LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

January 14, 2004

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

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December 16, 2003

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, 2003, as listed in the foregoing 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 the Eunice Student Housing Foundation, Inc., included within the basic financial statements of the Louisiana State University System. As discussed in note 1-B, the LSU Healthcare Network and the Eunice Student Housing Foundation are nonprofit corporations included as a part of the Louisiana State University System and represent approximately 1.5% of total assets, 0.7% of total liabilities, 2.1% of total revenues, and 2.0% of total expenses of the Louisiana State University System. The financial statements of the LSU Healthcare Network and the Eunice Student Housing Foundation were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the LSU Healthcare Network and the Eunice Student Housing Foundation, is based on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

The Louisiana State University Health Sciences Center - Health Care Services Division (HCSD) was unable to provide adequate support for an adjustment to restate capital assets in a prior year. As noted in our prior audit report for the year ended June 30, 2002, HCSD changed the accounting systems it used for financial reporting purposes for capital assets, which increased the value of the capital assets reported as of June 30, 2001. As described in Exhibit B of this report, HCSD was unable to reconcile the differences between the two accounting systems. As a result, we were unable to satisfy ourselves as to the accuracy of HCSD's adjusted capital assets of $481,161,910 and accumulated depreciation of $344,908,930, at June 30, 2003, which includes depreciation expense of $20,772,675 for the year ended June 30, 2003. HCSD's failure to perform a reconciliation between its two capital asset systems may have resulted in an overstatement of capital assets, at cost, by approximately $79 million for the fiscal year ended June 30, 2003. In addition, accumulated depreciation may be overstated, as well as the amount of depreciation claimed for financial statement and cost report purposes.

In our opinion, based on our audit and the reports of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had HCSD reconciled the differences between the two accounting systems for capital assets, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the Louisiana State University System as of June 30, 2003, and its changes in its financial position, including cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 4 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Respectfully submitted,

Grover C. Austin, CPA
First Assistant Legislative Auditor

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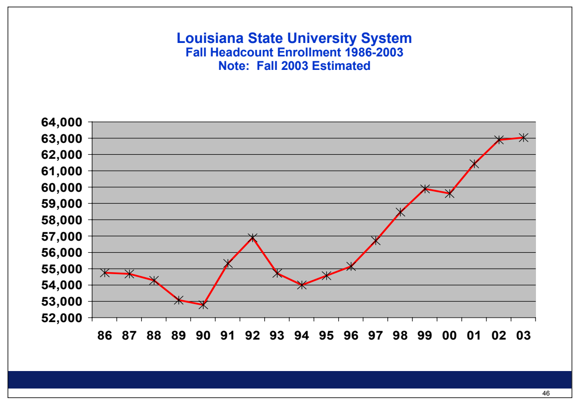
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003. The annual report consists of a series of financial statements prepared in accordance with Governmental Accounting Standards Board Statement Nos. 34 and 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 Louisiana State University 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 citizens of the state.



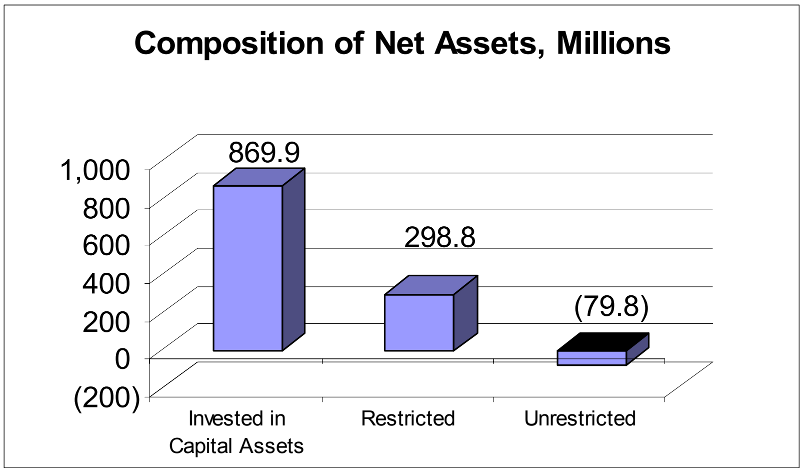
Moreover, the System is charged with the responsibility of administering ten public hospitals. These hospitals are the primary deliverer of health care services to the indigent population of the state and account for over 1 million in-patient and out-patient visits each year.

FINANCIAL HIGHLIGHTS

Total operating revenues increased from the prior fiscal year by $81.2 million, while operating expenses increased by $165.3 million. Overall, the System had an operating loss of $645.4 million at June 30, 2003. This was an $84.1 million increase in the operating loss from the prior year. When nonoperating revenues and expenses are included, the loss before other revenues, expenses, gains, and losses was $110 million.

Of the $84.1 million increase in the operating loss, $46 million can be attributed to the Health Sciences Center's Health Care Services Division increasing estimated Uncompensated Care Cost settlements and Medicare/Medicaid Cost Report settlement liabilities for prior years and a change in source of funds for prisoner care. The majority of the remaining increase in the operating loss can be attributed to an increase in state appropriations. State appropriations must be reported as nonoperating revenue when received, but when expended is shown as operating expenses, thus impacting the operating loss.

Net assets, which represent the residual interest in the System's assets after liabilities are deducted, decreased by $18 million (1.62%) from the prior fiscal year to $1.09 billion. Shown below is a chart illustrating the composition of the System's net assets as of June 30, 2003.



Unrestricted net assets are reflected at ($79.8 million). Major components of this total are the Health Sciences Center with ($97.2 million), UNO with ($3.9 million), the LSU Agricultural Center with $5.1 million, and LSU with $12.6 million.

Within the LSU Health Sciences Center the Health Care Services Division (HCSD), responsible for operating nine of the ten public hospitals statewide, experienced an $87.9 million decrease in net assets for the fiscal year ended June 30, 2003. Major factors that contributed to this decrease were as follows:

1. Net Cost Report and Uncompensated Care Cost (UCC) estimated settlement liabilities increased by $68.6 million from June 30, 2002 to June 30, 2003. These increases were the results of updated estimates from as-filed cost reports and audits by the Medicare and Medicaid Fiscal Intermediaries and the Office of the Inspector General. This resulted in a decrease in net assets of $68.6 million.

2. In addition, HCSD received $59.1 million payments in Medicaid Cost Report Settlements during fiscal year 2003 for cash flow purposes. These Medicaid Cost Report Settlements were already established as receivables and did not affect net assets. However, to receive this $59.1 million, HCSD had to transfer $17.3 million to the Department of Health & Hospitals for the state match. This state match was not an established payable, resulting in a decrease in net assets of $17.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The System's financial report consists of two sections, Management's Discussion and Analysis, which is required supplementary information (this section) and the basic financial statements including the notes to the financial statements. The basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows.

BASIC FINANCIAL STATEMENTS

The basic financial statements present information for the System as a whole. The Statement of Net Assets presents the financial position of the System at the end of the fiscal year and includes all assets and liabilities of the System. The difference between total assets and total liabilities is one way to measure the System's financial health or position, while the change in net assets is a useful indicator of whether the financial condition of the System is improving or deteriorating. Over time, increases or decreases in the System's net assets can be useful in assessing whether its financial health is improving. Other nonfinancial 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. This will be the first year for the preparation of the Statement of Cash Flows by the System.

STATEMENT OF NET ASSETS

Net assets are divided into three major categories.

> <u>Invested in capital assets, net of debt</u> - provides the institution's equity in property, plant and equipment owned by the System.
>
> <u>Restricted net assets</u> - represent those assets that are not available for spending as a result of legislative requirements, donor agreements, grant requirements, etc.
>
> <u>Unrestricted net assets</u> - represent those assets that are available to the System for any lawful purpose of the System.

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 $511.2 million and consist primarily of cash and cash equivalents, net receivables, investments, and inventories. Current liabilities total $405.7 million and consist primarily of accounts payables and accrued liabilities, deferred revenues, capital lease obligations, and a contingent amount for uncompensated absences.

Noncurrent assets total $1.3 billion and include capital assets and assets under capital leases of $1.1 billion. Other noncurrent assets include cash and investments that are externally restricted to make debt service payments or to maintain sinking or reserve funds and total $229.3 million.

Noncurrent liabilities total $342.4 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 $115.5 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 $183.3 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, 2003 and June 30, 2002, is shown below.

