for any unlocated inventory that remained after completion of the annual physical inventory. While the value of the unlocated moveable property items in the finding totaled $15,957,129 we would like to point out that this represents the original purchase price rather than the current value of the property.

Nevertheless, we should account for all property in current inventory. Accordingly, the LSU System through our internal audit section will contact its campuses and urge greater efforts in the future to account for items unlocated after the initial property inventory has been taken. We suspect that much of the unlocated equipment is obsolete and we will urge campuses to remove (surplus) such equipment on a timely basis.

Sincerely,

William L. Silvia

William L. Silvia
Senior Executive Vice President and
Chief Operating Officer

LOUISIANA STATE UNIVERSITY
AND AGRICULTURAL AND MECHANICAL COLLEGE

Office of the Vice Chancellor for Finance and Administrative Services and Comptroller

March 27, 2006

Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College for the fiscal year ended June 30, 2005, we wish to respond to the audit finding concerning unlocated moveable property. We concur with your finding in general. As required by state regulations, after conducting a physical inventory, LSU did report four years of unlocated property items originally costing $6,371,247. In accordance with state regulations, and with the approval of the Louisiana Property Assistance Agency (LPAA), the University then removed items originally costing $1,008,982 from our property records. These items had been held in our "suspense" file for three years, while we continued our attempts to locate or properly account for them. The original cost of the remaining unlocated items was $5,362,265. With respect to these remaining items, a current analysis of our moveable property detail records produces the following results:

- Items costing $1,042,729 have been subsequently properly accounted for, leaving a balance of items originally costing $4,319,536 remaining unlocated.

- This remaining unlocated balance includes certain equipment items originally costing $5,000 or more individually that had been capitalized and depreciated subsequent to their purchase, with depreciation calculations made by LSU using the state approved guidelines for useful lives. The original cost of these items was $1,409,044, and the book value net of depreciation was only $67,195.

- The remaining unlocated balance also includes items costing less than $5,000 individually that were expensed for accounting purposes, not capitalized and depreciated, for which the book value does not exist. The original cost of these items was $2,910,492. However, $1,343,817 of these items had been purchased in 1995 or earlier.

- The total inventory value reported by the University, net of the oldest suspense file items removed with the approval of the LPAA, was $296,130,849. Excluding the items that were subsequently properly accounted for, the depreciation taken on capitalized items, and the expensed items purchased in 1995 or prior, the remaining unlocated items amount to $1,633,870. This amounts to only slightly more than one-half of one percent of the total moveable property inventory managed by LSU.

- The audit finding also indicates that $3,037,072 of computers and computer-related equipment was reported as unlocated. However, after the removal of the oldest suspense file items from our property records, the balance of computers and related equipment amounted to $2,462,685. Of this amount, $1,047,438 was more than 10 years old, $739,648 was 8-10 years old, and $402,646 was 6-7 years old. Only $272,953 of the unlocated computer and related items were aged 5 years or less. Moreover, the total book value was only $4,154 for all capitalized computers and related equipment reported as unlocated.

We believe the above data supports the conclusion that LSU is properly managing its inventory of moveable equipment having remaining useful value. However, we also recognize our responsibility to properly account for all equipment owned by the University, including those items having little or no remaining value. We believe many unlocated items result from useless equipment being discarded or several old items being cannibalized by departmental staff to produce one working item, without proper reporting to our administrative offices. We are reviewing our inventory taking and record keeping procedures, and we intend to initiate aggressive changes as appropriate to ensure better results in our inventory reporting in the future.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

cc: Chancellor Sean O'Keefe

330 Thomas Boyd Hall - Baton Rouge - Louisiana - 70803-2701 - 225/578-3386 - FAX 225/578-5403

LSU Health Sciences Center
SHREVEPORT
Administration and Finance

School of Medicine in Shreveport
School of Allied Health Professions
School of Graduate Studies

January 10, 2006

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of Legislative Auditor
State of Louisiana
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

LSUHSC-S was issued a finding regarding Un-located Movable Property. In reference to this finding, LSUHSC-S partially concurs with the finding or the recommendations.

1) LSUHSC-S is aware of the requirements of Louisiana Revised Statute (R.S.) 39:325 and has made great strides in complying with the requirement by conducting an annual inventory of movable property and has reported any un-located property to LPAA.

2) LSUHSC-S is aware of the requirements of Louisiana Administrative Code (LAC) 34:VII.313 and has made great strides in complying with the requirement by making efforts to locate all movable property for which there are no explanations available for their disappearance.

