LOUISIANA STATE UNIVERSITY SYSTEM
A COMPONENT UNIT OF THE
STATE OF LOUISIANA

LOUISIANA
LEGISLATIVE
AUDITOR

FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2006
ISSUED MAY 30, 2007

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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April 17, 2007

Independent Auditor's Report on the Financial Statements

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Louisiana State University (LSU) System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management of the LSU System. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice doing business as LSU Healthcare Network and Subsidiaries and the Eunice Student Housing Foundation, Inc., which are nonprofit corporations included as blended component units in the basic financial statements representing approximately 1.4% of total assets, 2.8% of total liabilities, 2.1% of total revenues, and 2% of total expenses of the LSU System. We also did not audit the financial statements of the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are all of the discretely presented component units presented in the basic financial statements of the LSU System. The financial statements of the blended and discretely presented component units were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the LSU System as of June 30, 2006, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-P to the financial statements, the LSU System implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation,* for the year ended June 30, 2006.

As discussed in note 30 to the financial statements, during August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these events and the resulting damages sustained by the state and the LSU System, it is unknown exactly what economic impact recovery efforts will have on state and local government operations. Although the LSU System and the State of Louisiana are taking steps to address recovery, the long-term effects of these events on the LSU System cannot be determined at this time.

During the fiscal year ended June 30, 2006, the Louisiana Legislative Auditor (LLA) provided certain nonaudit services for the State of Louisiana directed toward assisting the state Department of Military Affairs and the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) relative to their administration of the Federal Emergency Management Agency's (FEMA) Public Assistance program. The LLA provided the Department of Military Affairs and GOHSEP with assistance in reviewing documents submitted by applicants and reviewing the application and payment process to provide recommendations to those agencies for meeting their responsibilities for compliance with FEMA and state regulations. To maintain independence for audit purposes while providing these nonaudit services, the LLA has met the criteria and requirements set forth in *Government Auditing Standards: Temporary Exemptions and Guidance in Response to Hurricanes Katrina and Rita,* issued by the Government Accountability Office in November 2005.

In accordance with *Government Auditing Standards,* we have also issued our report dated April 17, 2007, on our consideration of LSU System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LSU System's basic financial statements. The accompanying supplementary information schedules including the Combining Schedule of Net Assets, the Combining Schedule of Revenues, Expenses, and Changes in Net Assets, and the Combining Schedule of Cash Flows on pages 96 through 107 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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INTRODUCTION

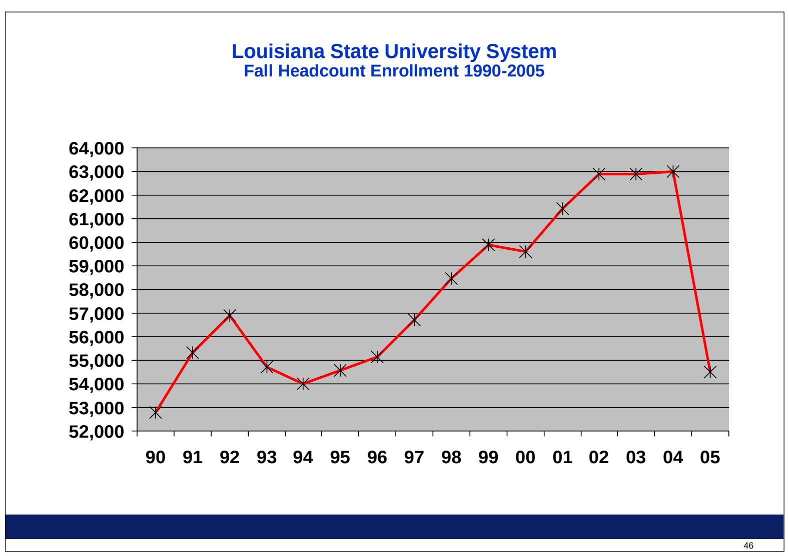
The following discussion and analysis has been prepared by management and is written to provide an overview of the financial position and activities of the Louisiana State University System (the System) for the year ended June 30, 2006. It should be read in conjunction with the financial statements and the notes thereto which follow this section.

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

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

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

BACKGROUND



The System is the state's flagship system. It is also one of the most diverse and comprehensive higher education systems in the country. Enrollment during the fall 2005 semester was approximately 54,500. The significant decrease from the prior year as shown on the graph is attributed to the effects of Hurricane Katrina. The enrollment at the University of New Orleans was most affected by the storm and saw enrollment drop from 17,352 in the fall 2004 to approximately 7,000 in the fall 2005. While the enrollment of the University of New Orleans rebounded to nearly 11,500 in the spring 2006 semester, it is anticipated that continued recovery of pre-Katrina enrollment will likely keep pace with the overall recovery from the storm by the City of New Orleans.

Degrees conferred range from Associate Degree to Doctor of Philosophy. In addition, professional degrees in Law, Veterinary Medicine, Medicine, Dentistry, and the complete spectrum of Allied Health professions are conferred.

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

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

FINANCIAL HIGHLIGHTS

Total operating revenues decreased from the prior fiscal year by $178.8 million, while operating expenses decreased by $157.3 million. Overall, the System had an operating loss of $649.2 million at June 30, 2006. This was a $21.4 million increase in the loss from the prior year. When nonoperating revenues and expenses are included, the System had income before other revenues, expenses, gains, and losses of $75.4 million.

The increase in the operating loss of $21.4 million shown at June 30, 2006, can be primarily attributed to the large decline in operating revenues at the storm-damaged campuses and hospitals. For example, as a result of the decline in operating revenues, the consolidated Health Sciences Center’s operating loss increased by $19.5 million from the prior year while the University of New Orleans’ operating loss increased by $4.9 million.

Net assets, which represent the residual interest in the System’s assets after liabilities are deducted, increased by $170.6 million (13%) from the prior fiscal year to $1.45 billion. This can be compared to fiscal year 2005 where the net assets increased by $71.7 million (5.9%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The System’s financial report consists of three sections: Management’s Discussion and Analysis (this section), the basic financial statements including the notes to the financial statements, and supplementary information. The basic financial statements are the Statement of Net Assets; the

Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows, as well as the financial statements related to the discrete component units.

BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS

Net assets are divided into three major categories.

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

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

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

Current assets total $749.5 million and consist primarily of cash and cash equivalents, net receivables, investments, amounts due from state treasury, and inventories. Current liabilities total $460.7 million and consist primarily of accounts payable and accrued liabilities, deferred revenues, notes payable, bonds payable, capital lease obligations, and a contingent amount for uncompensated absences.