Statement of Net Assets

	As of			Percent
	June 30, 2002	June 30, 2003	Change	Change
Assets				
Current assets	$517,362,066	$511,214,111	($6,147,955)	-1.19%
Capital assets	1,007,044,756	1,096,453,158	89,408,402	8.88%
Other assets	240,320,910	229,305,560	(11,015,350)	-4.58%
Total Assets	1,764,727,732	1,836,972,829	72,245,097	4.09%
Liabilities				
Current liabilities	340,466,475	405,683,518	65,217,043	19.16%
Noncurrent liabilities	317,383,377	342,384,141	25,000,764	7.88%
Total liabilities	657,849,852	748,067,659	90,217,807	13.71%
Net Assets				
Invested in capital assets, net of debt	802,407,410	869,861,920	67,454,510	8.41%
Restricted - nonexpendable	110,218,459	115,518,384	5,299,925	4.81%
Restricted - expendable	204,256,374	183,312,749	(20,943,625)	-10.25%
Unrestricted	(10,004,363)	(79,787,883)	(69,783,520)	-697.53%
Total Net Assets	$1,106,877,880	$1,088,905,170	($17,972,710)	-1.62%

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 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, 2003, for the LSU System indicates a net operating loss of $645,369,062, calculated in the new operating statement model without including appropriations, gifts, or investment earnings and before subtracting interest expenses on debt. This represents an increase in the operating loss from the prior year by $84.1 million. As mentioned earlier, major factors contributing to the increased operating loss involved the LSU Health Sciences Center's Health Care Services Division (HCSD) and were (a) the treatment of funds for prisoner care and (b) an increase in prior year Cost Report and Uncompensated Care Cost (UCC) Settlement net payables.

In FY 02, prisoner care was funded by UCC and was included in Hospital income in the operating section. In FY 03 prisoner care was funded instead by State General Direct funds and is included in state appropriations in the nonoperating section. This resulted in a reduction in Hospital income in FY 03 of $33.0 million in the operating section.

Also, in FY 03 prior year Cost Report and UCC Settlement net payables increased by $13.0 million. These revised settlements increased accounts payable and correspondingly decreased Hospital Income thus affecting operating revenue.

However, after adding nonoperating revenues such as state appropriations ($532,436,000), gifts ($19,964,000), investment income ($9,460,000), and after subtracting interest expenses ($9,253,000), and including other nonoperating expenses, the Loss before Other Revenues, Expenses, Gains or Losses is ($109,952,394) and compares to FY 02 of $954,586.

Contributing to this change from the prior year was that in FY 02 the HCSD received a one-time state appropriation of $68.9 million from the Deficit Elimination Fund to pay off a Due to State Liability that had been established since 1998. This resulted in a decrease in state appropriations of $68.9 from FY 02 to FY 03. In addition, in FY 03, the HSCD received $59.1 million in payments from Medicaid Cost Reports. In order to receive these payments, the HSCD had to transfer $17.3 million to the Louisiana Department of Health and Hospitals for the state match. This resulted in a decrease in Other Nonoperating Revenues (expenses) of $17.3 million.

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

Statement of Revenues, Expenses, and Changes in Net Assets

	As of			Percent
	June 30, 2002	June 30, 2003	Change	Change
Operating revenues	$1,759,509,092	$1,840,707,449	$81,198,357	4.61%
Operating expenses	(2,320,796,691)	(2,486,076,511)	(165,279,820)	7.12%
Operating income (loss)	(561,287,599)	(645,369,062)	(84,081,463)	14.98%
Nonoperating revenues (expenses)	562,242,185	535,416,668	(26,825,517)	-4.77%
Income (loss) before other revenues, expenses, gains or losses	954,586	(109,952,394)	(110,906,980)	-11618.33%
Other revenues, expenses, gains or losses	75,232,765	86,689,864	11,457,099	15.23%
Increase in net assets	76,187,351	(23,262,530)	(99,449,881)	-130.53%
Net assets at beginning of the year - restated	1,030,690,529	1,112,167,700	81,477,171	7.91%
Net assets at the end of the year	$1,106,877,880	$1,088,905,170	($17,972,710)	-1.62%

Operating Revenues

Operating revenues for the System totaled $1.8 billion at June 30, 2003. Major components of operating revenue are hospital income, representing 53.4% of the total; grants and contracts, 19.0% of the total; and tuition and fees, 10.7% of the total. The following table summarizes the System's operating revenue for the year ending June 30, 2003.

Operating Revenues (in millions)

	As of			Percent
	June 30, 2002	June 30, 2003	Change	Change
Tuition and fees	$188.8	$197.4	$8.6	4.56%
Grants and contracts	344.4	349.0	4.6	1.34%
Federal appropriations	11.0	10.6	(0.4)	(-3.64%)
Sales and services of educational departments	125.9	158.9	33.0	26.21%
Auxiliary enterprises	116.4	126.7	10.3	8.85%
Hospital income	959.5	983.5	24.0	2.50%
Other	13.5	14.6	1.1	8.15%
Total operating revenues	$1,759.5	$1,840.7	$81.2	4.61%

Operating Expenses

Total operating expenses for the System amounted to $2.5 billion as of June 30, 2003. Hospital expenses represented 43.3% of all operating expenses and are the largest functional component of them. Other major components are instructional expenses, 16.4%; research expenses, 10.9%; and public service expenses, 7.3%. Shown in the table below is a summary of the System's operating expenses for the fiscal year ending June 30, 2003.

Operating Expenses (in millions)

	As of			Percent
	June 30, 2002	June 30, 2003	Change	Change
Instruction	$389.5	$408.8	$19.3	4.96%
Research	237.6	270.3	32.7	13.76%
Public service	176.0	182.6	6.6	3.75%
Academic support	110.6	116.1	5.5	4.97%
Student services	27.0	29.3	2.3	8.52%
Institutional support	108.2	108.5	0.3	0.28%
Operation and maintenance of plant	115.5	142.0	26.5	22.94%
Scholarships and fellowships	33.5	34.4	0.9	2.69%
Auxiliary enterprises	108.7	117.5	8.8	8.10%
Hospital	1,013.9	1,076.6	62.7	6.18%
Total operating expenses	$2,320.5	$2,486.1	$165.6	7.14%

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2003, the System had $1.096 billion (including $51.7 million in assets under capital leases) invested in a broad range of capital assets including land, buildings and improvements, equipment, and infrastructure, net of accumulated depreciation of $1.42 billion (see following table).

Capital Asset Summary

	As of			Percent
	June 30, 2002	June 30, 2003	Change	Change
Capital Assets not being depreciated	$195,859,979	$247,379,311	$51,519,332	26.30%
Other Capital Assets:				
Infrastructure	47,117,152	47,561,229	444,077	0.94%
Land improvements	59,337,016	55,834,325	(3,502,691)	-5.90%
Buildings	1,213,389,038	1,251,998,387	38,609,349	3.18%
Equipment	700,273,477	739,415,493	39,142,016	5.59%
Library books	168,207,383	177,785,285	9,577,902	5.69%
Total Other Capital Assets	2,188,324,066	2,272,594,719	84,270,653	3.85%
Total cost of capital assets	2,384,184,045	2,519,974,030	135,789,985	5.70%
Less accumulated depreciation	(1,377,139,289)	(1,423,520,872)	(46,381,583)	3.37%
Capital assets, net	$1,007,044,756	$1,096,453,158	$89,408,402	8.88%

Capital assets not being depreciated total $247.4 million. This represents land and construction in progress.

Significant capital asset additions in FY 03 were $7 million for construction in progress converting the old Delgado Nursing Building into a combination of Residence Hall, Fitness Facility and Day Care Center at the New Orleans campus of the Health Sciences Center, as well as $6 million for construction in progress for the building of a covered walkway that connects the major facilities. At the Shreveport campus of the Health Sciences Center, $3.2 million was added for the Diagnostic Imaging Center Building, $0.9 million for the Mollie Webb Speech & Hearing Building, and $7.1 million and $7.9 million as construction in progress for the Regional Cancer Center and the Ambulatory Care Building, respectively.

Major additions at the Health Sciences Center's HCSD included $1.1 million at E. A. Conway Medical Center for a new CT Scanner, $1.2 million at the Medical Center of Louisiana at New Orleans for construction in progress associated with a new Histopathology/Microbiology Lab, and $0.8 million system wide for both a pharmacy management system and a laboratory management system.

At LSU major buildings that were placed in service in FY 03 were the Cox Communications Academic Center for Student-Athletes, $13 million; the Wetlands Environmental Sciences Building, $4.9 million; and the Hilltop Arboretum, $1.3 million. Construction in progress added included $11.2 million for the West Campus Apartments and $2.9 million for renovations to the Laboratory School.

At the LSU Agricultural Center, $5.4 million was added for a 4,000 square foot building in St. Gabriel, Louisiana, donated by a private corporation. The building will be used by the Audubon Sugar Institute.

For the Paul M. Hebert Law Center, $1.5 million for renovations was added to their capital assets.

In addition, the University of New Orleans had the following major additions to its buildings during the same time period: $7.9 million as a prior period adjustment adding the Ogden Museum of Southern Art, as well as $1.7 million in construction in progress associated with the museum. Finally, $2.9 million in construction in progress was recognized in finishing off the new College of Business Administration building.

At June 30, 2003, the System had $176,506,583 in bonds outstanding, $18,952,527 in notes payable outstanding, and $51,653,820 in capital lease obligations outstanding.

STATEMENT OF CASH FLOWS

A summary of cash flows for the year ended June 30, 2003 is as follows:

Statement of Cash Flows

	As of June 30, 2003
Cash flows from:	
Operating activities	($473,461,073)
Noncapital financing activities	518,709,944
Capital financing activities	(93,533,237)
Investing activities	28,598,650
Net increase (decrease) in cash and cash equivalents	(19,685,716)
Cash and cash equivalents at the beginning of the year	300,143,769
Cash and cash equivalents at the end of the year	$280,458,053
Cash and cash equivalents classified as:	
Current assets	$229,807,371
Noncurrent assets	50,650,682
	$280,458,053

ECONOMIC OUTLOOK

Nationally, many state university systems experienced reductions in state appropriations in 2002-03. This was not true for LSU System academic campuses as most received increases in state funding, state dedicated revenues, or both. As a result, System campuses are closing the gap in funding differences between our campuses and their national peers. System campuses, particularly LSU and the research campuses, have attracted nationally recognized faculty.

