

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
ISSUED APRIL 1, 2009

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

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

March 9, 2009

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying basic financial statements of the Louisiana State University Health Sciences Center in Shreveport, a campus within the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Louisiana State University Health Sciences Center in Shreveport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana State University Health Sciences Center in Shreveport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1-B, the accompanying financial statements of Louisiana State University Health Sciences Center in Shreveport are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the Louisiana State University System that is attributable to the transactions of Louisiana State University Health Sciences Center in Shreveport. They do not purport to, and do not, present fairly the financial position of the Louisiana State University System as of June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the Louisiana State University Health Sciences Center in Shreveport as of June 30, 2008, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in note 1-Q to the basic financial statements, the Louisiana State University Health Sciences Center in Shreveport implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2009, on our consideration of the Louisiana State University Health Sciences Center in Shreveport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 9 and the Schedule of Funding Progress for the Other Postemployment Benefits Plan on page 39 are not required parts of the basic financial statements but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

KWB:WJR:BQD:THC:dl

INTRODUCTION

The Management's Discussion and Analysis of Louisiana State University Health Sciences Center in Shreveport's (center) financial performance presents a narrative overview and analysis of the center's financial activities for the year ended June 30, 2008. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the center's financial statements, which follows this section.

The 2007 financial data presented in Management's Discussion and Analysis below has been restated to reflect the prior period adjustments identified in the 2008 audit.

FINANCIAL HIGHLIGHTS

The center's net assets overall changed from \$270.2 million to \$300 million or 11% from June 30, 2007, to June 30, 2008. The overall reason for this change is an increase in hospital and physician services.

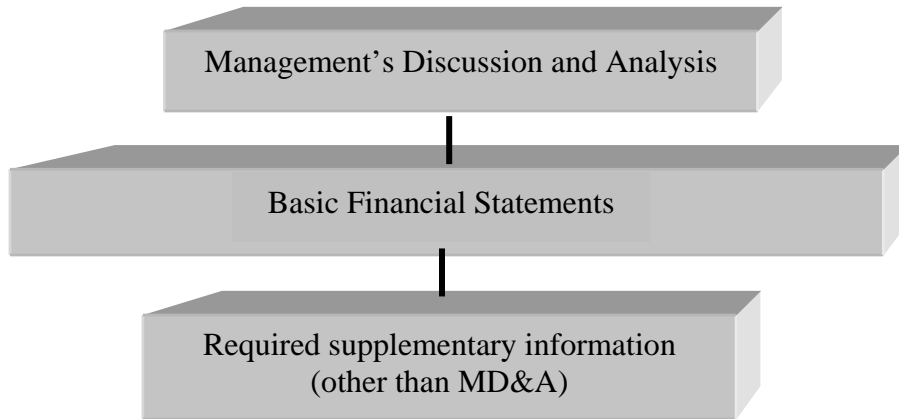
The center's operating revenues changed from \$539 million to \$609.2 million or 13% from June 30, 2007, to June 30, 2008. Operating expenses changed by 12.4% to \$709.1 million for the year ended June 30, 2008. Amounts for both years include operating revenue and expenses of Huey P. Long Medical Center transferred to the center by legislative act effective July 1, 2008. In addition, operating expenses increased as a result of implementation of Government Accounting Standards Board (GASB) Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and an increase in personnel cost.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$131.2 million in 2008 from \$122.3 million in 2007 is attributed to the following:

Expressed in millions:	
Net increase in state and capital appropriation	\$17.4
Decrease in investment income	(2.4)
Decrease in gifts and endowments	<u>(6.0)</u>
Total	<u><u>\$9.0</u></u>

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*.



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

Basic Financial Statements

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

The Statement of Net Assets (pages 11-12) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the center is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (pages 13-14) presents information showing how the center's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (pages 15-16) presents information showing how the center's cash changed as a result of current year operations. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

The financial statements provide both long-term and short-term information about the center's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The center's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned,

expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Net Assets. All assets and liabilities associated with the operation of the center are included in the Statement of Net Assets.

FINANCIAL ANALYSIS

**Statement of Net Assets
As of June 30, 2008 and June 30, 2007**

	Total	
	2008	2007 (restated)
Current and other assets	\$319,977,567	\$295,278,645
Capital assets	131,840,653	136,633,126
Total assets	451,818,220	431,911,771
Total liabilities	151,829,353	161,725,710
Net assets:		
Invested in capital assets, net of debt	123,044,993	125,397,124
Restricted	79,492,795	71,103,319
Unrestricted	97,451,079	73,685,618
Total net assets	\$299,988,867	\$270,186,061

This schedule is prepared from the center's Statement of Net Assets which is presented on an accrual basis of accounting. Significant Statement of Net Asset changes in 2008 include a 32.25% increase in net assets unrestricted due to an increase in patient care of \$22.7 million.

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

**Statement of Revenues, Expenses, and
and Changes in Net Assets
For the Years Ended June 30, 2008, and June 30, 2007**

	2008	2007 (restated)
Operating revenues:		
Student tuition and fees, net	\$6,366,199	\$5,848,171
Grants and contracts	45,439,639	42,622,784
Sales and services of educational departments	88,962,910	98,607,520
Hospital income	458,256,968	382,159,295
Auxiliary	9,757,902	9,371,343
Other	419,806	419,455
Total operating revenues	609,203,424	539,028,568
Operating expenses - education and general:		
Instruction	63,276,432	53,099,127
Research	39,851,262	36,437,733
Public service	77,768,440	67,755,998
Academic support	5,692,836	5,011,701
Student services	1,301,194	1,094,630
Institutional support	18,650,738	20,636,520
Operations and maintenance of plant	6,981,161	10,483,421
Depreciation	22,878,243	18,948,979
Scholarships and fellowships	731,259	650,451
Hospital	463,214,537	408,184,922
Auxiliary enterprises	8,791,779	8,529,964
Total operating expenses	709,137,881	630,833,446
Operating loss	(99,934,457)	(91,804,878)
Nonoperating revenues (expenses):		
State appropriations	108,373,526	89,223,806
Gifts	266,949	988,639
Other nonoperating revenues	7,315,471	2,237,281
Nonoperating revenues	115,955,946	92,449,726
Income before other revenues and expenses	16,021,489	644,848
Capital appropriations	8,621,079	10,407,407
Capital grants and gifts	221,094	824,149
Additions to permanent endowments	5,907,500	10,620,000
Other additions, net	(968,356)	111,030
Increase in net assets	29,802,806	22,607,434
Net assets at beginning of year, restated	270,186,061	247,578,627
Net assets at end of year	\$299,988,867	\$270,186,061

Nonoperating and other revenues increased by 14% to \$130,705,619.

State appropriations changed from \$89,223,806 to \$108,373,526 primarily because of additional funding for medical school operations.

The center's total revenues increased by \$86.5 million or 13.2%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2008, the center had invested approximately \$131.8 million in capital assets, net of accumulated depreciation. This amount represents a net decrease (including additions and disposals, net of depreciation) of approximately \$4.8 million or 3.5% from the previous fiscal year. More detailed information about the center's capital assets is presented in note 6 to the financial statements.

**Capital Assets at Year-end
(Net of Depreciation)**

	2008	2007 (restated)
Land	\$3,390,108	\$3,353,708
Buildings	87,707,295	89,867,005
Equipment	39,057,240	42,249,097
Library materials	1,686,010	1,163,317
Total	\$131,840,653	\$136,633,127

Debt

The center did not have bonds outstanding at fiscal year-end 2008 or 2007.

See note 13 for details relating to changes in and the composition of long-term liabilities and capital leases.

CONTACTING THE CENTER'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the center's finances and to demonstrate the center's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact Janie Binderim, Comptroller, at 318-675-5230.