Noncurrent assets total $1.6 billion and include capital assets of $1.3 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 $295.9 million.

Noncurrent liabilities total $407.2 million and include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that while scheduled to be paid within one year are to be paid from funds classified as noncurrent assets.

Restricted nonexpendable net assets total $144.3 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 $170.7 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, 2006, and June 30, 2005, is shown below.

Statement of Net Assets

	As of			
	June 30, 2006	June 30, 2005 (Restated)	Change	Percentage Change
Assets:				
Current assets	$749,522,640	$636,228,212	$113,294,428	17.8%
Capital assets	1,270,474,585	1,220,751,852	49,722,733	4.1%
Other assets	295,929,225	300,885,493	(4,956,268)	-1.6%
Total Assets	2,315,926,450	2,157,865,557	158,060,893	7.3%
Liabilities:				
Current liabilities	460,700,859	447,838,053	12,862,806	2.9%
Noncurrent liabilities	407,247,637	432,672,503	(25,424,866)	-5.9%
Total Liabilities	867,948,496	880,510,556	(12,562,060)	-1.4%
Net Assets:				
Invested in capital assets, net of related debt	993,992,307	951,113,791	42,878,516	4.5%
Restricted - nonexpendable	144,253,939	136,407,383	7,846,556	5.8%
Restricted - expendable	170,684,567	157,618,474	13,066,093	8.3%
Unrestricted	139,047,141	32,215,353	106,831,788	331.6%
Total Net Assets	$1,447,977,954	$1,277,355,001	$170,622,953	13.4%

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

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

The consolidated SRECNA at June 30, 2006, for the System indicates a net operating loss of $649.2 million determined without including appropriations, gifts, nonoperating revenues, or investment earnings and before subtracting interest expenses on debt and nonoperating expenses. The operating loss increased from the prior year by $21.4 million. While operating revenues declined by $178.8 million, operating expenses declined by $157.4 million to produce the overall increase in the operating loss. Explanations for some of the major changes in operating revenues and operating expenses are provided below.

After including nonoperating revenues such as state appropriations ($635,604,163), gifts ($29,558,122), investment income ($24,714,090), and after subtracting interest expense ($13,874,563), and including other nonoperating revenues and expenses, the System had income before other revenues, expenses, gains, or losses of $75,393,950.

The following summarizes the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Revenues, Expenses, and Changes in Net Assets

	As of June 30, 2006	As of June 30, 2005 (Restated)	Change	Percentage Change
Operating revenues	$1,983,943,554	$2,162,742,121	($178,798,567)	-8.3%
Operating expenses	2,633,106,314	2,790,458,730	(157,352,416)	-5.6%
Operating income (loss)	(649,162,760)	(627,716,609)	(21,446,151)	3.4%
Nonoperating revenues (expenses)	724,556,710	640,512,357	84,044,353	13.1%
Income (loss) before other revenues, expenses, gains and losses	75,393,950	12,795,748	62,598,202	489.2%
Other revenues, expenses, gains and losses	95,229,003	59,708,144	35,520,859	59.5%
Increase in net assets	170,622,953	72,503,892	98,119,061	135.3%
Net assets at beginning of year - restated	1,277,355,001	1,204,851,109	72,503,892	6.0%
Net assets at end of year	$1,447,977,954	$1,277,355,001	$170,622,953	

Operating Revenues

Operating revenues for the System totaled $2 billion at June 30, 2006. Major components of operating revenues are hospital income, representing 49.6% of the total; grants and contracts, 21.1% of the total; and net tuition and fees, 12.1% of the total. The following table summarizes the System's operating revenue for the year ending June 30, 2006.

Operating Revenues (in millions)

	As of June 30, 2006	As of June 30, 2005	Change	Percentage Change
Tuition and fees, net	$239.3	$247.8	($8.5)	-3.43%
Grants and contracts	418.1	418.9	(0.8)	-0.19%
Federal appropriations	9.6	10.9	(1.3)	-11.93%
Sales and services of educational departments	178.0	180.1	(2.1)	-1.17%
Auxiliary enterprises, net	140.9	145.7	(4.8)	-3.29%
Hospital income	983.9	1,141.9	(158.0)	-13.84%
Other	14.1	17.4	(3.3)	-18.97%
Total operating revenues	$1,983.9	$2,162.7	($178.8)	-8.27%

Operating Expenses

Total operating expenses for the System amounted to $2.6 billion as of June 30, 2006. Hospital expenses represented 36.8% of all operating expenses and are the largest functional component of them. Other major components are instructional expenses, 18.8%; research expenses, 11.5%; and public service expenses, 10.9%. Shown in the following table is a summary of the System's operating expenses for the fiscal year ending June 30, 2006.

Operating Expenses (in millions)

	As of			
	June 30, 2006	June 30, 2005 (Restated)	Change	Percentage Change
Instruction	$494.9	$528.8	($33.9)	-6.4%
Research	302.6	328.4	(25.8)	-7.9%
Public service	287.1	274.0	13.1	4.8%
Academic support	103.7	107.0	(3.3)	-3.1%
Student services	32.1	31.7	0.4	1.3%
Institutional support	127.3	130.1	(2.8)	-2.2%
Operation and maintenance of plant	139.4	132.4	7.0	5.3%
Scholarships and fellowships	40.8	36.1	4.7	13.0%
Auxiliary enterprises	135.6	132.3	3.3	2.5%
Hospital	969.6	1,089.7	(120.1)	-11.0%
Total operating expenses	$2,633.1	$2,790.5	($157.4)	-5.6%

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2006, the System has $1.3 billion (including $54 million in assets under capital leases) invested in a broad range of capital assets including land, buildings and improvements, equipment, and infrastructure, which is net of accumulated depreciation of $1.59 billion (see the following table).

Capital Asset Summary

	As of June 30, 2006	June 30, 2005 (Restated)	Change	Percentage Change
Capital assets not being depreciated	$199,141,906	$190,720,083	$8,421,823	4.4%
Other Capital Assets:				
Infrastructure	56,878,739	56,878,739		0.0%
Land improvements	67,832,340	63,177,893	4,654,447	7.4%
Buildings	1,551,813,353	1,478,374,164	73,439,189	5.0%
Equipment	777,024,533	753,853,273	23,171,260	3.1%
Library books	203,409,254	195,429,112	7,980,142	4.1%
Total Other Capital Assets	2,656,958,219	2,547,713,181	109,245,038	4.3%
Total cost of capital assets	2,856,100,125	2,738,433,264	117,666,861	4.3%
Less accumulated depreciation	(1,585,625,540)	(1,517,681,412)	(67,944,128)	(4.5%)
Capital assets, net	$1,270,474,585	$1,220,751,852	$49,722,733	4.1%

Capital assets not being depreciated total $199.1 million. This represents land and construction-in-progress.