During 2002-03 the System working closely with the Louisiana Economic Development Corporation (LEDC) participated in launching the Louisiana Research and Technology Corporation, an LLC wholly owned by the Louisiana State University Research and Technology Foundation. Utilizing a $5.75 million seed grant from LEDC, the technology corporation is in the process of assimilating a $30 million technology fund to promote transferring technology from university laboratories to private sector ventures.

A successful research and technology foundation will result in increasing research related revenues for the System. The research infrastructure of the System continues to be improved through the addition of laboratory space. An Emerging Technology Center is under construction. Primarily, the center will serve the flagship campuses but will be open to all qualified applicants.

In addition to anticipated increases in research related revenues, the Louisiana Legislature again granted authority for the System to increase tuition and fees by up to 3% a year. The Legislature also approved an academic excellence fee for all campuses, and an increase in the building use fee at the University of New Orleans. These increases in self-generated funds will assist the System in achieving its long range goal of diversifying the funding base of the various campuses.

Financial problems continue in the public hospital system. The System led a successful effort to legislatively clarify the System's authority over the daily management of the public hospital system, particularly as it pertains to financial management. The HCSD has been reorganized. The state financial formula for delivering health care to the state's indigent population has changed. An important change allows the HCSD to refuse service to patients who have the ability to pay but have refused to do so for services rendered. Self-generated revenues should increase as a result. However, this increase will not be initially sufficient to offset the approximately 6% overall budget reduction the public hospitals received in 2003-04. System and HCSD officials continue to work with federal funding sources to maximize the revenue potential by modifying allowable costs for cost reporting purposes. If approved that action would address the less than full reimbursement the HCSD is receiving relative to the UCC revenue source.

While the HCSD's current fiscal situation is problematic it is important to note that legislation protects the academic (non-hospital) portion from any potential deficit incurred in the hospitals. Further, there is growing national concern over the entire issue of health care reimbursements and the plight of the indigent and working poor. The System will be an active participant in shaping the future of the HCSD.

The long run economic picture for System campuses is bright. Our campuses have been implementing more rigorous admission criteria with the result that more students are being retained and, thereby, adding to the available self-generated funds. The research infrastructure is increasing. Trends in grant and contract funding indicate annual record setting levels for the foreseeable future. The political climate is favorable to public higher education and public support within the state is strong.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Net Assets, June 30, 2003

ASSETS	
Current Assets:	
Cash and cash equivalents (note 2)	$229,807,371
Investments (note 3)	6,511,413
Receivables, net (note 4)	199,102,274
Due from state treasury, net (note 14)	25,413,994
Inventories	39,862,837
Deferred charges and prepaid expenses	3,546,394
Notes receivable	6,016,956
Other current assets	952,872
Total current assets	511,214,111
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents (note 2)	50,650,682
Investments (note 3)	137,390,130
Accounts receivable (note 4)	4,260
Notes receivable	12,817,033
Other restricted assets	12,002,969
Investments (note 3)	13,089
Notes receivable	12,325,842
Other noncurrent assets	4,101,555
Capital assets, net (note 5)	1,096,453,158
Total noncurrent assets	1,325,758,718
Total assets	1,836,972,829
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	291,151,903
Deferred revenues	79,313,935
Amounts held in custody for others	5,936,883
Compensated absences (note 9)	8,225,871
Capital lease obligations (note 12)	9,106,289
Notes payable (note 12)	2,747,111
Contracts payable (note 12)	374,535
Bonds payable (note 12)	7,874,000
Other current liabilities	952,991
Total current liabilities	405,683,518

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2003

Noncurrent Liabilities:	
Compensated absences (note 9)	$110,596,937
Capital lease obligations (note 12)	42,547,531
Notes payable (note 12)	16,205,416
Contracts payable (note 12)	337,554
Bonds payable (note 12)	168,632,583
Other noncurrent liabilities	4,064,120
Total noncurrent liabilities	342,384,141
Total liabilities	748,067,659
NET ASSETS	
Investment in capital assets, net of related debt	869,861,920
Restricted for:	
Nonexpendable (note 15)	115,518,384
Expendable (note 15)	183,312,749
Unrestricted	(79,787,883)
Total net assets	$1,088,905,170

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Revenues, Expenses,
and Changes in Net Assets
For the Year Ended June 30, 2003

OPERATING REVENUES	
Student tuition and fees	$231,522,498
Less scholarship allowances	(34,148,331)
Net student tuition and fees	197,374,167
Federal appropriations	10,584,992
Federal grants and contracts	187,236,789
State and local grants and contracts	72,891,053
Nongovernmental grants and contracts	88,891,381
Sales and services of educational departments	158,923,679
Hospital income	983,503,090
Auxiliary enterprise revenues (including revenues pledged to secure debt per note 22)	131,114,483
Less scholarship allowances	(4,425,571)
Net auxiliary revenues	126,688,912
Other operating revenues	14,613,386
Total operating revenues	1,840,707,449
OPERATING EXPENSES	
Educational and general:	
Instruction	408,775,068
Research	270,266,663
Public service	182,573,263
Academic support	116,108,682
Student services	29,299,577
Institutional support	108,501,545
Operation and maintenance of plant	142,034,935
Scholarships and fellowships	34,413,869
Auxiliary enterprises	117,541,362
Hospital	1,076,561,547
Total operating expenses	2,486,076,511
Operating Loss	(645,369,062)
NONOPERATING REVENUES (Expenses)	
State appropriations	532,435,766
Gifts	19,963,663
Net investment income	9,459,702
Interest expense	(9,252,692)
Other nonoperating expenses	(17,189,771)
Net nonoperating revenues	535,416,668

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2003

Loss Before Other Revenues, Expenses, Gains and Losses	($109,952,394)
Capital appropriations	50,351,787
Capital gifts and grants	30,495,819
Additions to permanent endowments	4,832,328
Other additions, net	1,009,930
Increase in Net Assets	(23,262,530)
Net Assets at Beginning of Year, Restated (note 16)	1,112,167,700
Net Assets at End of Year	$1,088,905,170

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2003

Cash Flows From Operating Activities	
Student tuition and fees	$201,373,408
Federal appropriations	11,304,446
Grants and contracts	357,406,796
Sales and services of educational departments	179,747,963
Hospital income	1,021,956,551
Auxiliary enterprise receipts	127,328,501
Payments for employee compensation	(1,264,185,281)
Payments for benefits	(231,389,854)
Payments for utilities	(47,481,723)
Payments for supplies and services	(815,346,208)
Payments for scholarships and fellowships	(33,937,045)
Loans to students	(7,042,786)
Collection of loans to students	6,649,031
Other receipts	20,155,128
Net cash used by operating activities	(473,461,073)
Cash Flows From Noncapital Financing Activities	
State appropriations	518,208,412
Gifts and grants for other than capital purposes	13,979,566
Private gifts for endowment purposes	187,353
TOPS receipts	45,221,537
TOPS disbursements	(44,609,577)
Other disbursements	(14,277,347)
Net cash provided by noncapital financing sources	518,709,944
Cash Flows From Capital Financing Activities	
Proceeds from capital debt	20,244,966
Capital appropriations received	43,829,238
Capital grants and gifts received	30,861,513
Purchase of capital assets	(157,850,423)
Principal paid on capital debt and leases	(22,393,027)
Interest paid on capital debt and leases	(9,274,553)
Other sources	1,049,049
Net cash used by capital financing activities	(93,533,237)

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows
For the Year Ended June 30, 2003

Cash Flows From Investing Activities	
Proceeds from sales and maturities of investments	$39,783,412
Interest received on investments	11,928,751
Purchase of investments	(23,113,513)
Net cash provided by investing activities	28,598,650
Net decrease in cash and cash equivalents	(19,685,716)
Cash at the beginning of the year, restated (note 1-E)	300,143,769
Cash at the end of the year	$280,458,053
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($645,369,062)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	85,226,031
Changes in assets and liabilities:	
Decrease in accounts receivable	13,404,359
Decrease in inventories	1,564,446
Decrease in deferred charges and prepaid expenses	487,307
Decrease in notes receivable	(210,720)
Decrease in other assets	(23,101,895)
Increase in accounts payable and accrued liabilities	58,909,754
Decrease in deferred revenue	2,154,718
Increase in amounts held in custody for others	1,961,583
Increase in compensated absences	5,880,909
Increase in other liabilities	25,631,497
Net cash used by operating activities	($473,461,073)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and cash equivalents classified as current assets	$229,807,371
Cash and cash equivalents classified as noncurrent assets	50,650,682
Cash at the end of the year	$280,458,053

(Concluded)

The accompanying notes are an integral part of this 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 16 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 ten campuses in five cities and nine 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 in Shreveport; LSU at Alexandria; LSU at 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 and Hospital in Shreveport. Student enrollment for the university system for the 2002 fall semester totaled 62,879. During September 2002, the university system had approximately 5,478 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 nine hospitals throughout the state and a central administrative unit located in Baton Rouge. The state hospitals include E. A. Conway Medical Center in Monroe, 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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. As a component unit of the State of Louisiana, the Louisiana State University System adopted GASB Statement Nos. 34 and 35, as amended by GASB Statement Nos. 36, 37, and 38. The financial statement presentation required by GASB Statement Nos. 34 and 35 provides a comprehensive, entity-wide perspective of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows, and replaces the fund-group perspective previously required.

