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

LOUISIANA LEGISLATIVE AUDITOR

FINANCIAL STATEMENT AUDIT
ISSUED JANUARY 25, 2006

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

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

January 9, 2006

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 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, 2005, as listed in the table of contents. These financial statements are the responsibility of management of the Louisiana State University Health Sciences Center in Shreveport. 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 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2005, 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 above present fairly, in all material respects, the financial position of the Louisiana State University Health Sciences Center in Shreveport as of June 30, 2005, 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, as noted, the long-term effects of these events directly on the Louisiana State University Health Sciences Center in Shreveport cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2006, 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 10 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. 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

RLA:WJR:THC:dl

LSUHSCS05

The Management's Discussion and Analysis of Louisiana State University Health Sciences Center in Shreveport's (LSUHSC-S) financial performance presents a narrative overview and analysis of LSUHSC-S, which includes E.A. Conway, and its financial activities for the year ended June 30, 2005. 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 LSUHSC-S financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

The LSUHSC-S net assets overall changed from $220,591,199 to $227,260,288 or 3% from June 30, 2004, to June 30, 2005. The overall reasons for this change included:

- Increase in hospital occupancy
- Increase in state contracts

The LSUHSC-S operating revenues changed from $420,951,196 to $445,195,750 or 5.76% from June 30, 2004, to June 30, 2005. Operating expenses, however, changed by 5.3% to $511,243,120 for the year ended June 30, 2005. The changes discussed above are the primary reasons for this change.

Nonoperating revenues fluctuate depending upon levels of state operating and capital appropriations. The change to $73,018,329 (revenue only) in 2005 from $87,807,437 in 2004 is attributed to the following:

Reduction in state general funds	($6.0 M)
Reduction in capital appropriation	(6.2 M)
Capital gift in FY05	2.5 M
Decrease in endowment gift	(8.4 M)
Increase in investment income	3.3 M
Total	($14.8 M)

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists 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 LSUHSC-S 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 Fund 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 LSUHSC-S is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets (SRECNA) (pages 13-14) presents information showing how LSUHSC-S'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 LSUHSC-S'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 LSUHSC-S'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 statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The LSUHSC-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 SRECNA. All assets and liabilities associated with the operation of LSUHSC-S are included in the Statement of Net Assets.

FINANCIAL ANALYSIS

Statement of Net Assets
As of June 30, 2005, and June 30, 2004

	Total	
	2005	2004
Current and other assets	$163,330,831	$148,452,238
Capital assets	124,008,906	126,915,812
Total assets	287,339,737	275,368,050
Liabilities	60,079,449	54,776,851
Net assets:		
Invested in capital assets, net of debt	108,952,436	111,340,432
Restricted	58,856,217	56,005,194
Unrestricted	59,451,635	53,245,573
Total net assets	$227,260,288	$220,591,199

This schedule is prepared from the LSUHSC-S Statement of Net Assets as shown on pages 11-12, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant Statement of Net Asset changes from 2005 include the 11.7% increase in net assets unrestricted due to an increase in hospital occupancy.

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 Changes in Net Assets
For the Years Ended June 30, 2005, and June 30, 2004

	2005	2004
Operating revenues:		
Student tuition and fees, net	$5,040,498	$4,518,880
Grants and contracts	37,272,067	35,652,044
Auxiliary	9,307,526	8,761,573
Other	393,575,659	372,018,698
Total operating revenues	445,195,750	420,951,195
Operating expenses - education and general:		
Instruction	49,991,023	42,901,810
Research	36,749,876	36,066,973
Public service	60,636,489	56,988,964
Academic support	4,742,111	4,238,783
Student services	1,002,043	884,078
Institutional support	25,614,907	26,170,826
Operations and maintenance of plant	4,571,796	17,292,572
Depreciation	20,030,672	22,029,036
Scholarships and fellowships	697,151	588,271
Other operating expenses	307,207,052	278,327,989
Total operating expenses	511,243,120	485,489,302
Operating loss	(66,047,370)	(64,538,107)
Nonoperating revenues (expenses):		
State appropriations	59,307,567	65,311,453
Gifts	19,149	(16,255)
Other nonoperating revenues	3,738,913	393,671
Net nonoperating revenues	63,065,629	65,688,869
Income (loss) before other revenues and expenses	(2,981,741)	1,150,762
Capital appropriations	6,587,000	12,802,313
Capital grants and gifts	2,465,700	
Additions to permanent endowments	900,000	9,300,000
Other additions, net	(301,870)	(427,626)
Change in Net Assets	6,669,089	22,825,449
Net assets at beginning of year, restated	220,591,199	197,795,665
Net assets at end of year	$227,260,288	$220,621,114