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

Statement of Net Assets, June 30, 2008

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$140,145,307
Investments (note 3)	9,494,231
Receivables, net (note 4)	78,072,931
Due from other campuses	1,890,279
Due from state treasury (note 15)	16,855,766
Inventories	11,289,764
Deferred charges and prepaid expenses	304,554
Notes receivable, net (note 5)	270,919
Total current assets	<u>258,323,751</u>

Noncurrent assets:

Restricted assets:

Cash and cash equivalents (note 2)	19,121,892
Investments (note 3)	41,128,081
Notes receivable, net (note 5)	1,403,843
Capital assets, net (note 6)	<u>131,840,653</u>
Total noncurrent assets	<u>193,494,469</u>
Total assets	<u>451,818,220</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities (note 7)	75,341,617
Due to other campuses	418,199
Due to state treasury (note 15)	33,918
Deferred revenues	2,550,520
Compensated absences payable (notes 11 and 13)	1,556,378
Capital lease obligations (note 13)	1,383,976
Amounts held in custody for others	37,572
Notes payable (note 14)	323,298
Total current liabilities	<u>81,645,478</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2008**

LIABILITIES (CONT.)

Noncurrent liabilities:

Compensated absences payable (notes 11 and 13)	\$24,058,354
Capital lease obligations (note 13)	6,704,912
Notes payable (note 14)	383,475
Other postemployment benefits payable (note 8)	39,037,134
Total noncurrent liabilities	<u>70,183,875</u>
Total liabilities	<u>151,829,353</u>

NET ASSETS

Invested in capital assets, net of related debt	123,044,993
Restricted for:	
Nonexpendable (note 16)	53,491,783
Expendable (note 16)	26,001,012
Unrestricted	97,451,079
Total net assets	<u>\$299,988,867</u>

(Concluded)

The accompanying notes are an integral part of this statement.

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

**Statement of Revenues, Expenses,
and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008**

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$195,208)	\$6,366,199
Federal grants and contracts	15,607,449
State and local grants and contracts	15,995,884
Nongovernmental grants and contracts	13,836,306
Sales and services of educational departments	88,962,910
Hospital income	458,256,968
Auxiliary enterprise revenues	9,757,902
Other operating revenues	419,806
Total operating revenues	<u>609,203,424</u>

OPERATING EXPENSES

Education and general:	
Instruction	66,751,488
Research	40,302,139
Public service	78,535,924
Academic support	6,415,230
Student services	1,302,278
Institutional support	18,769,761
Operations and maintenance of plant	8,141,049
Scholarships and fellowships	731,259
Auxiliary enterprises	8,791,779
Hospital	479,396,974
Total operating expenses	<u>709,137,881</u>

OPERATING LOSS (99,934,457)

(Continued)

The accompanying notes are an integral part of this statement.

**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2008**

NONOPERATING REVENUES (Expenses)	
State appropriations	\$108,373,526
Gifts	266,949
Net investment income	7,850,835
Interest expense	(544,325)
Other nonoperating revenues (expenses)	8,961
Net nonoperating revenues	<u>115,955,946</u>
INCOME BEFORE OTHER REVENUES AND EXPENSES	16,021,489
Capital appropriations	8,621,079
Capital grants and gifts	221,094
Additions to permanent endowments	5,907,500
Other additions, net	<u>(968,356)</u>
INCREASE IN NET ASSETS	29,802,806
NET ASSETS - BEGINNING OF YEAR (Restated) (note 17)	<u>270,186,061</u>
NET ASSETS - END OF YEAR	<u><u>\$299,988,867</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$7,390,018
Grants and contracts	41,646,933
Sales and services of educational departments	90,036,778
Hospital income	419,032,120
Auxiliary enterprise receipts	9,754,653
Payments for employee compensation	(355,745,216)
Payments for benefits	(78,312,459)
Payments for utilities	(8,765,555)
Payments for supplies and services	(199,611,185)
Payments for scholarships and fellowships	(731,259)
Loans to students	(12,420)
Collections of loans to students	244,937
Other receipts	418,504
Net cash used by operating activities	<u>(74,654,151)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	107,410,578
Gifts and grants for other than capital purposes	266,949
Private gifts for endowment purposes	5,907,500
TOPS receipts	38,074
TOPS disbursements	(38,074)
Other receipts	8,961
Net cash provided by noncapital financing sources	<u>113,593,988</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Capital appropriations received	8,621,079
Capital grants and gifts received	221,094
Purchases of capital assets	(17,636,585)
Principal paid on capital debt and leases	(3,071,754)
Interest paid on capital debt and leases	(544,325)
Other uses	(968,356)
Net cash used by capital financing activities	<u>(13,378,847)</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2008**

CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	\$73,122,339
Interest received on investments	7,996,924
Purchase of investments	(71,525,141)
Net cash provided by investing activities	<u>9,594,122</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	35,155,112
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, restated for transfer of Huey P. Long Medical Center	<u>124,112,087</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$159,267,199</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	(\$99,934,457)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	22,876,297
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(43,489,682)
(Increase) in inventories	(552,906)
(Increase) in deferred charges and prepaid expenses	(53,902)
Decrease in notes receivable	232,517
Increase in accounts payable and accrued liabilities	6,715,210
Increase in deferred revenue	852,890
(Decrease) in amounts held in custody for others	(1,302)
(Decrease) in compensated absences	(335,950)
Increase in other postemployment benefits payable	39,037,134
Net cash used by operating activities	<u><u>(\$74,654,151)</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

Louisiana State University Health Sciences Center in Shreveport (center), a hospital and institution of higher education within the Louisiana State University (LSU) System, a component unit of the State of Louisiana, is a publicly supported institution of higher education under the management and supervision of the LSU Board of Supervisors; however, certain items such as the annual budget and changes to the degree programs and departments of instruction require the approval of the Board of Regents for Higher Education. As a state university, operations of the center and its instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

The center, located in Shreveport, Louisiana, serves as a university teaching hospital and offers degrees in medicine, allied health programs, and graduate studies. Student enrollment at the center for the 2007 fall semester totaled 783.

In addition, Act 906 of the 2003 Regular Session of the Louisiana Legislature assigned responsibility of all programs and facilities of E.A. Conway Medical Center (EAC) to the center. EAC has a 247-bed capacity and serves as a teaching facility using the same teachers and faculty that are employed by the center.

During the 2007 Regular Session of the Louisiana Legislature, Act 220 merged Huey P. Long Medical Center (HPL) in Pineville with the center. The effective date of this merger was July 1, 2007. HPL is licensed for a 137-bed capacity. It serves as a teaching facility for Tulane residents who rotate.

During September 2007, the center, which includes EAC and HPL, had approximately 726 full-time and part-time faculty members, including associates and affiliated faculty.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. LSU Medical Center in Shreveport is part of the LSU System, which is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the majority of the members of the governing boards are appointed by the governor;

(2) the state has control and exercises authority over budget matters; (3) the state issues bonds to finance certain construction; and (4) the center primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of the center, to include EAC and HPL, as authorized by Louisiana statutes and administrative regulations.

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

C. BASIS OF ACCOUNTING

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

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

D. BUDGET PRACTICES

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

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes cash on hand (petty cash), demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in certificates of deposit and money market funds. Under state law, the center may deposit funds within a fiscal agent bank organized

under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the center may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Cash equivalents reported on the Statement of Net Assets include all negotiable certificates of deposit regardless of maturity.

In accordance with Louisiana Revised Statute (R.S.) 49:327, the center is authorized to invest funds in direct U.S. Treasury 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. Investments are maintained in investment accounts in the Louisiana State University Health Sciences Center (LSUHSC) Foundation as authorized by policies and procedures established by the Board of Regents and are reported at fair value in accordance with GASB Statement No. 31. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. For purposes of the Statement of Cash Flows, the center considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. INVENTORIES

Inventories are valued at the lower of cost or market using the first-in, first-out and weighted-average valuation methods. The center uses periodic and perpetual inventory systems and accounts for its inventories using the consumption method.