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, a component unit of the State of Louisiana.

The Louisiana State University School of Medicine in New Orleans Faculty Group Practice (a Louisiana nonprofit corporation doing business as LSU Healthcare Network) 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 Louisiana State University System, LSU Health Sciences Center. 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 Eunice Student Housing Foundation, a nonprofit corporation, 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 Louisiana State University System, LSU in Eunice. Although the Eunice Student Housing Foundation is legally separate, it is reported as a part of the university system because its purpose is to assist LSU in Eunice in carrying out its educational functions.

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. 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.

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. 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-agency transactions have been eliminated.

The university system has the option to apply all Financial Accounting Standards Board (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.

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	$1,045,407,895
Increases:	
State General Fund	20,411,316
Self-generated	845,397
Interagency transfers	13,585,658
Federal funds	572,559
Interim Emergency Board	1,998,436
Other	161,318
Final budget	$1,082,982,579

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(C), the university system is authorized to invest funds in direct United States Treasury obligations and, 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 United States 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.

Effective for the fiscal year ended June 30, 2003, the LSU System changed its classification of investments in open-end mutual funds to cash and cash equivalents on the Statement of Net Assets as permitted by GASB 3. At June 30, 2002, the university's investments included $55,507,811 of open-end mutual funds. The restated balances of cash and cash equivalents and investments at June 30, 2002, were $300,143,769 and $162,619,366, respectively. This change in classification had no effect on total assets or net assets.

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 that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was 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.

I. DEFERRED REVENUES

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

J. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) 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.

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 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.

2. CASH AND CASH EQUIVALENTS

At June 30, 2003, the university system has cash and cash equivalents (book balances) of $280,458,053.

Cash includes cash on hand of ($2,427,940), interest-bearing demand deposits of $112,137,152, and cash in state treasury of $2,630,148. LSU uses a cash management system that includes pooled accounts and automated transfers of funds. Negative book balances for cash on hand are part of the pooled accounts comprising LSU's cash management system but do not represent checks issued in excess of deposits. Cash equivalents include time deposits of $85,314,546, money market funds of $8,083,671, and open-end mutual funds of $74,720,476. These deposits are stated at cost, which approximates market.

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. Cash in the state treasury is secured by fiscal agent banks established by the state treasury independent of the university system. At June 30, 2003, the university system has $317,584,322 in deposits (collected bank balances), excluding amounts held within the state treasury as follows:

Risk Category	Cash Demand Deposits	Certificates of Deposit	Cash Equivalents - Money Market Fund	Total
1. Insured by federal deposit insurance or collateralized with securities held by the entity or its agent in the entity's name	$67,456,563	$5,700,000		$73,156,563
2. Collateralized with securities held by the pledging institution's trust department or agent in the entity's name	73,574,201	79,614,546	$8,083,671	161,272,418
3. Uncollateralized, including any securities held for the entity but not in the entity's name	8,434,865			8,434,865
Total	$149,465,629	$85,314,546	$8,083,671	$242,863,846

In addition to the collected bank balances at June 30, 2003, the university has excess cash totaling $74,720,476 deposited in open-end mutual funds consisting of federated funds. In accordance with GASB Codification Section I50.126, investments in open-end mutual funds do not require categorization because they are evidenced by securities that exist in physical or book entry form.

Securities pledged for cash in the state treasury are not included in the above computations as these amounts are secured by fiscal agent banks established by the state treasury independent of the university system.

3. INVESTMENTS

At June 30, 2003, the university system has investments reported at fair market value totaling $143,914,632 as follows:

	Category 1	Category 2	Category 3	Total
United States government securities		$23,250,574	$12,888,239	$36,138,813
Repurchase agreements			4,721,268	4,721,268
Stock	$5,491,340		388,930	5,880,270
Accrued interest	3,633	124,314		127,947
Other	100,000			100,000
Total categorized investments	$5,594,973	$23,374,888	$17,998,437	$46,968,298
Investments not categorized:				
Funds held by private foundation				$74,958,757
Real estate				3,456,932
Mutual funds				15,993
Trustee project accounts				18,257,762
Other				256,890
Total investments not categorized				96,946,334
Total investments				$143,914,632

The credit risk of GASB Codification Section I50.125-126 was applied to the university system's investments. Descriptions of these categories are as follows:

Category 1 - Insured or registered in the university system’s name or securities held by the entity or its agent in the university system's name

Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in the university system’s name

Category 3 - Unsecured and unregistered with securities held by the counterparty or by its trust department or agent but not in the university system’s name

The investments are reported at fair value as required by GASB Statement No. 31. 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.

4. ACCOUNTS RECEIVABLE

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

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Student tuition and fees	$10,226,952		$10,226,952
Auxiliary enterprises	8,293,745	($88,587)	8,205,158
Contributions and gifts	139,538		139,538
Federal, state, and private grants and contracts	70,288,911		70,288,911
Federal appropriations	413,281		413,281
Clinics	1,844,140,433	(1,745,971,420)	98,169,013
Other	11,666,132	(2,451)	11,663,681
Total	$1,945,168,992	($1,746,062,458)	$199,106,534

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2002	Prior Period Adjustment	Restated Balance June 30, 2002
Capital assets not being depreciated:			
Land	$90,070,117	$400,000	$90,470,117
Construction in progress	105,789,862	(434,018)	105,355,844
Total capital assets not being depreciated	$195,859,979	($34,018)	$195,825,961
Other capital assets:			
Infrastructure	$47,117,152		$47,117,152
Less accumulated depreciation	(16,940,474)		(16,940,474)
Total infrastructure	30,176,678	NONE	30,176,678
Land improvements	59,337,016	($5,092,898)	54,244,118
Less accumulated depreciation	(43,987,378)	4,582,180	(39,405,198)
Total land improvements	15,349,638	(510,718)	14,838,920
Buildings	1,213,389,038	(7,995,643)	1,205,393,395
Less accumulated depreciation	(665,409,998)	12,717,751	(652,692,247)
Total buildings	547,979,040	4,722,108	552,701,148
Equipment	700,273,477	(8,668,325)	691,605,152
Less accumulated depreciation	(499,749,538)	8,343,273	(491,406,265)
Total equipment	200,523,939	(325,052)	200,198,887
Library books	168,207,383		168,207,383
Less accumulated depreciation	(151,051,901)		(151,051,901)
Total library books	17,155,482	NONE	17,155,482
Total other capital assets	$811,184,777	$3,886,338	$815,071,115
Capital asset summary:			
Capital assets not being depreciated	$195,859,979	($34,018)	$195,825,961
Other capital assets, at cost	2,188,324,066	(21,756,866)	2,166,567,200
Total cost of capital assets	2,384,184,045	(21,790,884)	2,362,393,161
Less accumulated depreciation	(1,377,139,289)	25,643,204	(1,351,496,085)
Capital assets, net	$1,007,044,756	$3,852,320	$1,010,897,076

Additions	Transfers	Retirements	Balance June 30, 2003
$1,323,346			$91,793,463
60,567,668	($10,249,140)	($88,524)	155,585,848
$61,891,014	($10,249,140)	($88,524)	$247,379,311
$444,077			$47,561,229
(1,050,957)			(17,991,431)
(606,880)	NONE	NONE	29,569,798
1,313,328	$276,879		55,834,325
(1,335,791)			(40,740,989)
(22,463)	276,879	NONE	15,093,336
37,353,023	9,514,139	($262,170)	1,251,998,387
(31,611,229)		205,393	(684,098,083)
5,741,794	9,514,139	(56,777)	567,900,304
75,828,550	458,122	(28,476,331)	739,415,493
(56,734,350)		26,680,006	(521,460,609)
19,094,200	458,122	(1,796,325)	217,954,884
10,066,470		(488,568)	177,785,285
(8,666,427)		488,568	(159,229,760)
1,400,043	NONE	NONE	18,555,525
$25,606,694	$10,249,140	($1,853,102)	$849,073,847
$61,891,014	($10,249,140)	($88,524)	$247,379,311
125,005,448	10,249,140	(29,227,069)	2,272,594,719
186,896,462	NONE	(29,315,593)	2,519,974,030
(99,398,754)	NONE	27,373,967	(1,423,520,872)
$87,497,708	NONE	($1,941,626)	$1,096,453,158

The prior period adjustments represent corrections of errors in recorded capital assets from prior years.

