

LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA



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FINANCIAL STATEMENT AUDIT  
ISSUED MARCH 16, 2005

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**LEGISLATIVE AUDITOR  
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January 11, 2005

Independent Auditor's Report  
on the Financial Statements

**LOUISIANA STATE UNIVERSITY SYSTEM**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of management of the Louisiana State University System. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice doing business as LSU Healthcare Network and subsidiaries and the Eunice Student Housing Foundation, Inc., which are nonprofit corporations included as blended component units in the basic financial statements representing approximately 1.6% of total assets, 2.9% of total liabilities, 1.9% of total revenues, and 2.0% of total expenses of the Louisiana State University System. We also did not audit the financial statements of the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center and subsidiary, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are all of the discretely presented component units presented in the basic financial statements of the Louisiana State University System. The financial statements of the blended and discretely presented component units were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts reported for these component units, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the Louisiana State University System and its aggregate discretely presented component units as of June 30, 2004,

and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-B to the basic financial statements, the Louisiana State University System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, for the year ended June 30, 2004. Accordingly, the Louisiana State University System has discretely presented the financial statements and other required disclosures for the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center and subsidiary, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation.

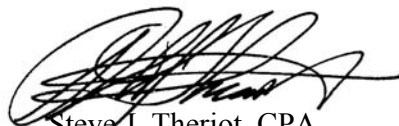
As discussed in note 1-P to the basic financial statements, the Louisiana State University System implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, for the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2005, on our consideration of Louisiana State University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 7 through 16 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Louisiana State University System's basic financial statements. The accompanying supplementary information schedules on pages 87 through 140 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Louisiana State University System. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



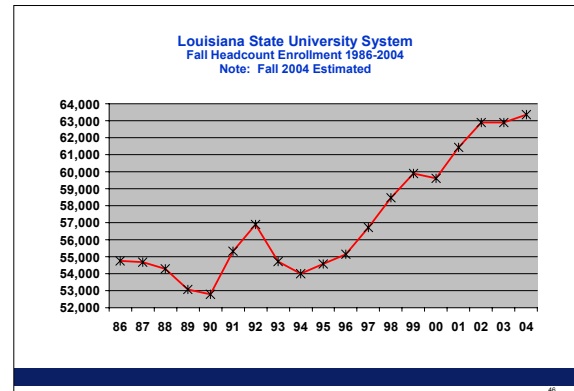
Steve J. Theriot, CPA  
Legislative Auditor



**INTRODUCTION**

The following discussion and analysis provides an overview of the financial position and activities of the Louisiana State University System (the System) for the year ended June 30, 2004. The annual report consists of a series of financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto which follow this section.

The System is the state's flagship system. Enrollment is approximately 63,000 and degrees conferred range from Associate Degree to Doctor of Philosophy. In addition, professional degrees in Medicine, Dentistry, Veterinary Medicine, and Law are conferred. The System also includes such dedicated Centers as the Pennington Biomedical Research Center specializing in nutrition research and the LSU Agricultural Center providing statewide agricultural research and extension services to the residents of the state.



Moreover, the System is charged with the responsibility of administering 10 public hospitals. These hospitals are the primary deliverer of health care services to the indigent population of the state and account for over one million in-patient and out-patient visits each year.

**FINANCIAL HIGHLIGHTS**

Total operating revenues increased from the prior fiscal year by \$397.2 million, while operating expenses increased by \$155.3 million. Overall, the System had an operating loss of \$405.3 million at June 30, 2004. This was a \$241.9 million improvement from the prior year. When nonoperating revenues and expenses are included, the System had income before other revenues, expenses, gains, and losses of \$18.2 million.

Of the \$241.9 million improvement in the operating loss, \$236.7 million resulted from increases in hospital income due to uncompensated care cost (disproportionate share) changes. The federal government allowed 175% reimbursement of cost for fiscal year 2004 (and will for fiscal year 2005), which resulted in additional revenue.

Net assets, which represent the residual interest in the System's assets after liabilities are deducted, increased by \$81.1 million (7.1%) from the prior fiscal year to \$1.23 billion.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## **COMPONENT UNITS**

Statement No. 39 of GASB, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, is effective this fiscal year. It states that certain organizations (e.g., foundations) should be included with the primary government's financial reporting entity (colleges and universities) depending on the nature and significance of their relationship with the primary government entity. The State of Louisiana established a threshold for including component units if their total assets equal 3% or more of the assets of the university system they support. Once a component unit is selected for inclusion, it must be reported in the System's financial statements for at least three years, even if it falls below the threshold the following year.

The System has six foundations that will be discretely presented in its financial statements for the fiscal year ending June 30, 2004. These are the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the UNO Foundation, the UNO Research and Technology Foundation, and the Foundation for the LSU Health Sciences Center.

## **BASIC FINANCIAL STATEMENTS FOR PRIMARY ENTITY**

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

## STATEMENT OF NET ASSETS

Net assets are divided into three major categories.

Invested in capital assets, net of related debt provides the institution's equity in property, plant and equipment owned by the System.

Restricted net assets represent expendable net assets, which the university system is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties, and nonexpendable net assets, which consist of endowment and similar type funds that donors or other outside sources have stipulated that the principal is to be maintained and invested for the purpose of producing income that can be expended or added to the principal.

Unrestricted net assets represent those assets that are available to the System for any lawful purpose.

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

The assets available to continue the operations of the System

The liabilities of the System which include the amount owed vendors and lending institutions

The net assets and their availability for expenditure by the System

Current assets total \$529.6 million and consist primarily of cash and cash equivalents, net receivables, investments, and inventories. Current liabilities total \$374.6 million and consist primarily of accounts payable and accrued liabilities, deferred revenues, and the current portions of capital lease obligations and compensated absences payable.

Noncurrent assets total \$1.4 billion and include capital assets and assets under capital leases of \$1.2 billion. Other noncurrent assets include cash and investments, et cetera, that are externally restricted to make debt service payments or to maintain sinking or reserve funds and total \$243.5 million.

Noncurrent liabilities total \$340.2 million and include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that while scheduled to be paid within one year are to be paid from funds classified as noncurrent assets.

Restricted nonexpendable net assets total \$126.6 million and consist of endowment and similar type funds, which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained intact and invested for the purpose of producing income that may either be expended or added to principal.

Restricted expendable net assets total \$183.9 million and include resources that the System is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. A summarized listing of the System's assets, liabilities, and net assets at June 30, 2004, and June 30, 2003, is shown below.

**Statement of Net Assets**

	As of		Change	Percentage Change
	June 30, 2004	June 30, 2003		
<b>Assets:</b>				
Current assets	\$529,565,154	\$517,240,652	\$12,324,502	2.4%
Capital assets	1,169,016,290	1,148,966,908	20,049,382	1.7%
Other assets	243,516,493	230,590,546	12,925,947	5.6%
<b>Total Assets</b>	<b>1,942,097,937</b>	<b>1,896,798,106</b>	<b>45,299,831</b>	<b>2.4%</b>
<b>Liabilities:</b>				
Current liabilities	374,630,857	408,271,976	(33,641,119)	(8.2%)
Noncurrent liabilities	340,220,932	342,384,141	(2,163,209)	(0.6%)
<b>Total Liabilities</b>	<b>714,851,789</b>	<b>750,656,117</b>	<b>(35,804,328)</b>	<b>(4.8%)</b>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	947,971,411	922,375,671	25,595,740	2.8%
Restricted - nonexpendable	126,617,994	115,518,384	11,099,610	9.6%
Restricted - expendable	183,859,930	203,886,323	(20,026,393)	(9.8%)
Unrestricted	(31,203,187)	(95,638,389)	64,435,202	67.4%
<b>Total Net Assets</b>	<b>\$1,227,246,148</b>	<b>\$1,146,141,989</b>	<b>\$81,104,159</b>	<b>7.1%</b>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

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

Generally, operating revenues are received for providing goods and services to various customers and constituencies of the System. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the System. Nonoperating revenues are revenues received for which

## MANAGEMENT'S DISCUSSION AND ANALYSIS

goods and services are not provided as an exchange transaction. For example, state appropriations are nonoperating because they are provided by the Legislature to the System without the Legislature directly receiving commensurate goods and services for those revenues.

The consolidated SRECNA at June 30, 2004, for the System indicates a net operating loss of \$405,282,649, calculated in the operating statement model without including appropriations, gifts, or investment earnings and before subtracting interest expenses on debt. This represents a decrease in the operating loss from the prior year by \$241.9 million. As mentioned previously, major factors contributing to the improvement in the operating loss involved the LSU Health Sciences Center's Health Care Services Division (HCSD) receiving increases in hospital income of \$236.7 million due to uncompensated care cost (disproportionate share) changes.

However, after adding nonoperating revenues such as state appropriations (\$634,096,988), gifts (\$31,832,720), investment income (\$8,767,042), and after subtracting interest expense (\$9,413,737), and including other nonoperating revenues and expenses, the System had income before other revenues, expenses, gains or losses of \$18,189,293, as compared to the fiscal year 2003 loss of (\$110,957,293).

Contributing to this change from the prior year was an increase in state appropriations of \$101.7 million and an increase in gifts of \$11.8 million primarily because of the free pharmaceutical program within the HCSD.

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

### Statement of Revenues, Expenses, and Changes in Net Assets

	As of		Change	Percentage Change
	June 30, 2004	June 30, 2003		
Operating revenues	\$2,240,403,147	\$1,843,190,575	\$397,212,572	21.6%
Operating expenses	2,645,685,796	2,490,397,478	155,288,318	6.2%
Operating income (loss)	(405,282,649)	(647,206,903)	241,924,254	37.4%
Nonoperating revenues (expenses)	423,471,942	536,249,610	(112,777,668)	21.0%
Income (loss) before other revenues, expenses, gains or losses	18,189,293	(110,957,293)	129,146,586	116.4%
Other revenues, expenses, gains or losses	62,914,866	86,689,864	(23,774,998)	(27.4%)
Increase (decrease) in net assets	81,104,159	(24,267,429)	105,371,588	434.2%
Net assets at beginning of year - restated	1,146,141,989	1,170,409,418	(24,267,429)	(2.1%)
Net assets at end of year	<u>\$1,227,246,148</u>	<u>\$1,146,141,989</u>	<u>\$81,104,159</u>	7.1%

**Operating Revenues**

Operating revenues for the System totaled \$2.2 billion at June 30, 2004. Major components of operating revenues are hospital income, representing 57.5% of the total; grants and contracts, 17.5% of the total; and net tuition and fees, 10% of the total. The following table summarizes the System's operating revenues for the year ending June 30, 2004.

**Operating Revenues (in millions)**

	As of		Change	Percentage Change
	June 30, 2004	June 30, 2003		
Tuition and fees	\$224.3	\$197.4	\$26.9	13.6%
Grants and contracts	392.5	349.0	43.5	12.5%
Federal appropriations	11.0	10.6	0.4	3.8%
Sales and services of educational departments	172.3	158.9	13.4	8.4%
Auxiliary enterprises	134.5	126.7	7.8	6.2%
Hospital income	1,288.1	986.0	302.1	30.6%
Other	17.7	14.6	3.1	21.2%
<b>Total operating revenues</b>	<b>\$2,240.4</b>	<b>\$1,843.2</b>	<b>\$397.2</b>	<b>21.5%</b>

**Operating Expenses**

Total operating expenses for the System amounted to \$2.6 billion as of June 30, 2004. Hospital expenses represented 42.1% of all operating expenses and are the largest functional component of them. Other major components are instructional expenses, 16.5%; research expenses, 11.7%; and public service expenses, 8.0%. Shown in the table below is a summary of the System's operating expenses for the fiscal year ending June 30, 2004.

**Operating Expenses (in millions)**

	As of		Change	Percentage Change
	June 30, 2004	June 30, 2003		
Instruction	\$436.6	\$408.8	\$27.8	6.8%
Research	310.1	270.3	39.8	14.7%
Public service	211.5	182.6	28.9	15.8%
Academic support	126.4	116.1	10.3	8.9%
Student services	31.0	29.3	1.7	5.8%
Institutional support	127.4	108.5	18.9	17.4%
Operation and maintenance of plant	131.6	142.0	(10.4)	(7.3%)
Scholarships and fellowships	36.9	34.4	2.5	7.3%
Auxiliary enterprises	120.1	117.5	2.6	2.2%
Hospital	1,114.1	1,080.9	33.2	3.1%
<b>Total operating expenses</b>	<b>\$2,645.7</b>	<b>\$2,490.4</b>	<b>\$155.3</b>	<b>6.2%</b>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

At June 30, 2004, the System has \$1.169 billion (including \$47.5 million in assets under capital leases) invested in a broad range of capital assets including land and improvements, buildings and improvements, equipment, and infrastructure, which is net of accumulated depreciation of \$1.49 billion (see table below).

**Capital Asset Summary**

	As of		Change	Percentage Change
	June 30, 2004	June 30, 2003		
Capital assets not being depreciated	\$268,338,142	\$271,596,890	(\$3,258,748)	(1.2%)
Other Capital Assets:				
Infrastructure	56,673,785	47,913,293	8,760,492	18.3%
Land improvements	59,226,990	56,357,863	2,869,127	5.1%
Buildings	1,335,246,774	1,280,871,561	54,375,213	4.2%
Equipment	752,060,881	730,423,533	21,637,348	3.0%
Library books	186,683,952	177,785,285	8,898,667	5.0%
Total Other Capital Assets	<u>2,389,892,382</u>	<u>2,293,351,535</u>	<u>96,540,847</u>	4.2%
Total cost of capital assets	2,658,230,524	2,564,948,425	93,282,099	3.6%
Less accumulated depreciation	<u>(1,489,214,234)</u>	<u>(1,415,981,516)</u>	<u>(73,232,718)</u>	(5.2%)
Capital assets, net	<u><u>\$1,169,016,290</u></u>	<u><u>\$1,148,966,909</u></u>	<u><u>\$20,049,381</u></u>	1.7%

Capital assets not being depreciated total \$268.3 million. This represents land and construction-in-progress.

Significant capital asset additions in fiscal year 2004 at the Health Sciences Center in New Orleans include a prior period adjustment of \$26.0 million for the New Orleans Adolescent Hospital, \$2.3 million for the Walkway to Wellness (a covered walkway that connects the major facilities), and purchases in the amount of \$2.4 million related to the PeopleSoft upgrade. Major construction in progress additions includes \$10.8 million for the new dormitory, fitness and daycare center.

At the Health Sciences Center in Shreveport \$2.8 million in capital additions was recorded for equipment for the new Cancer Center, \$1.5 million for the Linear Accelerator, and \$0.5 million associated with Heart Catherization Lab Equipment. Major construction-in-progress included \$8.6 million for an ambulatory care addition and \$3.3 associated with the building of the new Cancer Center.

## LOUISIANA STATE UNIVERSITY SYSTEM

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Major additions at the Health Sciences Center's HCSD included \$2.0 million for a sprinkler system in the high rise buildings of the Medical Center of Louisiana at New Orleans (MCLNO), \$0.9 million for HVAC renovation to air handlers at MCLNO, and \$0.5 million for re-roofing at Earl K. Long and Huey P. Long medical centers.

At LSU, major building projects for which capital expenditures were recorded included the following: the West Campus Apartments, \$3.2 million; the Child Care Center; \$2.4 million; the LSU Laboratory School, \$2 million; and Nicholson Hall renovations, \$1.2 million.

For the Paul M. Hebert Law Center, \$1.4 million in additional building renovations were capitalized during fiscal year 2004.

In addition, the University of New Orleans had the following major additions to its capital assets during the same time period: \$7.7 million for the new College of Business Administration building, \$0.4 million for land improvements, \$0.8 million for Goldring Hall, and \$1.2 million for library books.

At June 30, 2004, the System had \$177.1 million in bonds outstanding, \$17.0 million in notes payable outstanding, and \$51.4 million in capital lease obligations outstanding.

### STATEMENT OF CASH FLOWS

A summary of cash flows and percentage changes for the year ended June 30, 2004, is as follows:

	As of		Change	Percentage Change
	June 30, 2004	June 30, 2003		
Cash flows from operating activities	(\$318,524,069)	(\$473,461,073)	\$154,937,004	32.7%
Cash flows from noncapital financing sources	426,190,220	518,709,944	(92,519,724)	(17.8%)
Cash flows from capital financing activities	(97,804,935)	(93,533,237)	(4,271,698)	(4.6%)
Cash flows from investing activities	(7,701,964)	28,598,650	(36,300,614)	(126.9%)
Net increase (decrease) in cash and cash equivalents	2,159,252	(19,685,716)	21,844,968	111.0%
Cash and cash equivalents at beginning of year	280,458,053	300,143,769	(19,685,716)	(6.6%)
Cash and cash equivalents at end of year	<u>\$282,617,305</u>	<u>\$280,458,053</u>	<u>\$2,159,252</u>	0.8%
Cash and cash equivalents classified as current assets	\$219,536,142	\$229,807,371	(10,271,229)	(4.5%)
Cash and cash equivalents classified as noncurrent assets	<u>63,081,163</u>	<u>50,650,682</u>	<u>12,430,481</u>	24.5%
	<u>\$282,617,305</u>	<u>\$280,458,053</u>	<u>\$2,159,252</u>	0.8%



Cash flows from operating activities increased by \$154.9 million. This is primarily the result of increased cash flows from hospital income of \$232 million, from student tuition and fees of \$23 million, and a reduction in payments for employee compensation of \$19 million. These positive cash flows were offset by an increase in payments for supplies and services of \$101 million and increased payments for benefits of \$18 million.

Cash flows from noncapital financing activities decreased by \$92.5 million. Even though state appropriations increased by \$100 million, this category declined mainly because of the HCSD having to make a \$221 million increase in disbursements to DHH for 175% of uncompensated care cost allowable expense.

The decrease in cash flows from investing activities of \$36.3 million was associated in large part with a \$27 million increase in the purchase of investments over last fiscal year.

### **ECONOMIC OUTLOOK**

The LSU System continues to make progress in the tight fiscal environment currently facing the state. As indicated in these financial statements, the System had a decrease in operating losses and an increase in net assets--both positive events. In fiscal year 2005, the system's overall revenues are increasing by approximately 5.7%. The System is following a revenue diversification plan, exploiting currently available opportunities to maximize revenues and seeking new, principally non-state, revenue streams.

Student fees continue to be an important source of revenue that still present a reasonable expandable revenue source that has not dampened enrollment demand. The System has established financial aid packages to better meet student needs. Further, the System is reviewing all scholarships, fee waivers, and exemptions to strike a balance between revenue requirements and access. On the flagship campus, most incoming resident students are able to attend the university on a state sponsored TOPS scholarship. In the future, the System will seek to increase the number of non-resident students, a move that will contribute to the educational diversity of the student body as well as increase revenues.

The System's efforts to expand its research base have been successful. Sponsored research grants and contracts continue to expand. The System continues to invest in infrastructure improvements that are critical to the attraction of grant funded faculty and further federal and private grant generation. For example, the System led an effort to launch the Louisiana Optical Network Initiative (LONI). LONI is an important project aimed at making Louisiana a national leader in high performance network development and Access Grid technology. In partnership with the state Board of Regents, the System will now be part of the National Lambda Rail project. The System will join an elite group of research universities that will have access to the Lambda Rail.

Prior year efforts to increase the System's technology transfer infrastructure are coming to fruition. The LSU Research and Technology Program has successfully launched a venture capital program that will have an initial closing that will exceed \$20 million. All indications are

that prior to the end of the current fiscal year the venture capital pool will reach or exceed \$30 million for a second closing. While the venture fund can invest in any technology, the fund will focus on investing in research emanating from Louisiana universities. This will assist the University in recruiting and retaining grant supported and entrepreneurial faculty. In addition, as venture funds are deployed and System technology is licensed increased revenues will flow to the University. This is consistent with the University's effort to develop alternative revenue streams.

The University's hospital division received a temporary and positive financial boost from a two year change in federal reimbursement rules substantially increasing and temporarily stabilizing the system. In addition, the state provided a \$59 million increase in funding to assist the hospitals. Substantial problems, however, remain on the horizon as the special federal funding will expire and the state's ability to offset the federal loss is questionable. On a positive side, there is increasing public recognition and support for the public safety net hospital system. In addition, the two university academic health center campuses are becoming more competitive in the research funding arena and have recently received substantial competitive federal awards.

The System is making investments in core areas, reallocating existing resources, and setting priorities aimed at providing not only long-term stability but also long-term growth. Trend data indicate that the System is making financial and academic progress and becoming a more attractive venue for both faculty and students.