G. NONCURRENT RESTRICTED ASSETS

Cash and investments that are externally or legally restricted by endowments or used to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the Statement of Net Assets.

H. CAPITAL ASSETS

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

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. 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 three 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 center uses the group or composite method for library book depreciation if the books are considered to have a useful life of greater than one year. Library collections regardless of age, with a total acquisition value of \$5,000,000 or more will be capitalized and depreciated.

I. DEFERRED REVENUES

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

J. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation of employment, both classified and unclassified 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. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave, which would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits or may be paid at actuarially computed amounts.

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

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of notes payable; (2) capital lease obligations with contractual maturities greater than one year; (3) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year; and (4) other postemployment benefits payable.

L. NET ASSETS

The center's net assets are classified as follows:

- (a) Invested in capital assets, net of related debt consists of the center's total investment in capital assets, net of accumulated depreciation, and reduced by outstanding debt obligations related to the acquisition, construction, or improvement of those assets.
- (b) Restricted net assets - nonexpendable consist of endowments 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.
- (c) Restricted net assets - expendable consist of resources that the center is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (d) Unrestricted net assets consist of resources derived from student tuition and fees, state appropriations, hospital income, 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 center and may be used at the discretion of the governing board to meet current expenses and for any purpose.

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

M. CLASSIFICATION OF REVENUES

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

- (a) Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary

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

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

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 center and the amount that is paid by students and/or third parties making payments on the students' behalf.

O. ELIMINATING INTERFUND ACTIVITY

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

P. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2008, the center implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*. Statement No. 45 affects the reporting of long-term liabilities and is addressed in the financial statements and the accompanying notes. The implementation of Statement No. 50 had no significant impact on the financial statements or notes.

2. CASH AND CASH EQUIVALENTS

At June 30, 2008, the center has cash and cash equivalents (book balances) of \$159,267,199 as follows:

Demand deposits	\$159,214,749
Money market	9,008
Petty cash	43,442
	43,442
Total	\$159,267,199

Custodial credit risk is the risk that in the event of a bank failure, the center's deposits may not be recovered. Under state law, deposits (or resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at

all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the center or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

As of June 30, 2008, the center's bank balance of \$168,222,645 was insured and collateralized.

3. INVESTMENTS

At June 30, 2008, the center has investments totaling \$50,622,312. The center maintains investment accounts as authorized by LSU System Permanent Memorandum-9. The LSU System investment policy follows state law (R.S. 49:327), which authorizes the center to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds. The following is a summary of the center's investments:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Credit Quality Rating*</u>	<u>Percent of Investments</u>	<u>Investment Maturities (in Years)</u>	
				<u>Less Than 1</u>	<u>1-5</u>
Investment in government securities:*					
Federal Home Loan Mortgage Corporation	\$11,152,003	Aaa	22.03	\$2,485,672	\$8,666,331
Federal National Mortgage Association	18,626,274	Aaa	36.80	5,948,071	12,678,203
Federal Home Loan Bank	13,121,357	Aaa	25.92	3,000,240	10,121,117
Federal Farm Credit Bank	3,504,848	Aaa	6.92		3,504,848
Other:**					
Investments held by private foundation	4,186,321		8.27		
Common stock	31,509		0.06		
Total investments	<u>\$50,622,312</u>		<u>100.00</u>	<u>\$11,433,983</u>	<u>\$34,970,499</u>

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

** Credit quality ratings are not required for these investments, which do not have specified maturities.

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the center 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 \$50,622,312, in total investments held by the center, \$46,404,482 is government securities and the center's investment policies generally require that issuers must provide the center with safekeeping receipts, collateral agreements, and custodial agreements.

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

Investments held by the private foundation in an external investment pool are managed in accordance with the terms outlined in a management agreement executed between the LSU Board of Supervisors and the LSUHSC Foundation, with the center being a voluntary participant. These investments total \$4,186,321 and have no specified maturity date or credit quality rating.

4. RECEIVABLES

Receivables are shown on the Statement of Net Assets, net of an allowance for doubtful accounts, at June 30, 2008. These receivables are composed of the following:

<u>Type</u>	<u>Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>
Student tuition and fees	\$15,836		\$15,836
Federal, state, and private grants and contracts	9,881,776		9,881,776
Clinics	5,201,053	(\$2,310,880)	2,890,173
Sales and services of educational departments	430,195		430,195
Hospital income	86,170,108	(21,324,667)	64,845,441
Auxiliary enterprise revenues	9,510		9,510
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$101,708,478</u>	<u>(\$23,635,547)</u>	<u>\$78,072,931</u>

5. NOTES RECEIVABLE

Notes receivable are shown on the Statement of Net Assets at June 30, 2008. These receivables are composed of the following:

<u>Type</u>	<u>Notes Receivable</u>	<u>Noncurrent Portion</u>
Federal Perkins Loan	\$1,623,921	\$1,380,265
Health Profession Student Loan	16,649	4,274
Robert Woods Johnson Loan	3,900	
Phyllis Pollitz Loan	600	600
Faculty Student Loan	29,692	18,704
	<u> </u>	<u> </u>
Total	<u>\$1,674,762</u>	<u>\$1,403,843</u>

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2008, follows:

	Balance June 30, 2007	Prior Period Adjustment	Restated Balance June 30, 2007	Additions	Transfers	Retirements	Balance June 30, 2008
Capital assets not being depreciated:							
Land	\$3,308,852	\$44,856	\$3,353,708	\$36,400			\$3,390,108
Construction-in-progress	16,204,819	184,173	16,388,992	4,188,232		(\$184,173)	20,393,051
Total capital assets not being depreciated	<u>\$19,513,671</u>	<u>\$229,029</u>	<u>\$19,742,700</u>	<u>\$4,224,632</u>	NONE	<u>(\$184,173)</u>	<u>\$23,783,159</u>
Other capital assets:							
Land improvements	\$7,464,223	\$378,784	\$7,843,007	\$12,834		(\$31,395)	\$7,824,446
Less accumulated depreciation	(6,782,400)	(369,080)	(7,151,480)	(163,215)		31,395	(7,283,300)
Total land improvements	<u>681,823</u>	<u>9,704</u>	<u>691,527</u>	<u>(150,381)</u>	NONE	NONE	<u>541,146</u>
Buildings	222,453,651	5,493,184	227,946,835	918,330	\$2,922,492		231,787,657
Less accumulated depreciation	(150,540,574)	(4,619,775)	(155,160,349)	(7,300,540)	(2,553,670)		(165,014,559)
Total buildings	<u>71,913,077</u>	<u>873,409</u>	<u>72,786,486</u>	<u>(6,382,210)</u>	<u>368,822</u>	NONE	<u>66,773,098</u>
Equipment	141,027,704	11,981,367	153,009,071	14,827,870	(2,922,492)	(12,143,342)	152,771,107
Less accumulated depreciation	(107,967,539)	(2,792,435)	(110,759,974)	(16,682,550)	2,553,670	11,174,987	(113,713,867)
Total equipment	<u>33,060,165</u>	<u>9,188,932</u>	<u>42,249,097</u>	<u>(1,854,680)</u>	<u>(368,822)</u>	<u>(968,355)</u>	<u>39,057,240</u>
Library books	18,325,905		18,325,905	1,208,012			19,533,917
Less accumulated depreciation	(17,162,588)		(17,162,588)	(685,319)			(17,847,907)
Total library books	<u>1,163,317</u>	NONE	<u>1,163,317</u>	<u>522,693</u>	NONE	NONE	<u>1,686,010</u>
Total other capital assets	<u>\$106,818,382</u>	<u>\$10,072,045</u>	<u>\$116,890,427</u>	<u>(\$7,864,578)</u>	NONE	<u>(\$968,355)</u>	<u>\$108,057,494</u>
Capital Asset Summary:							
Capital assets not being depreciated	\$19,513,671	\$229,029	\$19,742,700	\$4,224,632		(\$184,173)	\$23,783,159
Other capital assets, at cost	<u>389,271,483</u>	<u>17,853,335</u>	<u>407,124,818</u>	<u>16,967,046</u>		<u>(12,174,737)</u>	<u>411,917,127</u>
Total cost of capital assets	408,785,154	18,082,364	426,867,518	21,191,678	NONE	(12,358,910)	435,700,286
Less accumulated depreciation	<u>(282,453,101)</u>	<u>(7,781,290)</u>	<u>(290,234,391)</u>	<u>(24,831,624)</u>	NONE	<u>11,206,382</u>	<u>(303,859,633)</u>
Capital assets, net	<u>\$126,332,053</u>	<u>\$10,301,074</u>	<u>\$136,633,127</u>	<u>(\$3,639,946)</u>	NONE	<u>(\$1,152,528)</u>	<u>\$131,840,653</u>

7. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2008:

<u>Account Name</u>	
Accrued salaries and payroll deductions	\$21,118,515
Vendor payables	9,601,401
Uncompensated care payables	41,748,105
Other	2,873,596
Total payables	<u>\$75,341,617</u>

8. OTHER POSTEMPLOYMENT BENEFITS

The center provides certain continuing healthcare and life insurance benefits for its retired employees. Substantially all of the center's employees become eligible for these benefits if they reach normal retirement age while working for the center.

The center offers its employees the opportunity to participate in one of two medical coverage plans. One offering is from the State of Louisiana's Office of Group Benefits (OGB) which also offers a life insurance plan, and the other is with the LSU System Health Plan (Health Plan). Statement No. 45 of the GASB promulgates the accounting and financial reporting requirement by employers that offer other postemployment benefits (OPEB) besides pensions. Both of the medical coverage plans and the life insurance plan available would be subject to the provisions of this Statement. It should be noted that Statement No. 45 is being implemented prospectively such that there is zero net OPEB obligation at transition. Information about each of these two plans is presented below.

Plan Descriptions

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

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

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

The Health Plan originally began as a pilot program within OGB, the office that provides health benefits to state employees pursuant to the provisions of R.S. 42:851. The Health Plan does not issue a publicly available financial report, but it is included in the System's audited financial report. The financial report may be obtained from the System's Web site at <http://www.lsusystem.lsu.edu/>.

State OGB Plan: Center employees may also participate in a second OPEB Plan that is offered for employees of the State of Louisiana, an agent multiple-employer, defined benefit OPEB Plan (for FY 2008) that provides medical and life insurance to eligible active employees, retirees, and their beneficiaries. OGB administers the plan. R.S. 42:801-883 provides the authority to establish and amend benefit provisions of the plan. OGB does not issue a publicly available

financial report of the OPEB Plan; however, it is included in Louisiana Comprehensive Annual Financial Report (CAFR). You may obtain a copy of the CAFR on the Office of Statewide Reporting and Accounting Policy's Web site at www.doa.la.gov/osrap.

Funding Policy

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

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

State OGB Plan: The contribution requirements of plan members and the LSU System are established and may be amended by R.S. 42:801-883. Employees do not contribute to their postemployment benefits cost until they become retirees and begin receiving those benefits. The retirees contribute to the cost of retiree healthcare based on a service schedule. Contribution amounts vary depending on what healthcare provider is selected from the plan and if the member has Medicare coverage. OGB offers three standard plans for both active and retired employees: the Preferred Provider Organization (PPO) plan, the Exclusive Provider Organization (EPO) plan, and the Health Maintenance Organization (HMO) plan. Retired employees who have Medicare Part A and Part B coverage also have access to six OGB Medicare Advantage plans which include three HMO plans and three private fee-for-service (PFFS) plans.

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

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

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

Shown below are the total monthly premium rates in effect for plan year 2007-08.

	LSU System Health Plan		State OGB Plans					
			Medicare Advantage Plans		PPO	EPO	HMO	Humana FFS
	Option 1	Option 2						
<u>Active</u>								
Single	\$512.60	\$443.22	\$523.00	\$543.96	\$502.12	N/A	N/A	
With Spouse	914.55	790.75	1,110.88	1,155.32	1,066.44	N/A	N/A	
With Children	628.95	562.00	637.88	663.40	612.36	N/A	N/A	
Family	1,093.36	956.54	1,171.56	1,218.44	1,124.72	N/A	N/A	
<u>Retired, No Medicare and Re-employed Retiree</u>								
Single	\$973.00	\$889.33	\$973.00	\$1,011.88	\$934.08	N/A	N/A	
With Spouse	1,718.12	1,570.36	1,718.12	1,786.84	1,649.36	N/A	N/A	
With Children	1,083.80	986.25	1,083.80	1,127.12	1,040.48	N/A	N/A	
Family	1,709.84	1,558.52	1,709.84	1,778.24	1,641.44	N/A	N/A	
<u>Retired, With 1 Medicare</u>								
Single	\$298.23	\$257.85	\$316.40	\$329.04	\$303.72	\$176.00	\$138.00	
With Spouse	1,029.97	890.57	1,169.04	1,215.80	1,122.24	N/A	N/A	
With Children	566.51	509.85	547.64	569.56	525.76	N/A	N/A	
Family	1,461.40	1,277.65	1,557.68	1,619.96	1,495.32	N/A	N/A	
<u>Retired, With 2 Medicare</u>								
With Spouse	\$520.43	\$450.00	\$568.72	\$591.44	\$545.96	\$352.00	\$276.00	
Family	706.69	617.84	704.16	732.32	676.00	N/A	N/A	

Life Insurance Premiums

Retiree pays 50 cents for each \$1,000 of life insurance.

Retiree pays 88 cents for each \$1,000 of spouse life insurance.

Annual OPEB Cost and Net OPEB Obligation

- (a) The following table shows the components of each plan’s annual OPEB cost for the year ended June 30, 2008, the amount actually contributed to the plan, and changes in the plan’s net OPEB obligation to the retiree health plan.

	<u>Health Plan</u>	<u>State OGB Plan</u>
Annual required contribution	\$10,122,000	\$34,795,500
Interest on prior year net OPEB obligation	NONE	NONE
Adjustment to annual required contribution	NONE	NONE
Annual OPEB cost (expense)	10,122,000	34,795,500
Employer contributions	1,271,203	4,609,163
Increase in net OPEB obligation	8,850,797	30,186,337
Net OPEB obligation - beginning of year	NONE	NONE
Net OPEB obligation - end of year	\$8,850,797	\$30,186,337
Percentage of OPEB cost contributed	12.6%	13.2%

Each plan's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 was as follows:

	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
LSU System Health Plan	June 30, 2008	\$10,122,000	12.6%	\$8,850,797
State OGB Plan	June 30, 2008	34,795,500	13.2%	30,186,337

Funded status and funding progress. The funded status of the plan as of July 1, 2007, was as follows:

	<u>LSU System Health Plan</u>	<u>State OGB Plan</u>
Actuarial accrued liability (AAL)	\$83,744,000	\$367,788,000
Actuarial value of plan assets	NONE	NONE
Unfunded actuarial accrued liability (UAAL)	<u>\$83,744,000</u>	<u>\$367,788,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Annual covered payroll (active plan members)	\$105,485,164	\$89,623,856
UAAL as a percentage of covered payroll	79.4%	410.4%

Actuarial Methods and Assumptions

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

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

A summary of the actuarial assumptions are presented as follows:

	LSU System Health Plan	State OGB Plan
Actuarial valuation date	July 1, 2007	July 1, 2007
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percentage of payroll	Level percentage of payroll
Amortization period	30 years	30 years
Asset valuation method	none	none
Actuarial assumptions:		
Investment rate of return	5% annual rate	4% annual rate
Projected salary increases	4% per annum	5% per annum
Healthcare inflation rate	11.0% initial 6.0% ultimate	9.5% - 10.6% initial 5.0% ultimate

9. PENSION PLANS

Plan Description. Substantially all employees of the center are members of three 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). Certain employees of the center have elected to continue participation in the Louisiana School Employees’ Retirement System (LSERS) that they began under a previous employer. All three plans are administered by separate boards of trustees. TRSLA and LSERS are cost-sharing, multiple-employer defined benefit pension plans, and LASERS is considered a single-employer defined benefit pension plan because the material portion of its activity is with one employer—the State of Louisiana. These plans 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 with TRSLA and 10 years of service with LASERS and LSERS. 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; the Louisiana State Employees’ Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600; and/or the Louisiana School Employees’ Retirement System, Post Office Box 44516, Baton Rouge, Louisiana 70804-4516, or by calling (225) 925-6484.