Although LSUHSCS has put forth much effort to improve and perfect their inventory process, there is still room for improvement. The following corrective actions will be put into effect:

1) Work with the various departments to identify the old unused Movable Property and remove it from the inventory.

2) Offer training sessions to the individuals within the various departments.

Louisiana State University Health Sciences Center in Shreveport • Administration and Finance
1501 Kings Highway • P.O. Box 33932 • Shreveport, Louisiana 71130-3932
phone (318) 675-7655 fax (318) 675-7675 www.lsuhsc.edu

Mr. Steve J. Theriot, CPA
January 10, 2006
Page 2

3) Continue to have the Chancellor to emphasize the importance of timely compliance by all departments.

4) Review our current inventory process to identify possible room for improvement.

We are committed to a continuous quality improvement for our asset management program.

Sincerely,

Harold White

Harold White
Vice Chancellor
for Business and Reimbursements

xc: John C. McDonald, M.D.
Dick Chandler

March 29, 2006

Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Audit Finding: Unlocated Movable Property
Fiscal Year Ended June 30, 2005

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (LSUHCSD) concurs in part with the referenced legislative audit finding for Medical Center of Louisiana at New Orleans (MCLNO). LSUHCSD offers the following comments regarding the finding:

1. While MCLNO has had problems with movable property in the past, the outcome of the FY2005 Certification of Annual Property Inventory is the result of the most comprehensive inventory performed at MCLNO. These results are the product of the implementation of strengthened procedures for conducting the physical inventory and heightened responsibility placed on the staff.

2. On May 13, 2005, MCLNO reported a cumulative discrepancy list to Louisiana Property Assistance Agency (LPAA) of $3.2 million. The Certification of Annual Property Inventory was approved by LPAA as required by RS 39:325 and LAC 34.VII.313 on June 13, 2005. During inventory, MCLNO recovered previously reported discrepancies of 343 movable items at a cost of $1.1 million. Since the approval of the Certification of Annual Property by LPAA, MCLNO has recovered an additional 53 movable items at a cost of $216,638. MCLNO expects continued success in recovering and reporting of future discrepancies for the medical center.

3. It should be noted that during the recent disaster event (Hurricane Katrina), there were 1,452 movable property items destroyed with a cost of $8,827,178. These items have subsequently been removed from LPAA records. Of these, 243 items at a cost of $8,827,178 met the LSUHCSD capitalization threshold and were included in the Annual Financial Report at June 30, 2005; these items will be removed from Capital Assets in the AFR for the reporting period ended June 30, 2006.

4. After reviewing the $915,787 of unlocated computers and computer related equipment, it has been determined that only $322,725 of that amount represents actual computers that are capable of retaining sensitive information.

5. As demonstrated above, many unlocated assets were and will continue to be located. MCLNO Hospital Police staff all entrances of the facilities to ensure, among other things, that MCLNO property is not

improperly removed. Because of these facts, in our opinion, the actual exposure is less extensive than as presented in the referenced legislative audit finding.

In order to ensure that MCLNO is properly accounting for and safeguarding its movable property, the following steps will be taken.

1. MCLNO will continue with the strengthened procedures implemented for conducting the physical inventory. This is ongoing and working well to date.

2. MCLNO will continue communications with Hospital Police to secure facilities and equipment. This is ongoing and working well to date.

3. MCLNO will continue communications with Information Security and Property Management to ensure IT security procedures are strictly adhered to. This is ongoing and working well to date.

MCLNO actions to date have resulted in a movable property listing that is reflective of the true state of the inventory at the time it was taken. The current year discrepancy list is high, not because of a current lack of adequate safeguard, but because of prior year accumulated deficiencies.

Should you have any questions or need additional information, please contact Edward C. Burke, MCLNO Chief Financial Officer, Bruce Dyer, Comptroller, or Edmund J. Toscano, III, Property Accounting Director, all at MCLNO, at (504) 903-0813.

Sincerely,

Robert M. Plaisance
Deputy Chief Executive Officer

LSU Health Sciences Center
NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

April 4, 2006

Re: Response to Audit Finding: Unlocated Movable Property

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

Dear Mr. Theriot,

I partially concur with the finding as reported. The university had already implemented stronger internal controls during the current inventory. In fact over $ 804,000 of the unlocated movable property referred to in the finding has been located mid-way through the current inventory. The finding does highlight an opportunity for the university to include previously reported unlocated movable property on its internal reports.

Corrective action plan:

The university will include prior year unlocated moveable property on the internal missing property reports.

Anticipated Completion Date:

The university anticipate implementation of this reporting change no later than October 31, 2006.