Nonoperating revenues decreased by 16.8% to $73.0 million, primarily attributable to decrease in payments by Facility Planning for capital outlay and decrease in endowment gifts.

State appropriations changed from $65.3 to $59.3 million because of prisoner care costs being paid in fiscal year 2005 through uncompensated care.

LSUHSC-S's total revenues increased by $9,455,447 or 1.86%.

STATEMENT OF CASH FLOWS

Another way to assess the financial health of LSUHSC-S is to look at the Statement of Cash Flows. The Statement of Cash Flows assists readers of this statement to assess:

- The ability to generate future cash flows
- The ability to meet obligations as they come due
- A need for external financing

Statement of Cash Flows
For the Years Ended June 30, 2005, and June 30, 2004

	2005	2004
Cash and cash equivalents provided (used) by:		
Operating activities	($40,848,988)	($40,010,488)
Capital financing activities	(8,671,159)	(14,967,755)
Non-capital financing activities	61,583,018	75,232,642
Investing activities	(5,782,805)	(6,249,699)
Net increase in cash and cash equivalents	6,280,066	14,004,700
Cash and cash equivalents:		
Beginning of year	68,304,185	54,299,485
End of year	$74,584,251	$68,304,185

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, LSUHSC-S had invested approximately $124 million in capital assets, net of accumulated depreciation. This amount represents a net decrease (including additions and disposals, net of depreciation) of approximately $2.9 million or 2.3% over the previous fiscal year. More detailed information about LSUHSC-S's capital assets is presented in note 1-H and note 6. A summary of LSUHSC-S's capital assets as of June 30, 2005, and June 30, 2004, follows:

	2005	2004
Land	$4,125,376	$4,120,683
Buildings	86,021,204	83,953,112
Equipment	32,826,571	37,717,059
Library materials	1,035,755	1,124,958
Total	$124,008,906	$126,915,812

This year's major addition included Feist Weiller Cancer Center for $13.1 million.

Debt

LSUHSC-S did not have bonds and notes outstanding at fiscal year-end 2005 or 2004.

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

No currently known facts, decisions, or conditions are known at this time that are expected to have a significant effect on financial position or results of operations.

CONTACTING THE LSUHSC-S MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of the LSUHSC-S finances and to show the LSUHSC-S accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Janie Binderim at (318) 675-5230.

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

Statement of Net Assets, June 30, 2005

ASSETS	
Current assets:	
Cash and cash equivalents (note 2)	$68,548,040
Investments (note 3)	3,713,694
Receivables, net (note 4)	34,985,985
Due from state treasury	1,421,095
Inventories	8,455,364
Deferred charges and prepaid expenses	1,329,158
Notes receivable, net (note 5)	358,752
Total current assets	118,812,088
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (note 2)	6,036,211
Investments (note 3)	37,174,325
Notes receivable, net (note 5)	1,308,207
Capital assets, net (note 6)	124,008,906
Total noncurrent assets	168,527,649
Total assets	287,339,737
LIABILITIES	
Current liabilities:	
Accounts payable and accruals (note 10)	17,374,212
Due to state treasury (note 14)	86,748
Due to other campuses	1,944,981
Deferred revenues	2,526,881
Compensated absences (note 11)	1,191,743
Capital lease obligations (note 13)	2,733,963
Amounts held in custody for others	52,897
Other current liabilities	19,187
Total current liabilities	25,930,612

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2005

LIABILITIES (CONT.)	
Noncurrent liabilities:	
Compensated absences (note 11)	$21,826,330
Capital lease obligations (note 13)	12,322,507
Total noncurrent liabilities	34,148,837
Total liabilities	60,079,449
NET ASSETS	
Invested in capital assets	108,952,436
Restricted:	
Nonexpendable (note 15)	38,104,344
Expendable (note 15)	20,751,873
Unrestricted	59,451,635
Total net assets	$227,260,288