Capital expenditures increased by $5.9 million at the Health Sciences Center in New Orleans. This increase is the result of revenue from the Office of Facility Planning directly related to repairs and replacement of equipment related to Hurricane Katrina.

The major capital expenditure recorded at the Health Sciences Center in Shreveport was $20.1 million for the Ambulatory Care Building.

Major capital expenditures at the Health Care Sciences Division included $7 million for restoration of University Hospital, $0.9 million for a temporary trauma center at the Medical Center of Louisiana at New Orleans (MCLNO), $0.7 million for a hospital planning project (Earl K. Long Medical Center), and $0.4 million for master planning of MCLNO.

At LSU, major capital expenditures that were recorded in fiscal year 2006 were $29.2 million for 14 South Campus buildings donated by Albemarle, $4.4 million for Laboratory School renovations, $3.4 million for Music and Dramatic Arts building renovation, $6.6 million associated with the Residential College, $3.3 million for Assembly Center renovations, and $2.8 million for the University Recreation Sports Center.

For LSU at Alexandria, $1.7 million in capital expenditures for the central utilities system upgrade and $1.7 million for the Science Building were recorded.

A $3 million capital expenditure was recorded for improvements to Buildings C and D at the Pennington Biomedical Research Center this past fiscal year.

At June 30, 2006, the System has $218.6 million in bonds outstanding, $44.7 million in notes payable outstanding, and $62.2 million in capital lease obligations outstanding.

ECONOMIC OUTLOOK

While the LSU System as a whole continues to recover from the effects of Hurricane Katrina, the University of New Orleans, the LSU Health Sciences Center in New Orleans, and the hospital and clinics of the LSU Health Sciences Center's Health Care Services Division located in New Orleans continue to face challenges in their attempt to return to their pre-storm level of activity. For example, fall 2004 enrollment at UNO was 17,349. Official enrollment for the 2005 fall semester dropped to 7,019 and has only rebounded to 11,747 for the 2006 fall semester. The LSU Dental School, which had relocated to Baton Rouge immediately subsequent to Hurricane Katrina, will now remain there for most of fiscal year 2006-07. Also, the state's largest public hospital, the Medical Center of Louisiana at New Orleans, remains closed because of significant storm damage.

The total operating budget for the LSU System for the new fiscal year, 2006-07, will be slightly above where the System finished at the end of fiscal 2005-06. But, as one would expect, the total budget will be considerably below where the System began in fiscal 2005-06. However, increased economic activity driven by rebuilding efforts in New Orleans is generating substantial additional revenues at the state level, and the LSU System can reasonably expect to receive additional appropriations as a result. Moreover, a plan to rebuild the public hospital in New Orleans in partnership with the U.S. Veterans Administration is being pursued vigorously.

With additional state appropriations likely in the near future, the need for seeking tuition increases diminishes. However, the LSU System and the Louisiana Board of Regents have recognized the need for an overall tuition policy to be adopted by the state and will continue to advocate for this to occur.

Increased research activity as evidenced by the large growth in grants and contracts from fiscal 2004-05 to fiscal 2005-06 is expected to continue and will be fueled by efforts at the LSU main campus, the LSU Agricultural Center, and the LSU Pennington Biomedical Research Center.

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Net Assets, June 30, 2006

ASSETS	
Current Assets:	
Cash and cash equivalents (note 2)	$328,922,224
Investments (note 3)	127,938,286
Receivables, net (note 4)	211,308,551
Due from state treasury, net (note 16)	38,160,185
Inventories	30,896,972
Deferred charges and prepaid expenses	3,711,974
Notes receivable	7,107,393
Other current assets	1,477,055
Total current assets	749,522,640
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents (note 2)	72,013,196
Investments (note 3)	188,581,077
Receivables, net (note 4)	39,127
Notes receivable	23,435,024
Other restricted assets	8,139,957
Investments (note 3)	15,229
Other noncurrent assets	3,705,615
Capital assets, net (note 5)	1,270,474,585
Total noncurrent assets	1,566,403,810
Total assets	2,315,926,450
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities (note 7)	324,074,048
Deferred revenues	89,509,244
Amounts held in custody for others (note 14)	6,724,295
Compensated absences (note 11)	9,162,074
Capital lease obligations (note 14)	3,972,651
Notes payable (note 14)	15,577,952
Bonds payable (note 14)	10,120,000
Other current liabilities	1,560,595
Total current liabilities	460,700,859

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2006

LIABILITIES (CONT.)	
Noncurrent Liabilities:	
Compensated absences (note 11)	$110,164,003
Capital lease obligations (note 14)	58,228,539
Claims and litigation payable (note 10)	240,000
Notes payable (note 14)	29,140,268
Bonds payable (note 14)	208,450,000
Other noncurrent liabilities	1,024,827
Total noncurrent liabilities	407,247,637
Total liabilities	867,948,496
NET ASSETS	
Investment in capital assets, net of related debt	993,992,307
Restricted for:	
Nonexpendable (note 17)	144,253,939
Expendable (note 17)	170,684,567
Unrestricted	139,047,141
Total net assets	$1,447,977,954

(Concluded)

The accompanying notes are an integral part of this statement.

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

COMPONENT UNITS
Statement of Financial Position, June 30, 2006

	LSU Foundation	Tiger Athletic Foundation*	Pennington Medical Foundation*	Foundation for the LSU Health Sciences Center
ASSETS				
Current Assets:				
Cash and cash equivalents (note 2)	$11,317,357	$1,588,890	$63,765	$1,132,077
Restricted cash		38,268,081		
Investments (note 3)	72,162,189		92,024,709	3,703,133
Accrued interest receivable	1,843,295		52,944	135,563
Accounts receivable, net	256,779	703,651	42,847	
Unconditional promises to give, net (note 28)	5,739,777	2,574,604		421,029
Inventories				
Deferred charges and prepaid expenses	8,800	533,664	46,878	
Notes receivable, net				60,776
Cash restricted for debt service				100,396
Other current assets		9,628,965	50,240	1,140,624
Total current assets	91,328,197	53,297,855	92,281,383	6,693,598
Noncurrent Assets:				
Restricted assets:				
Cash and cash equivalents (note 2)		860,262	3,730,893	
Investments (note 3)	283,899,932			
Investments (note 3)	20,480,293			74,461,536
Unconditional promises to give, net (note 28)	3,276,149	5,721,360		1,490,364
Notes receivable				253,421
Property and equipment, net (note 5)	10,193,807	149,981,065	41,165,795	1,598,204
Other noncurrent assets	263,702	26,849,850		3,838
Total noncurrent assets	318,113,883	183,412,537	44,896,688	77,807,363
Total assets	$409,442,080	$236,710,392	$137,178,071	$84,500,961
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	$1,388,414	$3,334,325	$1,635,977	$621,646
Deferred revenues		11,398,946		
Amounts held in custody for others (note 26)	1,405,286	1,039,963		
Compensated absences payable	141,406			
Capital lease obligations (note 14)				
Current portion of notes payable (note 14)		1,239,000		
Current portion of bonds payable (note 14)	630,494	2,665,000	2,335,000	75,000
Other current liabilities	449,974	3,343,602	53,700	1,650
Total current liabilities	4,015,574	23,020,836	4,024,677	698,296

(Continued)

The accompanying notes are an integral part of this statement.