Funding Policy. The contribution requirements of employee plan members and the center are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRSLA) and 7.5% (LASERS and LSERS) of covered salaries. Act 75 of the 2005 Regular Legislative Session now requires that employees hired on or after July 1, 2006, must contribute 8% of covered salaries to LASERS. The state is required to contribute 16.6% of covered salaries to TRSLA, 20.4% of covered salaries to LASERS, and 18.1% of covered salaries to LSERS for fiscal year 2008. The State of Louisiana,

through the annual appropriation to the center, funds the center's employer contribution. The employer contributions to TRSLA for the years ended June 30, 2008, 2007, and 2006 were \$4,462,779; \$3,780,146; and \$3,367,024, respectively, to LASERS for years ended June 30, 2008, 2007, and 2006 were \$29,769,126; \$23,009,649; and \$22,024,633, respectively, and to LSERS for the year ended June 30, 2008, was \$13,873, 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 the 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 center are 16.6% of covered payroll for fiscal year 2008. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an 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 \$8,017,712 and \$3,880,466, respectively, for the year ended June 30, 2008.

10. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are considered state liabilities and paid upon appropriation by the legislature and not the center. Therefore, the center, through its respective legal advisors, estimates that potential claims not covered by insurance would not materially affect the financial statements. In addition, the center had not incurred any claims and/or litigation cost in the current year. Other losses of the center arising from judgments, claims, and similar contingencies are paid 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 appropriation from the state's General Fund. The Office of Risk Management insures all of these lawsuits.

11. COMPENSATED ABSENCES

At June 30, 2008, employees of the center have accumulated and vested annual, sick, and compensatory leave of \$22,855,362; \$2,759,339; and \$31, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

12. OPERATING LEASES

For the year ended June 30, 2008, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed, is \$6,194,782. The following is a schedule, by years, of future minimum annual rental payments required under operating leases:

Nature of Operating Lease	2009	2010	2011	2012	2013	2014-2018
Office space	\$3,741,080	\$3,627,938	\$3,627,938	\$3,627,938	\$3,627,938	\$7,255,876
Equipment	1,060,494	85,380	16,370			
Other	223,800					
Total	<u>\$5,025,374</u>	<u>\$3,713,318</u>	<u>\$3,644,308</u>	<u>\$3,627,938</u>	<u>\$3,627,938</u>	<u>\$7,255,876</u>

13. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the center for the year ended June 30, 2008:

	Balance June 30, 2007	Prior Period Adjustment	Restated Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
Notes payable	\$801,910		\$801,910	\$480,499	(\$575,636)	\$706,773	\$323,298
Capital lease obligations	10,434,092		10,434,092	131,964	(2,477,168)	8,088,888	1,383,976
Compensated absences payable	24,296,804	\$1,653,878	25,950,682	220,422	(556,372)	25,614,732	1,556,378
Amounts held in custody for others	38,874		38,874		(1,302)	37,572	37,572
Other postemployment benefits payable				39,037,134		39,037,134	
Total long-term liabilities	<u>\$35,571,680</u>	<u>\$1,653,878</u>	<u>\$37,225,558</u>	<u>\$39,870,019</u>	<u>(\$3,610,478)</u>	<u>\$73,485,099</u>	<u>\$3,301,224</u>

Capital Leases

The center records items under capital leases as assets and obligations in the accompanying financial statements. Assets under capital lease are included as capital assets in note 6. The center's capital leases at June 30, 2008, consist of various equipment leases as follows:

NOTES TO THE FINANCIAL STATEMENTS

<u>Nature of Lease</u>	<u>Gross Amount of Leased Assets (Historical Cost)</u>	<u>Remaining Interest to End of Lease</u>	<u>Remaining Principal to End of Lease</u>
Office space	\$1,338,876	\$46,550	\$394,405
Equipment	15,600,977	2,330,536	7,694,483
Total	<u>\$16,939,853</u>	<u>\$2,377,086</u>	<u>\$8,088,888</u>

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, 2008:

Fiscal Year Ending June 30:	
2009	\$1,792,408
2010	1,252,992
2011	1,064,773
2012	831,693
2013	763,202
2014-2018	3,757,709
2019-2023	<u>1,003,197</u>
Total minimum lease payments	10,465,974
Less - amount representing interest	<u>(2,377,086)</u>
Present value of net minimum lease payments	<u>\$8,088,888</u>

14. NOTES PAYABLE

Notes payable consisted of the following for the fiscal year ended June 30, 2008:

	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Principal Outstanding June 30, 2007</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Principal Outstanding June 30, 2008</u>	<u>Maturities</u>	<u>Interest Rates</u>	<u>Interest Outstanding June 30, 2008</u>
IBM Mainframe	November 1, 2005	\$1,491,338	\$644,478		(\$469,270)	\$175,208	2008	4.24%	\$1,550
Ambulances #1 & #2	November 10, 2004	177,094	101,640		(35,710)	65,930	2010	3.89%	2,376
Ambulance #3	June 21, 2005	89,747	55,792		(17,926)	37,866	2010	3.64%	1,452
Pharmacy equipment	November 1, 2007	480,499		\$480,499	(52,730)	427,769	2012	2.74%	26,893
Total		<u>\$2,238,678</u>	<u>\$801,910</u>	<u>\$480,499</u>	<u>(\$575,636)</u>	<u>\$706,773</u>			<u>\$32,271</u>

The scheduled amortization of the notes payable at June 30, 2008, is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$323,298	\$15,096	\$338,394
2010	143,021	8,853	151,874
2011	97,573	5,369	102,942
2012	100,281	2,662	102,943
2013	42,600	291	42,891
Total	<u>\$706,773</u>	<u>\$32,271</u>	<u>\$739,044</u>

15. DUE TO/FROM STATE TREASURY

Amounts due to/from the State Treasury shown on the Statement of Net Assets at June 30, 2008, are composed of the following:

Due from:	
Balance of state appropriation	\$14,785,867
Tobacco tax funds	987,337
Facility Planning and Control	1,082,562
Total amount due	<u>\$16,855,766</u>
Due to - unclaimed property	<u>\$33,918</u>

16. RESTRICTED NET ASSETS

The center has the following restricted net assets at June 30, 2008:

Nonexpendable - endowments	<u>\$53,491,783</u>
Expendable:	
Student fees	\$114,492
Grants and contracts	15,885,174
Endowment earnings	7,595,496
Student loan funds	1,806,427
Capital construction	599,423
Total expendable	<u>\$26,001,012</u>

Student technology fees of \$114,492 were reported as net assets restricted by enabling legislation in the Statement of Net Assets at June 30, 2008. The student technology fee is restricted by R.S. 17:3351.1.