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY
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, 2005

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $250,667)	$5,040,498
Federal grants and contracts	15,777,225
State and local grants and contracts	15,917,533
Nongovernmental grants and contracts	5,577,309
Sales and services of educational departments	81,758,525
Hospital income	311,817,134
Auxiliary enterprise revenues	9,307,526
Total operating revenues	445,195,750
OPERATING EXPENSES	
Education and general:	
Instruction	49,991,023
Research	36,749,876
Public service	60,636,489
Academic support	4,742,111
Student services	1,002,043
Institutional support	25,614,907
Operations and maintenance of plant	4,571,796
Depreciation	20,030,672
Scholarships and fellowships	697,151
Auxiliary enterprises	8,629,269
Hospital	298,577,783
Total operating expenses	511,243,120
OPERATING LOSS	(66,047,370)

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2005

NONOPERATING REVENUES (Expenses)	
State appropriations	$59,307,567
Gifts	19,149
Net investment income	4,453,955
Interest expense	(715,042)
Net nonoperating revenues	63,065,629
LOSS BEFORE OTHER REVENUES AND EXPENSES	(2,981,741)
Capital appropriations	6,587,000
Capital grants and gifts	2,465,700
Additions to permanent endowments	900,000
Other additions, net	(301,870)
Change in net assets	6,669,089
NET ASSETS - BEGINNING OF YEAR, RESTATED (note 16)	220,591,199
NET ASSETS - END OF YEAR	$227,260,288

(Concluded)

The accompanying notes are an integral part of this statement.

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

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

CASH FLOWS FROM OPERATING ACTIVITIES:	
Tuition and fees	$5,381,620
Grants and contracts	35,134,695
Sales and services of educational departments	82,289,617
Hospital income	312,398,851
Auxiliary enterprise receipts	9,360,894
Payments for employee compensation	(272,812,093)
Payments for benefits	(52,878,495)
Payments for utilities	(5,520,455)
Payments for supplies and services	(152,897,926)
Payments for scholarships and fellowships	(698,412)
Loans to students	(676,395)
Collections of loans to students	358,752
Other receipts	(289,641)
Net cash used by operating activities	(40,848,988)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	60,153,668
Gifts and grants for other than capital purposes	19,149
Private gifts and grants for endowment purposes	900,000
TOPS receipts	37,639
TOPS disbursements	(37,639)
Other receipts	510,201
Net cash provided by noncapital financing sources	61,583,018
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital appropriations received	6,587,000
Capital grants and gifts received	2,465,700
Purchase of capital assets	(13,449,231)
Principal paid on capital debt and leases	(3,257,716)

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2005

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: (CONT.)	
Interest paid on capital debt and leases	($715,042)
Other uses	(301,870)
Net cash used by capital financing activities	(8,671,159)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	9,515,564
Interest received on investments	3,476,909
Purchase of investments	(18,775,278)
Net cash used by investing activities	(5,782,805)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,280,066
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	68,304,185
CASH AND CASH EQUIVALENTS AT END OF YEAR	$74,584,251
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	($66,047,370)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	20,030,672
Changes in assets and liabilities:	
(Increase) in accounts receivable	(754,035)
Decrease in inventories	373,927
(Increase) in deferred charges and prepaid expenses	(1,194,376)
(Increase) in notes receivable	(317,793)
Increase in accounts payable and accrued liabilities	4,939,293
Increase in deferred revenue	557,969
Increase in amounts held in custody for others	4,435
Increase in compensated absences	1,546,101
Increase in other liabilities	12,189
Net cash used by operating activities	($40,848,988)

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

Louisiana State University Health Sciences Center in Shreveport (LSUHSC-S), 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 LSUHSC-S and its instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

LSUHSC-S, 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 2004 fall semester totaled 688.