	University of New Orleans Foundation	University of New Orleans Research and Technology Foundation	Total Foundations
ASSETS (CONT.)			
Current Assets:			
Cash and cash equivalents (note 2)	$18,623	$599,033	$14,719,745
Restricted cash			38,268,081
Investments (note 3)	782,652	4,499,890	173,172,573
Accrued interest receivable			2,031,802
Accounts receivable, net	1,038,535	1,645,718	3,687,530
Unconditional promises to give, net (note 28)	533,500		9,268,910
Inventories	23,597		23,597
Deferred charges and prepaid expenses	21,514	339,215	950,071
Notes receivable, net			60,776
Cash restricted for debt service			100,396
Other current assets	2,386	21,676	10,843,891
Total current assets	2,420,807	7,105,532	253,127,372
Noncurrent Assets:			
Restricted assets:			
Cash and cash equivalents (note 2)			4,591,155
Investments (note 3)	51,445,844		335,345,776
Investments (note 3)	125,411		95,067,240
Unconditional promises to give, net (note 28)	663,189		11,151,062
Notes receivable			253,421
Property and equipment, net (note 5)	12,412,516	67,510,098	282,861,485
Other noncurrent assets	116,906		27,234,296
Total noncurrent assets	64,763,866	67,510,098	756,504,435
Total assets	$67,184,673	$74,615,630	$1,009,631,807
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	$973,250	$840,213	$8,793,825
Deferred revenues		338,697	11,737,643
Amounts held in custody for others (note 26)	1,743,746	51,004	4,239,999
Compensated absences payable			141,406
Capital lease obligations (note 14)	21,800		21,800
Current portion of notes payable (note 14)	2,928,169	155,840	4,323,009
Current portion of bonds payable (note 14)	111,000	790,000	6,606,494
Other current liabilities	1,228,878	490,635	5,568,439
Total current liabilities	7,006,843	2,666,389	41,432,615

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
COMPONENT UNITS
Statement of Financial Position, June 30, 2006

	LSU Foundation	Tiger Athletic Foundation*	Pennington Medical Foundation*	Foundation for the LSU Health Sciences Center
LIABILITIES (CONT.)				
Noncurrent Liabilities:				
Amounts held in custody for others (note 26)	$64,831,207			$16,739,311
Capital lease obligations (note 14)				
Notes payable, net of current portion (note 14)		$1,736,336		
Bonds payable, net of current portion (note 14)	11,939,506	132,245,000	$42,495,000	1,796,364
Other noncurrent liabilities		27,143,621		11,409
Total noncurrent liabilities	76,770,713	161,124,957	42,495,000	18,547,084
Total liabilities	80,786,287	184,145,793	46,519,677	19,245,380
NET ASSETS				
Unrestricted	29,882,711	34,829,047	90,658,394	425,731
Temporarily restricted (note 17)	137,492,351	16,875,290		17,266,477
Permanently restricted (note 17)	161,280,731	860,262		47,563,373
Total net assets	328,655,793	52,564,599	90,658,394	65,255,581
Total Liabilities and Net Assets	$409,442,080	$236,710,392	$137,178,071	$84,500,961

*As of December 31, 2005

(Concluded)

The accompanying notes are an integral part of this statement.

	University of New Orleans Foundation	University of New Orleans Research and Technology Foundation	Total Foundations
LIABILITIES (CONT.)			
Noncurrent Liabilities:			
Amounts held in custody for others (note 26)	$13,490,755		$95,061,273
Capital lease obligations (note 14)	732,997		732,997
Notes payable, net of current portion (note 14)		$7,391,011	9,127,347
Bonds payable, net of current portion (note 14)	1,507,000		189,982,870
Other noncurrent liabilities			27,155,030
Total noncurrent liabilities	15,730,752	7,391,011	322,059,517
Total liabilities	22,737,595	10,057,400	363,492,132
NET ASSETS			
Unrestricted	4,398,253	64,558,230	224,752,366
Temporarily restricted (note 17)	8,521,544		180,155,662
Permanently restricted (note 17)	31,527,281		241,231,647
Total net assets	44,447,078	64,558,230	646,139,675
Total Liabilities and Net Assets	$67,184,673	$74,615,630	$1,009,631,807

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006

OPERATING REVENUES	
Student tuition and fees	$281,734,118
Less scholarship allowances	(42,426,093)
Net student tuition and fees	239,308,025
Federal appropriations	9,613,764
Federal grants and contracts	232,627,762
State and local grants and contracts	104,409,834
Nongovernmental grants and contracts	81,050,262
Sales and services of educational departments	178,028,787
Hospital income	983,915,411
Auxiliary enterprise revenues (including revenues pledged to secure debt per note 24)	146,544,910
Less scholarship allowances	(5,633,361)
Net auxiliary revenues	140,911,549
Other operating revenues	14,078,160
Total operating revenues	1,983,943,554
OPERATING EXPENSES	
Educational and general:	
Instruction	494,939,293
Research	302,565,756
Public service	287,141,017
Academic support	103,742,536
Student services	32,053,895
Institutional support	127,308,296
Operation and maintenance of plant	139,382,786
Scholarships and fellowships	40,843,026
Auxiliary enterprises	135,517,900
Hospital	969,611,809
Total operating expenses	2,633,106,314
Operating Loss	(649,162,760)

(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, June 30, 2006

NONOPERATING REVENUES (Expenses)	
State appropriations	$635,604,163
Gifts	29,558,122
Net investment income	24,714,090
Interest expense	(13,874,563)
Other nonoperating revenues	2,863,453
Other nonoperating revenues - Social Services Block Grant	54,246,730
Other nonoperating revenues - FEMA	58,363,101
Other nonoperating expenses - FEMA	(66,918,386)
Net nonoperating revenues	724,556,710
Income Before Other Revenues, Expenses, Gains, and Losses	75,393,950
Capital appropriations	45,919,986
Capital gifts and grants	36,496,594
Additions to permanent endowments	9,482,557
Other additions, net	10,199,678
Extraordinary item - loss on impairment of capital assets (note 6)	(6,869,812)
Increase in Net Assets	170,622,953
Net Assets at Beginning of Year, Restated (note 18)	1,277,355,001
Net Assets at End of Year	$1,447,977,954

(Concluded)

The accompanying notes are an integral part of this statement.