17. RESTATEMENT OF BEGINNING NET ASSETS

The beginning net assets as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2008, has been restated to reflect the following adjustments:

	<u>June 30, 2007</u>
Net assets as previously reported	\$298,951,771
Adjust capital assets for posting error	5,323,999
Adjust for transfer of Huey P. Long Medical Center	(12,733,681)
Adjust for prior periods Medicaid cost report and uncompensated care accruals	<u>(21,356,028)</u>
Net assets as restated	<u>\$270,186,061</u>

18. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board of Regents to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. The center’s endowments are composed of approximately 85% private and 15% Board of Regents. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. At June 30, 2008, net appreciation of \$2,072,739 is available to be spent and is restricted to specific purposes.

19. FOUNDATIONS

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

Louisiana State University Health Sciences Foundation in Shreveport
Biomedical Research Foundation of Northwest Louisiana

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

20. DEFERRED COMPENSATION PLAN

Certain employees of the center participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, 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 the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year ended June 30, 2008, was \$2,932.

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

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

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

**Schedule of Funding Progress for the
Other Postemployment Benefits Plan
Fiscal Year Ended June 30, 2008**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
State OGB Plan						
July 1, 2007	NONE	<u>\$367,788,000</u>	<u>\$367,788,000</u>	0.0%	<u>\$89,623,856</u>	410.4%
LSU System Health Plan						
July 1, 2007	NONE	<u>\$83,744,000</u>	<u>\$83,744,000</u>	0.0%	<u>\$105,485,164</u>	79.4%

Note to the Schedule:

GASB Statement No. 45 was implemented prospectively during the fiscal year ended June 30, 2008; therefore, only one year of information is presented.

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

March 9, 2009

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

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

We have audited the basic financial statements of Louisiana State University Health Sciences Center in Shreveport, a campus within the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2008, and have issued our report thereon dated March 9, 2009. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita and the implementation of new accounting standards. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Louisiana State University Health Sciences Center in Shreveport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Louisiana State University Health Sciences Center in Shreveport's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the following paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

Inaccurate Annual Fiscal Report

Louisiana State University (LSU) Health Sciences Center in Shreveport (center) did not submit an accurate Annual Fiscal Report (AFR) to the LSU System office for the year ended June 30, 2008. As authorized by Louisiana Revised Statute (R.S.) 39:79, the commissioner of administration, through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP), prescribes the content and format for the preparation of AFRs by state agencies and university systems. The AFR prepared by the center is submitted to the Louisiana Legislative Auditor for audit and to the LSU System office for inclusion in the AFR for the LSU System.

Good internal control and sound business practices require that (1) accounting records and reports reflect all financial transactions incurred by an entity for the reporting cycle; (2) subsidiary records be routinely reconciled to control records for consistency; and (3) reports be reviewed by competent members of management for accuracy and compliance with applicable requirements.

A review of the center's AFR disclosed the following errors that resulted in material or significant adjustments to the financial statements:

- Management did not properly record all transactions for the transfer of Huey P. Long Medical Center from the LSU Health Care Services Division. As a result, net assets - unrestricted were overstated by \$23,265,673 and accounts payable were understated by \$23,265,673 on the Statement of Net Assets (SNA). In addition, net assets at the beginning of the year, restated, were overstated by \$23,265,673 on the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). The correction of these errors also required the related note disclosures to be adjusted.
- Management did not accrue receivables and payables for outstanding Medicaid Cost Reports or for the excess or deficiency of Uncompensated Care payments, resulting in an understatement of receivables and payables of \$26,879,742 and \$21,356,028, respectively, on the SNA. Net assets - unrestricted were understated on the SNA by \$5,523,714. Hospital income was understated by \$26,879,742 and beginning of the year net

assets, restated, were overstated by \$21,356,028. The correction of these errors also required the related note disclosures to be revised.

- Management did not detect errors in its depreciation calculations and its depreciation schedule included reconciling items that were not supported, resulting in a net understatement of capital assets and investment in capital assets, net of related debt of \$2,226,333 on the SNA. Expenses on the SRECNA were also overstated by this amount. The correction of these errors also required the related note disclosure to be revised.

These same errors caused related adjustments to the Statement of Cash Flows as follows:

- Operating loss was overstated by \$29,106,075.
- Depreciation expense was overstated by \$2,226,333.
- Increase in accounts receivable was understated by \$26,879,742.

Significant adjustments were also necessary to present fairly the Investment note. In total, the value of investments was correctly reported; however, certain investments were understated by as much as \$2,848,052 while others were overstated by as much as \$1,842,567.

Nine additional proposed adjusting entries were identified for the financial statements and notes that we did not consider material or significant. The proposed adjusting entries were prepared and presented to management for consideration.

Management was of the opinion that revenues or expenses resulting from the preparation of the center's Medicaid Cost Reports and excess or deficiency of Uncompensated Care payments should not be reported on the center's financial statements. In addition, management felt that certain amounts associated with combining the Huey P. Long Medical Center operations with the center should be netted or not reported at all. Furthermore, management did not perform adequate reconciliations to determine if the valuation vendor's information, which was used in the preparation of the AFR, agreed to the center's capital asset records and supporting depreciation schedules. As a result, the center's financial information submitted to the System was not fairly presented and required significant time and effort by auditors to identify and correct material or significant errors. This also caused unnecessary delays in issuing the center's and the System's annual financial statements.

Management of the center should immediately review and evaluate its internal controls to ensure that all transactions relating to the operation of the center and its branch campuses are recorded and reported in the center's accounting records and AFR. In addition, all accounts should be reconciled to subsidiary records, supporting schedules, and the valuation vendor's reports and schedules. Finally, management should implement a more intensive review process before submitting the AFR to the System or the Legislative Auditor. Management concurred in part with the finding and recommendation stating

that the center has prepared annual reconciliations of its capital assets and related depreciation with the valuation vendor in prior years. However, because of the loss of the accountant responsible for the reconciliation, some adjustments lacked sufficient detail in the current year. Furthermore, management agrees that adjustments were necessary to present fairly the investment note because of mistakes made by the investment firm. However, management disagrees with the adjustments relating to the transfer of Huey P. Long Medical Center and the adjustments relating to recording and reporting of the Medicaid Cost Report and Uncompensated Care amounts (see Appendix A, pages 1-2).

Additional Comments: In its response, management disagrees with the audit adjustments relating to the transfer of the Huey P. Long Medical Center and the recording and reporting of the Medicaid Cost Report and Uncompensated Care accrual amounts. The center uses the accrual basis of accounting which dictates that outstanding receivables and payables should be accrued on the financial statements. During our audit, we requested authoritative documentation to support the center's position for not recording and reporting these accruals, but no such documentation was provided by management.

It is management's responsibility to prepare and present financial statements and notes in accordance with applicable accounting principles. When major events occur such as the transfer of Huey P. Long Medical Center to the center, there should have been open lines of communication among all the affected parties, specifically, the LSU System, the Health Care Services Division, and the center to ensure that the transfer of assets and liabilities was accounted for properly and consistently. This is also true regarding the recording and reporting of the Medicaid Cost Report and Uncompensated Care amounts. However, this communication did not occur effectively to prevent these misstatements.

Unlocated Movable Property

For the fourth consecutive audit, the center has identified a significant amount of unlocated movable property as a result of its annual property inventory certification procedures. In addition, the center failed to maintain adequate controls over movable property to ensure compliance with state regulations and accurate financial and cost reporting. The center is made up of the main campus in Shreveport, E. A. Conway Medical Center in Monroe, and Huey P. Long Medical Center in Pineville. Current year inventory procedures identified unlocated property items at the three locations totaling \$3,149,497. Of that amount, items totaling \$534,966 were removed from the property records because these items had not been located for three consecutive years. Of the unlocated property reported on the center's property inventory certifications, the amount of unlocated computers and computer-related equipment totaled \$1,263,036; the amount of medical and related equipment totaled \$1,714,835; and the amount of office and related equipment totaled \$123,608.