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 LSUHSC-S. EAC has a 247-bed capacity and serves as a teaching facility using the same teachers and faculty that are employed by LSUHSC-S. During September 2004, LSUHSC-S had approximately 714 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. LSUHSC-S 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 university system primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of LSUHSC-S, to include EAC, 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, LSUHSC-S is considered a special-purpose government engaged only in business-type activities and accounted for in a single proprietary (enterprise) fund. Accordingly, LSUHSC-S's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-campus transactions have been eliminated.

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

D. BUDGET PRACTICES

The appropriations made for the General Fund of LSUHSC-S'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.

The original approved budgets and subsequent amendments approved for LSUHSC-S for fiscal year 2005 are as follows:

Original approved budget	$410,848,496
Amendments:	
State General Fund (direct)	(1,489,170)
State General Fund (interagency transfers)	18,387,426
Other (statutory dedication)	7,580
Final budget	$427,754,332

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

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

LSUHSC-S may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. In accordance with Louisiana Revised Statute (R.S.) 49:327, LSUHSC-S is authorized to invest funds in direct U.S. government obligations, U.S. government agency obligations, mutual funds, direct security repurchase agreements, and time certificates of deposit. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. LSUHSC-S considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The majority of these investments are U.S. Treasury securities, mutual funds, and investments held by private foundations, and are reported at fair value on the Statement of Net Assets in accordance with GASB 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. LSUHSC-S's investments maintained by the LSUHSC Foundation are authorized by policies and procedures established by the Board of Regents.

F. INVENTORIES

Inventories are valued at the lower of cost or market on the weighted-average basis. LSUHSC-S accounts for its inventories using the consumption method.

G. NONCURRENT RESTRICTED ASSETS

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

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the institution's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property. 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. NONCURRENT LIABILITIES

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

K. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. 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 or termination of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and unclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. 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 that 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 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.

L. NET ASSETS

LSUHSC-S's net assets are classified as follows:

(a) Invested in capital assets represents LSUHSC-S's total investment in capital assets, net of accumulated depreciation.

(b) Restricted net assets - expendable consists of resources that LSUHSC-S is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

(c) Restricted net assets - nonexpendable consists of endowment and similar type funds for which 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.

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

M. CLASSIFICATION OF REVENUES

LSUHSC-S 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; and (3) most federal, state, and local grants and contracts and federal appropriations.

(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 LSUHSC-S and the amount that is paid by students and/or third parties making payments on the students' behalf.

O. ELIMINATING INTERFUND ACTIVITY

Activities between LSUHSC-S and the institution's service units are eliminated for purposes of preparing the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Net Assets.

2. CASH AND CASH EQUIVALENTS

LSUHSC-S has cash and cash equivalents (book balance) totaling $74,584,251 at June 30, 2005, which consists of the following:

Demand deposits	$74,439,924
Certificate of deposit	100,000
Money market account	5,740
Petty cash	38,587
Total	$74,584,251

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

As of June 30, 2005, LSUHSC-S's total bank balance of $82,734,007 was fully insured and collateralized and therefore not exposed to custodial credit risk.

3. INVESTMENTS

At June 30, 2005, LSUHSC-S has investments totaling $40,888,019. LSUHSC-S 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 LSUHSC-S 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.

		Credit	Percent	Investment Maturities (in Years)		
Type of Investment	Fair Value	Quality Rating	of Investments	Less Than 1	1-5 Years	6-10 Years
Investment in government securities:						
Federal Home Loan Mortgage Corporation (FHLMC)	$10,891,210	(2)	26.64%		$10,891,210	
Federal National Mortgage Association (FNMA)	6,506,463	(2)	15.91%		6,114,963	$391,500
Federal Home Loan Bank (FHLB)	19,212,411	Aaa (1)	46.99%		15,516,786	3,695,625
Federal Farm Credit Bank (FFCB)	1,008,592	Aaa (1)	2.47%		1,008,592	
Total investment in government securities	37,618,676		92.01%		33,531,551	4,087,125
Common stock	34,165		0.08%			
Investments held by private foundation	3,235,178		7.91%			
Total investments	$40,888,019		100%	NONE	$33,531,551	$4,087,125