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**Statement of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents (note 2)	\$219,536,142
Investments (note 3)	28,068,888
Receivables, net (note 4)	207,299,991
Due from state treasury, net (note 14)	24,715,547
Inventories	37,031,890
Deferred charges and prepaid expenses	5,415,297
Notes receivable	6,605,049
Other current assets	892,350
<b>Total current assets</b>	<b>529,565,154</b>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents (note 2)	63,081,163
Investments (note 3)	134,223,265
Receivables, net (note 4)	2,221
Notes receivable	24,289,629
Other restricted assets	17,623,470
Investments (note 3)	291,343
Other noncurrent assets	4,005,402
Capital assets, net (note 5)	1,169,016,290
<b>Total noncurrent assets</b>	<b>1,412,532,783</b>
<b>Total assets</b>	<b>1,942,097,937</b>

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	288,156,105
Deferred revenues	51,121,158
Amounts held in custody for others	5,390,064
Compensated absences (note 9)	8,361,421
Capital lease obligations (note 12)	9,345,402
Notes payable (note 12)	2,853,908
Contracts payable (note 12)	337,554
Bonds payable (note 12)	7,863,417
Other current liabilities	1,201,828
<b>Total current liabilities</b>	<b>374,630,857</b>

Noncurrent Liabilities:

Compensated absences (note 9)	113,985,368
Capital lease obligations (note 12)	42,076,567
Notes payable (note 12)	14,124,720
Bonds payable (note 12)	169,254,166
Other noncurrent liabilities	780,111
<b>Total noncurrent liabilities</b>	<b>340,220,932</b>
<b>Total liabilities</b>	<b>714,851,789</b>

**NET ASSETS**

Investment in capital assets, net of related debt	947,971,411
Restricted for:	
Nonexpendable (note 15)	126,617,994
Expendable (note 15)	183,859,930
Unrestricted	(31,203,187)
<b>Total net assets</b>	<b>\$1,227,246,148</b>

The accompanying notes are an integral part of this statement.

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**COMPONENT UNITS**

**Statement of Financial Position, June 30, 2004**

	LSU Foundation	Tiger Athletic Foundation *	Pennington Medical Foundation *
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents (note 2)	\$4,929,930	\$780,821	\$10,366,221
Accrued interest receivable	1,463,449		60,349
Investments (note 3)	100,866,377		76,012,567
Accounts receivable, net	286,266	267,065	
Unconditional promises to give, net (note 27)	3,382,093	2,001,518	
Inventories			
Deferred charges and prepaid expenses	567,232	164,145	3,699
Notes receivable, net			
Cash restricted for debt service			
Other current assets	2,697		196,228
<b>Total current assets</b>	<b>111,498,044</b>	<b>3,213,549</b>	<b>86,639,064</b>
Noncurrent Assets:			
Restricted assets:			
Cash and cash equivalents (note 2)		21,987,784	3,611,405
Investments (note 3)	201,556,317	1,261,822	
Investments (note 3)	19,913,860		
Unconditional promises to give, net (note 27)	8,833,827	4,847,320	
Notes receivable			260,000
Property and equipment, net (note 5)	12,107,233	61,399,257	57,190,978
Other noncurrent assets	1,224,886	10,000	
<b>Total noncurrent assets</b>	<b>243,636,123</b>	<b>89,506,183</b>	<b>61,062,383</b>
<b>Total assets</b>	<b>\$355,134,167</b>	<b>\$92,719,732</b>	<b>\$147,701,447</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable and accrued liabilities	\$4,600,028	\$600,203	\$1,261,805
Deferred revenues		960,000	
Amounts held in custody for others (note 25)	1,075,110	525,513	
Compensated absences payable	98,625		
Capital lease obligations			
Current portion of notes payable (note 12)		3,289,207	640,000
Current portion of bonds payable (note 12)	91,219	1,135,000	
Other current liabilities			1,712,102
<b>Total current liabilities</b>	<b>5,864,982</b>	<b>6,509,923</b>	<b>3,613,907</b>

(Continued)

The accompanying notes are an integral part of this statement.

LSU Health Sciences Center Foundation	University of New Orleans Foundation	University of New Orleans Research and Technology Foundation	Total Foundations
\$772,913	\$66,146	\$537,777	\$17,453,808
169,955			1,693,753
9,966,523	1,297,835	7,461,575	195,604,877
	1,086,093	2,227,050	3,866,474
186,250	514,135		6,083,996
	23,909		23,909
	9,772	202,224	947,072
91,163			91,163
82,545			82,545
570,339	900	72,513	842,677
<u>11,839,688</u>	<u>2,998,790</u>	<u>10,501,139</u>	<u>226,690,274</u>
		150,000	25,749,189
	44,630,276		247,448,415
54,209,168	125,411	1,372,799	75,621,238
2,299,325	1,137,581		17,118,053
298,323			558,323
2,146,163	13,979,825	72,160,388	218,983,844
5,028	119,264	72,866	1,432,044
<u>58,958,007</u>	<u>59,992,357</u>	<u>73,756,053</u>	<u>586,911,106</u>
<u>\$70,797,695</u>	<u>\$62,991,147</u>	<u>\$84,257,192</u>	<u>\$813,601,380</u>
\$626,370	\$971,978	\$2,726,492	\$10,786,876
	2,900	24,281	987,181
	1,293,681	35,976	2,930,280
			98,625
	24,825		24,825
		229,744	4,158,951
65,000	100,000	4,040,000	5,431,219
1,650		1,185,369	2,899,121
<u>693,020</u>	<u>2,393,384</u>	<u>8,241,862</u>	<u>27,317,078</u>

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
COMPONENT UNITS  
Statement of Financial Position, June 30, 2004**

	LSU Foundation	Tiger Athletic Foundation *	Pennington Medical Foundation *
<b>LIABILITIES (CONT.)</b>			
Noncurrent Liabilities:			
Amounts held in custody for others	\$51,985,903		
Capital lease obligations			
Notes payable, net of current portion (note 12)		\$6,131,337	\$40,175,000
Bonds payable, net of current portion (note 12)	12,633,781	50,510,000	
Other noncurrent liabilities		54,427	
Total noncurrent liabilities	<u>64,619,684</u>	<u>56,695,764</u>	<u>40,175,000</u>
<b>Total liabilities</b>	<u>70,484,666</u>	<u>63,205,687</u>	<u>43,788,907</u>
<b>NET ASSETS</b>			
Unrestricted	27,671,448	6,474,105	103,912,540
Temporarily restricted (note 15)	109,259,569	20,973,985	
Permanently restricted (note 15)	147,718,484	2,065,955	
<b>Total Net Assets</b>	<u>284,649,501</u>	<u>29,514,045</u>	<u>103,912,540</u>
Total Liabilities and Net Assets	<u>\$355,134,167</u>	<u>\$92,719,732</u>	<u>\$147,701,447</u>

\*As of December 31, 2003

(Concluded)

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

LSU Health Sciences Center Foundation	University of New Orleans Foundation	University of New Orleans Research and Technology Foundation	Total Foundations
\$13,117,119	\$11,719,749		\$76,822,771
	791,698		791,698
	5,450,000	\$7,505,182	59,261,519
1,938,182	1,724,000	4,732,298	71,538,261
13,562		1,078,974	1,146,963
<u>15,068,863</u>	<u>19,685,447</u>	<u>13,316,454</u>	<u>209,561,212</u>
<u>15,761,883</u>	<u>22,078,831</u>	<u>21,558,316</u>	<u>236,878,290</u>
451,742	3,417,591	62,548,876	204,476,302
14,028,948	8,825,651	150,000	153,238,153
40,555,122	28,669,074		219,008,635
<u>55,035,812</u>	<u>40,912,316</u>	<u>62,698,876</u>	<u>576,723,090</u>
<u>\$70,797,695</u>	<u>\$62,991,147</u>	<u>\$84,257,192</u>	<u>\$813,601,380</u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

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

<b>OPERATING REVENUES</b>	
Student tuition and fees	\$261,826,607
Less scholarship allowances	(37,509,043)
Net student tuition and fees	<u>224,317,564</u>
Federal appropriations	11,046,053
Federal grants and contracts	209,852,915
State and local grants and contracts	79,562,276
Nongovernmental grants and contracts	103,016,251
Sales and services of educational departments	172,282,251
Hospital income	1,288,084,145
Auxiliary enterprise revenues (including revenues pledged to secure debt per note 22)	139,525,728
Less scholarship allowances	(4,992,431)
Net auxiliary revenues	<u>134,533,297</u>
Other operating revenues	17,708,395
<b>Total operating revenues</b>	<u><u>2,240,403,147</u></u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Instruction	436,584,099
Research	310,070,557
Public service	211,450,838
Academic support	126,351,061
Student services	30,986,190
Institutional support	127,441,216
Operation and maintenance of plant	131,642,610
Scholarships and fellowships	36,940,285
Auxiliary enterprises	120,105,775
Hospital	1,114,113,165
<b>Total operating expenses</b>	<u><u>2,645,685,796</u></u>
<b>Operating Loss</b>	<u>(405,282,649)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
State appropriations	634,096,988
Gifts	31,832,720
Net investment income	8,767,042
Interest expense	(9,413,737)
Other nonoperating expenses	(241,811,071)
<b>Net nonoperating revenues</b>	<u>423,471,942</u>
<b>Income Before Other Revenues, Expenses, Gains and Losses</b>	18,189,293
Capital appropriations	46,013,401
Capital gifts and grants	7,426,889
Additions to permanent endowments	13,469,378
Other deductions, net	<u>(3,994,802)</u>
<b>Increase in Net Assets</b>	81,104,159
<b>Net Assets at Beginning of Year, Restated (note 16)</b>	<u>1,146,141,989</u>
<b>Net Assets at End of Year</b>	<u><u>\$1,227,246,148</u></u>

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

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

**COMPONENT UNITS  
Statement of Activities  
For the Year Ended June 30, 2004**

	LSU Foundation	Tiger Athletic Foundation *	Pennington Medical Foundation *
<b>Changes in unrestricted net assets:</b>			
Contributions	\$1,105,718	\$9,605,865	\$4,977
Investment earnings	10,594,306	280,909	10,789,183
Service fees	1,976,334		
Grants and contracts			
Other revenues		3,558,618	
Total unrestricted revenues	<u>13,676,358</u>	<u>13,445,392</u>	<u>10,794,160</u>
Net assets released from restrictions - satisfaction of program expenses	21,903,335	3,986,212	
Total unrestricted revenues and other support	<u>35,579,693</u>	<u>17,431,604</u>	<u>10,794,160</u>
<b>Expenses:</b>			
Amounts paid to benefit Louisiana State University for:			
Projects specified by donors	12,552,580	1,526,572	
Projects specified by the Board of Directors	1,644,250	3,275,440	1,634,006
Other:			
Grants and contracts			
Property operations			
Other		5,115,675	
Total program expenses	<u>14,196,830</u>	<u>9,917,687</u>	<u>1,634,006</u>
<b>Supporting services:</b>			
Salaries and benefits	2,503,998	1,083,534	45,456
Occupancy	219,069	186,251	
Office operations	437,722	111,231	896,325
Travel	97,264	12,234	
Professional services	117,175	123,405	301,618
Dues and subscriptions	25,541	90,872	
Meetings and development	87,010	801,966	50,403
Depreciation	1,210,211		1,089,620
Merchandise expense		17,318	
Loss on sale or impairment of assets			
Other		201,121	109,793
Total supporting services	<u>4,697,990</u>	<u>2,627,932</u>	<u>2,493,215</u>
Write down of assets (note 5)	<u>8,100,000</u>	NONE	NONE
Total expenses	<u>26,994,820</u>	<u>12,545,619</u>	<u>4,127,221</u>
<b>Increase (decrease) in unrestricted net assets</b>	<u>8,584,873</u>	<u>4,885,985</u>	<u>6,666,939</u>

The accompanying notes are an integral part of this statement.

LSU Health Sciences Center Foundation	University of New Orleans Foundation	University of New Orleans Research and Technology Foundation	Total Foundations
\$82,379	\$233,092	\$134,904	\$11,166,935
88,905	654,659	72,665	22,480,627
702,891	1,503,278		4,182,503
		19,852,547	19,852,547
146,963	1,798,929	5,025,845	10,530,355
1,021,138	4,189,958	25,085,961	68,212,967
7,765,970	5,476,176		39,131,693
8,787,108	9,666,134	25,085,961	107,344,660
6,934,004			21,013,156
		215,828	6,769,524
		13,208,218	13,208,218
	909,475	3,651,671	4,561,146
	5,451,274		10,566,949
6,934,004	6,360,749	17,075,717	56,118,993
1,316,460	852,253	392,214	6,193,915
56,061	41,077		502,458
108,580	49,944		1,603,802
14,517	4,660	5,183	133,858
211,956	518,201	336,692	1,609,047
4,623	33,388		154,424
211,735			1,151,114
84,776	238,219	2,247,342	4,870,168
	2,112		19,430
	400,923		400,923
242,978	262,612	633,897	1,450,401
2,251,686	2,403,389	3,615,328	18,089,540
NONE	NONE	NONE	8,100,000
9,185,690	8,764,138	20,691,045	82,308,533
(398,582)	901,996	4,394,916	25,036,127

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
COMPONENT UNITS  
Statement of Activities  
For the Year Ended June 30, 2004**

	LSU Foundation	Tiger Athletic Foundation *	Pennington Medical Foundation *
<b>Changes in temporarily restricted net assets:</b>			
Contributions	\$15,545,093	\$2,441,671	
Investment earnings	21,868,447		
Other			
Total temporarily restricted revenues	<u>37,413,540</u>	<u>2,441,671</u>	NONE
Net assets released from restrictions - satisfaction of program expenses	<u>(21,903,335)</u>	<u>(3,986,212)</u>	NONE
<b>    Increase (decrease) in temporarily     restricted net assets</b>	<u>15,510,205</u>	<u>(1,544,541)</u>	NONE
<b>Changes in permanently restricted net assets:</b>			
Contributions	5,588,242	132,300	
Investment earnings	199,528	80,062	
Other			
<b>    Increase in permanently restricted net assets</b>	<u>5,787,770</u>	<u>212,362</u>	NONE
<b>Increase in net assets</b>	29,882,848	3,553,806	6,666,939
<b>Net assets at beginning of year, restated (note 16)</b>	<u>254,766,653</u>	<u>25,960,239</u>	<u>97,245,601</u>
<b>Net assets at end of year</b>	<u><u>\$284,649,501</u></u>	<u><u>\$29,514,045</u></u>	<u><u>\$103,912,540</u></u>

\*For the period ending December 31, 2003

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

LSU Health Sciences Center Foundation	University of New Orleans Foundation	University of New Orleans Research and Technology Foundation	Total Foundations
\$7,079,363	\$3,490,052	\$150,000	\$28,706,179
6,588,670	1,861,532		30,318,649
	2,200,400		2,200,400
<u>13,668,033</u>	<u>7,551,984</u>	<u>150,000</u>	<u>61,225,228</u>
(7,765,970)	(5,476,176)	NONE	(39,131,693)
<u>5,902,063</u>	<u>2,075,808</u>	<u>150,000</u>	<u>22,093,535</u>
1,754,155	877,374		8,352,071
469,312	1,699,699		2,448,601
	(1,152,202)		(1,152,202)
<u>2,223,467</u>	<u>1,424,871</u>	<u>NONE</u>	<u>9,648,470</u>
7,726,948	4,402,675	4,544,916	56,778,132
47,308,864	36,509,641	58,153,960	519,944,958
<u>\$55,035,812</u>	<u>\$40,912,316</u>	<u>\$62,698,876</u>	<u>\$576,723,090</u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA**

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

<b>Cash flows from operating activities</b>	
Student tuition and fees	\$224,235,992
Federal appropriations	10,152,220
Grants and contracts	368,844,825
Sales and services of educational departments	165,054,558
Hospital income	1,254,273,893
Auxiliary enterprise receipts	141,036,981
Payments for employee compensation	(1,245,127,130)
Payments for benefits	(249,291,361)
Payments for utilities	(52,845,925)
Payments for supplies and services	(916,580,530)
Payments for scholarships and fellowships	(36,394,092)
Loans to students	(7,497,365)
Collection of loans to students	7,528,836
Other receipts	18,085,029
Net cash used by operating activities	<u>(318,524,069)</u>
<b>Cash flows from noncapital financing activities</b>	
State appropriations	623,447,987
Gifts and grants for other than capital purposes	14,892,653
Private gifts for endowment purposes	10,080,435
TOPS receipts	48,121,084
TOPS disbursements	(49,346,852)
Other disbursements	(221,005,087)
Net cash provided by noncapital financing sources	<u>426,190,220</u>
<b>Cash flows from capital financing activities</b>	
Proceeds from capital debt	26,736,381
Capital appropriations received	42,952,526
Capital grants and gifts received	7,228,989
Purchase of capital assets	(124,217,443)
Principal paid on capital debt and leases	(37,710,187)
Interest paid on capital debt and leases	(8,772,331)
Other uses	(4,022,870)
Net cash used by capital financing activities	<u>(97,804,935)</u>
<b>Cash flows from investing activities</b>	
Proceeds from sales and maturities of investments	32,113,502
Interest received on investments	10,294,835
Purchase of investments	(50,110,301)
Net cash used by investing activities	<u>(7,701,964)</u>
<b>Net increase in cash and cash equivalents</b>	2,159,252
<b>Cash and cash equivalents at the beginning of the year</b>	<u>280,458,053</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$282,617,305</u></u>

(Continued)

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

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

**Reconciliation of Operating Loss to Net Cash**

**Used by Operating Activities:**

Operating loss	(\$405,282,649)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	102,461,133
Changes in assets and liabilities:	
Decrease in accounts receivable	45,860,727
Decrease in inventories	2,830,952
Increase in deferred charges and prepaid expenses	(1,809,187)
Decrease in notes receivable	265,153
Decrease in other assets	7,912,381
Decrease in accounts payable and accrued liabilities	(55,049,074)
Decrease in deferred revenue	(988,027)
Decrease in amounts held in custody for others	(432,862)
Increase in compensated absences	3,551,430
Decrease in other liabilities	<u>(17,844,046)</u>
Net cash used by operating activities	<u><u>(\$318,524,069)</u></u>

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

Cash and cash equivalents classified as current assets	\$219,536,142
Cash and cash equivalents classified as noncurrent assets	<u>63,081,163</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$282,617,305</u></u>

(Concluded)

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



## INTRODUCTION

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

The university system is comprised of nine institutions on 10 campuses in five cities and 10 state hospitals. The system includes LSU and A&M College (LSU), the Paul M. Hebert Law Center, and the Pennington Biomedical Research Center, all in Baton Rouge; the LSU Agricultural Center (including the Louisiana Agricultural Experiment Station and the Louisiana Cooperative Extension Service) with headquarters in Baton Rouge; the University of New Orleans; LSU Shreveport; LSU Alexandria; LSU Eunice, a two-year institution; and the LSU Health Sciences Center, which includes schools of Medicine, Dentistry, Nursing, and Allied Health Professions, and a Graduate School in New Orleans, the Louisiana State University School of Medicine in New Orleans Faculty Group Practice (a Louisiana nonprofit corporation doing business as LSU Healthcare Network), the Health Care Services Division, and a School of Medicine in Shreveport with hospitals in Shreveport and Monroe. Student enrollment for the university system for the 2003 fall semester totaled 62,882. During September 2003, the university system had approximately 5,465 full-time and part-time faculty members, including associates and affiliated faculty.

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

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. BASIS OF PRESENTATION

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

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

### **B. REPORTING ENTITY**

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

#### **Blended Component Units**

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

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

A cooperative endeavor agreement, dated November 1, 1995, documents the relationship between the LSU Health Sciences Center and LSUHN. The agreement provides for the LSU Health Sciences Center and LSUHN to continue as autonomous organizations with separate but complimentary missions. The agreement establishes a relationship in which the LSU Health Sciences Center will lease certain faculty, staff, and specific office space and equipment to LSUHN as its part of the agreement. LSUHN will reimburse the LSU Health Sciences Center for the use of its employees, facilities, and equipment; provide

support to the academic programs; and provide access to a patient base that would not otherwise be available, as its part of the agreement.

To obtain the latest audit report of the LSU Healthcare Network, write to the LSU Healthcare Network, 2020 Gravier Street, Suite 507, New Orleans, Louisiana 70112.

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

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

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

### **Discretely Presented Component Units**

For the year ended June 30, 2004, the LSU System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14.

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

foundations assist the university in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. The university and the LSU Foundation, the University of New Orleans Foundation, and the LSU Health Sciences Center Foundation are also in management agreements related to endowed chairs and professorships. These agreements are in compliance with Board of Regents policy and allow the foundations to manage funds on behalf of the university.

Other external auditors audited the Tiger Athletic Foundation and the Pennington Medical Foundation for the year ended December 31, 2003, and the LSU Foundation, the University of New Orleans Foundation, the University of New Orleans Research and Technology Foundation, and the LSU Health Sciences Center Foundation for the year ended June 30, 2004.

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

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

Each discretely presented component unit is described as follows:

The LSU Foundation supports LSU A&M. During the year ended June 30, 2004, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of \$14,196,830. Complete financial statements for the foundation can be obtained at 3838 West Lakeshore Drive, Baton Rouge, Louisiana, 70808.

The Tiger Athletic Foundation (TAF) supports LSU A&M. During the year ended December 31, 2003, TAF made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of \$4,802,012. Complete financial statements for TAF can be obtained from P. O. Box 711, Baton Rouge, Louisiana 70821, or from the foundation's Web site at [www.lsutaf.org](http://www.lsutaf.org).

The Pennington Medical Foundation supports the Pennington Biomedical Research Center. During the year ended December 31, 2003, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of \$1,634,006. Complete financial statements for the foundation can be obtained from Mr. Brad Jewel, CPA, 6400 Perkins Road, Baton Rouge, Louisiana 70808.