6. PENSION PLANS

Plan Description. Substantially all employees of the university system are members of two statewide, public employee retirement systems. Academic employees are generally members of the Teachers Retirement System of Louisiana (TRSLA), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. 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% (TRSLA) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.1% of covered salaries to TRSLA and 14.1% 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, 2003, 2002, and 2001, were $22,800,063, $20,461,711, and $21,529,238, respectively, and to LASERS for the years ended June 30, 2003, 2002, and 2001, were $65,839,353, $58,650,468, and $57,193,840, 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 13.1% of the covered payroll. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by 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 $39,584,173 and $24,177,770, respectively, for the year ended June 30, 2003.

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 $23,422,555 for the year ended June 30, 2003.

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 752 lawsuits at June 30, 2003, of which nine lawsuits are handled by contract attorneys. The attorneys have estimated a possible liability of $1,462,750 relating to five of the lawsuits. This amount has not been accrued in the accompanying financial statements. The remainder of the lawsuits are handled by the Office of Risk Management.

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. Per the requirements of GASB Statement No. 10, as amended by Statements 17 and 30, total claims expenditures were $12,194,106. The reported liability for the fiscal year ended June 30, 2003, resulted from the following:

Claims incurred	$14,767,106
Claims payments	(12,194,106)
Balance at fiscal year-end	$2,573,000

9. COMPENSATED ABSENCES

At June 30, 2003, employees of the university have accumulated and vested annual, sick, and compensatory leave benefits of $84,696,289, $28,106,765, and $6,019,754, 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, 2003, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed, is $10,834,032. 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, 2003:

Nature of Operating Lease	2004	2005	2006	2007	2008	2009-2013	2014-2018	Total Minimum Payments Required
Office space	$6,261,195	$5,561,704	$5,110,799	$4,913,397	$3,177,601	$15,400,000	$6,310,000	$46,734,696
Equipment	2,706,574	2,464,708	2,401,307	2,388,729	1,597,292			11,558,610
Other	1,577,815	396,360	214,580	104,280	3,627			2,296,662
Total	$10,545,584	$8,422,772	$7,726,686	$7,406,406	$4,778,520	$15,400,000	$6,310,000	$60,589,968

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.

11. LESSOR LEASES

The university system's leasing operations consist primarily of the leasing of 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, 2003:

Nature of Lease	Cost	Accumulated Depreciation	Carrying Amount
Office space	$13,419,855	($6,880,998)	$6,538,857
Land	6,324,221		6,324,221
Total	$19,744,076	($6,880,998)	$12,863,078

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2003:

Nature of Operating Lease	2004	2005	2006	2007	2008	2009-2013	2014-2018	Total Minimum Future Rentals
Office space	$1,961,759	$1,752,579	$480,756	$395,213	$174,148	$128,244	$550	$4,893,249
Land	85,942	85,441	83,941	83,341	82,841	148,765	83,515	653,786
Total	$2,047,701	$1,838,020	$564,697	$478,554	$256,989	$277,009	$84,065	$5,547,035

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 $62,052 for the year ended June 30, 2003.

12. LONG-TERM LIABILITIES

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, 2003:

Balance at July 1, 2002	$8,328,991
Installment payments in 2003	(4,662,714)
Installment notes payable at June 30, 2003	$3,666,277

The following is a summary of future minimum installment payments as of June 30, 2003:

Fiscal Year Ending June 30:	
2004	$1,168,847
2005	829,708
2006	768,722
2007	646,346
2008	646,346
Total minimum installment payments	4,059,969
Less - amount representing interest	(393,692)
Total	$3,666,277

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 $1,627,085. At June 30, 2003, the outstanding balance is $15,286,250.

Notes payable totaling $18,952,527 are reflected on Statement A.

Bonds and Contracts Payable

Detailed summaries, by issues, of all bond and reimbursement contract debt outstanding at June 30, 2003, including future interest payments of $70,148,043 for LSU; $23,844,355 for the LSU Health Sciences Center; $19,668,735 for the University of New Orleans; and $12,086,614 for LSU at Eunice follow:

Bonds Payable

Issue	Date of Issue	Original Issue	Outstanding July 1, 2002
LSU			
Student Housing System Bonds - 1964:			
Series A	July 1, 1964	$900,000	$75,000
Series B	July 1, 1964	3,790,000	336,000
Building Bonds of 1965 - Series B	July 1, 1965	1,545,000	158,000
Student Housing System Bonds - 1966:			
Series B	July 1, 1966	2,175,000	355,000
Series C	July 1, 1966	1,250,000	165,000
1968 - Series B	July 1, 1968	1,275,000	205,000
Auxiliary Revenue Bonds 1994	June 15, 1994	26,290,000	19,420,000
1996 Revenue Bonds	September 5, 1996	33,485,000	31,085,000
1997 Auxiliary Revenue Bonds	December 1, 1997	6,500,000	5,540,000
2000 Auxiliary Revenue Bonds	June 28, 2000	27,000,000	26,600,000
2002 Auxiliary Revenue Bonds	October 3, 2002	11,435,000	
LSU Health Sciences Center			
New Orleans - Building Revenue Bonds - Series 2000	February 3, 2000	15,910,000	15,510,000
Health Care Services Division:			
Revenue Bonds, Series 1992	December 31, 1992	69,890,000	43,420,000
Revenue Bonds, Series 2002 (note 13)	December 23, 2002	36,600,000	
University of New Orleans			
Jefferson Center, 1996-A	August 1, 1996	4,485,000	2,840,000
Revenue Bonds of 1997 - Series A	January 15, 1997	5,965,000	5,485,000
Revenue Bonds of 1998	August 15, 1998	15,915,000	15,815,000
LSU at Eunice			
1998 Auxiliary Revenue Bonds	June 1, 1998	1,650,000	1,430,000
2002 Auxiliary Revenue Bonds	January 17, 2002	7,000,000	7,000,000
Total Bonds Payable		$273,060,000	$175,439,000

Issued	Redeemed	Outstanding June 30, 2003	Maturities	Interest Rates	Future Interest Payments June 30, 2003
	$42,000	$33,000	2003-2004	3.625%	$1,196
	170,000	166,000	2003-2004	3.625%	6,018
	60,000	98,000	2003-2005	3%	4,080
	85,000	270,000	2003-2006	3%	16,500
	50,000	115,000	2003-2006	3%	5,850
	45,000	160,000	2003-2008	3%	10,050
	1,185,000	18,235,000	2003-2014	5.3% - 5.75%	6,825,684
	665,000	30,420,000	2003-2026	4.3% - 5.5%	23,865,165
	265,000	5,275,000	2003-2017	4.3% - 5%	2,152,030
	250,000	26,350,000	2003-2030	Variable	26,124,000
$11,435,000		11,435,000	2004-2032	Variable	11,137,470
	220,000	15,290,000	2003-2031	4.4% - 6.375%	17,547,955
	43,420,000				
36,600,000		36,600,000	2010-2011	3.1%	6,296,400
	60,000	2,780,000	2003-2026	3.85% - 5.5%	2,201,275
	120,000	5,365,000	2003-2026	3.75% - 5.65%	4,298,678
	270,000	15,545,000	2003-2030	3.9% - 5%	13,168,782
	60,417	1,369,583	2004-2018	5%	607,020
		7,000,000	2006-2034	7.35%	11,479,594
$48,035,000	$46,967,417	$176,506,583			$125,747,747

During the year ended June 30, 2002, revenue bonds in the amount of $7,000,000 were issued for the Eunice Student Housing Foundation, the proceeds of which were used to construct residential housing for LSU in Eunice. For the fiscal year ended June 30, 2003, the Eunice Student Housing Foundation has been blended as a component unit of the Louisiana State University System, and the bonds payable are reported in the accompanying financial statements and are included in the previously presented bonds payable schedule.

During the year ended June 30, 2003, auxiliary revenue bonds in the amount of $11,435,000 were issued for LSU, the proceeds of which are to be used for renovations at the University Laboratory School, construction of residential housing, and construction of sports fields.