(1) Credit quality ratings obtained from Moody's Investors Service.
(2) FHLMC and FNMA mortgage-backed securities are implicitly guaranteed by the U.S. government but are not rated by Moody's Investors Service.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits LSUHSC-S's investments by type as described previously. LSUHSC-S 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, LSUHSC-S will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. LSUHSC-S is not involved in any repurchase agreements and of its $40,888,019 total investments, $37,346,253 is government securities that are held by the investment's counterparty in the name of LSUHSC-S. The remaining investments are comprised of common stock with the safekeeping receipt held by LSUHSC-S and investments held in a pool by the private LSUHSC Foundation. For U.S. Treasury obligations and U.S. government agency obligations, LSUHSC-S's investment policies generally require that issuers must provide LSUHSC-S 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. LSUHSC-S 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 LSUHSC-S being a voluntary participant. These investments total $3,235,178 and have no specified maturity date or credit quality rating.

4. RECEIVABLES

Receivables are shown on Statement A net of an allowance for doubtful accounts as follows:

Type	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Student tuition and fees	$59,809		$59,809
Federal grants and contracts	2,211,567		2,211,567
State and local grants and contracts	2,623,260		2,623,260
Nongovernmental grants and contracts	504,675		504,675
Sales and services of educational departments	7,601,733	($2,226,640)	5,375,093
Hospital income	26,145,045	(1,935,451)	24,209,594
Auxiliary enterprise revenues	1,987		1,987
Total	$39,148,076	($4,162,091)	$34,985,985

5. NOTES RECEIVABLE

Notes receivable are comprised of loans to students under the Federal Perkins Loan, Health Professions Loan, and institutional loan programs. Restricted federal and state contributions and interest on the loans provide the funding for the Perkins Loan program. Loans are no longer issued under the Health Professions Loan program, but collections are still made on outstanding loans. Institutional loans are funded from individual donations and interest on the loans and are available to qualified students for limited personal and emergency financial needs.

Notes receivable as shown on the Statement of Net Assets at June 30, 2005, are composed of the following:

Type	Notes Receivable	Noncurrent Portion
Federal Perkins Loan	$1,534,283	$1,269,360
Health Professions Loan	72,525	12,567
Robert Woods Johnson Loan	45,657	26,280
Phyliss Politz Loan	6,294	
Faculty Student Loan	7,800	
Short-term Student Loans	400	
Total	$1,666,959	$1,308,207

6. CHANGES IN CAPITAL ASSETS

	Balance, July 1, 2004	Additions	Transfers	Retirements	Balance, June 30, 2005
Capital assets not being depreciated:					
Land	$3,308,852				$3,308,852
Construction-in-progress	36,105,622	$6,292,702	($18,667,998)		23,730,326
Total capital assets not being depreciated	$39,414,474	$6,292,702	($18,667,998)	NONE	$27,039,178
Other capital assets:					
Land improvements	$7,191,834	$96,657	$22,200		$7,310,691
Less - accumulated depreciation	(6,351,179)	(142,988)			(6,494,167)
Total land improvements	840,655	(46,331)	22,200	NONE	816,524
Buildings	180,061,731	302,107	18,645,798		199,009,636
Less - accumulated depreciation	(130,924,973)	(5,793,785)			(136,718,758)
Total buildings	49,136,758	(5,491,678)	18,645,798	NONE	62,290,878
Equipment	120,271,631	10,396,582		($4,685,315)	125,982,898
Less - accumulated depreciation	(83,872,664)	(13,543,433)		4,259,770	(93,156,327)
Total equipment	36,398,967	(3,146,851)	NONE	(425,545)	32,826,571
Library books	16,620,127	460,423			17,080,550
Less - accumulated depreciation	(15,495,169)	(549,626)			(16,044,795)
Total library books	1,124,958	(89,203)	NONE	NONE	1,035,755
Total other capital assets	$87,501,338	($8,774,063)	$18,667,998	($425,545)	$96,969,728
Capital asset summary:					
Capital assets not being depreciated	$39,414,474	$6,292,702	($18,667,998)		$27,039,178
Other capital assets, at cost	324,145,323	11,255,769	18,667,998	($4,685,315)	349,383,775
Total cost of capital assets	363,559,797	17,548,471	NONE	(4,685,315)	376,422,953
Less - accumulated depreciation	(236,643,985)	(20,029,832)	NONE	4,259,770	(252,414,047)
Capital assets, net	$126,915,812	($2,481,361)	NONE	($425,545)	$124,008,906