The LSU Health Sciences Center Foundation and its wholly owned subsidiary, the LSU Medical Center Institute of Professional Education, support the LSU Health Sciences Center in New Orleans. During the year ended June 30, 2004, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of \$260,495. Complete financial statements for the foundation can be obtained at 2000 Tulane Avenue, New Orleans, Louisiana 70112, or from the foundation's Web site at [www.foundation.lsuhscc.edu](http://www.foundation.lsuhscc.edu).

The University of New Orleans Foundation supports the University of New Orleans. During the year ended June 30, 2004, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes in the amount of \$5,166,953. Complete financial statements for the foundation can be obtained at 2000 Lakeshore Drive, New Orleans, Louisiana 70148, or from the foundation's Web site at [www.unofoundation.org](http://www.unofoundation.org).

The University of New Orleans Research and Technology Foundation supports the University of New Orleans. During the year ended June 30, 2004, the foundation made distributions to or on behalf of the university for either restricted or unrestricted purposes in the amount of \$215,828. Complete financial statements for the foundation can be obtained at 2000 Lakeshore Drive, New Orleans, Louisiana 70148.

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

### **C. BASIS OF ACCOUNTING**

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

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

### **Discrete Component Units**

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

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

### **D. BUDGET PRACTICES**

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

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

Original approved budget	\$1,248,706,047
Increases (decreases):	
State General Fund	(690,248)
Statutory dedication	(2,671,640)
Self-generated	134,428
Interagency transfers	14,194,599
Interim Emergency Board	<u>627,877</u>
Final budget	<u><u>\$1,260,301,063</u></u>

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

**E. CASH AND CASH EQUIVALENTS  
AND INVESTMENTS**

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

The university system may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. In accordance with Louisiana Revised Statute (R.S.) 49:327, the university system is authorized to invest funds in direct U.S. government obligations, U.S. government agency obligations, mutual funds, direct security repurchase agreements, and time certificates of deposit. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are U.S. Treasury securities, mutual funds, and investments held by private foundations and are reported at fair value on the balance sheet. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. The university system's investments maintained by the foundations are authorized by policies and procedures established by the Board of Regents.

**F. INVENTORIES**

Inventories are valued at cost or replacement cost, except for livestock at LSU and the LSU Agricultural Center and the inventory of the Dental School of the LSU Health Sciences Center - New Orleans. These inventories are valued at current market prices. The university system uses periodic and perpetual inventory systems and values its various other inventories using the first-in, first-out and weighted-average valuation

methods. The university system accounts for its inventories using the consumption method.

**G. NONCURRENT RESTRICTED ASSETS**

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

**H. CAPITAL ASSETS**

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

**I. DEFERRED REVENUES**

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

**J. NONCURRENT LIABILITIES**

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



**K. COMPENSATED ABSENCES**

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. Faculty with 12-month appointments who have over 10 years of state service, non-classified employees with over 10 years of state service, and classified employees regardless of years of state service accumulate leave without limitation. According to the university system leave schedule, faculty with 12-month appointments who have less than 10 years of state service and non-classified employees with less than 10 years of state service can only accumulate 176 hours of annual leave; sick leave is accumulated without limitation. Effective January 1, 1994, academic and unclassified employees were given the opportunity to elect to remain under the university leave schedule or change to the Louisiana State Civil Service annual leave accrual schedule under which there is no limit on the accumulation of annual leave. Nine-month faculty members accrue sick leave but do not accrue annual leave; however, they are granted faculty leave during holiday periods when students are not in classes. Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and unclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

**L. NET ASSETS**

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

- (1) Invested in Capital Assets, Net of Related Debt  
This represents the university system's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations related to acquisition, construction, or improvement of those capital assets.
- (2) Restricted Net Assets - Expendable  
Restricted expendable net assets include resources that the university system is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (3) Restricted Net Assets - Nonexpendable  
Restricted nonexpendable net assets consist of endowment and similar type funds that donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- (4) Unrestricted Net Assets  
Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational

departments and certain auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university system and may be used at the discretion of the governing board to meet current expenses and for any purpose.

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

#### **M. CLASSIFICATION OF REVENUES**

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

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

#### **N. SCHOLARSHIP DISCOUNTS AND ALLOWANCES**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by students and/or third parties making payments on the student's behalf.

#### **O. ELIMINATING INTERFUND ACTIVITY**

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

#### **P. ADOPTION OF NEW ACCOUNTING PRINCIPLE**

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

**2. CASH AND CASH EQUIVALENTS**

At June 30, 2004, the university system has cash and cash equivalents (book balances) of \$282,617,305 as follows:

Petty cash	\$1,553,684
Demand deposits	115,804,446
Certificates of deposit	65,918,600
Money market funds	15,809,562
Open-end mutual fund	<u>83,531,013</u>
Total	<u><u>\$282,617,305</u></u>

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

As of June 30, 2004, \$31,475,082 of the system's bank balance of \$347,091,521 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$13,509,309
Uninsured and collateralized with securities held by the pledging institution, not in the System's name	<u>17,965,773</u>
Total	<u><u>\$31,475,082</u></u>

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

**CASH AND CASH EQUIVALENTS - COMPONENT UNITS**

Cash and cash equivalents of the component units totaling \$43,285,542, as shown on the Statement of Financial Position, are reported under FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

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

The Tiger Athletic Foundation maintains several bank accounts at various financial institutions. Accounts at individual institutions are insured by FDIC up to \$100,000. Cash at the institutions exceeded federal insured limits. The amount in excess of the FDIC limit totaled approximately \$23,500,000 as of December 31, 2003.

The Pennington Medical Foundation maintains its cash in deposit accounts at a financial institution. The balances are insured by FDIC up to \$100,000. The balances at times may exceed federally insured limits. At December 31, 2003, the Pennington Medical Foundation's deposits did not exceed the insured limit.

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

The UNO Research and Technology Foundation maintains cash balances at several banks. Accounts at each institution are insured by FDIC up to \$100,000. Balances in excess of FDIC insurance at June 30, 2004, were \$335,035.

### **3. INVESTMENTS**

At June 30, 2004, the system has investments totaling \$162,583,496.

The system's established investment policy follows state law (R.S. 49:327), which authorizes the system to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds.

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# LOUISIANA STATE UNIVERSITY SYSTEM

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A summary of the system's investments follows:

	Percentage of Investments	Credit Quality Rating*	Fair Value
Type of Investment:			
Repurchase agreements	0.78%	Aaa	\$1,279,426
U.S. government securities:			
U.S. Treasury Notes <sup>1</sup>	1.27%		2,056,842
Federal Home Loan Mortgage Corporation <sup>2</sup>	15.78%		25,652,715
Federal National Mortgage Association <sup>2</sup>	9.16%		14,888,503
Government National Mortgage Association <sup>1</sup>	2.28%		3,711,328
Federal Home Loan Bank	11.96%	Aaa	19,448,524
Federal Farm Credit Bank	0.15%	Aaa	248,769
Mutual Funds:			
Blackrock Mutual Fund	0.01%	Aaa	15,993
Money market mutual funds	5.96%	Aaa	9,685,921
Other: <sup>3</sup>			
Investments held by foundations	48.34%		78,586,755
Common and preferred stock	1.62%		2,632,049
Realty investments	2.13%		3,456,932
Joint Ventures	0.17%		275,000
Certificates of deposit	0.06%		100,000
LPFA	0.05%		85,756
Other	0.28%		458,983
	<u>100.00%</u>		<u>\$162,583,496</u>

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

<sup>1</sup> Credit quality ratings are not required for U.S. government and agency securities that are explicitly guaranteed by the U.S. government.

<sup>2</sup> Securites are implicitly guaranteed by the U.S. government but are not rated by Moody's Investors Service.

<sup>3</sup> Credit quality ratings are not required for these investments, which with the exception of "Other," 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 system's investments by type as described previously. The system does not have policies to further limit credit risk.

## NOTES TO THE FINANCIAL STATEMENTS

	Investment Maturities in Years				
	Less Than 1	1-5 Years	6-10	11-20	21-30
Type of Investment:					
Repurchase agreements	\$1,279,426				
U.S. government securities:					
U.S. Treasury Notes <sup>1</sup>	2,056,842				
Federal Home Loan Mortgage Corporation <sup>2</sup>	3,344,931	\$8,812,034	\$12,024,936	\$1,470,814	
Federal National Mortgage Association <sup>2</sup>	22,187	4,581,075	9,864,359	420,882	
Government National Mortgage Association <sup>1</sup>			3,486,691	146,090	\$78,547
Federal Home Loan Bank	4,107,109	12,627,814	2,713,601		
Federal Farm Credit Bank	1,817	246,952			
Mutual Funds:					
Blackrock Mutual Fund	15,993				
Money market mutual funds	9,685,921				
Other: <sup>3</sup>					
Investments held by foundations					
Common and preferred stock					
Realty investments					
Joint Ventures					
Certificates of deposit					
LPFA					
Other	458,983				
	\$20,973,209	\$26,267,875	\$28,089,587	\$2,037,786	\$78,547
Total investments	\$20,973,209	\$26,267,875	\$28,089,587	\$2,037,786	\$78,547

## LOUISIANA STATE UNIVERSITY SYSTEM

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For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the system's \$162,583,496 in total investments, \$25,434,867 of underlying securities are held by counterparties, not in the name of the system. For U.S. Treasury obligations and U.S. government agency obligations, the system's investment policies generally require that issuers must provide the universities with safekeeping receipts, collateral agreements, and custodial agreements.

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

The open-end mutual fund amount of \$83,531,013, included in cash and cash equivalents, consists of funds invested in the Federated Investors Government Obligations Fund, which is rated AAAM by Standard and Poors. The fund's holdings consist primarily of short-term U.S. Treasury and U.S. government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. The fund minimizes interest rate risk with the purchase of short-term securities.

Investments held by private foundations in external investment pools are managed in accordance with the terms outlined in management agreements executed between the university and the foundations. Each university is a voluntary participant. The foundations hold and manage funds received by the university as state matching funds for the Eminent Scholars Endowed Chairs and Endowed Professorship Programs. Of the \$78,586,755 reported as investments held by foundations, the amounts held by its discretely presented component units are shown below.

<u>Component Unit</u>	<u>Amount Held</u>
LSU Foundation	\$43,491,180
LSU Health Sciences Center Foundation	15,182,125
UNO Foundation	<u>11,719,714</u>
Total	<u>\$70,393,019</u>

### INVESTMENTS - COMPONENT UNITS

Component units' investments totaling \$518,674,530, as shown on the Statement of Financial Position, are reported under FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40. The fair value of investments held by the foundations at June 30, 2004, follows:



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# LOUISIANA STATE UNIVERSITY SYSTEM

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<u>Type of Investment</u>	<u>LSU Foundation</u>	<u>Tiger Athletic Foundation *</u>	<u>Pennington Medical Foundation *</u>
Money markets/certificates of deposit	\$395,000		
Government obligations	75,100,624	\$410,754	\$230,398
Corporate obligations	3,015,047		
Corporate stocks, common stocks, and indexed mutual funds	162,933,967		
Mortgage backed securities and CMOs	60,308,836		
Shaw Center for the Performing Arts	19,913,860		
Land	522,652		
Royalty interest	146,568		
Equities			30,558,201
Fixed income		851,068	26,646,300
Meridian Diversified Fund			17,280,135
Mineral interests			1,297,533
U.S. government agency/mortgage backed securities			
U.S. government bonds and notes			
Corporate bonds and notes			
Mutual funds			
Municipal bonds			
Federal mortgage notes			
Notes and mortgages			
	<hr/>	<hr/>	<hr/>
Total investments	<u>\$322,336,554</u>	<u>\$1,261,822</u>	<u>\$76,012,567</u>

The LSU Foundation is a 50% investor in the Shaw Center for the Arts, LLC. The investment recorded on the statement of financial position in the amount of \$19,913,860 at June 30, 2004, is accounted for by the equity method. The LSU Foundation had estimated remaining commitments relating to the Shaw Center for the Arts, LLC of approximately \$3,500,000 at June 30, 2004, and that amount is classified in the statement of financial position as other liabilities. The summarized unaudited financial information of the Shaw Center for the Arts, LLC is as follows:

Total assets	<u>\$42,432,268</u>
Total liabilities	<u>\$2,604,548</u>
Net income	<u>\$460,494</u>

## NOTES TO THE FINANCIAL STATEMENTS

<u>Type of Investment</u>	LSU Health Sciences Center Foundation	UNO Foundation	UNO Research and Technology Foundation	Total Investments
Money markets/certificates of deposit	\$166,191	\$5,468,276	\$4,078,445	\$10,107,912
Government obligations		3,939,941		79,681,717
Corporate obligations				3,015,047
Corporate stocks, common stocks, and indexed mutual funds		23,638,972		186,572,939
Mortgage backed securities and CMOs				60,308,836
Shaw Center for the Performing Arts				19,913,860
Land				522,652
Royalty interest				146,568
Equities				30,558,201
Fixed income				27,497,368
Meridian Diversified Fund				17,280,135
Mineral interests				1,297,533
U.S. government agency/mortgage backed securities	5,090,753			5,090,753
U.S. government bonds and notes	3,859,844			3,859,844
Corporate bonds and notes	4,423,184	4,362,312		8,785,496
Mutual funds	50,497,899			50,497,899
Municipal bonds	137,820			137,820
Federal mortgage notes			4,755,929	4,755,929
Notes and mortgages		8,644,021		8,644,021
	<u>\$64,175,691</u>	<u>\$46,053,522</u>	<u>\$8,834,374</u>	<u>\$518,674,530</u>
Total investments				

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

**4. RECEIVABLES**

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

	<u>Receivables</u>	<u>Doubtful Accounts</u>	<u>Net Receivables</u>
Student tuition and fees	\$13,647,144		\$13,647,144
Auxiliary enterprises	6,434,890	\$16,000	6,418,890
Contributions and gifts	856,808		856,808
Federal, state, and private grants and contracts	76,687,045		76,687,045
Federal appropriations	1,307,255		1,307,255
Clinics	89,460,203	47,779,746	41,680,457
Sales and services/other	13,603,236	1,093	13,602,143
Hospital	546,826,360	493,723,890	53,102,470
Other adjustments	<u>(126,875,120)</u>	<u>(126,875,120)</u>	
Total	<u>\$621,947,821</u>	<u>\$414,645,609</u>	<u>\$207,302,212</u>

Before July 1, 2003, the LSU Health Sciences Center - Health Care Services Division (HCSD) recorded the accumulated balance of bad debt accounts receivable and an off-setting allowance for doubtful accounts in its Siemens General Ledger System. The total of these two accounts had a net zero effect on the Statement of Net Assets, but was reported separately for informational purposes only in the accounts receivable note disclosure of the annual financial report (AFR) prepared for the State of Louisiana (Office of Statewide Reporting and Accounting Policy). This practice began in fiscal year 1995 with the implementation of the Siemens General Ledger System, based on HCSD's consultant’s interpretation of Article VII, Section 15 of the Constitution of Louisiana. The consultant’s interpretation was that HCSD had no authority to “forgive state debt” and could not write off a patient’s account, however impractical and doubtful any further collection efforts might be.

During fiscal year 2004, HCSD obtained approval from LSU System Administration to discontinue the practice of accumulating bad debt accounts receivable and the corresponding allowance for doubtful accounts for reporting purposes. Reporting these amounts could be misleading to the reader of the financial statements, even though the note disclosure appropriately indicated the net accounts receivable that HCSD intended to collect. Beginning with fiscal year 2004, HCSD only includes those accounts receivable that are in the Siemens Patient Accounting System, which includes backup documentation to support the reported amount. This change in approach to the presentation of the accounting activity in the note disclosure is consistent with established practices of the LSU System.

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## NOTES TO THE FINANCIAL STATEMENTS

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

**5. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

**LSU SYSTEM**

	Balance June 30, 2003	Prior Period Adjustment	Restated Balance June 30, 2003
Capital assets not being depreciated:			
Land	\$91,793,463	\$19,000,000	\$110,793,463
Construction in progress	155,585,848	5,217,579	160,803,427
	<u>\$247,379,311</u>	<u>\$24,217,579</u>	<u>\$271,596,890</u>
Other capital assets:			
Infrastructure	\$47,561,229	\$352,064	\$47,913,293
Less accumulated depreciation	(17,991,431)		(17,991,431)
Total infrastructure	<u>29,569,798</u>	<u>352,064</u>	<u>29,921,862</u>
Land improvements	55,834,325	523,538	56,357,863
Less accumulated depreciation	(40,740,989)	62,099	(40,678,890)
Total land improvements	<u>15,093,336</u>	<u>585,637</u>	<u>15,678,973</u>
Buildings	1,251,998,386	28,873,175	1,280,871,561
Less accumulated depreciation	(684,098,083)	(58,479)	(684,156,562)
Total buildings	<u>567,900,303</u>	<u>28,814,696</u>	<u>596,714,999</u>
Equipment	739,415,494	(8,991,961)	730,423,533
Less accumulated depreciation	(521,460,609)	7,535,736	(513,924,873)
Total equipment	<u>217,954,885</u>	<u>(1,456,225)</u>	<u>216,498,660</u>
Library books	177,785,285		177,785,285
Less accumulated depreciation	(159,229,760)		(159,229,760)
Total library books	<u>18,555,525</u>	<u>NONE</u>	<u>18,555,525</u>
	<u>\$849,073,847</u>	<u>\$28,296,172</u>	<u>\$877,370,019</u>
Capital asset summary:			
Capital assets not being depreciated	\$247,379,311	\$24,217,579	\$271,596,890
Other capital assets, at cost	2,272,594,719	20,756,816	2,293,351,535
Total cost of capital assets	<u>2,519,974,030</u>	<u>44,974,395</u>	<u>2,564,948,425</u>
Less accumulated depreciation	(1,423,520,872)	7,539,356	(1,415,981,516)
Capital assets, net	<u>\$1,096,453,158</u>	<u>\$52,513,751</u>	<u>\$1,148,966,909</u>

**LSU SYSTEM**

	Additions	Transfers	Retirements	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$12,293	\$1,729,620		\$112,535,376
Construction in progress	41,347,412	(46,348,073)		155,802,766
	<u>\$41,359,705</u>	<u>(\$44,618,453)</u>	NONE	<u>\$268,338,142</u>
Other capital assets:				
Infrastructure	\$2,741,378	\$6,019,114		\$56,673,785
Less accumulated depreciation	(1,177,519)			(19,168,950)
Total infrastructure	<u>1,563,859</u>	<u>6,019,114</u>	NONE	<u>37,504,835</u>
Land improvements	1,359,075	1,510,051		59,226,989
Less accumulated depreciation	(1,373,166)			(42,052,056)
Total land improvements	<u>(14,091)</u>	<u>1,510,051</u>	NONE	<u>17,174,933</u>
Buildings	17,289,437	37,085,776		1,335,246,774
Less accumulated depreciation	(32,747,382)	(17,666)		(716,921,610)
Total buildings	<u>(15,457,945)</u>	<u>37,068,110</u>	NONE	<u>618,325,164</u>
Equipment	52,842,151		(\$31,204,801)	752,060,883
Less accumulated depreciation	(58,608,708)		29,182,216	(543,351,365)
Total equipment	<u>(5,766,557)</u>	NONE	<u>(2,022,585)</u>	<u>208,709,518</u>
Library books	9,353,615		(454,948)	186,683,952
Less accumulated depreciation	(8,897,546)		407,052	(167,720,254)
Total library books	<u>456,069</u>	NONE	<u>(47,896)</u>	<u>18,963,698</u>
	<u>(\$19,218,665)</u>	<u>\$44,597,275</u>	<u>(\$2,070,481)</u>	<u>\$900,678,148</u>
Capital asset summary:				
Capital assets not being depreciated	\$41,359,705	(\$44,618,453)		\$268,338,142
Other capital assets, at cost	83,585,656	44,614,941	(\$31,659,749)	2,389,892,383
Total cost of capital assets	<u>124,945,361</u>	<u>(3,512)</u>	<u>(31,659,749)</u>	<u>2,658,230,525</u>
Less accumulated depreciation	<u>(102,804,321)</u>	<u>(17,666)</u>	<u>29,589,268</u>	<u>(1,489,214,235)</u>
Capital assets, net	<u>\$22,141,040</u>	<u>(\$21,178)</u>	<u>(\$2,070,481)</u>	<u>\$1,169,016,290</u>

## LOUISIANA STATE UNIVERSITY SYSTEM

The prior period adjustments represent corrections of errors in recorded capital assets from prior years and the transfer of the New Orleans Adolescent Home to LSUHSC.