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

COMPONENT UNITS
Statement of Activities
For the Year Ended June 30, 2006

	LSU Foundation	Tiger Athletic Foundation*	Pennington Medical Foundation*	Foundation for the LSU Health Sciences Center
Changes in unrestricted net assets:				
Contributions	$482,633	$16,282,182		$222,175
Investment earnings	3,803,170	615,005	$7,558,403	1,074,279
Service fees	3,033,674			
Grants and contracts				
Other revenues		6,836,627	148,372	33,001
Total unrestricted revenues	7,319,477	23,733,814	7,706,775	1,329,455
Net assets released from restrictions -				
satisfaction of program expenses	24,142,280	2,644,703		6,989,144
Total unrestricted revenues and other support	31,461,757	26,378,517	7,706,775	8,318,599
Expenses:				
Amounts paid to benefit Louisiana State University for:				
Projects specified by donors	22,857,829			5,737,089
Projects specified by the Board of Directors	1,310,074	3,603,983	3,777,852	
Other:				
Grants and contracts				
Property operations				
Other		6,880,504		
Total program expenses	24,167,903	10,484,487	3,777,852	5,737,089
Supporting services:				
Salaries and benefits	3,294,420	1,253,933	32,240	1,165,079
Occupancy	114,733	138,283		42,200
Office operations	355,047	106,457	1,026,529	295,627
Travel	213,436			75,428
Professional services	269,247	85,154	449,106	187,037
Dues and subscriptions	33,271	21,579		11,873
Meetings and development	244,611	882,900	2,471	17,567
Depreciation	1,707,048	35,129	1,505,781	34,583
Provision for uncollectible accounts				
Loss on sale of assets				845,788
Other		602,158	1,098,679	225,570
Total supporting services	6,231,813	3,125,593	4,114,806	2,900,752
Total expenses	30,399,716	13,610,080	7,892,658	8,637,841
Increase (decrease) in unrestricted net assets	1,062,041	12,768,437	(185,883)	(319,242)

(Continued)

The accompanying notes are an integral part of this statement.

	University of New Orleans Foundation	University of New Orleans Research and Technology Foundation	Total Foundation
Changes in unrestricted net assets: (Cont.)			
Contributions	$827,958	$302,961	$18,117,909
Investment earnings	471,171	246,649	13,768,677
Service fees	1,046,755		4,080,429
Grants and contracts		6,242,879	6,242,879
Other revenues	680,316	3,138,620	10,836,936
Total unrestricted revenues	3,026,200	9,931,109	53,046,830
Net assets released from restrictions -			
satisfaction of program expenses	4,672,415		38,448,542
Total unrestricted revenues and other support	7,698,615	9,931,109	91,495,372
Expenses:			
Amounts paid to benefit Louisiana State University for:			
Projects specified by donors			28,594,918
Projects specified by the Board of Directors		37,564	8,729,473
Other:			
Grants and contracts		2,864,901	2,864,901
Property operations	428,510	3,065,739	3,494,249
Other	4,941,636		11,822,140
Total program expenses	5,370,146	5,968,204	55,505,681
Supporting services:			
Salaries and benefits	927,216	185,272	6,858,160
Occupancy	29,141		324,357
Office operations	19,498		1,803,158
Travel		6,537	295,401
Professional services	210,269	577,133	1,777,946
Dues and subscriptions	5,891		72,614
Meetings and development	18,114		1,165,663
Depreciation	291,169	2,397,862	5,971,572
Provision for uncollectible accounts	50,202		50,202
Loss on sale of assets			845,788
Other	251,563	2,534,217	4,712,187
Total supporting services	1,803,063	5,701,021	23,877,048
Total expenses	7,173,209	11,669,225	79,382,729
Increase (decrease) in unrestricted net assets	525,406	(1,738,116)	12,112,643

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
COMPONENT UNITS
Statement of Activities, June 30, 2006

	LSU Foundation	Tiger Athletic Foundation*	Pennington Medical Foundation*	Foundation for the LSU Health Sciences Center
Changes in temporarily restricted net assets:				
Contributions	$18,835,887	$2,722,219		$5,604,568
Investment earnings	19,518,720			3,936,437
Other	(49,412)			13,115
Total temporarily restricted revenues	38,305,195	2,722,219	NONE	9,554,120
Net assets released from restrictions - satisfaction of program expenses	(24,142,280)	(2,644,703)	NONE	(5,405,726)
Increase in temporarily restricted net assets	14,162,915	77,516	NONE	4,148,394
Changes in permanently restricted net assets:				
Contributions	8,672,959	10,855		521,020
Investment earnings	73,287	18,531		721,364
Other				579,714
	8,746,246	29,386	NONE	1,822,098
Net assets released from restrictions	NONE	NONE	NONE	(1,583,418)
Increase in permanently restricted net assets	8,746,246	29,386	NONE	238,680
Increase (decrease) in net assets	23,971,202	12,875,339	($185,883)	4,067,832
Net assets at beginning of year	304,684,591	39,689,260	90,844,277	61,187,749
Net assets at end of year	$328,655,793	$52,564,599	$90,658,394	$65,255,581

*For the period ending December 31, 2005

(Concluded)

The accompanying notes are an integral part of this statement.