Reimbursement Contracts Payable

Issue	Date of Issue	Original Issue	Outstanding July 1, 2002
LSU and Related Campuses			
LSU Union Additions Bonds, Series 1984-B	July 31, 1984	$2,700,000	$904,419
Student Recreation Sports Center Bonds, Series 1984-A	April 1, 1984	750,000	140,374
LSU Union Additions Bonds, Series 1983-A	March 1, 1983	300,000	29,710
Total Reimbursement Contracts Payable		$3,750,000	$1,074,503

Redeemed	Outstanding June 30, 2003	Maturities	Interest Rates	Future Interest Payments June 30, 2003
$265,383	$639,036	2004-2005	4.67% - 6.01%	$39,354
67,321	73,053	2004	9.5%	6,940
29,710				
$362,414	$712,089			$46,294

The annual requirements to amortize all bonds and reimbursement contracts outstanding at June 30, 2003, are as follows:

Fiscal Year	Principal	Interest	Total
2004	$8,248,535	$9,223,014	$17,471,549
2005	8,665,971	8,889,373	17,555,344
2006	8,565,417	8,543,737	17,109,154
2007	8,800,000	8,162,183	16,962,183
2008	9,235,417	7,742,117	16,977,534
2009-2013	31,637,085	31,462,943	63,100,028
2014-2018	28,861,247	23,737,722	52,598,969
2019-2023	30,425,000	16,973,042	47,398,042
2024-2028	27,405,000	8,916,319	36,321,319
2029-2033	14,810,000	2,098,035	16,908,035
2034-2038	565,000	45,556	610,556
Total	$177,218,672	$125,794,041	$303,012,713

The following is a summary of the debt service reserve requirements of the various bond issues at June 30, 2003:

Bond Issue	Cash/ Investment Reserves Available	Reserve Requirement	Excess
Auxiliary Plant:			
LSU	$6,037,313	$6,014,162	$23,151
University of New Orleans	528,691	528,691	
LSU Health Sciences Center - Health Care Services Division	3,660,000	3,660,000	
Total	$10,226,004	$10,202,853	$23,151
Educational Plant - University of New Orleans	$333,820	$333,820	NONE

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, 2003:

Fiscal Year Ending June 30:	
2004	$11,446,287
2005	9,598,498
2006	9,343,767
2007	8,961,438
2008	4,009,290
2009-2013	10,660,934
2014-2018	11,903,810
Total minimum lease payments	65,924,024
Less - amounts representing interest	(14,270,204)
Present value of net minimum lease payments	$51,653,820

13. ADVANCE REFUNDING OF BONDS AT LSUHSC-HCSD

On December 23, 2002, the Louisiana Public Facilities Authority issued $36,600,000 in nontaxable bonds with an average interest rate of 3.1% to advance refund $39,655,000 of outstanding LPFA Series 1992 Bonds with an average interest rate of 6%. The net proceeds of $33,902,313 of Series 2002 Bonds plus an additional $6,466,821 of Series 1992 Debt Service Reserve Fund monies were deposited in an irrevocable trust with Hancock Bank, as escrow trustee to provide for all future debt service payments on the Series 1992 LPFA Revenue Bonds (Louisiana Department of Health and Hospitals Medical Center of Louisiana at New Orleans Project). The Series 1992 Bonds were refunded to reduce the total debt service payments over the next 8 years by $5,359,591, which resulted in an economic gain of $1,703,111.

14. DUE FROM STATE TREASURY

As shown on Statement A, the university system has a total of $25,413,994 due from the state treasury at June 30, 2003. This amount consists of the following:

Description	Due (to)/from
Received from state treasury after year-end	$16,615,416
Loan from HCSD to Department of Health and Hospitals	14,400,000
Return of tobacco tax funds drawn	(5,361,238)
Refund of unexpended appropriations	(131,313)
Unclaimed property	(55,428)
Petty cash advances	(38,348)
Collections of accounts receivable previously written off	(11,229)
Miscellaneous refunds	(3,566)
Other	(300)
Total	$25,413,994

15. RESTRICTED NET ASSETS

The university system had the following restricted expendable net assets as of June 30, 2003:

Account title	Amount
Student fees	$5,073,925
Grants and contracts	17,233,832
Gifts	5,522,795
Endowment earnings	21,490,919
Auxiliary enterprises	19,403,001
Student Loan Fund	36,509,075
Capital construction	24,276,808
Debt service	10,080,831
Endowment Fund	43,687,386
Other	34,177
Total	$183,312,749

The university system's restricted nonexpendable net assets of $115,518,384 as of June 30, 2003, is comprised entirely of endowment funds.

16. RESTATEMENT OF BEGINNING NET ASSETS

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

Net assets at June 30, 2002	$1,106,877,880
Correction of error in prior year expenses	1,437,500
Adjustments to capital assets, net	3,852,320
Net assets at July 1, 2002	$1,112,167,700

17. FOUNDATIONS

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

LSU Foundation
LSU Property Foundation
Tiger Athletic Foundation
LSU Alumni Association
Pennington Biomedical Research Foundation
Pennington Medical Foundation
Foundation for the LSU Health Sciences Center
LSU Medical Alumni Association
LSU School of Dentistry Alumni Association
LSU School of Nursing Alumni Association
University of New Orleans Alumni Association
University of New Orleans Foundation
UNO Athletic Association
University of New Orleans Research and Technology Foundation
University of New Orleans Property and Housing Development Foundation
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.

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

18. 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.

19. ON-BEHALF PAYMENTS

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. The amount of on-behalf payments for fringe benefits and salaries included in Statement B for fiscal year ended June 30, 2003, was $573,931. There were no on-behalf payments made as contributions to a pension plan for which the university is not legally responsible.

20. BLENDED COMPONENT UNITS

LSU Healthcare Network

The financial statements of the Louisiana State University System, LSU Health Sciences Center include the LSU School of Medicine in New Orleans Faculty Group Practice, a nonprofit corporation doing business as the LSU Healthcare Network (LSUHN). 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 and assisting the LSU Health Sciences Center in carrying out its medical, educational, and research functions.

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.

Eunice Student Housing Foundation

The financial statements of the Louisiana State University System, LSU in Eunice, include the Eunice Student Housing Foundation, Inc., a not-for-profit organization as outlined in the Internal Revenue Code Section 501(c)(3). The foundation constructed a student apartment complex, known as Bengal Village, on LSU in Eunice's 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.

21. IMPROVEMENTS TO PLANT ON BEHALF OF UNIVERSITY

Improvements at University of New Orleans

The University of New Orleans Research and Technology Foundation, a separate corporation created for or in 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 $72,650,798 at June 30, 2003, 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

The Tiger Athletic Foundation, a separate corporation created in behalf of the university's intercollegiate athletics program, issued in March 1999, long-term debt instruments for the expansion of Tiger Stadium, located on the grounds of LSU in Baton Rouge. The expansion, with an estimated value of $50 million, was completely financed by the Tiger Athletic Foundation through the sale of bonds through the Louisiana Public Facilities Authority and a bank loan. The bonds financed 75% of the cost of the project and the bank loan financed the remaining balance. Commencing in January 1999 and for a term of 50 years, the university agrees to lease the land to the Tiger Athletic Foundation for the stadium improvements. Until the bonds are paid for by the Tiger Athletic Foundation, the rent paid is $1,000 per year. After the bonds are paid for in full, the rent is increased to $2 million per year. In turn, the university agrees to lease the completed stadium improvements for 35 years from the Tiger Athletic Foundation for $2 million per year with payments being due in September of each year. In addition, the university has granted the foundation certain rights to purchase tickets in the existing and newly expanded section of the stadium. The stadium improvements are owned by the Tiger Athletic Foundation, but upon payment of the bonds and expiration of the lease, the Tiger Athletic Foundation intends to donate the stadium improvements to the university. Revenues of the Tiger Athletic Foundation from the sale of the ticket premiums related to the stadium improvements are pledged to finance the debt service.

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 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 Thermal. 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, 2003.

Auxiliary Enterprises	
Residential life	$21,617,949
Student union services, including bookstore	32,942,499
Health, physical education, and recreation	5,640,338
Athletics	44,859,538
Golf course	925,217
Procurement auxiliary services	14,803,722
Contracted auxiliary services	1,193,643
Parking, traffic, and transportation	5,265,488
Student media	4,148,687
Miscellaneous	268,374
Total	$131,665,455

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

Exhibit A contains a report on compliance with laws and regulations and on internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements. Exhibit B includes any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.

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

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
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December 16, 2003

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

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the financial statements of the Louisiana State University (LSU) System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 16, 2003. Our report was qualified because of the uncertainties related to unreconciled differences between two accounting systems for capital assets of the LSU Health Sciences Center - Health Care Services Division (HCSD). The effects of adjustments, if any, needed in HCSD's capital assets cannot be determined. We did not audit the operations of the LSU School of Medicine in New Orleans Faculty Group Practice (doing business as LSU Healthcare Network) and the Eunice Student Housing Foundation, Inc. These amounts were audited by other auditors whose reports have been furnished to us. This report, insofar as it relates to the LSU Healthcare Network and the Eunice Student Housing Foundation, is based solely upon the reports of the other auditors. Except as described previously, 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.

Compliance

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 grants, 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 noncompliance with state procurement regulations at the University of New Orleans, as disclosed in Exhibit B, that is required to be reported under *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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters, described in Exhibit B, 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.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in Exhibit B, we consider inadequate support for restatement of capital assets to be a material weakness.

Other Reports

Other external auditors audited the LSU Healthcare Network and the Eunice Student Housing Foundation, Inc., which are included in the Louisiana State University System's basic financial statements for the year ended June 30, 2003. 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. 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.

As a part of our audit of the LSU System's financial statements for the year ended June 30, 2003, we performed certain procedures on campuses and hospitals within the LSU System. Our reports on those procedures for those campuses and hospitals are dated as follows:

University of New Orleans	December 19, 2003
LSU Health Sciences Center - New Orleans	December 5, 2003
LSU Health Sciences Center - Shreveport	November 7, 2003
LSU at Shreveport	November 7, 2003
LSU Health Care Services Division	November 24, 2003
Medical Center of Louisiana at New Orleans	November 12, 2003
Earl K. Long Medical Center	June 11, 2003
Huey P. Long Medical Center	May 20, 2003
E. A. Conway Medical Center	May 14, 2003
Washington-St. Tammany Regional Medical Center	March 14, 2003

We have also issued our audit reports for Louisiana State University (LSU) and Louisiana State University at Eunice, dated December 19, 2003, and December 17, 2003, respectively.