### COMPONENT UNITS

	Balance June 30, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Capital assets not being depreciated:					
Land	\$7,478,987			(\$236,250)	\$7,242,737
Capitalized collections	6,158,406	\$569,950		(200,908)	6,527,448
Livestock		3,000			3,000
Construction in progress	31,875,452	9,873,307	(33,922,445)		7,826,314
<b>Total capital assets not being depreciated</b>	<b>\$45,512,845</b>	<b>\$10,446,257</b>	<b>(\$33,922,445)</b>	<b>(\$437,158)</b>	<b>\$21,599,499</b>
Other capital assets:					
Infrastructre	\$4,299,418	\$123,063			\$4,422,481
Less accumulated depreciation	(2,649,301)	(259,819)			(2,909,120)
<b>Total infrastructre</b>	<b>1,650,117</b>	<b>(136,756)</b>	<b>NONE</b>	<b>NONE</b>	<b>1,513,361</b>
Land improvements	1,243,364	133,633			1,376,997
Less accumulated depreciation	(111,094)	(50,364)			(161,458)
<b>Total land improvements</b>	<b>1,132,270</b>	<b>83,269</b>	<b>NONE</b>	<b>NONE</b>	<b>1,215,539</b>
Buildings	161,533,796	40,742,355	\$1,965,479	(\$755,870)	203,485,760
Less accumulated depreciation	(13,631,615)	(3,338,096)		119,401	(16,850,310)
<b>Total buildings</b>	<b>147,902,181</b>	<b>37,404,259</b>	<b>1,965,479</b>	<b>(636,469)</b>	<b>186,635,450</b>
Equipment	32,303,776	6,058,687		(8,262,372)	30,100,091
Less accumulated depreciation	(19,595,647)	(2,612,487)		128,038	(22,080,096)
<b>Total equipment</b>	<b>12,708,129</b>	<b>3,446,200</b>	<b>NONE</b>	<b>(8,134,334)</b>	<b>8,019,995</b>
<b>Total other capital assets</b>	<b>\$163,392,697</b>	<b>\$40,796,972</b>	<b>\$1,965,479</b>	<b>(\$8,770,803)</b>	<b>\$197,384,345</b>
Capital asset summary:					
Capital assets not being depreciated	\$45,512,845	\$10,446,257	(\$33,922,445)	(\$437,158)	\$21,599,499
Other capital assets, at cost	199,380,354	47,057,738	1,965,479	(9,018,242)	239,385,329
<b>Total cost of capital assets</b>	<b>244,893,199</b>	<b>57,503,995</b>	<b>(31,956,966)</b>	<b>(9,455,400)</b>	<b>260,984,828</b>
Less accumulated depreciation	(35,987,657)	(6,260,766)	NONE	247,439	(42,000,984)
<b>Capital assets, net</b>	<b>\$208,905,542</b>	<b>\$51,243,229</b>	<b>(\$31,956,966)</b>	<b>(\$9,207,961)</b>	<b>\$218,983,844</b>

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

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



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## NOTES TO THE FINANCIAL STATEMENTS

In December 1996, an act of donation was executed whereby a collection of artwork was donated to the UNO Foundation contingent on completion of an appropriate museum structure to showcase the artwork. The donor is to maintain custody of the artwork until the Ogden Museum is completed. The donor agreed to maintain insurance against loss or damage of the artwork, designating the UNO Foundation as the named insured. A significant portion of the donor's artwork has been loaned to the museum for display in the Goldring Hall portion of the museum. In 2004, the UNO Foundation and the donor modified their understanding to clarify that the remainder of the artwork would be donated and title would be transferred by January 2006, assuming that the Taylor Library has been completed by that time and the tunnel connecting the Taylor Library to Goldring Hall is then operational. As of June 30, 2004, the fair value of the artwork has not been established.

During November 2003, the UNO Foundation entered into an agreement to lease certain real estate to a third party for no rent for 10 years. The UNO Foundation intends to make this real estate available to the Museum Board for the Museum Board to build a tunnel connecting the two exhibition facilities within the Ogden Museum: Goldring Hall and the Taylor Library. At the earlier of the tunnel being completed or the end of the lease term, the ownership of the real estate will be transferred to the third party at no cost to the third party. The UNO Foundation will retain and make available to the Museum Board a right of access to the tunnel portion of the property. Since the UNO Foundation will receive no annual rent or cash proceeds for the real estate, the net book value of the real estate of \$400,923 was written off at June 30, 2004, and recorded as an impairment loss in the Statement of Activities.

At June 30, 2004, real estate held for investment, development or sale consists of the following:

Technology Enterprise Center	\$2,768,065
Film Studio Center	2,530,891
Lee Circle Properties:	
Taylor Library - construction in progress	3,582,170
Parking lot	2,046,856
Land and commercial buildings	2,493,280
Total	<u>13,421,262</u>
Less accumulated depreciation	<u>(1,517,176)</u>
Total	<u><u>\$11,904,086</u></u>

### IMPAIRMENT - COMPONENT UNIT - LSU FOUNDATION

In December of 2001, the LSU Marine Property Foundation, whose sole member is the LSU Foundation, accepted the donation of three vessels, which are of unique design. The vessels were originally constructed for and utilized by a U.S. governmental entity prior to being acquired by the donor group. At the time of the donation, based on the lesser valuation of two marine surveys and appraisals provide by the donor group, the total appraised value of the vessels was approximately \$8.4 million. In connection with a proposed sale of the vessels in March of 2004, the LSU Marine Property Foundation obtained an independent appraisal of the three vessels.

The valuation report provided by a reputable marine surveyor concluded that (i) technological advances diminished the value of major mechanical components of the vessels due to age and obsolescence; (ii) the vessel's engines did not meet current U.S. government emission standards applicable to commercial or private operation; and (iii) consequently, the current market value of the three vessels could not be expected to exceed \$300,000. Accordingly, an impairment of \$8,100,000 resulting from the decline in market value of these assets has been recognized during the year ended June 30, 2004.

### 6. PENSION PLANS

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

*Funding Policy.* The contribution requirements of employee plan members and the university system are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.0% (TRSLA) and 7.5% (LASERS) of covered salaries. In fiscal year 2004, the state contributed 13.8% of covered salaries to TRSLA and 15.8% of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to the university system. The employer contributions to TRSLA for the years ended June 30, 2004, 2003, and 2002, were \$25,864,416, \$22,800,063, and \$20,461,711, respectively, and to LASERS for the years ended June 30, 2004, 2003, and 2002, were \$74,606,740, \$65,839,353, and \$58,650,468, respectively, equal to the required contributions for each year.

### **Optional Retirement System**

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in recruiting employees who may not be expected to remain in TRSLA for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

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

Total contributions by the university system are 13.8% of the covered payroll. The participant's contribution (8.0%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the actuarial committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligations of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$44,066,147 and \$25,560,750, respectively, for the year ended June 30, 2004.

### **7. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

The university system provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university system's employees become eligible for these benefits if they reach normal retirement age while working for the university system. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the university system. The university system recognizes the cost of providing these benefits to retirees (university's portion of premiums) as an expense when paid during the year. These retiree benefits totaled \$27,442,124 for the year ended June 30, 2004.

### **8. CONTINGENT LIABILITIES, RISK MANAGEMENT, AND CLAIMS LIABILITY**

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

Fund appropriation. The university system is involved in 1,688 lawsuits at June 30, 2004, of which 16 lawsuits are handled by contract attorneys. The attorneys have estimated a possible liability of \$540,000 relating to six of the lawsuits. This amount has not been accrued in the accompanying financial statements. The remaining lawsuits are handled by the Office of Risk Management or the Attorney General’s Office.

In addition, the university is exposed to various risks of losses related to the self-insured and self-funded Definity Health Plan, which provides health insurance benefits to active and retired university employees and which began as a pilot program for the fiscal year ended June 30, 2003. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. According to the requirements of GASB Statement No. 10, as amended by Statements 17 and 30, total claims expenditures were \$40,460,482. Changes in the reported liability since June 30, 2003, resulted from the following:

	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Recoveries from Settled and Unsettled Claims	Balance at Fiscal Year-End
2002-03		\$14,767,106	\$12,194,106		\$2,573,000
2003-04	\$2,573,000	45,241,320	40,460,482	\$2,219,748	5,134,090

**CONTINGENCIES - COMPONENT UNITS**

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

The Tiger Athletic Foundation is subject to certain legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Tiger Athletic Foundation.

**9. COMPENSATED ABSENCES**

At June 30, 2004, employees of the university have accumulated and vested annual, sick, and compensatory leave benefits of \$87,230,208, \$29,203,304, and \$5,913,277, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

**10. OPERATING LEASES**

For the year ended June 30, 2004, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed, is \$12,407,073. 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, 2004:

Nature of Operating Lease	2005	2006	2007	2008	2009	2010-2014	2015-2019	Total Minimum Payments Required
Office space	\$7,119,095	\$6,217,703	\$5,901,214	\$4,078,406	\$3,721,396	\$17,627,787	\$4,090,813	\$48,756,414
Equipment	2,341,333	2,064,654	2,027,508	1,369,430	19,984			7,822,909
Land	4,500							4,500
Other	1,518,454	980,576	910,276	865,623	853,523	3,146,057		8,274,509
<b>Total</b>	<b>\$10,983,382</b>	<b>\$9,262,933</b>	<b>\$8,838,998</b>	<b>\$6,313,459</b>	<b>\$4,594,903</b>	<b>\$20,773,844</b>	<b>\$4,090,813</b>	<b>\$64,858,332</b>

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

**OPERATING LEASES - COMPONENT UNITS**

**Property, Facility and Equipment Lease Agreements**

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

The terms of the sub-lease agreement during the first 12 years (1997-2008) provides for Avondale Industries, Inc., to pay as rental the sum of \$100,000 per year by September 1 of each year provided that the state has made the annual appropriation provided for in the Cooperative Endeavor Agreement (note 23). Beginning September 1, 2009, and for each year thereafter during the term of the sub-lease, rent in the amount of \$100,000 is due and payable by September 1 of each year without regard to the state appropriation.

**Naval Reserve Information System Office** - On January 15, 1998, April 14, 1999, and on July 3, 2000, the UNO Research and Technology Foundation entered into a sub-lease agreement and amended lease modifications, respectively, with the United States of America (the Government) to lease from the Foundation, approximately 300,000 square feet of administrative space, 700 hard surface parking spaces, and 15.71 acres of land located at the UNO Research and Technology Park. The terms of the facility lease agreement provide that the government will have and hold the noted facility for the term beginning on the date of completion of the facility for an initial ten year term with fifteen individual one year renewal terms with the annual rent for the premises and maintenance services of \$1.00 and \$2,203,259, respectively.

**11. LESSOR LEASES**

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

The following schedule provides an analysis of the cost and carrying amount of the university system’s investment in property on operating leases and property held for lease as of June 30, 2004:

<u>Nature of Lease</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Office Space	\$14,557,768	(\$8,191,682)	\$6,366,086
Land	7,736,669		7,736,669
<b>Total</b>	<b>\$22,294,437</b>	<b>(\$8,191,682)</b>	<b>\$14,102,755</b>

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

<u>Nature of Operating Lease</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2014</u>	<u>2015-2019</u>	<u>Total Minimum Future Rentals</u>
Office space	\$1,975,172	\$670,586	\$394,594	\$161,358	\$57,432	\$89,186	\$15,770	\$3,364,098
Land	112,500	111,500	109,739	109,739	109,739	222,445	222,445	998,107
Other	63,482	46,795	43,124	25,291	8,768			187,460
<b>Total</b>	<b>\$2,151,154</b>	<b>\$828,881</b>	<b>\$547,457</b>	<b>\$296,388</b>	<b>\$175,939</b>	<b>\$311,631</b>	<b>\$238,215</b>	<b>\$4,549,665</b>

Minimum future rentals do not include contingent rentals, which may be received as stipulated in the lease contracts. These contingent rental payments occur as a result of sales volume, customer usage of services provided, or as a result of the drilling operations on mineral leases. Contingent rentals amounted to \$912,752 for the year ended June 30, 2004.

## 12. LONG-TERM LIABILITIES

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

### University

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Bonds payable	\$176,506,583	\$25,475,000	\$24,864,000	\$177,117,583	\$7,863,417
Notes payable	18,952,527	929,902	2,903,801	16,978,628	2,853,908
Capital lease obligations	52,999,130	7,728,825	9,305,986	51,421,969	9,345,402
Subtotal	<u>248,458,240</u>	<u>34,133,727</u>	<u>37,073,787</u>	<u>245,518,180</u>	<u>20,062,727</u>
Other liabilities:					
Compensated absences payable	119,568,659	13,701,872	10,923,742	122,346,789	8,361,421
Contracts payable	712,089		374,535	337,554	337,554
Subtotal	<u>120,280,748</u>	<u>13,701,872</u>	<u>11,298,277</u>	<u>122,684,343</u>	<u>8,698,975</u>
Total long-term liabilities	<u>\$368,738,988</u>	<u>\$47,835,599</u>	<u>\$48,372,064</u>	<u>\$368,202,523</u>	<u>\$28,762,702</u>

### Component Units

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Bonds payable	\$83,354,000		\$6,350,000	\$77,004,000	\$5,431,219
Notes payable	65,575,791	\$6,661,207	8,065,622	64,171,376	4,158,951
Capital lease obligations	845,110		28,587	816,523	24,825
Subtotal	<u>149,774,901</u>	<u>6,661,207</u>	<u>14,444,209</u>	<u>141,991,899</u>	<u>9,614,995</u>
Other liabilities:					
Amounts held in custody for others	75,913,974	4,056,914	217,837	79,753,051	2,930,280
Compensated absences payable	91,126	7,499		98,625	98,625
Subtotal	<u>76,005,100</u>	<u>4,064,413</u>	<u>217,837</u>	<u>79,851,676</u>	<u>3,028,905</u>
Total other liabilities	<u>\$225,780,001</u>	<u>\$10,725,620</u>	<u>\$14,662,046</u>	<u>\$221,843,575</u>	<u>\$12,643,900</u>

### Notes Payable

The university has entered into a number of installment purchase agreements for the purchase of computer equipment, copiers, vehicles, et cetera. These agreements require scheduled payments either on a monthly, semiannual, or annual basis and have interest rates ranging from zero to 9.55%. The following is a summary of installment notes payable by the university for the year ended June 30, 2004:

## LOUISIANA STATE UNIVERSITY SYSTEM

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Balance at July 1, 2003	\$3,666,277
Installment purchases in 2004	929,902
Installment payments in 2004	<u>(1,177,135)</u>
Installment notes payable at June 30, 2004	<u><u>\$3,419,044</u></u>

The following is a summary of future minimum installment payments as of June 30, 2004:

<u>Fiscal Year Ending June 30:</u>	
2005	\$1,147,651
2006	1,082,087
2007	805,429
2008	<u>646,346</u>
Total minimum installment payments	3,681,513
Less - amount representing interest	<u>(262,469)</u>
Total	<u><u>\$3,419,044</u></u>

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

In addition to the installment purchase agreements, the university system has entered into loan agreements with the Louisiana Public Facilities Authority (LPFA) on October 31, 1988. The LPFA loan agreement totaling \$28,500,000 is for financing, refinancing, or reimbursing the cost of facilities; improvements and expansions of the LSU Athletic Department; construction of the Student Recreation Sports Center for LSU; improvements for parking and safety at LSU; improvements to residential life facilities (\$26,200,000); additions to the parking garage at the LSU Health Sciences Center in New Orleans (\$1,000,000); and building a child care center at the University of New Orleans (\$1,300,000). The loan repayments are payable from the fees, rates, rentals, charges, grants, or other receipts or income derived by or in connection with the facilities, equipment, and improvements. According to terms of the loan agreement, the university system is to repay principal and interest on the obligation on the 28th day of each month for 20 years commencing August 28, 1991. The university system made principal payments during the year totaling \$1,726,666. At June 30, 2004, the outstanding balance is \$13,559,584.

Notes payable totaling \$16,978,628 are reflected on Statement A.



**NOTES PAYABLE - COMPONENT UNITS**

The component units have entered into a number of notes payable agreements for various purposes. These agreements require scheduled payments either on a monthly, semiannual, or annual basis with interest rates ranging from zero to 7.50%. The following is a summary of notes payable by component unit as of June 30, 2004:

<u>Component Unit</u>	<u>Principal Outstanding June 30, 2003</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Principal Outstanding June 30, 2004</u>
Tiger Athletic Foundation*	\$9,974,844	\$1,211,207	(\$1,765,507)	\$9,420,544
Pennington Medical Foundation*	40,815,000			40,815,000
LSU Health Sciences Center Foundation	21,131		(21,131)	
UNO Foundation	6,143,759	5,450,000	(6,143,759)	5,450,000
UNO Research and Technology Foundation	8,621,057		(135,225)	8,485,832
Total	<u>\$65,575,791</u>	<u>\$6,661,207</u>	<u>(\$8,065,622)</u>	<u>\$64,171,376</u>

\* For the year ended December 31, 2003

The unamortized discount relative to the note payable for the UNO Research and Technology Foundation totaled \$750,906 at June 30, 2004, which is reported by the foundation as a reduction of the note payable. Notes payable totaling \$63,420,470 are reflected on Statement B.

The following is a summary of future minimum installment payments for the component units as of June 30, 2004:

<u>Fiscal Year Ending June 30:</u>	
2005	\$4,158,951
2006	7,534,578
2007	2,228,590
2008	2,379,118
2009	2,539,089
2010 and future years	<u>45,331,050</u>
Total	<u>\$64,171,376</u>

**Bonds and Contracts Payable - System**

Detailed summaries, by issues, of all bond and reimbursement contract debt outstanding at June 30, 2004, including future interest payments of \$64,955,241 for LSU; \$21,573,671 for the LSU Health Sciences Center; \$20,496,120 for the University of New Orleans; and \$11,501,883 for LSU at Eunice follow:

**Bonds Payable**

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding July 1, 2003</u>	<u>Issued</u>
<b>LSU</b>				
Student Housing System Bonds - 1964:				
Series A	July 1, 1964	\$900,000	\$33,000	
Series B	July 1, 1964	3,790,000	166,000	
Building Bonds of 1965 - Series B	July 1, 1965	1,545,000	98,000	
Student Housing System Bonds - 1966:				
Series B	July 1, 1966	2,175,000	270,000	
Series C	July 1, 1966	1,250,000	115,000	
1968 - Series B	July 1, 1968	1,275,000	160,000	
Auxiliary Revenue Bonds 1994	June 15, 1994	26,290,000	18,235,000	
1996 Revenue Bonds	September 5, 1996	33,485,000	30,420,000	
1997 Auxiliary Revenue Bonds	December 1, 1997	6,500,000	5,275,000	
2000 Auxiliary Revenue Bonds	June 28, 2000	27,000,000	26,350,000	
2002 Auxiliary Revenue Bonds	October 3, 2002	11,435,000	11,435,000	
2004 Auxiliary Revenue Refunding Bonds (advance refunding note 13)	April 6, 2004	16,035,000		\$16,035,000
<b>LSU Health Sciences Center</b>				
New Orleans - Building Revenue Bonds - Series 2000				
	January 1, 2000	15,910,000	15,290,000	
Health Care Services Division - Revenue Bonds, Series 2002				
	December 1, 2002	36,600,000	36,600,000	
<b>University of New Orleans</b>				
Jefferson Center, 1996-A				
	August 1, 1996	4,485,000	2,780,000	
Revenue Bonds of 1997 - Series A				
	January 15, 1997	5,965,000	5,365,000	
Revenue Bonds of 1998				
	August 15, 1998	15,915,000	15,545,000	
Revenue Bonds of 2004 - Series A				
	June 17, 2004	9,440,000		9,440,000
<b>LSU at Eunice</b>				
1998 Auxiliary Revenue Bonds				
	June 1, 1998	1,650,000	1,369,583	
2002 Auxiliary Revenue Bonds				
	January 17, 2002	7,000,000	7,000,000	
Total Bonds Payable		<u>\$228,645,000</u>	<u>\$176,506,583</u>	<u>\$25,475,000</u>

During the year ended June 30, 2004, the University of New Orleans issued \$9,440,000 of revenue bonds, Series A. The proceeds of the bonds will be used to (1) finance or reimburse a portion of the costs of the planning and construction of major repairs to the buildings and facilities at the university, (2) fund a reserve fund through the purchase of a debt service reserve insurance policy, and (3) pay the costs of issuance of the bonds.