	University of New Orleans Foundation	University of New Orleans Research and Technology Foundation	Total Foundation
Changes in temporarily restricted net assets: (Cont.)			
Contributions	$2,275,391		$29,438,065
Investment earnings	2,548,108		26,003,265
Other	675,766		639,469
Total temporarily restricted revenues	5,499,265	NONE	56,080,799
Net assets released from restrictions - satisfaction of program expenses	(5,191,737)		(37,384,446)
Increase in temporarily restricted net assets	307,528	NONE	18,696,353
Changes in permanently restricted net assets:			
Contributions	708,348		9,913,182
Investment earnings	1,256		814,438
Other	526,387		1,106,101
	1,235,991	NONE	11,833,721
Net assets released from restrictions	NONE	NONE	(1,583,418)
Increase in permanently restricted net assets	1,235,991	NONE	10,250,303
Increase (decrease) in net assets	2,068,925	($1,738,116)	41,059,299
Net assets at beginning of year	42,378,153	66,296,346	605,080,376
Net assets at end of year	$44,447,078	$64,558,230	$646,139,675

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LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2006

Cash flows from operating activities	
Student tuition and fees	$237,129,017
Federal appropriations	9,685,238
Grants and contracts	419,247,098
Sales and services of educational departments	182,700,962
Hospital income	1,039,086,114
Auxiliary enterprise receipts	146,735,709
Payments for employee compensation	(1,294,205,573)
Payments for benefits	(306,609,992)
Payments for utilities	(56,053,229)
Payments for supplies and services	(861,693,453)
Payments for scholarships and fellowships	(40,829,670)
Loans to students	(7,415,542)
Collection of loans to students	7,343,893
Other receipts	14,186,957
Net cash used by operating activities	(510,692,471)
Cash flows from noncapital financing activities	
State appropriations	628,161,637
Gifts and grants for other than capital purposes	77,722,885
Private gifts for endowment purposes	443,342
TOPS receipts	54,666,284
TOPS disbursements	(55,437,129)
FEMA receipts	73,353,565
FEMA disbursements	(62,873,530)
Other receipts	4,941,370
Net cash provided by noncapital financing sources	720,978,424
Cash flows from capital financing activities	
Proceeds from capital debt	309,794
Capital appropriations received	19,771,975
Capital grants and gifts received	36,786,942
Purchase of capital assets	(148,234,491)
Principal paid on capital debt and leases	(15,569,026)
Interest paid on capital debt and leases	(13,868,002)
Other uses	13,760,933
Net cash used by capital financing activities	(107,041,875)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	20,177,690
Interest received on investments	28,513,501
Purchase of investments	(27,275,073)
Net cash provided by investing activities	21,416,118

(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, 2006

Net increase in cash and cash equivalents	$124,660,196
Cash and cash equivalents at the beginning of the year (Restated)	276,275,224
Cash and cash equivalents at the end of the year	$400,935,420
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($649,162,760)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	113,127,775
Changes in assets and liabilities:	
Decrease in accounts receivable	55,289,669
Decrease in inventories	6,015,838
Decrease in deferred charges and prepaid expenses	1,005,678
Decrease in notes receivable	253,846
Increase in other assets	(7,263,305)
Decrease in accounts payable and accrued liabilities	(50,080,830)
Increase in deferred revenue	3,516,182
Decrease in amounts held in custody for others	(34,152)
Decrease in compensated absences	(8,449,814)
Increase in other liabilities	25,089,402
Net cash used by operating activities	($510,692,471)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and cash equivalents classified as current assets	$328,922,224
Cash and cash equivalents classified as noncurrent assets	72,013,196
Cash and cash equivalents at the end of the year	$400,935,420
Schedule of Noncash Investing, Capital and Financing Activities:	
Capital assets appropriated by State of Louisiana	$29,782,057

(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 15 members appointed for a six-year term by the governor, with the consent of the Senate, and one student member appointed for a one-year term by a council composed of the student body presidents of the universities. As state universities, operations of the universities' instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature. The chief executive officer of the university system is the president.

The university system is comprised of 11 campuses in five cities and 10 state hospitals. The system includes LSU and A&M College (LSU), the Paul M. Hebert Law Center, and the Pennington Biomedical Research Center, all in Baton Rouge; the LSU Agricultural Center (including the Louisiana Agricultural Experiment Station and the Louisiana Cooperative Extension Service) with headquarters in Baton Rouge; the University of New Orleans; LSU Shreveport; LSU Alexandria; LSU Eunice, a two-year institution; the LSU Health Sciences Center in New Orleans, 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), and the Health Care Services Division; and the LSU Health Sciences Center in Shreveport, which includes a School of Medicine in Shreveport with hospitals in Shreveport and Monroe. Student enrollment for the university system for the 2005 fall semester totaled approximately 54,500. As of June 30, 2006, the university system had approximately 4,874 full and part-time faculty members with the academic rank of instructor or above, including those positions with equivalent rank.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

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

B. REPORTING ENTITY

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

Blended Component Units

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

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

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

To obtain the latest audit report of the LSU Healthcare Network, write to the LSU Healthcare Network, 1340 Poydras Street, Suite 1600, New Orleans, Louisiana 70112.

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

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

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

Discretely Presented Component Units

The LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation are included as discretely presented component units of the university system in the system's basic financial statements, in accordance with the criteria outlined in GASB Statement 14, as amended by GASB Statement

39. The foundations are legally separate, tax-exempt organizations supporting the university system. The foundations have been organized to solicit, receive, hold, invest, and transfer funds for the benefit of the university system. In addition, the foundations assist the university in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. The university and the LSU Foundation, the University of New Orleans Foundation, and the Foundation for the LSU Health Sciences Center are also in management agreements related to endowed chairs and professorships. These agreements are in compliance with Board of Regents policy and allow the foundations to manage funds on behalf of the university.

Other external auditors audited the Tiger Athletic Foundation and the Pennington Medical Foundation for the year ended December 31, 2005, and the LSU Foundation, the University of New Orleans Foundation, the University of New Orleans Research and Technology Foundation, and the Foundation for the LSU Health Sciences Center for the year ended June 30, 2006.

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

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

Each discretely presented component unit is described as follows:

> The LSU Foundation supports LSU A&M. During the year ended June 30, 2006, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes for $24,167,903. Complete financial statements for the foundation can be obtained at 3838 West Lakeshore Drive, Baton Rouge, Louisiana 70808.
>
> The Tiger Athletic Foundation (TAF) supports LSU A&M. During the year ended December 31, 2005, TAF made distributions to or on behalf of the university for both restricted and unrestricted purposes for $3,621,450. Complete financial statements for TAF can be obtained from Post Office Box 711, Baton Rouge, Louisiana 70821, or from the foundation's Web site at www.lsutaf.org.

The Pennington Medical Foundation supports the Pennington Biomedical Research Center. During the year ended December 31, 2005, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes for $5,282,482. Complete financial statements for the foundation can be obtained from Mr. Brad Jewel, CPA, 6400 Perkins Road, Baton Rouge, Louisiana 70808.

The Foundation for the LSU Health Sciences Center supports the LSU Health Sciences Center in New Orleans. During the year ended June 30, 2006, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes for $5,737,089. Complete financial statements for the foundation can be obtained at 2020 Gravier Street, Room 734, New Orleans, Louisiana 70112, or from the foundation's Web site at www.foundation.lsuhsc.edu.