Person responsible for corrective action:

Patrick Landry, Executive Director of Financial Services
Phone: 504-568-4815
Email: pland2@lsuhsc.edu

Respectfully,

Ronnie Smith
Vice Chancellor for Administration and Finance

cc: Larry Hollier, MD
Terry Ullrich
David Dotter

Louisiana State University Health Sciences Center • 433 Bolivar Street, Suite 811 • New Orleans, Louisiana 70112
phone (504) 568-6300 fax (504) 568-7399 www.lsuhsc.edu

Louisiana State University in Shreveport
Office of The Vice Chancellor, Business Affairs

October 12, 2005

Mr. Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
P. O. Box 94397
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Re: Audit Finding, Unlocated Movable Property

Dear Mr. Theriot:

We concur with the findings and recommendations of the Legislative Auditor in regards to unlocated moveable property. Our current policies and procedures are being reviewed and updates are being implemented to tighten controls. This process will be completed by June 30, 2006.

In order to tighten controls on moveable property, the following will be implemented:

- Establish a time frame/dated outline for each step of annual inventory to allow sufficient time for an extensive search for unlocated property by both the Property Control Coordinator and individual departments.
  Completion date: January 10, 2006.
  Contact person responsible for corrective action: Cynthia Armstrong, Director of Purchasing and Susan Gutierrez, Property Control Coordinator

- With the annual inventory, individual departments will be requested to submit explanations of why they have not located all the moveable property on their annual inventory.
  Completion date: Now in effect.
  Contact person responsible for corrective action: Cynthia Armstrong, Director of Purchasing and Susan Gutierrez, Property Control Coordinator

- We will modify our computer inventory program to include a searchable field to record the serial numbers for all equipment.
  Estimated completion date for the programming: January 2, 2006.
  Estimated completion date for populating this field with data: June 30, 2006.
  Contact person responsible for corrective action: Cynthia Armstrong, Director of Purchasing and Susan Gutierrez, Property Control Coordinator

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www.lsus.edu

- **All documentation for items to be scrapped, surplused or dismantled for parts must include the brand name, model, serial number, if applicable, and university tag number.**
  Completion date: now in effect.
  Contact person responsible for corrective action: Cynthia Armstrong, Director of Purchasing and Susan Gutierrez, Property Control Coordinator

To keep all new and existing department heads aware of policies and procedures, quarterly reminders of the importance of maintaining their departmental inventory of moveable property will be sent out to all departments. We will also stress the importance of departments notifying the Property Control Coordinator of any transfer of equipment between departments and the importance of reporting missing equipment. This information is also posted on our website and included in the Fall 2005 Safety Meeting document, which has been distributed to every employee, including student workers.

Outside of the annual inventory, the University will distribute to all departments a document listing all missing movable property and request that a specific search be conducted for these items.

We do take the annual inventory of our moveable equipment very seriously. It should be noted that on the last annual inventory, we located 97.15% of the items and 97.26% of the dollar value of the moveable equipment on our inventory. As part of our normal process we continue to work with individual departments to find items that were recorded as missing in the annual inventory. At the last count, we have located 97.9% of the items and of the dollar value of our annual moveable property inventory.

Sincerely,

Michael T. Ferrell
Vice Chancellor for Business Affairs

Vincent J. Marsala
Chancellor

Louisiana State University System
3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Office of the Senior Executive Vice President
and Chief Operating Officer

225 / 578-6935
225 / 578-5524 fax

April 19, 2006

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

Dear Mr. Theriot:

The LSU System concurs in your finding that we did not ensure that LSU had a written comprehensive disaster recovery/business continuity plan, or that UNO's disaster recovery plan was periodically tested to make sure it would work in emergency situations. Each of those campuses has since responded by taking appropriate action to address your specific findings.

In addition, the LSU System is developing a Continuity of Operations Plan in conjunction with the Board of Regents that will include preparedness activities, response activities, recovery activities, and mitigation activities in the event of emergency situations in the future.

Further, a System level employee has been assigned the specific responsibility of overseeing our efforts in this area.