## NOTES TO THE FINANCIAL STATEMENTS

### Bonds Payable

Issue	Redeemed	Outstanding June 30, 2004	Maturities	Interest Rates	Future Interest Payments June 30, 2004
<b>LSU</b>					
Student Housing System Bonds - 1964:					
Series A	\$33,000				
Series B	166,000				
Building Bonds of 1965 - Series B	60,000	\$38,000	2004-2005	3%	\$1,140
Student Housing System Bonds - 1966:					
Series B	85,000	185,000	2004-2006	3%	8,400
Series C	50,000	65,000	2004-2006	3%	2,400
1968 - Series B	50,000	110,000	2004-2008	3%	5,250
Auxiliary Revenue Bonds 1994	18,235,000				
1996 Revenue Bonds	695,000	29,725,000	2004-2026	4.7% - 5.5%	22,203,060
1997 Auxiliary Revenue Bonds	275,000	5,000,000	2004-2017	4.4% - 5%	1,896,440
2000 Auxiliary Revenue Bonds	250,000	26,100,000	2004-2030	Variable	24,543,000
2002 Auxiliary Revenue Bonds	130,000	11,305,000	2005-2032	Variable	10,564,933
2004 Auxiliary Revenue Refunding Bonds (advance refunding note 13)		16,035,000	2005-2015	4.0% - 5.25%	5,720,474
<b>LSU Health Sciences Center</b>					
New Orleans - Building Revenue Bonds - Series 2000	230,000	15,060,000	2004-2031	4.9%	16,605,721
Health Care Services Division - Revenue Bonds, Series 2002	4,070,000	32,530,000	2010-2011	3.121%	4,967,950
<b>University of New Orleans</b>					
Jefferson Center, 1996-A	65,000	2,715,000	2004-2026	3.85% - 5.5%	2,049,613
Revenue Bonds of 1997 - Series A	125,000	5,240,000	2004-2026	3.75% - 5.65%	4,003,200
Revenue Bonds of 1998	280,000	15,265,000	2004-2030	3.9% - 5%	12,414,093
Revenue Bonds of 2004 - Series A		9,440,000	2005-2014	3% - 4.125%	2,029,214
<b>LSU at Eunice</b>					
1998 Auxiliary Revenue Bonds	65,000	1,304,583	2005-2018	5%	538,539
2002 Auxiliary Revenue Bonds		7,000,000	2006-2033	7.35%	10,963,344
Total Bonds Payable	<u>\$24,864,000</u>	<u>\$177,117,583</u>			<u>\$118,516,771</u>

**BONDS PAYABLE - COMPONENT UNITS**

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding July 1, 2003</u>
<b>LSU Foundation</b>			
Pooled Loan Program Revenue Bonds, Series 2003A	April 1, 2003	\$12,725,000	\$12,725,000
<b>LSU Health Sciences Center Foundation</b>			
Equipment and Capital Facilities Pooled Loan Program Revenue Bonds, Series 2002A	January 1, 2002	2,035,000	2,035,000
<b>University of New Orleans Foundation</b>			
Regions Bank Bonds	July 11, 2001	2,000,000	1,919,000
<b>UNO Research and Technology Foundation</b>			
Louisiana Local Government Environmental Facilities and Community Development Authority	October 20, 1999	24,950,000	12,900,000
<b>Tiger Athletic Foundation *</b>			
Revenue Bonds, Series 1999	March 4, 1999	43,575,000	43,575,000
Revenue Bonds, Series 2001	July 26, 2001	<u>10,200,000</u>	<u>10,200,000</u>
Total Bonds Payable		<u>\$95,485,000</u>	<u>\$83,354,000</u>

\*As of January 1 and December 31, 2003

The unamortized bond issuance costs for the Health Sciences Center Foundation totaled \$31,818 at June 30, 2004, which is reported by the foundation as a reduction of the bonds payable. The unamortized premium relative to the bond for the UNO Research and Technology Foundation totaled \$2,702 at June 30, 2004, which is reported by the foundation as a reduction of the bonds payable. Bonds payable totaling \$76,969,480 is reflected on Statement B.

**REIMBURSEMENT CONTRACTS PAYABLE - SYSTEM**

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding July 1, 2003</u>
<b>LSU and Related Campuses</b>			
LSU Union Additions Bonds, Series 1984-B	July 31, 1984	\$2,700,000	\$639,036
Student Recreation Sports Center Bonds, Series 1984-A	April 1, 1984	<u>750,000</u>	<u>73,053</u>
Total Bonds Payable		<u>\$3,450,000</u>	<u>\$712,089</u>

## NOTES TO THE FINANCIAL STATEMENTS

### BONDS PAYABLE - COMPONENT UNITS

<u>Issue</u>	<u>Redeemed</u>	<u>Outstanding June 30, 2004</u>	<u>Maturities</u>	<u>Interest Rates</u>	<u>Future Interest Payments June 30, 2004</u>
<b>LSU Foundation</b>					
Pooled Loan Program Revenue Bonds, Series 2003A		\$12,725,000	2005-2029	1.48%	\$2,477,939
<b>LSU Health Sciences Center Foundation</b>					
Equipment and Capital Facilities Pooled Loan Program Revenue Bonds, Series 2002A		2,035,000	2005-2024	variable	
<b>University of New Orleans Foundation</b>					
Regions Bank Bonds	\$95,000	1,824,000	2005-2017	5.3%-7.5%	698,857
<b>UNO Research and Technology Foundation</b>					
Louisiana Local Government Environmental Facilities and Community Development Authority	4,125,000	8,775,000	2005-2007	5%	472,935
<b>Tiger Athletic Foundation*</b>					
Revenue Bonds, Series 1999		43,575,000	2010-2028	variable	
Revenue Bonds, Series 2001	2,130,000	8,070,000	2004-2011	variable	
Total Bonds Payable	<u>\$6,350,000</u>	<u>\$77,004,000</u>			<u>\$3,649,731</u>

\*As of January 1 and December 31, 2003

### REIMBURSEMENT CONTRACTS PAYABLE - SYSTEM

<u>Issue</u>	<u>Redeemed</u>	<u>Outstanding June 30, 2004</u>	<u>Maturities</u>	<u>Interest Rates</u>	<u>Future Interest Payments June 30, 2004</u>
<b>LSU and Related Campuses</b>					
LSU Union Additions Bonds, Series 1984-B	\$301,482	\$337,554	2005	6.01%	\$10,144
Student Recreation Sports Center Bonds, Series 1984-A	73,053				
Total Bonds Payable	<u>\$374,535</u>	<u>\$337,554</u>			<u>\$10,144</u>

## LOUISIANA STATE UNIVERSITY SYSTEM

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The annual requirements to amortize all university bonds and reimbursement contracts outstanding at June 30, 2004, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$8,200,971	\$9,178,130	\$17,379,101
2006	9,320,417	8,738,422	18,058,839
2007	9,550,000	8,355,792	17,905,792
2008	9,990,417	7,937,637	17,928,054
2009	10,440,417	7,501,000	17,941,417
2010-2014	42,352,085	30,658,889	73,010,974
2015-2019	24,085,830	22,153,520	46,239,350
2020-2024	26,690,000	15,417,611	42,107,611
2025-2029	26,080,000	7,336,150	33,416,150
2030-2034	10,745,000	1,249,764	11,994,764
Total	<u>\$177,455,137</u>	<u>\$118,526,915</u>	<u>\$295,982,052</u>

The annual requirements to amortize all component unit bonds outstanding at June 30, 2004, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$5,431,219	\$608,531	\$6,039,750
2006	5,803,312	407,787	6,211,099
2007	2,653,312	282,862	2,936,174
2008	1,875,312	250,099	2,125,411
2009	1,886,312	234,934	2,121,246
2010-2014	12,629,560	943,950	13,573,510
2015-2019	13,538,560	539,611	14,078,171
2020-2024	15,611,560	296,532	15,908,092
2025-2029	17,574,853	85,425	17,660,278
Total	<u>\$77,004,000</u>	<u>\$3,649,731</u>	<u>\$80,653,731</u>

NOTES TO THE FINANCIAL STATEMENTS

The following is a summary of the system debt service reserve requirements of the various bond issues at June 30, 2004:

<u>Bond Issue</u>	Cash/ Investment Reserves Available	Reserve Requirement	Excess
Auxiliary Plant:			
LSU	\$3,676,516	\$3,362,782	\$313,734
University of New Orleans	528,752	528,691	61
LSU Health Sciences Center - Health Care Services Division	<u>3,660,000</u>	<u>3,660,000</u>	_____
Total	<u>\$7,865,268</u>	<u>\$7,551,473</u>	<u>\$313,795</u>
Educational Plant -			
University of New Orleans	<u>\$333,820</u>	<u>\$333,820</u>	<u>NONE</u>

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

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

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

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

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

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

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

**Capital Leases**

The university system records items under capital leases as assets and obligations in the accompanying financial statements. Assets under capital lease are included as capital assets in note 5. The following is a schedule of future minimum lease payments under capital leases, together with the present value of minimum lease payments at June 30, 2004:

Fiscal Year Ending June 30:	
2005	\$11,457,460
2006	11,210,420
2007	10,712,351
2008	5,583,748
2009	3,027,347
2010-2014	11,643,466
2015-2019	11,186,945
Total minimum lease payments	<u>64,821,737</u>
Less - amounts representing interest	<u>(13,399,768)</u>
Present value of net minimum lease payments	<u><u>\$51,421,969</u></u>



**13. ADVANCE REFUNDING OF BONDS  
AT LSU AND A & M COLLEGE**

In April, 2004, LSU issued \$16,035,000 of nontaxable bonds - Series 2004. The purpose of the issue was to provide monies to advance refund portions of Series 1994 bonds. In order to refund the bonds, portions of the proceeds of the new issue (\$16,035,000), plus certain other funds and/or securities, were deposited and held in an escrow fund created pursuant to an escrow deposit agreement dated April 6, 2004, between the university and the escrow trustee. The amount in the escrow, together with interest earnings, was used to pay the principal, redemption premium, and interest. The refunding resulted in reducing the fiscal year 2005 debt service payments by \$1,323,000, and will subsequently result in reduced annual debt service payments in the amount of \$200,000 for the nine years thereafter, and gave the university an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,028,000. In addition, the Series 1994 Debt Service Reserve Fund in the amount of \$2,280,900 was returned to the university for the funding of electrical switchgear equipment. Of the debt considered defeased in substance, \$16,990,000 is outstanding as of June 30, 2004. However, as permitted by the Series 1994 bond indenture, these remaining bonds were called and paid in full on July 1, 2004.

**14. DUE FROM STATE TREASURY**

As shown on Statement A, the university system has a total of \$24,715,547 due from the state treasury at June 30, 2004. This amount consists of the following:

<u>Description</u>	<u>Due (to)/from</u>
State appropriations	\$899,148
Support Education in Louisiana First (SELF) funds	374,841
Tobacco Tax funds	9,691,401
Medicaid cost report settlements	12,679,342
AIDS Drug Assistance Program payments	1,186,702
Unclaimed property	(59,396)
Unexpended appropriation - current year	(2,310)
Unexpended appropriation - prior year	(45,842)
Recovery of accounts previously written off	<u>(8,339)</u>
Total	<u><u>\$24,715,547</u></u>

**15. RESTRICTED NET ASSETS**

The university system had the following restricted expendable net assets as of June 30, 2004:

**Restricted Expendable Net Assets**

<u>Account Title</u>	<u>Amount</u>
Student fees	\$9,699,223
Grants and contracts	17,655,794
Gifts	11,002,391
Endowment earnings	20,910,114
Auxiliary enterprises	40,392,633
Student loan fund	36,519,966
Capital construction	5,025,887
Debt service	11,216,082
Endowment fund	1,814,822
Other	<u>29,623,018</u>
 Total	 <u><u>\$183,859,930</u></u>

The university system's restricted nonexpendable net assets of \$126,617,994 as of June 30, 2004, are comprised entirely of endowment funds.

**RESTRICTED NET ASSETS - COMPONENT UNITS**

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

	<u>LSU Foundation</u>	<u>Tiger Athletic Foundation*</u>	<u>UNO Foundation</u>
<b>Temporarily restricted:</b>			
Chairs and professorships	\$23,859,387		
Scholarships and fellowships	12,623,985		\$275,396
Specific academic and research projects	16,813,547		
Academic support	8,651,465		2,620,608
Capital outlay and improvements	28,297,009		1,913,024
Research support	2,353,939		2,018,119
Institutional support	16,660,237		1,247,016
Bond restrictions		\$10,125,465	
Donor restrictions		3,999,682	
Restricted contributions receivable		6,848,838	
Artifacts			<u>751,488</u>
 Total temporarily restricted	 <u><u>\$109,259,569</u></u>	 <u><u>\$20,973,985</u></u>	 <u><u>\$8,825,651</u></u>

\*As of December 31, 2003

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)	LSU Foundation	Tiger Athletic Foundation*	UNO Foundation
<b>Permanently restricted:</b>			
Chairs and professorships	\$82,840,864		\$2,691,890
Scholarships and fellowships	35,255,180		
Specific academic and research projects	19,625,756		
Academic support	4,244,269		10,500,402
Capital outlay and improvements	1,159,446		
Research support	1,593,531		11,115,283
Institutional support	2,999,438		2,313,302
Endowment funds		\$2,065,955	
Faculty - salary supplements			2,048,197
	<u>\$147,718,484</u>	<u>\$2,065,955</u>	<u>\$28,669,074</u>
Total permanently restricted	<u>\$147,718,484</u>	<u>\$2,065,955</u>	<u>\$28,669,074</u>

\*As of December 31, 2003

At December 31, 2003, the Pennington Medical Foundation reported no restricted net assets.

At June 30, 2004, the LSU Health Sciences Center Foundation has \$14,028,948 in temporarily restricted net assets and \$40,555,122 in permanently restricted net assets. At June 30, 2004, the UNO Research and Technology Foundation has \$150,000 in temporarily restricted net assets and no permanently restricted net assets.

### 16. RESTATEMENT OF BEGINNING NET ASSETS

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

	University	Component Units
Net assets at June 30, 2003	\$1,088,905,170	\$511,635,803
Transfer of New Orleans Adolescent Home to LSUHSC	25,808,540	
Deferred revenues - LSUHSC	19,283,245	
Health Care Services Division property, plant, and equipment	17,405,507	
Health Care Services Division accounts payable	(12,663,138)	
LSUHSC property, plant, and equipment corrections	6,339,411	
Reclassification of expenses from fiscal 2004 to 2003 for Medical Center of Louisiana at New Orleans	(2,926,865)	
Reclassification of anesthesia charges for LSUHSC	(1,394,102)	
LSUHSC correction of lease obligation	(1,344,183)	
E.A. Conway Medical Center Medicaid disproportionate share	1,333,874	
E.A. Conway Medical Center distributions	718,790	
E.A. Conway Medical Center construction in progress	892,140	

LOUISIANA STATE UNIVERSITY SYSTEM

(Continued)	University	Component Units
LSUHSC at Shreveport - restatement of Medicaid receivables	\$425,118	
Capitalized expenses - LSU and Related Campuses	2,068,153	
Ticket deposits - LSU and Related Campuses	11,343	
Surety deposits - LSU and Related Campuses	(6,000)	
Millard Perkins Trust - LSU and Related Campuses	832,396	
Other - LSU and Related Campuses	452,590	
LSU Foundation - investment in Shaw Center for the Arts		\$8,309,155
Net assets at July 1, 2003, restated	\$1,146,141,989	\$519,944,958

**17. FUNCTIONAL VERSUS NATURAL CLASSIFICATION OF EXPENSES**

Function	Employee Compensation	Benefits	Utilities	Supplies and Services
Instruction	\$296,456,678	\$60,650,995	\$130,505	\$66,740,330
Research	159,805,197	32,962,231	1,940,425	101,670,133
Public service	130,753,944	16,423,868	920,320	59,207,282
Academic support	69,041,313	13,091,470	130,699	32,629,727
Student services	18,383,647	3,690,750	387,380	7,865,006
Institutional support	55,762,588	14,197,395	504,992	52,540,372
O & M of plant	34,949,150	8,404,634	26,538,810	34,836,775
Scholarships and fellowships	(25,364)			25,364
Auxiliary enterprises	37,002,807	7,955,940	6,785,983	66,770,551
Hospital	471,166,960	99,273,156	15,910,015	497,250,920
Total operating expenses	\$1,273,296,920	\$256,650,439	\$53,249,129	\$919,536,460

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NOTES TO THE FINANCIAL STATEMENTS

<u>Function</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Compensated Absences</u>	<u>Total</u>
Instruction		\$11,658,128	\$947,463	\$436,584,099
Research		13,105,245	587,326	310,070,557
Public service		3,575,798	569,626	211,450,838
Academic support		11,090,452	367,400	126,351,061
Student services		582,905	76,502	30,986,190
Institutional support		4,088,325	347,544	127,441,216
O & M of plant		26,800,796	112,445	131,642,610
Scholarships and fellowships	\$36,940,285			36,940,285
Auxiliary enterprises		1,317,240	273,254	120,105,775
Hospital		30,242,244	269,870	1,114,113,165
	<u>\$36,940,285</u>	<u>\$102,461,133</u>	<u>\$3,551,430</u>	<u>\$2,645,685,796</u>
Total operating expenses	<u>\$36,940,285</u>	<u>\$102,461,133</u>	<u>\$3,551,430</u>	<u>\$2,645,685,796</u>

**18. FOUNDATIONS**

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

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

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

**19. DEFERRED COMPENSATION PLAN**

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

**20. 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, 2004, was \$734,760. There were no on-behalf payments made as contributions to a pension plan for which the university is not legally responsible.

**21. IMPROVEMENTS TO PLANT  
ON BEHALF OF THE UNIVERSITY**

**Improvements at University of New Orleans**

The University of New Orleans Research and Technology Foundation, a separate corporation created for or on behalf of the University of New Orleans, issued long-term debt instruments for infrastructure improvements and the construction of facilities on land owned by the university and leased to the foundation. The improvements, valued at \$56,684,419 at June 30, 2004, were completely financed by the University of New Orleans Research and Technology Foundation through private lending and the sale of bonds through the Louisiana Public Facilities Authority, the Louisiana Local Government Environmental Facilities and Community Development Authority, and bank notes. The university leases the land to the University of New Orleans Research and Technology Foundation in accordance with terms outlined in the ground leases. The improvements are owned by the University of New Orleans Research and Technology Foundation, but upon the expiration of the ground leases will revert to the university.

**Expansion of Tiger Stadium**

On December 21, 1998, LSU entered into a cooperative endeavor agreement with the Tiger Athletic Foundation (TAF) for an addition to the east side of Tiger Stadium. TAF agrees to lease a parcel of land located adjacent to Tiger Stadium for up to 50 years and to construct additional seats on the land as part of Tiger Stadium, including approximately 70 sky boxes. LSU will lease these stadium improvements from TAF for \$2 million per year for a 35-year lease term or until TAF donates such improvements to LSU. The estimated value to LSU of this addition over the term of the agreement is \$48,032,384. The cooperative endeavor agreement will end on April 4, 2049.

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

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

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

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

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

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

## **22. REVENUE USED AS SECURITY FOR REVENUE BONDS**

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



Auxiliary Enterprises

Residential life	\$27,375,005
Student union services, including bookstore	25,952,599
Student Health Center	5,712,883
Athletics	57,836,894
Golf course	1,024,030
Procurement auxiliary services	14,435,067
Contracted auxiliary services	1,380,916
Parking, traffic, and transportation	6,896,636
Health Sciences Center Stores	10,037,194
LSU Press	2,125,060
Student media	1,782,879
Miscellaneous	<u>5,070,990</u>
 Total	 <u><u>\$159,630,153</u></u>

**23. COOPERATIVE ENDEAVOR AGREEMENTS**

On June 1, 1998, the University of New Orleans entered into a cooperative endeavor agreement with the Office of Naval Research for the purposes of fostering research in domestic shipbuilding technology. The estimated value of this cooperative endeavor agreement to UNO is \$44,412,557. The cooperative endeavor agreement will expire on December 31, 2005.

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

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

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

treatment of tobacco use and dependence among individuals with diseases caused or exacerbated by tobacco use.

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

## **COOPERATIVE ENDEAVOR AGREEMENTS - COMPONENT UNIT**

### **University of New Orleans/ Avondale Maritime Technology Center of Excellence**

#### General

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

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

#### Obligations

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

The State of Louisiana has paid \$35,152,720 and will pay to the Foundation no more than the remaining present value of \$40,000,000, which amount may be paid in one or more installments on or before September 1 of each year as follows:

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## NOTES TO THE FINANCIAL STATEMENTS

On or before September 1, 2004	\$4,662,525
On or before September 1, 2005	4,366,469
On or before September 1, 2006	796,598

The Foundation shall submit to the State of Louisiana on or before November 1 documentation supporting the amount to be appropriated for the immediately following year in satisfaction of the state's obligation. On July 1, 2004, the Foundation submitted a request totaling \$4,662,525 to the State of Louisiana's Department of Economic Development for the 2004 funding. Such amount was received in July 2004.

In addition, Avondale agreed that:

- It will use the Facilities for the design and construction of Vessels pursuant to the Navy LPD-17 Contract and other contracts. Avondale agrees that it will fulfill its obligations pursuant to said NAVY LPD-17 Contract and other contracts. Furthermore Avondale agrees that it will provide support to the UNO School of Naval Architecture and Marine Engineering by providing the university a Right of Use of space constituting initially 12,000 square feet, which was increased to 21,000 square feet in the Facility subleased by Avondale from the Foundation.
- In the event the costs of the project required to be expended by the Foundation in constructing the facility and acquiring the equipment exceed the amounts paid by the state, Avondale will pay to the Foundation the amounts required for the Foundation to fulfill the obligations to construct and equip the facility.

### **Louisiana Educational Television Authority**

#### General

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

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

LETA made an initial payment of \$500,000 to the Foundation, through an appropriation by the State of Louisiana in 2001, for the development phase of the Teleplex. WYES-TV and WLAE-TV, also known as the Louisiana Public Broadcasting Group, agreed to provide an aggregate of \$3,000,000 toward the construction of the Teleplex and an aggregate \$1,000,000 toward equipping the Teleplex as a joint obligation. As of June 30, 2004, the Foundation has received \$2,000,000 from the Louisiana Public Broadcasting Group.

**24. SUBSEQUENT EVENTS**

On October 26, 2004, the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (the Board), on behalf of LSU in Baton Rouge, issued \$51,885,000 of auxiliary revenue bonds, Series 2004 B. The proceeds of the bonds will be used to finance the cost of construction for the Residential College One student housing facility and to finance renovations and additions to the Student Union Building; to finance renovations and additions to Blake Hall, Kirby Smith Hall, and the Laville Honors College; to purchase a reserve fund surety bond; and to pay expenses related to the issuance of the Series 2004B bonds, including the premium on the policy.