The University of New Orleans Foundation supports the University of New Orleans. During the year ended June 30, 2006, the foundation made distributions to or on behalf of the university for both restricted and unrestricted purposes for $4,941,636. Complete financial statements for the foundation can be obtained at 2000 Lakeshore Drive, New Orleans, Louisiana 70148, or from the foundation's Web site at www.unofoundation.org.

The University of New Orleans Research and Technology Foundation supports the University of New Orleans. During the year ended June 30, 2006, the foundation made distributions to or on behalf of the university for either restricted or unrestricted purposes for $2,986,422. Complete financial statements for the foundation can be obtained at 2021 Lakeshore Drive, Suite 307, New Orleans, Louisiana 70148.

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

C. BASIS OF ACCOUNTING

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

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

Discrete Component Units

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

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

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

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

D. BUDGET PRACTICES

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

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

Original approved budget	$1,377,841,053
Increases (decreases):	
State General Fund	(24,036,806)
Statuatory dedication	222,790
Self-generated	7,346,868
Federal funds	5,483,373
Interagency transfers	8,702,742
Final budget	$1,375,560,020

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

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

F. INVENTORIES

Inventories are valued at cost or replacement cost, except for livestock at LSU and the LSU Agricultural Center and the inventory of the Dental School of the LSU Health Sciences Center in 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 total $100,000 or more and significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property. Depreciation expense is charged directly to the various functional categories of operating expenses on the Statement of Revenues, Expenses, and Changes in Net Assets. The LSU System uses the group or composite method for library book depreciation if the books are considered to have a useful life of greater than one year.

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

I. DEFERRED REVENUES

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

J. NONCURRENT LIABILITIES

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

K. COMPENSATED ABSENCES

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

L. NET ASSETS

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

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

(4) Unrestricted Net Assets
Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and certain auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university system and may be used at the discretion of the governing board to meet current expenses and for any purpose.

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

M. CLASSIFICATION OF REVENUES

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

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

(b) Nonoperating Revenue - Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, investment income, and grants that do not have the characteristics of exchange transactions.

N. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

O. ELIMINATING INTERFUND ACTIVITY

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

P. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2006, the LSU System implemented GASB Statements No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries;* No. 46, *Net Assets Restricted by Enabling Legislation;* and No. 47, *Accounting for Termination Benefits*. However, Statement 47 had no impact on reporting for the LSU System.

2. CASH AND CASH EQUIVALENTS

At June 30, 2006, the university system has cash and cash equivalents (book balances) of $400,935,420 as follows:

Petty cash	$1,271,892
Demand deposits	238,628,918
Certificates of deposit	99,868,600
Money market funds	914,452
Open-end mutual fund	60,251,558
Total	$400,935,420

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

As of June 30, 2006, $19,966,757 of the system's bank balance of $497,144,729 was exposed to custodial credit risk as these balances were uninsured and uncollateralized.

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

CASH AND CASH EQUIVALENTS - COMPONENT UNITS

Cash and cash equivalents of the component units totaling $57,578,981, as shown on the Statement of Financial Position, are reported under FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

The LSU Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Occasionally, the LSU Foundation has deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. The Foundation's management believes the credit risk associated with these deposits is minimal. As of June 30, 2006, cash in excess of FDIC insurance limits total $11,907,300.

The Tiger Athletic Foundation (TAF) maintains several bank accounts at various financial institutions. Accounts at individual institutions are insured by FDIC up to $100,000. TAF's bond agreement requires certain funds to be maintained at the banks to act as the trustees for the bonds. Cash at the institutions exceeded federal insured limits. The amount in excess of the FDIC limit totaled approximately $39,160,782 as of December 31, 2005. Restricted cash and cash equivalents are available for the following purposes:

	December 31, 2005
Bond Restrictions:	
Maintenance reserve and escrow accounts	$8,923,538
Tiger Den Suites tower account	1,301,198
West Side Upper Deck - Stadium Club deposits	2,831,505
West Side Upper Deck - Hibernia construction account	3,256,805
West Side Upper Deck - Project construction fund	3,630,100
Amounts held in custody for others	1,039,963
Academic Center Trust Funds	48,092
Donor restrictions	8,598,868
Board designated	8,638,010
Endowment funds	860,264
Total	$39,128,343

The Pennington Medical Foundation maintains its cash in deposit accounts at a financial institution. The balances are insured by FDIC up to $100,000. The balances at times may exceed federally insured limits. At December 31, 2005, the Pennington Medical Foundation's deposits did exceed the insured limit by $32,076.

The Foundation for the LSU Health Sciences Center maintains its cash accounts in several financial institutions. Accounts are insured by FDIC and insured for greater amounts by agreement with some institutions. At June 30, 2006, the Foundation for the LSU Health Sciences Center has cash deposits in excess of federally insured limits of $97,374.

The UNO Research and Technology Foundation maintains cash balances at several banks. Accounts at each institution are insured by FDIC up to $100,000. Balances in excess of FDIC insurance at June 30, 2006, are $595,520.

3. INVESTMENTS

At June 30, 2006, the system has investments totaling $316,534,592.

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

A summary of the system's investments follows:

	Percentage of Investments	Credit Quality Rating*	Fair Value
Type of Investment:			
Repurchase agreements[4]	12.24%		$38,751,506
Repurchase agreements	0.66%	Aaa	2,085,336
U.S. government securities:			
Bonds and Notes:			
Federal Home Loan Mortgage Corporation	7.58%	Aaa	24,006,980
Federal Home Loan Mortgage Corporation	2.49%	Aa	7,875,640
Federal Home Loan Mortgage Corporation[5]	0.31%		984,600
Federal National Mortgage Association	10.24%	Aaa	32,421,272
Federal Home Loan Bank	12.40%	Aaa	39,259,269
Federal Farm Credit Bank	2.68%	Aaa	8,491,610
Collateralized Mortgage Obligations:			
Federal National Mortgage Association[2]	1.15%		3,628,340
Federal Home Loan Banks	2.37%	Aaa	7,492,682
Federal Home Loan Banks[2]	0.85%		2,685,984
Federal Home Loan Mortgage Corporation[2]	2.55%		8,063,171
Mortgage Backed Securities:			
Federal National Mortgage Association[2]	5.49%		17,366,813
Federal Home Loan Mortgage Corporation[2]	3.04%		9,621,734
Government National Mortgage Association[1]	0.61%		1,920,130
Mutual Funds:			
Blackrock Mutual Fund[5]	0.01%		16,316
Money market mutual funds	1.70%	Aaa	5,373,039
Other:[3]			
Investments held by foundations	30.56%		96,745,089
Common and preferred stock	1.02%		3,235,556
Realty investments	1.09%		3,456,932
Certificates of deposit	0.03%		100,000
Louisiana Public Facilities Authority	0.01%		30,946
Interest receivable	0.67%		2,124,459
LSUE Housing Foundation	0.16%		522,188
New Orleans Regional Physician Hospital Organization	0.09%		275,000
Total investments	100.00%		$316,534,592

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

[1] Credit quality ratings are not required for U.S. government and agency securities that are explicitly guaranteed by the U.S. government.