Our examination of the center's movable property and depreciation records revealed the following exceptions:

- Three of 25 (12 %) items tested from the main campus in Shreveport were not tagged. These items had an original cost totaling \$996,157.
- Eleven of 62 (18 %) items tested from all three campuses were not found in the location indicated on the movable property records.
- An anesthesia machine was incorrectly recorded with a value of \$181,484 which was the value of six anesthesia machines all purchased at the same time. The remaining five machines were not tagged.
- A microscope costing \$307,267 was assigned a value of \$7,800 in error, understating capital assets by \$299,467.
- Five movable property items costing \$1,821,947 were expensed instead of being capitalized and depreciated.

In addition, the center failed to adequately reconcile its internal property schedules with the records of movable property and other capital assets provided by the center's valuation vendor, which are used for financial reporting and cost reports. Differences of \$3,363,802 were found between the center's records and the vendor's records.

R.S. 39:324 and 39:325 require entities to conduct an annual inventory of movable property and report any unlocated property to the Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code Title 34 Part VII Section 313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. Louisiana Administrative Code Title 34 Part VII Section 307 (A) states, in part, that all qualified items must be tagged and all pertinent inventory information must be forwarded to LPAA within 60 calendar days after receipt. Furthermore, the center's Administrative Directive 1.1.5, Section B identifies the functions and responsibilities of the department head or his/her designated representative to include (1) maintaining a complete and accurate inventory of the movable property assigned or acquired by the department; (2) providing the asset manager with accurate and up-to-date information on changes to the department's inventory; and (3) assisting in the conduct of the annual inventory of the department, as directed by the asset manager. In addition, good internal control dictates that (1) assets be monitored to safeguard against loss or theft; (2) thorough periodic physical counts of property inventory be conducted; (3) adequate procedures be performed to ensure all assets are properly tagged and correctly valued in the property system; and (4) procedures be established to adequately reconcile the center's schedules of movable property assets acquired, transferred, or disposed of with the schedules provided by the valuation vendor. The annual certifications from the three locations submitted to LPAA disclosed \$167,854,156 in total movable property.

Management of the center has not enforced and consistently applied its existing laws, regulations, and administrative directives for tracking the movement of property items or conducting the annual inventory. Furthermore, the center has not established adequate procedures to validate the information provided by the valuation vendor.

Failure to enforce existing policies and procedures, tag all property items, record them in the property system at the correct cost, and put forth additional effort to locate unlocated items subjects the center's movable property to increased risk of loss and/or unauthorized use and subjects the center to noncompliance with movable property laws and regulations. In addition, because of the nature of the services provided by the center, the risk exists that sensitive information could be recovered from the missing computers and/or computer-related equipment and improperly used. Furthermore, the center's failure to establish adequate procedures to validate the information provided by the valuation vendor increases the risk that information reported in its financial statements and cost reports could be incorrect.

Once again we recommend that management of the center should enforce and consistently apply its existing policies and procedures for tracking the movement of property items and conducting the annual property inventory. Management should also strengthen its procedures to ensure property items are properly tagged and recorded at the correct cost. In addition, management should require more extensive searches for unlocated items, should devote additional efforts to locating movable property reported as unlocated in previous years, and should comply with all applicable requirements of LPAA. Finally, management needs to establish adequate procedures to validate the information provided by its valuation vendor before using this information to prepare financial statements and cost reports. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 3).

Inadequate Controls Over Financial Class Determinations

For the second consecutive year, the center failed to require and retain adequate documentation to support "free care" financial class determinations during the screening process for outpatients, other than those in Family Medicine and for subsequent reclassifications from self pay to free care.

Good internal controls require that adequate documentation be obtained and retained to support each patient's financial class determination of either self pay or free care. In addition, reclassification of a self-pay patient to free care should only be allowed after proper documentation is received and reviewed by the appropriate center staff and approved by their supervisor. There is no institutionwide policy requiring physical support to be provided by outpatients and retained by the institution. Our review of the controls over outpatient screening, other than those in Family Medicine, revealed that outpatients are asked a series of questions without having to provide any physical evidence to support the answers they give to the questions. We also learned that center personnel were reclassifying outpatients' financial classifications from self pay to free

care without retaining any physical evidence or review and approval from their supervisor.

Management feels it is not necessary to obtain and retain physical documentation to support the financial classification of its outpatients because of the volume of outpatients it serves each year. In addition, management feels that any lost revenues that would be generated from self-pay patients who are classified as free care are offset by the Uncompensated Care Cost payments it receives. Failure to obtain and retain the physical documentation to support the financial classification and subsequent reclassification of outpatients creates an environment that is conducive for fraud and abuse by patients and center employees.

Once again we recommend that management develop and implement formal policies and procedures for the entire institution requiring that documentation be obtained and retained to support the financial classification of all patients regardless of whether the patient is self pay or free care. Management should also ensure that the procedures include documentation of the proper review and approval by appropriate center personnel and their supervisor for the reclassification of any self-pay patient to free care. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 4-5).

Energy Efficiency Contract Contrary to Law

The center entered into a performance-based energy efficiency contract with Johnson Controls, Inc. (JCI) in July 2002 that includes stipulated savings and therefore does not comply with state law. In addition, the other components of guaranteed savings in the contract (measurable operational and utility savings) are not being adequately measured or verified by management. R.S. 39:1496.1(A) provides that a state agency may enter into a performance-based energy efficiency contract for services and equipment. R.S. 39:1484(A)(14) requires the payment obligation to be either a percentage of the annual energy cost savings attributable to the services or equipment under the contract or guaranteed under contract to be less than the annual energy cost savings attributable to the services or equipment under the contract. R.S. 39:1496.1(D) requires the contract to contain a guarantee of energy savings to the entity. The statute further provides that the annual calculation of the energy savings must include maintenance savings that result from operation expenses eliminated and future capital replacement expenditures avoided as a result of equipment installed or services performed by the contractor.

Attorney General Opinion 07-0002 provides, “. . . for the stipulated operational savings to be included in the total guaranteed savings, those savings must actually be guaranteed. In order for the operational savings to be guaranteed, the Contract would have to provide for some type of measurement and/or verification of the operational savings. . . .” Although the attorney general opinion was directed to local government, the same guarantee is required in state law; therefore, the conclusion is the same.

In addition, good internal control dictates that the terms and conditions of contracts entered into on behalf of an institution should be monitored to ensure that all parties involved in the contract are fulfilling their obligations. At a minimum, controls should include reconciling, measuring, and verifying all financial aspects of the contract to ensure compliance with applicable terms and conditions.

A review of the energy efficiency contract, which is for 17 years and approximately \$15.7 million, between the center and JCI, disclosed the following deficiencies:

- JCI guaranteed a total of \$15,493,562 in savings during the term of the contract, consisting of measurable utility savings of \$8,926,000; measurable operational savings of \$3,480,869; and stipulated operational savings of \$3,086,693. According to the contract, “Stipulated Operational Savings are mutually agreed by the Customer and JCI . . . and shall not be measured or monitored during the Term of the Agreement.” The contract also provides that Stipulated Operational Savings includes repair and maintenance costs avoided by the customer through the implementation of the Performance Contracting Agreement. The stipulated operational savings are not guaranteed because the contract does not provide for measurement and/or verification of the stipulated operational savings. Therefore, excluding the stipulated operational savings, the guaranteed savings over the life of the contract are only the measurable savings of \$12,406,869. The total payments due to JCI over the life of the contract are approximately \$15.7 million. Therefore, the payment obligation exceeds the adjusted guaranteed annual energy cost savings.
- Neither the measurable utility savings nor the measurable operational savings are being adequately measured or verified. The contract was not adequately monitored to ensure that all deliverables required to be provided to the center in the contract were provided, which includes a “copy of the software and associated documentation to calculate the project savings,” which would allow for calculating the savings using the same methodology as the vendor so that the savings could be measured and verified.