On October 19, 2004, the Board, on behalf of the University of New Orleans, issued \$8,480,000 of revenue refunding bonds, Series 2004B. The bonds were issued for the purpose of defeasing the portion of outstanding Revenue Bonds, Series 1996 A, maturing after May 1, 2005, and Revenue Bonds, Series 1997A, maturing after May 1, 2007; fund the 2004B Reserve Account of the Reserve Fund through the purchase of a debt service reserve policy; and pay the costs of issuance of the Series 2004B bonds, including the payment of a premium for a municipal bond new issue insurance policy.

LSU in Baton Rouge has entered into a \$38,045,000, 20-year capital lease with Bernard Mechanical Contractors, Inc., for an energy co-generation project designed to reduce energy costs for the university. The agreement became effective in fiscal year 2005, with the first payment under the lease agreement due on December 25, 2005.

**SUBSEQUENT EVENT - COMPONENT UNIT**

In March 2004, subsequent to its fiscal year-end of December 31, 2003, the Tiger Athletic Foundation issued Revenue Bonds Series 2004 for a principal amount of \$90,000,000. The bonds are secured by the pledged revenues on a parity with (i) the Series 1999 bonds and (ii) the Hibernia Bank Loan dated January 1, 1999. The proceeds of the loan will be used to finance or reimburse a portion of the costs of the acquisition and construction of certain improvements and renovations to Tiger Stadium and a football operations center at LSU, including funding the interest and costs associated with the project. The bonds are subject to a remarketing agreement with an underlying letter of credit issued by Hibernia National Bank.

**25. AMOUNTS HELD IN CUSTODY FOR OTHERS -  
COMPONENT UNITS**

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

## NOTES TO THE FINANCIAL STATEMENTS

Entity	LSU Foundation	Tiger Athletic Foundation*	LSU Health Sciences Center Foundation	UNO Foundation	UNO Research and Technology Foundation	Total
LSU Alumni Association	\$159,338					\$159,338
LSU at Alexandria Foundation	6,882,862					6,882,862
LSU at Eunice Foundation	877,933					877,933
State matching funds managed for LSU	44,678,669					44,678,669
Charitable remainder trusts	462,211					462,211
Coaches escrow accounts		\$525,513				525,513
UNO				\$11,719,749		11,719,749
Various affiliated organizations				1,293,681		1,293,681
Building tenant security deposits					\$35,976	35,976
State matching funds managed for LSUHSC in New Orleans			\$13,117,119			13,117,119
<b>Total temporarily restricted</b>	<b><u>\$53,061,013</u></b>	<b><u>\$525,513</u></b>	<b><u>\$13,117,119</u></b>	<b><u>\$13,013,430</u></b>	<b><u>\$35,976</u></b>	<b><u>\$79,753,051</u></b>

\*As of December 31, 2003

### 26. RELATED PARTY TRANSACTIONS - COMPONENT UNIT

#### Pennington Medical Foundation

The foundation has architectural contracts in the amount of \$3,910,823 with a trustee of the foundation of which approximately \$3,772,476 had been incurred as of December 31, 2003.

### 27. UNCONDITIONAL PROMISES TO GIVE - COMPONENT UNITS

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

	LSU Foundation	Tiger Athletic Foundation*	LSU Health Sciences Center Foundation	UNO Foundation
Promises to give expected to be collected in:				
Less than one year	\$3,382,093	\$2,001,518	\$186,250	\$514,135
One to five years	5,462,308		2,738,420	1,598,000
More than five years	6,650,872	6,529,726	1,403,380	37,500
Subtotal	<u>15,495,273</u>	<u>8,531,244</u>	<u>4,328,050</u>	<u>2,149,635</u>
Less discount on promises to give	(2,906,168)	(642,979)	(327,657)	(221,764)
Less allowance for uncollectible accounts	(373,185)	(1,039,427)	(1,514,818)	(276,155)
Subtotal	<u>(3,279,353)</u>	<u>(1,682,406)</u>	<u>(1,842,475)</u>	<u>(497,919)</u>
<b>Net unconditional promises to give</b>	<b><u>\$12,215,920</u></b>	<b><u>\$6,848,838</u></b>	<b><u>\$2,485,575</u></b>	<b><u>\$1,651,716</u></b>

At December 31, 2003, and June 30, 2004, the Pennington Medical Foundation and the UNO Research and Technology Foundation report no unconditional promises to give. Total unconditional promises to give (current and noncurrent) of \$23,202,049 are reported on Statement B.

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

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

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

In addition, the financial information for the LSU Health Sciences Center has been further delineated this year to provide the financial information required for its upcoming reaccreditation by the Southern Association of Colleges and Schools (SACS). The reader will find a separate Combining Schedule of Net Assets, a Combining Schedule of Revenues, Expenses, and Changes in Net Assets, and a Combining Schedule of Cash Flows along with necessary combining eliminations for the SACS Entity, which consists of the LSU Health Sciences Center in New Orleans, the LSU Health Sciences Center in Shreveport, and the LSU Health Sciences Center in Shreveport's University Hospital. Separate statements and combining eliminations are also included for the remaining components of the LSU Health Sciences Center, which are the E.A. Conway Hospital and the LSU Health Sciences Center Health Care Services Division. Taken together, the separate campus combining schedules presented equal the LSU Health Sciences Center's consolidated schedules.





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

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$2,667,753
Accounts receivable, net	971,485
Deferred charges and prepaid expenses	615
Total current assets	<u>3,639,853</u>

Noncurrent assets - capital assets, net

592,102

**Total assets**

4,231,955

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	5,134,608
Amounts held in custody for others	(13,340)
Compensated absences	17,812
Total current liabilities	<u>5,139,080</u>

Noncurrent liabilities - compensated absences

545,937

**Total liabilities**

5,685,017

**NET ASSETS**

Investment in capital assets, net of related debt

592,102

Restricted for:

Expendable (2,937,828)

Unrestricted

892,664

**Total net assets**

(\$1,453,062)

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

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

<b>OPERATING REVENUES</b>	
Nongovernmental grants and contracts	\$26,122
Other operating revenues	941,616
<b>Total operating revenues</b>	<u>967,738</u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Institutional support	2,331,633
Operation and maintenance of plant	182,674
Scholarships and fellowships	1,000
<b>Total operating expenses</b>	<u>2,515,307</u>
<b>Operating Loss</b>	<u>(1,547,569)</u>
<b>NONOPERATING REVENUES</b>	
State appropriations	1,689,364
Gifts	46,133
Net investment income	4,217
<b>Net nonoperating revenues</b>	<u>1,739,714</u>
<b>Income Before Other Revenues, Expenses, Gains and Losses</b>	192,145
Other deductions, net	<u>(3,443,977)</u>
<b>Decrease in Net Assets</b>	(3,251,832)
<b>Net Assets at Beginning of Year, Restated</b>	<u>1,798,770</u>
<b>Net Assets at End of Year</b>	<u><u>(\$1,453,062)</u></u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
PENNINGTON BIOMEDICAL RESEARCH CENTER**

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$2,142,542
Investments	324,413
Accounts receivable, net	3,488,228
Due from state treasury	2,890
Inventories	43,704
Deferred charges and prepaid expenses	22,023
<b>Total current assets</b>	<b>6,023,800</b>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	12,529
Investments	3,129,715
Other restricted assets	7,679
Capital assets, net	37,713,474
<b>Total noncurrent assets</b>	<b>40,863,397</b>
<b>Total assets</b>	<b>46,887,197</b>

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	599,562
Deferred revenues	2,518,509
Amounts held in custody for others	23,533
Compensated absences	121,319
<b>Total current liabilities</b>	<b>3,262,923</b>

Noncurrent Liabilities -

compensated absences	1,404,301
<b>Total liabilities</b>	<b>4,667,224</b>

**NET ASSETS**

Investment in capital assets, net of related debt	37,713,474
Restricted for:	
Nonexpendable	3,129,715
Expendable	2,171,854
Unrestricted	(795,070)
<b>Total net assets</b>	<b>\$42,219,973</b>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
PENNINGTON BIOMEDICAL RESEARCH CENTER**

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

<b>OPERATING REVENUES</b>	
Federal grants and contracts	\$16,249,208
State and local grants and contracts	1,955,730
Nongovernmental grants and contracts	3,891,612
Sales and services of educational departments	58,632
Other operating revenues	10,408
<b>Total operating revenues</b>	<u>22,165,590</u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Research	24,573,341
Public service	316,919
Academic support	2,344,126
Institutional support	3,290,447
Operation and maintenance of plant	4,791,569
<b>Total operating expenses</b>	<u>35,316,402</u>
<b>Operating Loss</b>	<u>(13,150,812)</u>
<b>NONOPERATING REVENUES</b>	
State appropriations	10,038,603
Gifts	1,848,141
Net investment income	449,764
<b>Net nonoperating revenues</b>	<u>12,336,508</u>
<b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	(814,304)
Capital appropriations	352,495
Capital gifts and grants	771,925
<b>Increase in Net Assets</b>	310,116
<b>Net Assets at Beginning of Year, Restated</b>	<u>41,909,857</u>
<b>Net Assets at End of Year</b>	<u><u>\$42,219,973</u></u>

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

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$76,447,337
Investments	23,490,969
Accounts receivable, net	36,544,160
Due from other campuses	7,922
Due from state treasury	305,381
Inventories	2,475,907
Deferred charges and prepaid expenses	3,680,122
Notes receivable	3,014,982
Other current assets	892,350
Total current assets	<u>146,859,130</u>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	32,104,553
Investments	52,665,411
Notes receivable	11,258,626
Other restricted assets	15,429,524
Capital assets, net	414,153,028
Total noncurrent assets	<u>525,611,142</u>

**Total assets**

672,470,272

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	24,885,114
Due to other campuses	22,915,656
Deferred revenues	35,845,729
Amounts held in custody for others	2,612,409
Compensated absences	1,520,880
Capital lease obligations	69,441
Notes payable	2,706,492
Contracts payable	337,554
Bonds payable	2,033,000
Other current liabilities	892,350
Total current liabilities	<u>93,818,625</u>

Noncurrent Liabilities:

Compensated absences	21,858,648
Capital lease obligations	1,303,565
Notes payable	13,178,169
Bonds payable	86,530,000
Other noncurrent liabilities	667,864
Total noncurrent liabilities	<u>123,538,246</u>

**Total liabilities**

217,356,871

**NET ASSETS**

Investment in capital assets, net of related debt	317,411,293
Restricted for:	
Nonexpendable	43,312,136
Expendable	78,838,219
Unrestricted	15,551,753
<b>Total net assets</b>	<u><u>\$455,113,401</u></u>

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

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

**OPERATING REVENUES**

Student tuition and fees	\$144,293,529
Less scholarship allowances	(18,240,735)
Net student tuition and fees	<u>126,052,794</u>
Federal grants and contracts	83,770,329
State and local grants and contracts	29,358,142
Nongovernmental grants and contracts	9,995,595
Sales and services of educational departments	8,623,716
Auxiliary enterprise revenues	100,118,395
Less scholarship allowances	(3,653,230)
Net auxiliary revenues	<u>96,465,165</u>
Other operating revenues	<u>6,258,116</u>
<b>Total operating revenues</b>	<b><u>360,523,857</u></b>

**OPERATING EXPENSES**

Educational and general:	
Instruction	190,599,686
Research	94,017,836
Public service	23,343,901
Academic support	45,231,686
Student services	13,491,635
Institutional support	23,107,995
Operation and maintenance of plant	55,256,091
Scholarships and fellowships	16,463,407
Auxiliary enterprises	83,485,135
<b>Total operating expenses</b>	<b><u>544,997,372</u></b>

**Operating Loss** **(184,473,515)**

**NONOPERATING REVENUES (Expenses)**

State appropriations	184,863,866
Gifts	7,702,198
Net investment income	3,001,902
Interest expense	(4,109,835)
Other nonoperating revenues	22,802
<b>Net nonoperating revenues</b>	<b><u>191,480,933</u></b>

**Income Before Other Revenues, Expenses, Gains and Losses** **7,007,418**

Capital appropriations	12,217,686
Capital gifts and grants	2,410,395
Additions to permanent endowments	1,680,722
Other deductions, net	<u>(1,328,932)</u>

**Increase in Net Assets** **21,987,289**

**Net Assets at Beginning of Year, Restated** **433,126,112**

**Net Assets at End of Year** **\$455,113,401**

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU AT ALEXANDRIA**

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$2,426,367
Investments	47,542
Accounts receivable, net	841,322
Due from state treasury	8,916
Inventories	240,625
Deferred charges and prepaid expenses	3,945
<b>Total current assets</b>	<b>3,568,717</b>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	136,937
Investments	533,245
Accounts receivable	2,221
Other restricted assets	102,814
Capital assets, net	9,179,270
<b>Total noncurrent assets</b>	<b>9,954,487</b>
<b>Total assets</b>	<b>13,523,204</b>

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	276,353
Deferred revenues	401,285
Amounts held in custody for others	24,903
Compensated absences	51,356
<b>Total current liabilities</b>	<b>753,897</b>

Noncurrent Liabilities - compensated absences

	552,142
<b>Total liabilities</b>	<b>1,306,039</b>

**NET ASSETS**

Investment in capital assets, net of related debt	9,179,270
Restricted for:	
Nonexpendable	533,245
Expendable	538,358
Unrestricted	1,966,292
<b>Total net assets</b>	<b>\$12,217,165</b>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU AT ALEXANDRIA**

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

<b>OPERATING REVENUES</b>	
Student tuition and fees	\$6,272,896
Less scholarship allowances	(2,533,064)
Net student tuition and fees	<u>3,739,832</u>
Federal grants and contracts	4,232,896
State and local grants and contracts	713,338
Nongovernmental grants and contracts	43,593
Sales and services of educational departments	6,927
Auxiliary enterprise revenues	2,323,484
Less scholarship allowances	(423,636)
Net auxiliary revenues	<u>1,899,848</u>
Other operating revenues	<u>52,728</u>
<b>Total operating revenues</b>	<u><u>10,689,162</u></u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Instruction	8,151,153
Public service	428,822
Academic support	858,081
Student services	1,344,755
Institutional support	1,936,473
Operation and maintenance of plant	2,087,855
Scholarships and fellowships	1,435,800
Auxiliary enterprises	<u>2,186,573</u>
<b>Total operating expenses</b>	<u><u>18,429,512</u></u>
<b>Operating Loss</b>	<u><u>(7,740,350)</u></u>
<b>NONOPERATING REVENUES</b>	
State appropriations	7,169,656
Gifts	124,472
Net investment income	39,527
Other nonoperating revenues	<u>2,221</u>
<b>Net nonoperating revenues</b>	<u><u>7,335,876</u></u>
<b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	(404,474)
Capital appropriations	959,058
Capital gifts and grants	6,800
Additions to permanent endowments	3,385
Other additions, net	<u>6,808</u>
<b>Increase in Net Assets</b>	571,577
<b>Net Assets at Beginning of Year</b>	<u>11,645,588</u>
<b>Net Assets at End of Year</b>	<u><u>12,217,165</u></u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU AT EUNICE**

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$2,274,396
Investments	19,617
Accounts receivable, net	932,549
Due from state treasury	9,062
Inventories	317,803
Deferred charges and prepaid expenses	3,862
Notes receivable	65,165
<b>Total current assets</b>	<u>3,622,454</u>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	258,428
Investments	1,181,253
Notes receivable	477,814
Other restricted assets	42,632
Capital assets, net	21,073,864
<b>Total noncurrent assets</b>	<u>23,033,991</u>
<b>Total assets</b>	<u>26,656,445</u>

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	557,728
Deferred revenues	477,206
Amounts held in custody for others	49,221
Compensated absences	38,941
Bonds payable	65,417
<b>Total current liabilities</b>	<u>1,188,513</u>

Noncurrent Liabilities:

Compensated absences	589,288
Bonds payable	8,239,166
Other noncurrent liabilities	(42,997)
<b>Total noncurrent liabilities</b>	<u>8,785,457</u>
<b>Total liabilities</b>	<u>9,973,970</u>

**NET ASSETS**

Investment in capital assets, net of related debt	14,668,781
Restricted for:	
Nonexpendable	282,636
Expendable	1,755,353
Unrestricted	(24,295)
<b>Total net assets</b>	<u>\$16,682,475</u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU AT EUNICE**

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

<b>OPERATING REVENUES</b>	
Student tuition and fees	\$5,063,720
Less scholarship allowances	(3,474,123)
Net student tuition and fees	<u>1,589,597</u>
Federal grants and contracts	5,085,409
State and local grants and contracts	400,798
Nongovernmental grants and contracts	31,591
Sales and services of educational departments	2,244
Auxiliary enterprise revenues	2,469,198
Less scholarship allowances	(242,176)
Net auxiliary revenues	<u>2,227,022</u>
Other operating revenues	<u>126,949</u>
<b>Total operating revenues</b>	<u><u>9,463,610</u></u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Instruction	7,157,355
Academic support	578,683
Student services	1,161,252
Institutional support	1,713,242
Operation and maintenance of plant	3,390,865
Scholarships and fellowships	863,326
Auxiliary enterprises	<u>2,610,110</u>
<b>Total operating expenses</b>	<u><u>17,474,833</u></u>
<b>Operating Loss</b>	<u>(8,011,223)</u>
<b>NONOPERATING REVENUES (Expenses)</b>	
State appropriations	7,041,363
Gifts	38,208
Net investment income	44,675
Interest expense	(68,479)
<b>Net nonoperating revenues</b>	<u><u>7,055,767</u></u>
<b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	<u>(955,456)</u>
Capital appropriations	262,132
Capital gifts and grants	85,854
Additions to permanent endowments	1,520
Other additions, net	<u>18,437</u>
<b>Decrease in Net Assets</b>	<u>(587,513)</u>
<b>Net Assets at Beginning of Year, Restated</b>	<u>17,269,988</u>
<b>Net Assets at End of Year</b>	<u><u>\$16,682,475</u></u>

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

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$1,546,096
Investments	95,093
Accounts receivable, net	136,214
Due from state treasury	14,340
Deferred charges and prepaid expenses	108,175
Total current assets	<u>1,899,918</u>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	258,594
Investments	1,583,124
Capital assets, net	14,642,800
Total noncurrent assets	<u>16,484,518</u>
<b>Total assets</b>	<u><u>18,384,436</u></u>

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	280,604
Due to state treasury	450
Deferred revenues	179,717
Amounts held in custody for others	116,860
Compensated absences	38,929
Total current liabilities	<u>616,560</u>

Noncurrent Liabilities:

Compensated absences	774,742
Other noncurrent liabilities	21
Total noncurrent liabilities	<u>774,763</u>
<b>Total liabilities</b>	<u><u>1,391,323</u></u>

**NET ASSETS**

Investment in capital assets, net of related debt	14,642,800
Restricted for:	
Nonexpendable	1,840,972
Expendable	336,150
Unrestricted	173,191
<b>Total net assets</b>	<u><u>\$16,993,113</u></u>

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

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

<b>OPERATING REVENUES</b>	
Student tuition and fees	\$7,990,198
Less scholarship allowances	(873,041)
Net student tuition and fees	<u>7,117,157</u>
Federal grants and contracts	61,252
State and local grants and contracts	29,473
Sales and services of educational departments	149,966
Other operating revenues	4,527
<b>Total operating revenues</b>	<u><u>7,362,375</u></u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Instruction	7,598,282
Research	699,388
Public service	29,113
Academic support	2,568,430
Student services	933,172
Institutional support	2,168,816
Operation and maintenance of plant	1,284,293
Scholarships and fellowships	411,508
<b>Total operating expenses</b>	<u><u>15,693,002</u></u>
<b>Operating Loss</b>	<u>(8,330,627)</u>
<b>NONOPERATING REVENUES</b>	
State appropriations	7,825,487
Gifts	445,743
Net investment income	27,507
<b>Net nonoperating revenues</b>	<u><u>8,298,737</u></u>
<b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	(31,890)
Capital appropriations	1,602,049
Capital gifts and grants	22,108
Additions to permanent endowments	135,060
Other additions, net	79,557
<b>Increase in Net Assets</b>	1,806,884
<b>Net Assets at Beginning of Year</b>	<u>15,186,229</u>
<b>Net Assets at End of Year</b>	<u><u>\$16,993,113</u></u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU AGRICULTURAL CENTER**

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$6,691,893
Investments	74,701
Accounts receivable, net	6,961,101
Due from state treasury	559,009
Inventories	4,754,629
Deferred charges and prepaid expenses	43,829
<b>Total current assets</b>	<u>19,085,162</u>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	947,949
Investments	989,560
Other restricted assets	1,769,178
Capital assets, net	28,725,943
<b>Total noncurrent assets</b>	<u>32,432,630</u>
<b>Total assets</b>	<u>51,517,792</u>

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	191,270
Deferred revenues	2,657,100
Amounts held in custody for others	82,937
Compensated absences	547,974
<b>Total current liabilities</b>	<u>3,479,281</u>

Noncurrent Liabilities:

Compensated absences	8,368,312
Other noncurrent liabilities	35,386
<b>Total noncurrent liabilities</b>	<u>8,403,698</u>
<b>Total liabilities</b>	<u>11,882,979</u>