Sincerely,

William L. Silvia

William L. Silvia
Senior Executive Vice President and
Chief Operating Officer

LOUISIANA STATE UNIVERSITY
AND AGRICULTURAL AND MECHANICAL COLLEGE

Office of the Vice Chancellor for Finance and Administrative Services and Comptroller

March 24, 2006

Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College for the fiscal year ended June 30, 2005 we wish to respond to the audit finding concerning our disaster recovery plan. We concur with your finding in general. However, LSU has made and continues to make numerous additional improvements to our disaster recovery and business continuity plan. Since this finding was addressed for the fiscal year ended June 30, 2002, significant progress has been made in addressing this ongoing issue, including the following:

- A contingency plan has been developed to provide the ability to meet payroll obligations in the event of a disaster.
- Off-site storage of mainframe backup tapes is now more formalized, with the frequency of mainframe backups rotated off-site daily.
- A remote backup server has been installed off campus at the Information Services Building (ISB) for all enterprise level non-mainframe servers housed in our Computing Center.
- A group of servers has been installed in another campus building, beyond the zone of a localized disaster to our Computing Center, to host redundant and standby services for a small but critical portion of the production computing environment.
- LSU's first Chief Information Officer was appointed in April 2005. He has designated a full-time, senior-level Disaster Recovery Business Continuity Planning professional, who has been diligently reviewing ITS strategies and investigating additional methods for ensuring continuity of operations by the University with IT support.
- A "lifeboat" strategy or critical set of tools to facilitate recovery of high priority portions of the LSU IT infrastructure is currently being developed.
- An informal disaster response plan has been developed, and it will form the basis for a more formal IT disaster recovery plan document.

The University is currently working to craft a proposal, based upon existing plans and strategies and related analysis currently underway, that will outline additional steps (including requisite funding investments) LSU should advance in regard to preparing its IT infrastructure and environment, and information resources and systems, for continuity in the face of a disaster to the central IT facilities, the campus, and the broader Baton Rouge area. This plan will draw heavily on the lessons learned by our colleagues at Louisiana institutions most devastated by the 2005 hurricanes.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: Chancellor Sean O'Keefe

330 Thomas Boyd Hall - Baton Rouge - Louisiana - 70803-2701 - 225/578-3386 - FAX 225/578-5403

UNIVERSITY of
NEW ORLEANS

OFFICE OF THE CHANCELLOR

February 17, 2006

Mr. Steve J. Theriot
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804

Dear Mr. Theriot:

In response to the recent audit of the Disaster Recovery Plan for the University of New Orleans, the University concurs with the findings and recommendations provided. These recommendations will be incorporated into the University's Disaster Recovery Plan. The plan includes a schedule for testing our recovery procedures and states a specific site where operations could be continued. A detailed explanation of the deficiencies as well as corrective action is included below for which Jim Burgard, Assistant Vice Chancellor for Computer Services will be responsible.

Testing the "fail over" functions:

The University Computer Center (UCC) will test in May/June of each year, the "fail-over" function for mission critical systems to ensure that the process is functioning properly. Given the almost impossible prospect of finding an alternate host site with sufficient spare capacity, identical hardware and operating system software, UNO has opted to develop a "mirror" site or "hot" swappable site located at the Frey Computer Center on the LSU Baton Rouge campus. A "hot" swappable site is a backup site that has identical duplicate hardware and software that is synchronized in real time with the site located on the main campus. At a moments notice, the University can switch the main site to the backup. The switching process can take anywhere from 5 to 30 minutes to be completed.

This testing should include the help of functional staff who will verify that they are able to continue performing their business process once the switch has taken place. It is important to note that this "fail-over" process could be used at any time there is an interruption to service on the main campus. These processes and procedures will allow the University to handle many situations that threaten to disrupt business continuity.

2000 Administration Bldg. *Lakefront Campus* 2000 Lakeshore Drive New Orleans, Louisiana 70148 504.280.6201 *fax* 504.280.6872
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UCC's staff is proficient on these systems and was responsible for establishing the original servers and the servers located at our "hot" swappable site in Baton Rouge following Hurricane Katrina. Although Hurricane Katrina displaced the UCC staff members throughout the country, the University was able to locate sufficient staff in the Baton Rouge area as well as supplemented our staff with assistance from the Louisiana State University computer center.

Procedure for maintaining computing systems:

The University's original off site storage of backup tapes was located in downtown New Orleans. After Hurricane Katrina, we have established a new contract with a national company, Iron Mountain, to store our backup tapes. The tapes are currently being stored in a facility outside of Baton Rouge, 80 miles away from the University. Iron Mountain also monitors storm conditions and will move our tape library to a facility located outside the danger zone should it become necessary.