These reports contained compliance and internal control findings relating to these facilities. Management's responses are also included in those reports. Copies of those reports are available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor and can also be found on the Internet at www.lla.state.la.us\f&c.shtml.

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

Respectfully submitted,

Grover C. Austin, CPA
First Assistant Legislative Auditor

CGEW:ES:PEP:dl

[LSU03]

Compliance and Internal Control Findings

Inadequate Support for Restatement of Capital Assets

For the second consecutive year, the Louisiana State University Health Sciences Center - Health Care Services Division (HCSD) was unable to provide adequate documentation to support its restatement of capital assets, which affects beginning balances for fiscal year 2003 by approximately $79 million (at cost). The restatement, involving the nine hospitals under HCSD as well as its administrative unit, was reported in HCSD's Annual Fiscal Report (AFR) for the fiscal year ended June 30, 2002, and was used to develop the beginning balances for fiscal year ended June 30, 2003. The restatement was the result of a change in accounting systems used for financial statement purposes from the Louisiana Property Assistance Agency (LPAA) and State Land and Buildings (SLABS) systems to the system maintained by American Appraisal Associates (AAA). The costs in the LPAA and SLABS systems were the amounts that had been audited in prior years. The costs in the AAA system were used for Medicare and Medicaid cost reporting purposes and were not audited in prior years.

Because HCSD could not support beginning capital asset cost, the accumulated depreciation as of June 30, 2001, of $330,604,506 reported in its fiscal year 2002 AFR, as well as the depreciation reported by HCSD in its Medicare and Medicaid cost reports, may be overstated since both are based upon that cost.

HCSD's failure to perform a reconciliation between its two capital asset systems may have resulted in an overstatement of its capital assets, at cost, by approximately $79 million in its 2003 AFR. In addition, it may have overstated accumulated depreciation, as well as the amount of depreciation claimed for financial statement and cost report purposes.

If HCSD intends to continue to use the AAA system to maintain its capital assets for financial statement and cost reporting purposes, management should perform an inventory of the items in the system at each of the facilities to verify that the items exist and are recorded at their proper value. Any items previously disposed of should be removed from the system. In addition, HCSD should review Medicare and Medicaid cost reports submitted in prior years to ensure that the correct amount of depreciation was claimed on these reports. Management concurred in part with the finding and recommendation (see Appendix A, pages 1-2).

Additional Comments: While HCSD concurred in part with the finding, its response letter indicated that, as a result of developments in PeopleSoft financial system, there should be little, if any, variance for fiscal year ended 2003. The variance that HCSD refers to represents additions to capital assets in fiscal year 2003 and beyond. The variances noted from prior years, as indicated in the finding, remain unreconciled at June 30, 2003. In addition, while HCSD uses the AAA system for financial reporting purposes, it still uses the LPAA system for its physical inventory. The two systems have significant variances that have not been reconciled as of June 30, 2003.

LOUISIANA STATE UNIVERSITY
STATE OF LOUISIANA
Compliance and Internal Control Findings
Page 2

Inadequate Collection Procedures for Self-Pay Patients

For the second consecutive year, the Louisiana State University Health Sciences Center - HCSD does not have adequate collecting procedures for amounts receivable from self-pay patients. Self-pay patients are those patients who are not eligible for free care but do not have any third-party coverage, such as Medicare, Medicaid, commercial insurance, or worker's compensation.

During fiscal year 2003, $182,930,259 was billed to self-pay patients and $3,345,176 was collected on the self-pay accounts. Subsequent to an adjustment of $21,510,541, to the amount owed by the patient based upon the Limited Liability Schedule, which reflects federal income poverty guidelines, $1,609,955 was considered to be a valid receivable at year-end. Therefore, HCSD had an uncollectible amount of $158,006,782 for fiscal year 2003. As a result, only $4,955,131 (or 3.1%) has been or is estimated to be collected on the $182,930,259 billed less the limited liability reduction.

The amounts by hospital are as follows:

	Patient Billing		Limited Liability Adjustment		Collections		Accounts Receivable		Estimated Uncollectibles	
	Dollar	%	Dollar	%	Dollar	%	Dollar	%	Dollar	%
E. A. Conway Medical Center	$17,214,101	9.4%	$1,415,761	6.6%	$208,367	6.2%	$91,999	5.7%	$15,606,434	9.9%
Earl K. Long Medical Center	10,567,204	5.8%	2,446,246	11.4%	237,264	7.1%	100,815	6.3%	7,929,823	5.0%
Huey P. Long Medical Center	12,677,134	6.9%	1,272,140	5.9%	200,292	6.0%	82,370	5.1%	11,222,497	7.1%
University Medical Center	10,728,875	5.9%	1,853,780	8.6%	426,947	12.8%	230,948	14.3%	8,422,990	5.3%
W. O. Moss Medical Center	2,796,513	1.5%	1,343,685	6.2%	192,680	5.8%	81,996	5.1%	1,244,945	0.8%
Lallie Kemp Medical Center	6,382,777	3.5%	1,220,143	5.7%	204,152	6.1%	131,904	8.2%	4,987,813	3.2%
Washington-St. Tammany Medical Center	4,485,258	2.5%	65,999	0.3%	297,353	8.9%	137,206	8.5%	4,026,822	2.5%
Leonard J. Chabert Medical Center	12,126,660	6.6%	1,946,216	9.0%	404,586	12.1%	206,235	12.8%	9,790,246	6.2%
Medical Center of Louisiana at New Orleans	105,951,737	57.9%	9,946,571	46.3%	1,173,535	35.0%	546,482	34.0%	94,775,212	60.0%
Total	$182,930,259	100%	$21,510,541	100%	$3,345,176	100%	$1,609,955	100%	$158,006,782	100%

The figures presented above do not include any amounts for patients who are eligible for free care since these patients are never billed. A review of self-pay billings and collections for the fiscal year ending June 30, 2002 and 2001, yielded similar results as only $4,451,259 (or 2.9%) and $5,247,168 (or 2.7%) were collected or expected to be collected on the $166,614,173 and $210,412,959 billed less the limited liability reduction, respectively. HCSD had an estimated accounts receivable of $1,542,196 and $2,181,856 related to self-pay patients at June 30, 2002, and June 30, 2001, respectively.

Louisiana Revised Statute (R.S.) 17:1519.1 (A) (1) states that the nine state hospitals under HCSD shall be operated primarily for the medical care of the uninsured and medically indigent residents of the state and others in need of medical care and as teaching institutions. The accounts of indigent patients are written off as uncollectible at the time the services are performed. However, the accounts of Medicare, Medicaid, commercial insurance, and self-pay patients are billed to the appropriate payor. Prudent business practices require the timely billing and collection of these amounts. However, management has not placed sufficient emphasis on the importance of timely collections on self-pay accounts. Instead, emphasis has been placed on collections from patients with third party coverage. Management's failure to implement adequate collection procedures on self-pay accounts results in a significant loss of revenue to the hospitals.

Management should implement collection procedures on self-pay accounts to seek payment in a more timely and effective manner. In addition, the hospitals should consider limiting the services provided to self-pay patients to those that are emergency in nature unless the patients are able to demonstrate their ability and willingness to pay. Management concurred in part with the finding and stated that the passage of Act 906 of 2003 will allow the hospitals the flexibility to operate more efficiently and make better business decisions, which include strengthening self-pay collection practices and the ability to deny nonemergency services. Management outlined a plan of corrective action (see Appendix A, pages 3-4; exhibits were not included).

Noncompliance With State Procurement Regulations

In a report dated February 6, 2003, the Louisiana State University (LSU) System internal auditors found that the University of New Orleans (UNO) did not comply with state laws and regulations for emergency purchases. R.S. 38:2212 defines the conditions for emergency purchases, and State Purchasing Rules and Regulations provide that the existence of such conditions create an immediate and serious need for supplies, services, or major repairs that cannot be met through normal procurement methods. The LSU System internal auditors tested 44 emergency purchases by UNO during the period July 1, 2000, to June 30, 2002, which were greater than $5,000. The system internal auditors found various questionable practices and instances of noncompliance, including six purchases totaling $518,000 that did not constitute emergency purchases. In a letter dated February 5, 2003, Louis V. Paradise, UNO's former Executive Vice Chancellor and Provost, generally concurred with the system's internal audit findings and recommendations and outlined plans of corrective action.

That internal audit precipitated an additional audit report by the LSU System internal auditors on UNO's Office of Facility Services, dated May 21, 2003, which found the following:

- The process for obtaining quotes from contractors for university public works projects has created the appearance of improprieties, the opportunity for misconduct, and has resulted in inaccurate public records.

- UNO made payments to project designers that were inadequately supported.

- A public works project totaling $321,000 was awarded without regard for the competitive process as required by public bid law.

- The UNO Office of Facility Services withheld critical information from UNO's Purchasing Office and obligated the university for goods and contractual services without prior approval.