**NET ASSETS**

Investment in capital assets, net of related debt	28,725,943
Restricted for:	
Nonexpendable	989,560
Expendable	4,473,711
Unrestricted	5,445,599
<b>Total net assets</b>	<u>\$39,634,813</u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU AGRICULTURAL CENTER**

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

<b>OPERATING REVENUES</b>	
Federal appropriations	\$11,046,053
Federal grants and contracts	6,902,744
State and local grants and contracts	7,552,792
Nongovernmental grants and contracts	3,561,537
Sales and services of educational departments	4,954,276
Other operating revenues	2,202,390
<b>Total operating revenues</b>	<u>36,219,792</u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Research	56,710,181
Public service	41,502,634
Academic support	3,220,542
Institutional support	8,358,948
Operation and maintenance of plant	4,438,499
Scholarships and fellowships	136,055
<b>Total operating expenses</b>	<u>114,366,859</u>
<b>Operating Loss</b>	<u>(78,147,067)</u>
<b>NONOPERATING REVENUES</b>	
State appropriations	74,014,552
Gifts	2,307,067
Net investment income	120,912
Interest revenue	48,152
<b>Net nonoperating revenues</b>	<u>76,490,683</u>
<b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	(1,656,384)
Capital appropriations	618,413
Capital gifts and grants	1,938,918
Additions to permanent endowments	85,732
Other additions, net	1,043,059
<b>Increase in Net Assets</b>	2,029,738
<b>Net Assets at Beginning of Year, Restated</b>	<u>37,605,075</u>
<b>Net Assets at End of Year</b>	<u><u>\$39,634,813</u></u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU AND RELATED CAMPUSES**

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

<b>Cash flows from operating activities</b>	
Student tuition and fees	\$137,864,546
Federal appropriations	10,152,220
Grants and contracts	173,979,564
Sales and services of educational departments	14,064,061
Auxiliary enterprise receipts	100,280,966
Payments for employee compensation	(402,504,829)
Payments for benefits	(84,043,066)
Payments for utilities	(20,509,823)
Payments for supplies and services	(179,278,086)
Payments for scholarships and fellowships	(19,025,182)
Loans to students	(4,188,755)
Collection of loans to students	3,433,893
Other disbursements	(5,209,033)
Net cash used by operating activities	<u>(274,983,524)</u>
<b>Cash flows from noncapital financing activities</b>	
State appropriations	291,896,632
Gifts and grants for other than capital purposes	12,465,098
Private gifts for endowment purposes	700,435
TOPS receipts	45,673,774
TOPS disbursements	(45,795,721)
Other receipts	7,058
Net cash provided by noncapital financing sources	<u>304,947,276</u>
<b>Cash flows from capital financing activities</b>	
Proceeds from capital debt	16,964,902
Capital appropriations received	12,820,181
Capital grants and gifts received	3,694,941
Purchase of capital assets	(59,829,993)
Principal paid on capital debt and leases	(22,806,607)
Interest paid on capital debt and leases	(3,608,359)
Other uses	(3,653,116)
Net cash used by capital financing activities	<u>(56,418,051)</u>
<b>Cash flows from investing activities</b>	
Proceeds from sales and maturities of investments	14,388,905
Interest received on investments	5,844,474
Purchase of investments	(22,470,338)
Net cash used by investing activities	<u>(2,236,959)</u>
<b>Net decrease in cash and cash equivalents</b>	(28,691,258)
<b>Cash and cash equivalents at the beginning of the year</b>	<u>156,606,632</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$127,915,374</u></u>

(Continued)

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU AND RELATED CAMPUSES  
Schedule of Cash Flows, 2004**

**Reconciliation of Operating Loss to Net Cash**

**Used by Operating Activities:**

Operating loss	(\$301,401,163)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	38,837,743
Changes in assets and liabilities:	
Increase in accounts receivable	(1,631,454)
Decrease in inventories	133,322
Increase in deferred charges and prepaid expenses	(1,009,705)
Increase in notes receivable	(521,181)
Decrease in other assets	1,961,743
Increase in accounts payable and accrued liabilities	5,088,377
Decrease in deferred revenue	(666,957)
Increase in amounts held in custody for others	629,012
Increase in compensated absences	1,444,774
Decrease in other liabilities	(17,848,035)
	<u>(\$274,983,524)</u>
Net cash used by operating activities	<u>(\$274,983,524)</u>

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

Cash and cash equivalents classified as current assets	\$94,196,384
Cash and cash equivalents classified as noncurrent assets	<u>33,718,990</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$127,915,374</u></u>

(Concluded)

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
UNIVERSITY OF NEW ORLEANS**

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$10,070,496
Accounts receivable, net	20,549,931
Due from state treasury	96,895
Inventories	1,152,288
Deferred charges and prepaid expenses	552,248
Notes receivable	868,704
<b>Total current assets</b>	<u>33,290,562</u>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	14,579,854
Investments	12,655,599
Notes receivable	3,866,503
Other restricted assets	271,643
Investments	16,343
Capital assets, net	167,140,209
<b>Total noncurrent assets</b>	<u>198,530,151</u>
<b>Total assets</b>	<u>231,820,713</u>

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	10,062,573
Due to other campuses	7,922
Deferred revenues	5,054,755
Amounts held in custody for others	408,971
Compensated absences	503,284
Capital lease obligations	494,658
Notes payable	83,322
Bonds payable	1,340,000
<b>Total current liabilities</b>	<u>17,955,485</u>

Noncurrent Liabilities:

Compensated absences	7,258,255
Capital lease obligations	10,674,812
Notes payable	534,861
Bonds payable	31,320,000
Other noncurrent liabilities	119,837
<b>Total noncurrent liabilities</b>	<u>49,907,765</u>
<b>Total liabilities</b>	<u>67,863,250</u>

**NET ASSETS**

Investment in capital assets, net of related debt	136,187,426
Restricted for:	
Nonexpendable	13,784,423
Expendable	16,487,024
Unrestricted	(2,501,410)
<b>Total net assets</b>	<u>\$163,957,463</u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
UNIVERSITY OF NEW ORLEANS**

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

<b>OPERATING REVENUES</b>	
Student tuition and fees	\$66,914,582
Less scholarship allowances	(8,173,906)
Net student tuition and fees	<u>58,740,676</u>
Federal grants and contracts	32,244,261
State and local grants and contracts	11,374,832
Nongovernmental grants and contracts	9,578,198
Sales and services of educational departments	56,888
Auxiliary enterprise revenues	14,222,085
Less scholarship allowances	(502,393)
Net auxiliary revenues	<u>13,719,692</u>
Other operating revenues	6,021,437
<b>Total operating revenues</b>	<u><u>131,735,984</u></u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Instruction	70,069,251
Research	25,341,270
Public service	6,758,868
Academic support	14,707,416
Student services	8,462,499
Institutional support	18,104,958
Operation and maintenance of plant	20,746,157
Scholarships and fellowships	12,098,888
Auxiliary enterprises	12,299,467
<b>Total operating expenses</b>	<u><u>188,588,774</u></u>
<b>Operating Loss</b>	<u><u>(56,852,790)</u></u>
<b>NONOPERATING REVENUES (Expenses)</b>	
State appropriations	53,635,940
Gifts	279,480
Net investment income	1,439,545
Interest expense	(1,218,237)
<b>Net nonoperating revenues</b>	<u><u>54,136,728</u></u>
<b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	(2,716,062)
Capital appropriations	8,822,436
Capital gifts and grants	850,505
Additions to permanent endowments	80,000
Other additions, net	<u>74,758</u>
<b>Increase in Net Assets</b>	7,111,637
<b>Net Assets at Beginning of Year</b>	<u>156,845,826</u>
<b>Net Assets at End of Year</b>	<u><u>\$163,957,463</u></u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
UNIVERSITY OF NEW ORLEANS**

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

<b>Cash flows from operating activities</b>	
Student tuition and fees	\$59,174,017
Grants and contracts	50,889,819
Sales and services of educational departments	65,049
Auxiliary enterprise receipts	14,040,302
Payments for employee compensation	(93,736,952)
Payments for benefits	(19,522,301)
Payments for utilities	(4,916,313)
Payments for supplies and services	(45,803,683)
Payments for scholarships and fellowships	(12,421,965)
Loans to students	(1,096,639)
Collection of loans to students	1,438,745
Other receipts	5,359,274
Net cash used by operating activities	<u>(46,530,647)</u>
<b>Cash flows from noncapital financing activities</b>	
State appropriations	53,146,181
Gifts and grants for other than capital purposes	253,480
Private gifts for endowment purposes	80,000
TOPS receipts	(291,821)
TOPS disbursements	(874,137)
Other disbursements	(300)
Net cash provided by noncapital financing sources	<u>52,313,403</u>
<b>Cash flows from capital financing activities</b>	
Proceeds from capital debt	9,460,979
Capital appropriations received	8,822,436
Capital grants and gifts received	2,193,664
Purchase of capital assets	(13,106,038)
Principal paid on capital debt and leases	(1,013,773)
Interest paid on capital debt and leases	(1,218,237)
Other sources	74,758
Net cash provided by capital financing activities	<u>5,213,789</u>
<b>Cash flows from investing activities</b>	
Interest losses on investments	(235,484)
Net cash used by investing activities	<u>(235,484)</u>
<b>Net increase in cash and cash equivalents</b>	10,761,061
<b>Cash and cash equivalents at the beginning of the year</b>	<u>13,889,289</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$24,650,350</u></u>

(Continued)

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
UNIVERSITY OF NEW ORLEANS  
Schedule of Cash Flows, 2004**

**Reconciliation of Operating Loss to Net Cash**

**Used by Operating Activities:**

Operating loss	(\$56,852,790)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	11,874,143
Changes in assets and liabilities:	
Increase in accounts receivable	(5,487,634)
Decrease in inventories	338,540
Increase in deferred charges and prepaid expenses	(486,676)
Decrease in notes receivable	342,106
Increase in accounts payable and accrued liabilities	1,375,237
Increase in deferred revenue	2,841,582
Decrease in amounts held in custody for others	(662,163)
Increase in compensated absences	187,008
	<u>187,008</u>
Net cash used by operating activities	<u><u>(\$46,530,647)</u></u>

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

Cash and cash equivalents classified as current assets	\$10,070,496
Cash and cash equivalents classified as noncurrent assets	<u>14,579,854</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$24,650,350</u></u>

(Concluded)

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU IN SHREVEPORT**

**Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$4,940,902
Investments	103,906
Accounts receivable, net	1,730,686
Inventories	542,139
Deferred charges and prepaid expenses	73,886
Total current assets	<u>7,391,519</u>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	318,327
Investments	1,755,464
Capital assets, net	32,009,685
Assets under capital leases	20,823
Total noncurrent assets	<u>34,104,299</u>
<b>Total assets</b>	<u><b>41,495,818</b></u>

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	1,630,245
Due to state treasury	8,339
Deferred revenues	819,708
Amounts held in custody for others	266,938
Compensated absences	120,194
Capital lease obligations	10,106
Other current liabilities	2,480
Total current liabilities	<u>2,858,010</u>

Noncurrent Liabilities:

Compensated absences	1,778,962
Capital lease obligations	14,213
Total noncurrent liabilities	<u>1,793,175</u>
<b>Total liabilities</b>	<u><b>4,651,185</b></u>

**NET ASSETS**

Investment in capital assets, net of related debt	32,006,189
Restricted for:	
Nonexpendable	1,707,675
Expendable	1,111,863
Unrestricted	<u>2,018,906</u>
<b>Total net assets</b>	<u><b>\$36,844,633</b></u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU IN SHREVEPORT**

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

<b>OPERATING REVENUES</b>	
Student tuition and fees	\$11,675,758
Less scholarship allowances	<u>(2,015,002)</u>
Net student tuition and fees	9,660,756
Federal grants and contracts	4,460,101
State and local grants and contracts	3,521,529
Nongovernmental grants and contracts	1,029,096
Sales and services of educational departments	17,463
Auxiliary enterprise revenues	3,112,414
Less scholarship allowances	<u>(170,996)</u>
Net auxiliary revenues	2,941,418
Other operating revenues	<u>293,086</u>
<b>Total operating revenues</b>	<u><u>21,923,449</u></u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Instruction	13,356,750
Research	491,475
Public service	1,294,598
Academic support	3,626,392
Student services	1,717,609
Institutional support	4,367,424
Operation and maintenance of plant	3,557,811
Scholarships and fellowships	4,227,419
Auxiliary enterprises	<u>3,283,334</u>
<b>Total operating expenses</b>	<u><u>35,922,812</u></u>
<b>Operating Loss</b>	<u><u>(13,999,363)</u></u>
<b>NONOPERATING REVENUES</b>	
State appropriations	12,754,918
Gifts	233,702
Net investment income	<u>231,237</u>
<b>Net nonoperating revenues</b>	<u><u>13,219,857</u></u>
<b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	<u><u>(779,506)</u></u>
Capital appropriations	132,770
Other deductions, net	<u>(16,886)</u>
<b>Decrease in Net Assets</b>	<u><u>(663,622)</u></u>
<b>Net Assets at Beginning of Year</b>	<u><u>37,508,255</u></u>
<b>Net Assets at End of Year</b>	<u><u><u>\$36,844,633</u></u></u>

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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU IN SHREVEPORT**

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

<b>Cash flows from operating activities</b>	
Student tuition and fees	\$9,660,460
Grants and contracts	8,697,305
Sales and services of educational departments	17,463
Auxiliary enterprise receipts	3,043,832
Payments for employee compensation	(16,850,274)
Payments for benefits	(4,061,548)
Payments for utilities	(673,093)
Payments for supplies and services	(7,654,010)
Payments for scholarships and fellowships	(4,227,419)
Other receipts	430,892
Net cash used by operating activities	<u>(11,616,392)</u>
<b>Cash flows from noncapital financing activities</b>	
State appropriations	12,754,918
Gifts and grants for other than capital purposes	233,702
TOPS receipts	1,716,423
TOPS disbursements	(1,716,423)
Net cash provided by noncapital financing sources	<u>12,988,620</u>
<b>Cash flows from capital financing activities</b>	
Capital appropriations received	132,770
Purchase of capital assets	(1,137,946)
Principal paid on capital debt and leases	16,886
Other uses	(16,886)
Net cash used by capital financing activities	<u>(1,005,176)</u>
<b>Cash flows from investing activities</b>	
Interest received on investments	230,965
Purchase of investments	(176,686)
Net cash provided by investing activities	<u>54,279</u>
<b>Net increase in cash and cash equivalents</b>	421,331
<b>Cash and cash equivalents at the beginning of the year</b>	<u>4,837,898</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$5,259,229</u></u>

(Continued)

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU IN SHREVEPORT  
Schedule of Cash Flows, 2004**

**Reconciliation of Operating Loss to Net Cash**

**Used by Operating Activities:**

Operating loss	(\$13,999,363)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	1,736,998
Changes in assets and liabilities:	
Increase in accounts receivable	(218,080)
Increase in inventories	(99,409)
Decrease in deferred charges and prepaid expenses	29,747
Increase in accounts payable and accrued liabilities	594,210
Increase in deferred revenue	100,792
Increase in amounts held in custody for others	140,696
Increase in compensated absences	100,907
Decrease in other liabilities	(2,890)
	<u>(\$11,616,392)</u>

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

Cash and cash equivalents classified as current assets	\$4,940,902
Cash and cash equivalents classified as noncurrent assets	<u>318,327</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$5,259,229</u></u>

(Concluded)

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

**Consolidated Schedule of Net Assets, June 30, 2004**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$110,328,360
Investments	3,912,647
Accounts receivable, net	135,144,315
Due from other campuses	22,915,656
Due from state treasury	23,727,843
Inventories	27,504,795
Deferred charges and prepaid expenses	926,592
Notes receivable	2,656,198
Total current assets	<u>327,116,406</u>

Noncurrent Assets:

Restricted Assets:

Cash and cash equivalents	14,463,992
Investments	59,729,894
Notes receivable	8,686,686
Investments	275,000
Capital assets, net	443,765,092
Other noncurrent assets	4,005,402
Total noncurrent assets	<u>530,926,066</u>

<b>Total assets</b>	<u><u>858,042,472</u></u>
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**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	244,538,048
Deferred revenues	3,167,149
Amounts held in custody for others	1,817,632
Compensated absences	5,400,732
Capital lease obligations	8,771,197
Notes payable	64,094
Bonds payable	4,425,000
Other current liabilities	306,998
Total current liabilities	<u>268,490,850</u>

Noncurrent Liabilities:

Compensated absences	70,854,781
Capital lease obligations	30,083,977
Notes payable	411,690
Bonds payable	43,165,000
Total noncurrent liabilities	<u>144,515,448</u>

<b>Total liabilities</b>	<u><u>413,006,298</u></u>
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**NET ASSETS**

Investment in capital assets, net of related debt	356,844,133
Restricted for:	
Nonexpendable	61,037,632
Expendable	81,085,226
Unrestricted	<u>(53,930,817)</u>

<b>Total net assets</b>	<u><u>\$445,036,174</u></u>
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**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU HEALTH SCIENCES CENTER**

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

<b>OPERATING REVENUES</b>	
Student tuition and fees	\$19,615,924
Less scholarship allowances	(2,199,172)
Net student tuition and fees	<u>17,416,752</u>
Federal grants and contracts	56,846,715
State and local grants and contracts	24,655,642
Nongovernmental grants and contracts	74,858,907
Sales and services of educational departments	158,412,139
Hospital income	1,288,084,145
Auxiliary enterprise revenues	17,280,152
Other operating revenues	1,797,138
<b>Total operating revenues</b>	<u><u>1,639,351,590</u></u>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Instruction	139,651,622
Research	108,237,066
Public service	137,775,983
Academic support	53,215,705
Student services	3,875,268
Institutional support	62,061,280
Operation and maintenance of plant	35,906,796
Scholarships and fellowships	1,302,882
Auxiliary enterprises	16,241,156
Hospital	1,114,113,165
<b>Total operating expenses</b>	<u><u>1,672,380,923</u></u>
<b>Operating Loss</b>	<u><u>(33,029,333)</u></u>
<b>NONOPERATING REVENUES (Expenses)</b>	
State appropriations	275,063,239
Gifts	18,807,576
Net investment income	3,407,756
Interest expense	(4,065,338)
Other nonoperating expenses	(241,836,094)
<b>Net nonoperating revenues</b>	<u><u>51,377,139</u></u>
<b>Income Before Other Revenues, Expenses, Gains and Losses</b>	18,347,806
Capital appropriations	21,046,362
Capital gifts and grants	1,340,384
Additions to permanent endowments	11,482,959
Other deductions, net	(427,626)
<b>Increase in Net Assets</b>	51,789,885
<b>Net Assets at Beginning of Year, Restated</b>	<u>393,246,289</u>
<b>Net Assets at End of Year</b>	<u><u>\$445,036,174</u></u>

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

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

<b>Cash flows from operating activities</b>	
Student tuition and fees	\$17,536,969
Grants and contracts	135,278,137
Sales and services of educational departments	150,907,985
Hospital income	1,254,273,893
Auxiliary enterprise receipts	23,671,881
Payments for employee compensation	(732,035,075)
Payments for benefits	(141,664,446)
Payments for utilities	(26,746,696)
Payments for supplies and services	(683,844,751)
Payments for scholarships and fellowships	(719,526)
Loans to students	(2,211,971)
Collection of loans to students	2,656,198
Other receipts	17,503,896
Net cash provided by operating activities	<u>14,606,494</u>
<b>Cash flows from noncapital financing activities</b>	
State appropriations	265,650,256
Gifts and grants for other than capital purposes	1,940,373
Private gifts for endowment purposes	9,300,000
TOPS receipts	1,022,708
TOPS disbursements	(960,571)
Other disbursements	(221,011,845)
Net cash provided by noncapital financing sources	<u>55,940,921</u>
<b>Cash flows from capital financing activities</b>	
Proceeds from capital debt	310,500
Capital appropriations received	21,177,139
Capital grants and gifts received	1,340,384
Purchase of capital assets	(50,143,466)
Principal paid on capital debt and leases	(13,906,693)
Interest paid on capital debt and leases	(3,945,735)
Other uses	(427,626)
Net cash used by capital financing activities	<u>(45,595,497)</u>
<b>Cash flows from investing activities</b>	
Proceeds from sales and maturities of investments	17,724,597
Interest received on investments	4,454,883
Purchase of investments	(27,463,277)
Net cash used by investing activities	<u>(5,283,797)</u>
<b>Net increase in cash and cash equivalents</b>	19,668,121
<b>Cash and cash equivalents at the beginning of the year</b>	<u>105,124,231</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$124,792,352</u></u>

(Continued)

**LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA  
LSU HEALTH SCIENCES CENTER  
Consolidated Schedule of Cash Flows, 2004**

**Reconciliation of Operating Loss to Net Cash**

**Used by Operating Activities:**

Operating loss	(\$33,029,333)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	50,012,249
Changes in assets and liabilities:	
Decrease in accounts receivable	53,197,895
Decrease in inventories	2,458,499
Increase in deferred charges and prepaid expenses	(342,553)
Decrease in notes receivable	444,228
Decrease in other assets	5,950,638
Decrease in accounts payable and accrued liabilities	(62,106,898)
Decrease in deferred revenue	(3,263,444)
Decrease in amounts held in custody for others	(540,407)
Increase in compensated absences	1,818,741
Increase in other liabilities	6,879
	<u>14,606,494</u>
Net cash provided by operating activities	<u>\$14,606,494</u>