7. PENSION PLANS

Plan Description. Substantially all employees of LSUHSC-S are members of two statewide, public employee retirement systems. Academic and unclassified employees are generally members of the Teachers' Retirement System of Louisiana (TRSLA), and classified state employees are members of the Louisiana State Employees' Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSLA is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single employer plan because the material portion of its activity is with one employer--the State of Louisiana. TRSLA and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 5 years of service with TRSLA and 10 years of service with LASERS. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees' Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of employee plan members and LSUHSC-S are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRSLA) and 7.5% (LASERS) of covered salaries. In fiscal year 2005, the state contributed 15.5% of covered salaries to TRSLA and 17.8% of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to LSUHSC-S. The employer contributions to TRSLA for the years ended June 30, 2005, 2004, and 2003 were $2,996,792, $2,285,945, and $1,912,166, respectively, and to LASERS for years ended June 30, 2005, 2004, and 2003 were $19,696.481, $16,084,037, and $11,439,259, respectively, equal to the required contributions for each year.

Optional Retirement System

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in recruiting employees who may not be expected to remain in 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 LSUHSC-S are 15.5% of covered payroll for fiscal year 2005. 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 obligation 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 $6,857,607 and $3,571,283, respectively, for the year ended June 30, 2005.

8. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

LSUHSC-S provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of LSUHSC-S's employees become eligible for these benefits if they reach normal retirement age while working for LSUHSC-S. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and LSUHSC-S. LSUHSC-S recognizes the cost of providing these benefits to retirees (LSUHSC-S's portion of premiums) as an expense when paid during the year. These retiree benefits totaled $3,784,725 for the year. The total number of retirees at June 30, 2005, is 891.

9. CONTINGENT LIABILITIES AND RISK MANAGEMENT

LSUHSC-S is not involved in any lawsuits as of June 30, 2005. Any losses arising from judgments, claims, and similar contingencies would be 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. During fiscal year 2005, no direct claims or litigation costs were incurred by LSUHSC-S.

10. PAYABLES

The following is a summary of payables and accrued expenses on Statement A:

Account Name	
Accrued salaries and payroll deductions	$11,779,277
Vendor payables	5,594,935
Total payables	$17,374,212

11. COMPENSATED ABSENCES

At June 30, 2005, employees of LSUHSC-S have accumulated and vested annual, sick, and compensatory leave of $18,490,618, $4,312,517, and $214,938, 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, 2005, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed, is $4,822,370. The following is a schedule by years of future minimum annual rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year as of June 30, 2005:

Nature of Operating Lease	2006	2007	2008	2009	2010	2011-2015
Office space	$3,672,623	$3,256,860	$3,256,860	$3,256,860	$3,256,860	$16,284,300
Equipment	1,081,885	733,370	733,370			
Other	187,140					
Total	$4,941,648	$3,990,230	$3,990,230	$3,256,860	$3,256,860	$16,284,300

The lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period.

13. LONG-TERM LIABILITIES

The only long-term liabilities of LSUHSC-S at June 30, 2005 are the long-term portion of compensated absences, previously discussed in note 11, and capital leases. The following is a summary of long-term debt obligations for LSUHSC-S:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Capital lease obligations	$15,575,380	$2,738,806	$3,257,716	$15,056,470	$2,733,963
Compensated absences payable	21,471,972	1,546,101		23,018,073	1,191,743
Total long-term liabilities	$37,047,352	$4,284,907	$3,257,716	$38,074,543	$3,925,706

Capital Leases

LSUHSC-S 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 following is a schedule of future minimum lease payments under capital leases, together with the present value of minimum lease payments at June 30, 2005:

Fiscal Year Ending June 30:	
2006	$3,395,694
2007	3,101,400
2008	2,741,698
2009	1,554,673
2010	1,061,581
2011-2015	3,914,568
2016-2020	3,257,818
Total minimum lease payments	19,027,432
Less - amount representing interest	(3,970,962)
Present value of net minimum lease payments	$15,056,470

14. DUE TO STATE TREASURY

The $86,748 due to the state treasury at June 30, 2005, consists of $74,887 of unclaimed property, which is to be remitted when the appropriate reports are filed, and $11,861 of an amount due to a grant overpayment that is to be returned to the Department of Health and Hospitals.