At the signing date, management felt that the contract complied with state law. However, because the contract includes stipulated savings that are not measurable, the contract is not in compliance with state law. In addition, by failing to perform the necessary measurements and verifications of measurable savings, the center is unable to determine if actual savings are in excess of the cost of the contract. Also, there is a risk of making payments specified in the contract that are greater than the energy cost savings attributable to the services or equipment under the contract.

Management should consult its legal advisors to reconstruct its energy efficiency contract in accordance with state law. In addition, management should ensure that contract terms and conditions are adequately monitored to ensure that the center receives the actual savings specified in the contract. Also, management should ensure that the payments

required by the contract are not greater than the energy cost savings attributable to the services or equipment under the contract. LSU System's management concurred with the finding and is in the process of extensively reviewing each contract to discover all facts relevant to the status of the contracts and to determine the appropriate course of further action (see Appendix A, page 6).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described previously, we consider the Inaccurate Annual Fiscal Report weakness to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the center'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. We consider the unlocated movable property and energy efficiency contract contrary to law deficiencies reported in the Internal Control Over Financial Reporting section to be instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Louisiana State University Health Sciences Center's responses to the findings identified previously are attached in Appendix A. We did not audit the center's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the center's management, the LSU System management, others within the entity, and the Louisiana Legislature 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

KWB:WJR:BQD:THC:dl

LSUHSCS08

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

February 16, 2009

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

Dear Mr. Theriot,

LSUHSC-Shreveport concurs in part to the *Inaccurate Annual Fiscal Report* audit finding for FY2008.

With regard to the transfer of Huey P. Long Medical Center in 2008, it is important to note that the handling of receivables and payables of Medicaid Cost Reports and Uncompensated Care cost through the conversion of HPL balance sheet was consistent with the transfer and conversion of the balance sheet of E.A. Conway Medical Center in 2004. There were no audit adjustments or discussions related to the handling of these accruals in 2004.

LSUHSC-Shreveport has been consistent for many years with the recording and reporting of Medicaid Cost Report and Uncompensated Care amounts. There have been no prior year audit adjustments or discussions with the legislative auditors related to these accruals. There have been no requests to provide elimination information and no reciprocating information has been received for the purpose of financial statement presentation in previous years, and the Department of Health and Hospitals (DHH) has not settled or paid any cost report adjustments for the past eight years. It is the belief of management that the accrual of these amounts is misleading. For this reason, management does not agree that the adjustments are the result of *errors*. In addition, the 1993 accrual amount used in the adjustment does not agree with the information provided by management to DHH and supported by cancelled checks. Management does not consider the accrual for 1993 to be accurate.

LSUHSC-Shreveport has prepared annual reconciliations each year of its capital assets and related depreciation with the valuation vendor reports of the prior year. Some adjustments were identified in total and lacking sufficient detail to be made due to the loss of an accountant.

Adjustments necessary to fairly present the investment note were due to mistakes by the safekeeping department of the investment firm; trade confirmation information did not agree with the monthly statement.

Action plans for FY2009 include the following:

- 1) Cost report and uncompensated care payments will be accrued.
- 2) Reconciliation and related adjustments will be completed for all three campuses.
- 3) A monthly review of investment documents for accuracy and consistency will be performed.
- 4) More time will be devoted for review of the financial statement package before submission. Statement information will not be available to the auditors until after submission.

Sincerely,



Harold White
Vice Chancellor
for Business and Reimbursements

HW:bp

cc: Janie Binderim
John Antolik
Andrew Chesson, MD

LSU Health Sciences Center

SHREVEPORT

Administration and Finance

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

January 30, 2009

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

Dear Mr. Theriot:

LSUHSC-Shreveport concurs with the Unlocated Movable Property audit finding.

The institution continues to put forth efforts to improve the equipment inventory process, increase the accuracy of property tagging and valuation, and to provide a complete reconciliation of assets with the valuation vendor. In addition to the corrective actions put in place from the previous year's finding, the following will be performed:

- 1) Develop a new query of expenditures to identify movable property to be capitalized using transaction date.
- 2) Discussions with the Purchasing Department to improve the accuracy of identification of assets on purchase orders.
- 3) Validate and adjust items in the accounting system with the valuation vendor prior to year end.
- 4) Complete the campus reconciliations of property schedules with the valuation vendor for all asset categories.

LSUHSC-Shreveport Asset Management has enforced and consistently applied policies and procedures for tracking property and conducting the annual inventory. Compliance with movable property laws and regulations will continue to be strengthened at all three campuses.

Sincerely,



Harold White
Vice Chancellor
for Business and Reimbursements

HW:bp

cc: Dr. Chesson
John Antolik
Janie Binderim

February 26, 2009

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

Dear Mr. Theriot:

LSUHSC-S was issued a finding regarding **Inadequate Controls over Financial Class Determination**. LSUHSC-S concurs with the finding.

Management concurs that there is no written institution wide policy **requiring** physical support to be provided by **Uninsured** Outpatients. Subsequent to the fiscal year 6-30-07, management has implemented the following:

- 1) Scanners have been placed in the outpatient clinics.
- 2) Signs have been posted to notify the patients that they should bring with them proof of income.
- 3) The registration clerks have been retrained to obtain and scan various documents (see attachment A).
- 4) When a patient presents and does not have the proof of income information, they are asked to bring the information when they return for their next visit. The majority of the patients comply with the request.

Management does require documentation that is obtained be retained by the institution. All pertinent documentation that is obtained is scanned into the system and becomes part of the on line record.

Management will develop and implement a policy that will require outpatients to provide documentation to support a free care financial class determination. Outpatients will be registered as self pay when proof of free care financial status is not provided.

Although LSUHSCS has exerted a considerable amount of time and resources to continue to fine tuning its outpatient screening processes, there is always room for improvement.

Management will continue to review & update the processes in order to keep the awareness and importance of them before our employees.

Sincerely,



Harold White
Vice Chancellor
for Business and Reimbursements

HW:jb

Attachment

cc: Janie Binderim
John Antolik
Andrew Chesson, MD



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

Office of the Executive Vice President

225 / 578-6935
225 / 578-5524 fax

February 19, 2009

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

Re: Audit Finding - Energy Efficiency Contract Contrary to State Law

Dear Mr. Theriot:

On Tuesday, February 17, 2009 the LSU System received final audit findings from your office relative to performance-based energy efficiency contracts that several LSU System Institutions have entered into with Johnson Controls, Inc. (JCI). Specifically, the University of New Orleans, Louisiana State University, Louisiana State University Health Sciences Center Shreveport, University Medical Center and Lallie Kemp Medical Center received audit findings related to contracts with JCI.

The findings state that the agreements "include stipulated savings and therefore do not comply with state laws" because the operational savings are not verified or measured, and, as such, the savings truly guaranteed under the contract are less than the cost of the contract.

In the findings for these facilities, it is stated that "management should revise its energy efficiency contracts to ensure that savings components are verifiable and that the guaranteed savings have been realized."

Your office has requested an official response to the audit findings. Based upon a review of available contract documents, the LSU System concurs with these findings in that it appears that the savings under these contracts are not truly guaranteed as required by Louisiana law. In response to these findings, the LSU System is fully investigating this matter. The LSU System institutions are unable to unilaterally revise or amend the contracts to comply with state law. As such, the LSU System is in the process of extensively reviewing each contract, discovering all facts relevant to the status of the contracts and preparing for litigation to remedy the situation by nullifying the agreements, forcing amendments to the agreements or recovering for breach of the agreements should this be determined to be the appropriate course of action.

We are unable to provide an anticipated completion date for the estimated resolution of these findings at this time as we are currently performing extensive reviews of the contracts and focusing ongoing efforts on determining the appropriate course of action.

Sincerely,

A handwritten signature in black ink, appearing to read "John Antolik".

John Antolik
Assistant Vice President

cc: General Counsel P. Raymond Lamonica