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

Cash and cash equivalents classified as current assets	\$110,328,360
Cash and cash equivalents classified as noncurrent assets	<u>14,463,992</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>\$124,792,352</u></u>

(Concluded)



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

**Combining Schedule of Net Assets, by Campus, June 30, 2004**

	SACS Reporting Entity	E.A. Conway Medical Center	Health Care Services Division	Eliminations	Total Health Sciences Center
<b>ASSETS</b>					
Current Assets:					
Cash and cash equivalents	\$68,568,927	\$8,452,336	\$33,307,097		\$110,328,360
Investments	3,685,490		227,157		3,912,647
Accounts receivable, net	89,162,219	3,973,459	56,674,018	(\$14,665,381)	135,144,315
Due from other campuses	23,718,666	(803,010)	1,468,851	(1,468,851)	22,915,656
Due from state treasury, net	9,864,957	(403)	13,863,289		23,727,843
Inventories	10,115,657	1,442,622	15,946,516		27,504,795
Deferred charges and prepaid expenses	813,368	1,500	111,724		926,592
Notes receivable	2,656,198				2,656,198
Total current assets	208,585,482	13,066,504	121,598,652	(16,134,232)	327,116,406
Noncurrent Assets:					
Restricted Assets:					
Cash and cash equivalents	13,436,607		1,027,385		14,463,992
Investments	45,095,176		14,634,718		59,729,894
Notes receivable	8,686,686				8,686,686
Investments	275,000				275,000
Capital assets, net	296,970,034	12,483,620	134,311,438		443,765,092
Other noncurrent assets	345,402		3,660,000		4,005,402
Total noncurrent assets	364,808,905	12,483,620	153,633,541	NONE	530,926,066
<b>Total assets</b>	<b>573,394,387</b>	<b>25,550,124</b>	<b>275,232,193</b>	<b>(16,134,232)</b>	<b>858,042,472</b>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and accrued liabilities	44,376,874	3,149,788	213,145,618	(16,134,232)	244,538,048
Deferred revenues	3,167,149				3,167,149
Amounts held in custody for others	1,660,673		156,959		1,817,632
Compensated absences	2,251,265	214,538	2,934,929		5,400,732
Capital lease obligations	2,132,794	370,236	6,268,167		8,771,197
Notes payable	64,094				64,094
Bonds payable	245,000		4,180,000		4,425,000
Other current liabilities	306,998				306,998
Total current liabilities	54,204,847	3,734,562	226,685,673	(16,134,232)	268,490,850
Noncurrent Liabilities:					
Compensated absences	36,969,086	2,971,324	30,914,371		70,854,781
Capital lease obligations	12,608,320	911,381	16,564,276		30,083,977
Notes payable	411,690				411,690
Bonds payable	14,815,000		28,350,000		43,165,000
Total noncurrent liabilities	64,804,096	3,882,705	75,828,647	NONE	144,515,448
<b>Total liabilities</b>	<b>119,008,943</b>	<b>7,617,267</b>	<b>302,514,320</b>	<b>(16,134,232)</b>	<b>413,006,298</b>
<b>NET ASSETS</b>					
Investment in capital assets, net of related debt	266,693,135	11,202,003	78,948,995		356,844,133
Restricted for:					
Nonexpendable	53,625,156		7,412,476		61,037,632
Expendable	41,653,261	89,166	39,342,799		81,085,226
Unrestricted	92,413,892	7,510,714	(153,855,423)		(53,930,817)
<b>Total net assets</b>	<b>\$454,385,444</b>	<b>\$18,801,883</b>	<b>(\$28,151,153)</b>	<b>NONE</b>	<b>\$445,036,174</b>

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

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

	SACS Reporting Entity	E. A. Conway Medical Center	Health Care Services Division	Eliminations	Total Health Sciences Center
<b>OPERATING REVENUES</b>					
Student tuition and fees	\$19,615,924				\$19,615,924
Less scholarship allowances	(2,199,172)				(2,199,172)
Net student tuition and fees	17,416,752	NONE	NONE	NONE	17,416,752
Federal grants and contracts	56,846,715				56,846,715
State and local grants and contracts	110,595,930			(\$85,940,288)	24,655,642
Nongovernmental grants and contracts	74,858,907				74,858,907
Sales and services of educational departments	158,412,139				158,412,139
Hospital income	218,200,770	\$69,546,666	\$1,000,336,709		1,288,084,145
Auxiliary enterprise revenues	22,298,834			(5,018,682)	17,280,152
Other operating revenues	1,797,138				1,797,138
<b>Total operating revenues</b>	<b>660,427,185</b>	<b>69,546,666</b>	<b>1,000,336,709</b>	<b>(90,958,970)</b>	<b>1,639,351,590</b>
<b>OPERATING EXPENSES</b>					
Educational and general:					
Instruction	206,750,078			(67,098,456)	139,651,622
Research	108,737,066			(500,000)	108,237,066
Public service	146,182,689			(8,406,706)	137,775,983
Academic support	54,160,728			(945,023)	53,215,705
Student services	3,875,268				3,875,268
Institutional support	62,061,280				62,061,280
Operation and maintenance of plant	35,906,796				35,906,796
Scholarships and fellowships	1,302,882				1,302,882
Auxiliary enterprises	21,259,838			(5,018,682)	16,241,156
Hospital	221,819,512	72,962,959	828,320,797	(8,990,103)	1,114,113,165
<b>Total operating expenses</b>	<b>862,056,137</b>	<b>72,962,959</b>	<b>828,320,797</b>	<b>(90,958,970)</b>	<b>1,672,380,923</b>
<b>Operating Income (Loss)</b>	<b>(201,628,952)</b>	<b>(3,416,293)</b>	<b>172,015,912</b>	<b>NONE</b>	<b>(33,029,333)</b>
<b>NONOPERATING REVENUES (Expenses)</b>					
State appropriations	202,051,933	5,057,591	67,953,715		275,063,239
Gifts	1,773,476		17,034,100		18,807,576
Net investment income	1,747,453	136,881	1,523,422		3,407,756
Interest expense	(1,878,724)	(44,302)	(2,142,312)		(4,065,338)
Other nonoperating expenses			(241,836,094)		(241,836,094)
<b>Net nonoperating revenues (expenses)</b>	<b>203,694,138</b>	<b>5,150,170</b>	<b>(157,467,169)</b>	<b>NONE</b>	<b>51,377,139</b>
<b>Income Before Other Revenues, Expenses, Gains and Losses</b>					
	2,065,186	1,733,877	14,548,743		18,347,806
Capital appropriations	17,136,920		3,909,442		21,046,362
Capital gifts and grants	1,340,384				1,340,384
Additions to permanent endowments	11,482,959				11,482,959
Other deductions, net	(427,626)				(427,626)
<b>Increase in Net Assets</b>	<b>31,597,823</b>	<b>1,733,877</b>	<b>18,458,185</b>	<b>NONE</b>	<b>51,789,885</b>
<b>Net Assets at Beginning of Year, Restated</b>	<b>422,787,621</b>	<b>17,068,006</b>	<b>(46,609,338)</b>	<b>NONE</b>	<b>393,246,289</b>
<b>Net Assets at End of Year</b>	<b>\$454,385,444</b>	<b>\$18,801,883</b>	<b>(\$28,151,153)</b>	<b>NONE</b>	<b>\$445,036,174</b>

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

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

	SACS Reporting Entity	E.A. Conway Medical Center	Health Care Services Division	Eliminations	Total Health Sciences Center
<b>Cash flows from operating activities</b>					
Student tuition and fees	\$17,536,969				\$17,536,969
Grants and contracts	235,867,083			(\$100,588,946)	135,278,137
Sales and services of educational departments	155,926,667			(5,018,682)	150,907,985
Hospital income	221,386,334	\$65,390,237	\$967,329,513	167,809	1,254,273,893
Auxiliary enterprise receipts	23,671,881				23,671,881
Payments for employee compensator	(478,649,820)	(29,221,423)	(310,086,623)	85,922,791	(732,035,075)
Payments for benefits	(73,335,650)	(7,080,350)	(69,082,044)	7,833,598	(141,664,446)
Payments for utilities	(11,595,096)	(1,192,364)	(12,883,838)	(1,075,398)	(26,746,696)
Payments for supplies and services	(245,005,199)	(34,415,002)	(416,673,177)	12,248,627	(683,844,751)
Payments for scholarships and fellowships	(719,526)				(719,526)
Loans to students	(2,211,971)				(2,211,971)
Collection of loans to students	2,656,198				2,656,198
Other receipts	17,503,896				17,503,896
Net cash provided (used) by operating activities	<u>(136,968,234)</u>	<u>(6,518,902)</u>	<u>158,603,831</u>	<u>(510,201)</u>	<u>14,606,494</u>
<b>Cash flows from noncapital financing activities</b>					
State appropriations	191,406,109	6,290,432	67,953,715		265,650,256
Gifts and grants for other than capital purposes	1,940,373				1,940,373
Private gifts for endowment purposes	9,300,000				9,300,000
TOPS receipts	1,022,708				1,022,708
TOPS disbursements	(960,571)				(960,571)
Other receipts (disbursements)	(510,201)	1,757,485	(222,769,330)	510,201	(221,011,845)
Net cash provided (used) by noncapital financing sources	<u>202,198,418</u>	<u>8,047,917</u>	<u>(154,815,615)</u>	<u>510,201</u>	<u>55,940,921</u>
<b>Cash flows from capital financing activities</b>					
Proceeds from capital debt	310,500				310,500
Capital appropriations received	17,267,697		3,909,442		21,177,139
Capital grants and gifts received	1,340,384				1,340,384
Purchase of capital assets	(42,584,828)	(138,229)	(7,420,409)		(50,143,466)
Principal paid on capital debt and leases	(4,004,947)	(228,931)	(9,672,815)		(13,906,693)
Interest paid on capital debt and leases	(1,878,719)	(44,302)	(2,022,714)		(3,945,735)
Other uses	(427,626)				(427,626)
Net cash used by capital financing activities	<u>(29,977,539)</u>	<u>(411,462)</u>	<u>(15,206,496)</u>	<u>NONE</u>	<u>(45,595,497)</u>
<b>Cash flows from investing activities</b>					
Proceeds from sales and maturities of investments	12,424,597		5,300,000		17,724,597
Interest received on investments	2,496,492	136,881	1,821,510		4,454,883
Purchase of investments	(20,202,618)		(7,260,659)		(27,463,277)
Net cash provided (used) by investing activities	<u>(5,281,529)</u>	<u>136,881</u>	<u>(139,149)</u>	<u>NONE</u>	<u>(5,283,797)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>29,971,116</u>	<u>1,254,434</u>	<u>(11,557,429)</u>	<u>NONE</u>	<u>19,668,121</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>52,034,418</u>	<u>7,197,902</u>	<u>45,891,911</u>	<u>NONE</u>	<u>105,124,231</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>\$82,005,534</u>	<u>\$8,452,336</u>	<u>\$34,334,482</u>	<u>NONE</u>	<u>\$124,792,352</u>

(Continued)

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

	SACS Reporting Entity	E.A. Conway Medical Center	Health Care Services Division	Eliminations	Total Health Sciences Center
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>					
Operating income (loss)	(\$201,628,952)	(\$3,416,293)	\$172,015,912		(\$33,029,333)
Adjustments to reconcile operating loss to net cash provided by operating activities:					
Depreciation expense	30,776,401	2,912,206	16,323,642		50,012,249
Changes in assets and liabilities:					
Decrease in accounts receivable	25,270,333	837,752	12,938,486	\$14,151,324	53,197,895
(Increase) decrease in inventories	991,110	(75,310)	1,542,699		2,458,499
(Increase) decrease in deferred charges and prepaid expenses	(399,913)	6,131	51,229		(342,553)
Decrease in notes receivable	444,228				444,228
Decrease in other assets	5,950,638				5,950,638
Increase (decrease) in accounts payable and accrued liabilities	3,729,728	(6,755,540)	(44,419,561)	(14,661,525)	(62,106,898)
Decrease in deferred revenue	(3,263,444)				(3,263,444)
Decrease in amounts held in custody for others	(516,902)		(23,505)		(540,407)
Increase (decrease) in compensated absences	1,671,660	(27,848)	174,929		1,818,741
Increase in other liabilities	6,879				6,879
Net cash provided (used) by operating activities	<u>(\$136,968,234)</u>	<u>(\$6,518,902)</u>	<u>\$158,603,831</u>	<u>(\$510,201)</u>	<u>\$14,606,494</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>					
Cash and cash equivalents classified as current assets	\$68,568,927	\$8,452,336	\$33,307,097		\$110,328,360
Cash and cash equivalents classified as noncurrent assets	<u>13,436,607</u>		<u>1,027,385</u>		<u>14,463,992</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>\$82,005,534</u>	<u>\$8,452,336</u>	<u>\$34,334,482</u>	<u>NONE</u>	<u>\$124,792,352</u>

(Concluded)

**OTHER REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

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

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STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

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

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January 11, 2005

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

**LOUISIANA STATE UNIVERSITY SYSTEM**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the basic financial statements of the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 11, 2005. We did not audit the financial statements of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice doing business as LSU Healthcare Network and subsidiaries and the Eunice Student Housing Foundation, Inc., which are nonprofit corporations included as blended component units in the basic financial statements of the Louisiana State University System. We also did not audit the financial statements of the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center and Subsidiary, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are discretely presented component units presented in the basic financial statements. The financial statements of the blended and discretely presented component units were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts reported for these component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the LSU Foundation and the Pennington Medical Foundation, which were audited by other auditors upon whose reports we are relying, were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Louisiana State University System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters described below involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to

significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Louisiana State University System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

#### **Internal Control Weakness Over Capital Assets**

The Louisiana State University Health Sciences Center - Health Care Services Division (HCSD) uses one capital assets accounting system for financial reporting and a different accounting system for the physical inventory of capital assets. HCSD used the American Appraisal Associates (AAA) system for equipment and buildings for federal cost reporting and financial reporting; however, the physical inventory for equipment and buildings and land is performed using the Louisiana Property Assistance Agency (LPAA) and the State Land and Buildings (SLABS) systems, respectively.

HCSD's failure to perform physical inventories on the same system as is being used for financial reporting increases the risk that misstatements of capital assets and depreciation could occur and not be detected timely. Management should perform its physical inventory of capital assets at each HCSD facility with the AAA system used for financial statement purposes to verify that the items exist and are recorded at their proper value. This inventory should be reconciled to the LPAA and SLABS systems, and if any discrepancies are discovered, the appropriate systems should be adjusted. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 1-2).

#### **No Formal Disaster Recovery Plan**

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

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

LSUHSC should develop a disaster recovery plan that identifies critical system hardware, software, and telecommunication components. The university should also test the plan to ensure that it provides for an orderly restoration of services in the event of an unexpected interruption in operations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 3-4).

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. We believe that the reportable condition related to capital assets described previously is a material weakness.

### **Compliance and Other Matters**

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

### **Other Reports**

Other external auditors audited the LSU Healthcare Network and the Eunice Student Housing Foundation, which are blended component units included in the Louisiana State University System's basic financial statements for the year ended June 30, 2004. In addition, other external auditors audited the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the LSU Health Sciences Center Foundation, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are discreetly presented component units included in the basic financial statements. To obtain copies of those reports, refer to note 1-B to the basic financial statements for mailing addresses.

As a part of our audit of the LSU System's basic financial statements for the year ended June 30, 2004, we performed certain procedures on campuses and hospitals within the LSU System. Our reports on those procedures for those campuses and hospitals are listed as follows:

	<u>Issue Date</u>
LSU and Related Campuses	March 2, 2005
LSU Health Sciences Center - Shreveport	December 15, 2004
LSU Health Care Services Division	January 12, 2005

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## LOUISIANA STATE UNIVERSITY SYSTEM

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

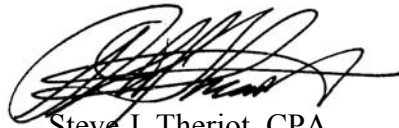
To provide financial information required for upcoming reaccreditation by the Southern Association of Colleges and Schools (SACS), we have issued our accountant's review reports for the following campuses:

	<u>Issue Date</u>
LSU Health Sciences Center	January 14, 2005
University of New Orleans	February 3, 2005
LSU in Shreveport	October 20, 2004

Also to provide financial information required for its application for accreditation by SACS, our audit report on the Paul M. Hebert Law Center was issued on March 9, 2005.

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

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

CGEW:ES:PEP:dl

LSU04

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

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

November 18, 2004

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

RE: Audit Finding: Internal Control Weaknesses Over Capital Assets  
Fiscal Year Ended June 30, 2004

Dear Mr. Theriot:

The Louisiana State University Health Sciences Center – Health Care Services Division (HCSD) concurs with the legislative audit finding regarding internal control weaknesses over movable property. However, we have at this time satisfied ourselves and the Legislative Audit staff through a reconciliation process that there are currently no material misstatements as of the end of State Fiscal Year 2004. We do agree that the risk of such material misstatement does exist without a reconciliation process. During the course of the State Fiscal Year 2004 Legislative Audit, HCSD Finance staff and Internal Audit staff, working in conjunction with the Legislative Audit staff were able to develop a conceptual reconciliation approach, test its validity, and use its methodology to reconcile and adjust the multiple systems to everyone's satisfaction.

HCSD intends to continue this reconciliation process to gain continuing assurance of the materially accurate financial presentation of HCSD capital assets up through the successful implementation of the PeopleSoft Asset Management Module. This implementation will be part of the overall PeopleSoft Financial System Version 8.8 Upgrade that is currently underway for all of the LSU Health Science Center Campuses (LSUHSC-Shreveport, LSUHSC-New Orleans and HCSD). HCSD has initiated taking a comprehensive inventory and adjustment of any balances necessary of all Capital assets. This inventory will be completed in SFY2005. The results of this inventory will be compared to the American Appraisal Associates (AAA) listing of capital assets, and appropriate adjustments made. This adjusted inventory will then be loaded as beginning balances into the PeopleSoft Asset Management Module. It is anticipated that this activity will be finalized by the end of the current fiscal year (June 30, 2005), based upon our current work plan timeframe.

Consistent with the current capital asset and movable property reporting practices of the other LSU Health Science Center Campuses, (LSUHSC-Shreveport and LSUHSC-New Orleans); HCSD will switch to an end of the fiscal year annual reporting and certification to the Louisiana Property Assistance Agency (LPAA). This reporting change has been recommended and agreed to by the Legislative Auditor's Office staff as part of our SFY 2004 audit. This action will complete our

transition from routine transaction reporting to the LPAA to the methodology used by the other HSC campuses currently on PeopleSoft Asset Management.

As recommended, HCSD management will continue using the AAA system for reporting capital assets and the capture of depreciation until the PeopleSoft Asset Management System has been tested and proven to accurately reflect Capital Asset acquisition purchases and proper recordation under American Hospital Association depreciation guidelines within the PeopleSoft System, consistent with the cost reporting requirements. At that time HCSD will discontinue using AAA and exclusively use the PeopleSoft Asset Management system for all reporting of capitalized assets. It is anticipated that this transition will take place at the conclusion of State Fiscal Year 2006.

HCSD is also taking strong steps to correct the operational component of the internal control deficiencies cited in this finding by the Legislative Auditor's Office. These corrective action steps include the authorization to hire one additional staff person to monitor and offer guidance to the HCSD hospitals in the area of capital asset management. This step is currently being taken. As an additional part of this operational evaluation, a recommendation has been made by HCSD Finance staff to Executive Management relative to the organizational reporting relationships, the job allocations and technical requirements needed to accurately perform the duties necessary to account for and maintain the Capital Assets within the PeopleSoft Asset Management System. This recommendation is currently under review by HCSD Executive Management. Further action steps include a reinforcement of the oversight responsibility and accountability for accurate and timely capital asset management and recordation by the HCSD hospital administrators and CFO's. This step has been completed.

As an additional monitoring step, HCSD Internal Audit staff will routinely monitor and advise both hospital management and HCSD Administrative Management on an interim basis (during the year) on the adherence of the property managers with the proscribed policies and procedures.

Persons responsible for the corrective actions, monitoring and successful implementation of the above actions include the Director of Financial Services and the HCSD Asset Management Supervisor. Should you have any question or need additional information, please contact Art Landry, Director of Financial Services, at (225) 922-2265, or John Kelly, HCSD Asset Management Supervisor, at (225) 922-3340.

Sincerely,



Robert M. Plaisance  
Deputy Chief Executive Officer

RP/ADL/adl



August 17, 2004

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

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

Dear Mr. Theriot,

I concur with the finding and recommendation.

**Corrective action plan:**

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

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

Still to be accomplished are the following:

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

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

**Anticipated Completion Date:**

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

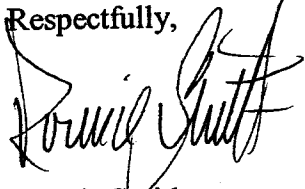
**Person responsible for corrective action:**

David Troendle, Assistant Vice Chancellor for Information Technology

Phone: 504-568-6130

Email: [dtroen@lsuhsc.edu](mailto:dtroen@lsuhsc.edu)

Respectfully,



Ronnie Smith

Vice Chancellor for Administration and Finance