We will maintain approximately 25 servers at the University of New Orleans and 25 backup servers at the Frey Computer Center in Baton Rouge to run the mission critical functions of the University. The following have been identified as mission critical functions:

Domain Controllers
Web – UNO Home Page
Email – MS Exchange for Faculty/Staff and Students
PeopleSoft – Learning Solutions (HR/Payroll/Student Administration)
PeopleSoft – Financials (General Ledger, Purchasing, Payables)

When a storm is within 48 to 24 hours of landfall, we will switch the on-campus functions to the Baton Rouge location. The "fail-over" can take place in a matter of minutes. This will be accomplished in two ways: For the Web and Email systems, a software product called NeverFail will be used to keep the data synchronized and provide for the switching function. When a switch to our backup site is required, we will execute a command to re-direct computing functions to our backup site. For the PeopleSoft system, since these are Oracle based, an Oracle module call DataGuard will be used to keep these systems synchronized. Similar to the NeverFail product, once a decision is made to perform the switch, UCC staff will execute a command to re-direct PeopleSoft computing functions to our backup site. In this way, all University business units will continue to operate even though we are not running these processes on servers on the main campus.

In addition to the computer functions that are able to be executed from the Louisiana State University campus, the University also has a contract with the provider of our Learning Management System – Blackboard ASP in Washington, DC. This system is hosted by the software provider and does not run on any on-campus computer. Therefore, it will be available to students on the Internet regardless of conditions of either the UNO campus or the LSU backup site. Blackboard ASP hosting has its own procedures in place and will provide for disaster recovery as part of our software service contract.

Please let me know if I can provide additional information.

Sincerely,

Timothy P. Ryan
Chancellor

Louisiana State University System
3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Office of the Senior Executive Vice President
and Chief Operating Officer

225 / 578-6935
225 / 578-5524 fax

April 19, 2006

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

Dear Mr. Theriot:

In the audit report for the year ending June 30, 2005 your office has issued a finding that the LSU Health Sciences Center New Orleans may have violated the Louisiana State Constitution when it instructed the LSU Healthcare Network (HCN), a blended component unit of the LSU Health Sciences Center New Orleans, to donate $2,000,000 designated for the School of Medicine to the LSU School of Medicine New Orleans Medical Alumni, Inc. (Alumni Association) for the furtherance of medical education. The LSU Health Sciences Center New Orleans has responded that while it believes this transfer was appropriate it does recognize that the original transaction could be characterized as a donation.

Accordingly, to ensure that there are no misunderstandings regarding this matter, the LSU Health Sciences New Orleans has requested that the Alumni Association return the funds to the HCN. In addition, the LSU Health Sciences Center New Orleans will prepare a new transaction in proper substance and form to accomplish the original objectives. The LSU System concurs with this position.

Sincerely,

William L. Silvia Jr.

William L. Silvia
Senior Executive Vice President and
Chief Operating Officer

LSU Health Sciences Center
NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

April 13, 2006

Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

This is the official response of the LSU Health Sciences Center-NO to the audit finding issued by your office on March 31, 2006.

At issue is a transaction whereby the LSU Healthcare Network ("HN"), which is a blended component unit of LSUHSC-NO, transferred $2,000,000 of funds to the LSU School of Medicine – New Orleans Medical Alumni, Inc. ("Alumni Association"). The transfer was for the expansion of a Learning Center for the furtherance of medical education. The agreement providing for the transfer was entitled "Agreement to Donate Funds". Your finding is that the funds transferred had previously been designated for the School of Medicine, and thus the transfer was an improper donation of state funds to a private entity.

LSUHSC-NO believes that this transfer of funds was appropriate. HN has obtained a legal opinion, attached, that the transfer is permissible under long-standing Louisiana law because the expenditures, however entitled, were in fact used to further the public purposes of the School of Medicine. The Learning Center expansion is an entirely appropriate project which will further the educational mission of the School of Medicine, and it would be permissible to use either public School of Medicine funds or private HN funds designated for the benefit of the School to expand the Learning Center.

However, LSUHSC-NO agrees that the original transaction was improvidently characterized as a donation. In order to resolve this matter and cure any problems or misunderstandings,

Louisiana State University Health Sciences Center • 433 Bolivar Street, Suite 811 • New Orleans, Louisiana 70112
phone (504) 568-6300 fax (504) 568-7399 www.lsuhsc.edu

LSUHSC-NO requested that the Alumni Association return the funds to the HN, and the Alumni Association has done so. A copy of the check is attached. This should resolve the issue raised by your finding. Because of the great benefits the Learning Center expansion promises to provide to the educational mission of the School of Medicine, a new transaction, in proper substance and form, will be prepared to accomplish the objectives originally intended.

Sincerely,

Ronnie Smith
Vice Chancellor for
Administration and Finance

Attachments

cc: Larry Hollier, MD
David Dotter
Bill Silvia
Ray Lamonica
Patrick Martin