15. RESTRICTED NET ASSETS

LSUHSC-S has the following restricted net assets at June 30, 2005:

Nonexpendable - endowments	$38,104,344
Expendable:	
Student fees	$494,640
Grants and contracts	13,114,926
Endowment earnings	2,926,520
Student loan funds	1,845,320
Capital construction	2,370,467
Total expendable	$20,751,873

16. RESTATEMENT OF BEGINNING NET ASSETS

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

Net assets as of June 30, 2004	$220,621,114
Correction of error	(29,915)
Net assets at July 1, 2005, restated	$220,591,199

17. 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 LSUHSC-S'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.

18. DEFERRED COMPENSATION PLAN

Certain employees of LSUHSC-S participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

19. ON-BEHALF PAYMENTS

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. The amount of on-behalf payments for fringe benefits and salaries included in Statement B for fiscal year ended June 30, 2005, was $131,247. There were no on-behalf payments made as contributions to a pension plan for which LSUHSC-S is not legally responsible.

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OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control over financial reporting 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 reportable conditions and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

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

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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January 9, 2006

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the 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 (LSUHSC-S), a campus within the Louisiana State University (LSU) System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2005, and have issued our report thereon dated January 9, 2006. 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 LSUHSC-S's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect LSUHSC-S's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Unlocated Movable Property

LSUHSC-S identified unlocated movable property items totaling $3,364,327 as a result of its annual property inventory certification procedures. Of that amount, items totaling $356,211 were removed from the property records because these items had not been located for three consecutive years. Of the unlocated property reported on LSUHSC-S's property inventory certification, the amount of unlocated computers and computer-related equipment totaled $1,566,600; the amount of medical and related equipment totaled

$1,580,656; and the amount of office and related equipment totaled $203,256. In addition, a test of movable property for fiscal year 2005 revealed two of 41 (4.9%) items were not tagged; two of 40 (5%) items were not tagged timely; and three of 41 (7.3%) items were not in the proper location.

Louisiana Revised Statute 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated property to Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted. LSUHSC-S's certification of annual property inventory, submitted to LPAA on November 1, 2004, disclosed $113,689,329 in total movable property.

Management of LSUHSC-S has not enforced and consistently applied its existing policies and procedures for tracking the movement of property items or conducting the annual inventory. The Vice-Chancellor of Business and Reimbursements stated that some departmental personnel responsible for safeguarding property items fail to report items missing or moved to other locations in a timely manner. Furthermore, once the annual inventory is taken and items are identified as unlocated, the property control officer submits a list to each department with missing items but does not always receive timely assistance from LSUHSC-S's personnel to locate the items.

Failure to enforce existing policies and procedures and put forth additional effort to locate unlocated items subjects LSUHSC-S's movable property to increased risk of loss and/or unauthorized use and subjects LSUHSC-S to noncompliance with movable property laws and regulations. Furthermore, because of the nature of the services provided by LSUHSC-S, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

Management of LSUHSC-S should enforce and consistently apply its existing policies and procedures for tracking the movement of property items and conducting the annual property inventory. In addition, management should strengthen its procedures to require more extensive searches for unlocated items and require LSUHSC-S's personnel to immediately respond to the property control officer's requests concerning unlocated property. Finally, management needs to devote additional efforts to locating movable property reported as unlocated in previous years and comply with all applicable requirements of LPAA. Management partially concurred with the finding and recommendations stating that it is aware of the statutory requirements relating to movable property and has made great strides to comply with these requirements. However, management recognizes that there is still room for improvement and outlined a plan of corrective action (see Appendix A).

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LSUHSC-S's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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LSUHSCS05

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

LSU Health Sciences Center
SHREVEPORT
Administration and Finance

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

January 10, 2006

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

Dear Mr. Theriot:

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

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

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

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

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

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

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

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

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

Sincerely,

Harold White

Harold White
Vice Chancellor
for Business and Reimbursements

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