The system's internal audit report noted that UNO's management should take actions to ensure the integrity of Facility Services' procurement processes, including segregation of duties. Also, UNO's management should ensure that all payments are fully supported, adequately documented, in accordance with the terms of the agreement, and as required by UNO's Purchasing Office policies and procedures. The system's internal audit report additionally recommended that management should ensure that public works projects are awarded by competitive sealed bids as required by R.S. 38:2212. In a written response dated May 19, 2003, Gregory M. St. L. O'Brien, UNO's former Chancellor, outlined plans of corrective action to the findings in the system's internal audit report. For additional information on the system's internal audit reports on UNO's emergency purchases or UNO's Facility Services, please contact the LSU System Office of Internal Audit at (225) 578-5475.

Appendix A

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

LSU Health Sciences Center
HEALTH CARE SERVICES DIVISION

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

September 5, 2003

Grover C. Austin, CPA
First Assistant Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Audit Finding: Inadequate Support for Restatement of Capital Assets
Fiscal Year Ended June 30, 2003

Dear Mr. Austin:

In response to your request dated July 29, 2003, please find below the information regarding the referenced draft audit finding on the Louisiana State University Health Sciences Center – Health Care Services Division (HCSD):

HCSD concurs in part with the legislative audit finding regarding the restatement of capital assets for the fiscal year ended June 30, 2003.

In general, we do not agree that there is inadequate support for the restatement of the capital assets. HCSD has utilized American Appraisal and Associates (AAA), a professional third party entity who prepares depreciation calculations in accordance with industry guidelines and standards, for over thirty-two years, and there has never been a federal audit finding in the area of capital assets and depreciation on the Medicare and Medicaid cost report settlements. AAA provides hundreds of pages of detailed schedules on an annual basis with regard to HCSD'S capital assets.

We agree that AAA has a higher cost when compared to the Louisiana Property Assistance Agency (LPAA) and the Statewide Land and Building System (SLABS). However, LPAA and SLABS have different reporting requirements and purposes than AAA and the net capital assets as reported in the Annual Financial Report. AAA has been maintaining HCSD's capital assets at historical cost for thirty-two years. HCSD is confident that the most accurate record of capital assets, cost and accumulated depreciation, is AAA.

HCSD has made significant progress toward reconciling AAA with LPAA/SLABS. Phase 1 of the reconciliation process between the three systems has been completed. Variances between the systems have been identified through the fiscal year ended June 30, 2002. Tools have been developed in the PeopleSoft financial system to better identify purchased assets; as a result, there should be little, if any, variances for the fiscal year ended 2003. Additionally, HCSD has changed its depreciation policy from $1,000 to $5,000 to match the State of Louisiana depreciation policy and the maximum required by the Federal government. This will decrease the number of items required to report to AAA, and reduce the risk or error.

Factors causing variances between the systems include: (1) AAA contains many fully depreciated assets that are no longer on LPAA (while this does inflate the cost of the asset, it does not affect the depreciated value as reported on the Statement of Net Assets); (2) AAA includes Land, Buildings, Moveable and Fixed equipment, whereas SLABS includes Land and Buildings and LPAA includes only moveable equipment – fixed equipment is rarely reported in SLABS; (3) AAA has different descriptions of assets (usually in much more detail) than LPAA and SLABS; it is difficult to match up items between the systems. AAA is maintained in accordance with Medicare and Medicaid federal regulations and is based on historical cost. Land and buildings in SLABS are periodically assigned a replacement cost value. The three systems also have different criteria for reporting major fixed medical equipment, computer software, computer wiring, renovations to buildings, etc. that make it difficult to identify and compare the items in each system on an item by item basis.

Phase 2 will be to search for those items that are in one system but not the other and update the appropriate system. Phase 3 will be to transfer all capital assets to the PeopleSoft Asset Management System. This will be our system of record in the future and will be monitored and maintained for accuracy. We will also develop external databases to keep track of assets added and retired throughout the course of the fiscal year. Quarterly training sessions are being conducted to adequately train property control managers and keep them apprised of changes.

HCSD estimates that Phase 2 will be completed by the close out of the year ending June 30, 2004, and Phase 3 will be completed during the fiscal year ending June 30, 2005. Phase 3 is not necessary to reconcile AAA with LPAA/SLABS, but will fully integrate all aspects of the procurement of capital assets in the PeopleSoft system.

Should you have any questions or need additional information, please contact Chris Bilski, Asset Manager, at (337) 261-6326; or Don Elbourne, Chief Financial Officer, at (225) 925-7060.

Sincerely,

James L. Brexler
Vice Chancellor and Chief Executive Officer

JLB/JMA/jma

cc: Don Elbourne
Art Landry
Judy Albin
Ken Laney

LSU Health Sciences Center
HEALTH CARE SERVICES DIVISION

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

October 15, 2003

Grover C. Austin, CPA
First Assistant Legislative Auditor
Office of Legislative Auditor
1600 North 3rd Street
Baton Rouge, LA 70804

RE: Legislative Audit Finding - Inadequate Collection Procedures for Self Pay Patients

Dear Mr. Austin:

The Louisiana Health Sciences Center-Health Care Services Division (LSUHSC-HCSD) concurs in part with your recent audit finding involving self pay collection practices at the LSUHSC-HCSD hospitals. Since your previous audit comments, LSUHSC-HCSD submitted proposed legislation that would allow our hospitals the flexibility to operate more efficiently and make better sound business decisions which included strengthening self pay collection practices and the ability to deny non-emergency services.

The passage of Act 906 in the 2003 Legislative Session has given LSUHSC-HCSD the opportunity as well as the authority to adopt policy and implement more aggressive self pay collections procedures at the LSUHSC hospitals while maintaining our commitment to serve those persons in need of medical care and the uninsured. We are providing you the following summary of corrective actions that we have initiated to increase the self pay collections rate.

- Developed and adopted policies and procedures for the LSUHSC-HCSD hospitals to collect cash deposits at the point of registration and prior to treatment of non-emergency services being rendered. This policy establishes parameters on the amount of the required deposit which is based on the type of medical service being provided. The required deposits are: Clinic Visit $15.00; Emergency Room $25.00; Therapy visits $15.00; Same Day Surgery $100.00; Lab & X Ray, etc. $10.00; Inpatient Admission $100.00. (See Exhibit A)
- Initiated re-scheduling self pay patients seeking non emergency medical services when unable to pay the required deposit until such time as they can pay the requested amount. Exceptions are considered under unusual circumstances.
- Developed proper signage to increase public awareness. These signs have been posted in conspicuous places within the hospitals, informing self pay patients of their responsibility to pay for services provided. (See Exhibit B)
- In the process of developing and publishing informative pamphlet consisting of "Frequently Asked Questions" on financial responsibility requests, providing answers to common financial questions to further explain and emphasize to the public their responsibility to pay for services provided. (See exhibit C).

Louisiana State University Health Sciences Center • 8550 United Plaza Blvd., 4th Floor • Baton Rouge, Louisiana 70809-2256
phone (225) 922-0488 **www.lsuhsc.edu**

- In the process of publishing public service announcements. This includes publication in local newspaper and releasing radio announcements regarding new payment requirements. This action will further inform and educate the public of patient responsibility to pay for services provided at the Louisiana Public Hospitals
- Customizing and developing a legally binding Promissory Note for the patients to complete and sign. This document can be used as supporting documentation for possible legal action should the patient default the payment arrangement.
- Awarded two separate collections contracts with distinct specifications to expand the collection of delinquent accounts process until all efforts have been exhausted, and the account is considered uncollectible. Additionally, contractors will assist hospitals in establishing monthly payment arrangements and will be reporting unpaid accounts to a Credit Reporting Agency (Credit Bureau). This will provide additional incentives to the patient to pay the outstanding bill. The specifications and terms of these contracts will remain consistent for three consecutive years.
- Hospitals are analyzing their existing resources, staffing needs and departmental physical layout to identify and establish collection points while ensuring security and patient privacy.
- Where feasible, LSUHSC- HCSD hospitals are considering hiring dedicated financial counseling positions that will assist the patient with establishing reasonable monthly payment arrangements on outstanding account balances to ensure quick liquidation of amounts owed.

Improving self pay collections has been accelerated as a main initiative of the LSUHSC-HCSD. However, it will require continuous efforts in changing the public perception of the LSUHSC hospitals. We must continue to educate the patients of their responsibility to provide the required financial information consistently, upon registration, for accurate financial class assignment, while placing emphasis on payment requirements. A recent analysis of self pay collections activity over the last three years indicates a slight upward trend in self pay collection activity (FY 01 2.7%, FY 02 2.9% and FY 03 3.1%). We anticipate that this trend will gradually improve in subsequent years as the patient population becomes receptive to these new requirements and LSUHSC-HCSD continues with fully implementing the established procedures system wide. But given that the patient base of the hospitals consist largely of low income individuals (near or at the poverty levels), it is not realistic to expect a substantial increase in revenues from this source.

Thank you for your audit report and recommendations. Should you have any questions or need additional information, please contact Guy LaBauve Director of Patient Financial Services, at (225) 922-2223.

Sincerely,

James L. Brexler

James L. Brexler, MPA, FACHE
Vice Chancellor and Chief Executive Officer

GL/AC

cc: Don Elbourne
Art Landry
Guy LaBauve
Judy Albin
Ken Laney