[2] Securites are implicitly guaranteed by the U.S. government but are not rated by Moody's Investors Service.

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

[4] The investments and the underlying securities are not rated by Moody's Investors Service; however, the underlying securities are implicitly guaranteed by the U.S. government.

[5] The investment is not rated by Moody's Investors Service.

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

	Investment Maturities in Years				
	Less Than 1	1-5 Years	6-10	11-20	21-30
Type of Investment:					
Repurchase agreements[4]	$38,751,506				
Repurchase agreements	2,085,336				
U.S. government securities:					
Bonds and Notes:					
Federal Home Loan Mortgage Corporation	1,702,900	$18,743,080	$3,098,965	$462,035	
Federal Home Loan Mortgage Corporation		3,998,120	3,877,520		
Federal Home Loan Mortgage Corporation[5]	498,450	486,150			
Federal National Mortgage Association	3,422,716	20,370,991	8,627,565		
Federal Home Loan Bank	978,750	33,690,982	4,589,537		
Federal Farm Credit Bank		8,012,390	479,220		
Collateralized Mortgage Obligations:					
Federal National Mortgage Association[2]			3,628,340		
Federal Home Loan Banks		1,577,786	5,914,896		
Federal Home Loan Banks[2]		2,685,984			
Federal Home Loan Mortgage Corporation[2]		4,238,060	3,825,111		
Mortgage Backed Securities:					
Federal National Mortgage Association[2]		6,228,774	11,138,039		
Federal Home Loan Mortgage Corporation[2]		8,895,071		726,663	
Government National Mortgage Association[1]			1,809,593	80,991	$29,546
Mutual Funds:					
Blackrock Mutual Fund[5]		16,316			
Money market mutual funds	5,373,039				
Other:[3]					
Investments held by foundations					
Common and preferred stock					
Realty investments					
Certificates of deposit					
Louisiana Public Facilities Authority					
Interest receivable					
LSUE Housing Foundation					
N.O. Regional Physician Hospital Organization					
Total investments	$52,812,697	$108,943,704	$46,988,786	$1,269,689	$29,546

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the system's $316,534,592 in total investments, $40,866,388 of underlying securities are held by counterparties, not in the name of the system. For U.S. Treasury obligations and U.S. government agency obligations, the system's investment policies generally require that issuers must provide the universities with safekeeping receipts, collateral agreements, and custodial agreements.

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

The open-end mutual fund amount of $60,251,558, included in cash and cash equivalents, consists of $37,900,000 invested in the Federated Investors Government Obligations Fund; $1,477,324 invested in Federated Prime Obligations Fund; $202,743 invested in Fidelity Treasury Money Market; $3,722,491 invested in JPMorgan U.S. Government Money Market Fund; and $16,949,000 invested in JPMorgan US Treasury Plus Money Market Fund. These funds are each rated Aaa by Moody's Investors Service. The holdings for the Federated Investors Government Obligations Fund, the Fidelity Treasury Money Market fund, and the JPMorgan U.S. Government Money Market Fund consist primarily of short-term U.S. Treasury and U.S. government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. The holdings for the Federated Prime Obligations Fund consist primarily of a portfolio of short-term, high quality, fixed income securities issued by banks, corporations, and the U.S. government. These funds all minimize interest rate risk with the purchase of short-term securities.

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

Investments held by private foundations in external investment pools are managed in accordance with the terms outlined in management agreements executed between the university and the foundations. Each university is a voluntary participant. The foundations hold and manage funds received by the university as state matching funds for the Eminent Scholars Endowed Chairs and Endowed Professorship Programs. Of the $96,745,089 reported as investments held by foundations, the amounts held by its discretely presented component units are shown as follows:

Component Unit	Amount Held
LSU Foundation	$52,503,215
Pennington Medical Foundation	5,486,656
Foundation for the LSU Health Sciences Center	18,775,061
UNO Foundation	13,490,755
LSU in Shreveport Foundation	2,827,437
LSU Health Sciences Center in Shreveport Foundation	3,661,965
Total	$96,745,089

INVESTMENTS - COMPONENT UNITS

Component units' investments totaling $603,585,589, as shown on the Statement of Financial Position, are reported under FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, which does not require the disclosures of GASB Statement No. 40. The fair value of investments held by the foundations at June 30, 2005, follows:

Type of Investment	LSU Foundation	Pennington Medical Foundation*	Foundation for the LSU Health Sciences Center
Money markets/certificates of deposit	$395,000	$10,100,355	$403,459
Government obligations	101,893,242		
Corporate obligations	4,775,434		
Corporate stocks, common stocks, and indexed mutual funds	179,695,804		
Mortgage-backed securities and CMOs	53,738,625		
Shaw Center for the Performing Arts	20,480,293		
Land	522,652		
Royalty interest	147,528		
Equities		33,565,773	
Fixed income (Alpha Fund Notes)		28,360,800	
Meridian Diversified Fund		18,394,848	
Mineral interests		1,554,613	
U.S. government agency/mortgage-backed securities			3,814,620
U.S. government agency bonds and notes			4,770,571
Corporate bonds and notes			4,108,325
Mutual funds			62,177,663
Louisiana Fund I		48,320	
Sweep account			
Short-term investments			
Private equity	1,006,032		
Hedged funds	13,761,776		2,890,032
Venture capital	126,028		
Insurance contracts			
Total investments	$376,542,414	$92,024,709	$78,164,670

*As of December 31, 2005

The LSU Foundation is a 50% investor in the Shaw Center for the Arts, LLC. The investment recorded on the Statement of Financial Position for $20,480,293 at June 30, 2006, is accounted for by the equity method. The LSU Foundation had estimated remaining commitments relating to the Shaw Center for the Arts, LLC of approximately $155,900 at June 30, 2006, and that amount is classified in the Statement of Financial Position as other liabilities. The summarized unaudited financial information of the Shaw Center for the Arts, LLC is as follows:

Total assets	$41,006,850
Total liabilities	$46,265
Net income	($171,536)

Type of Investment	UNO Foundation	UNO Research and Technology Foundation	Total Investments
Money markets/certificates of deposit	$8,554,121	$1,458,688	$20,911,623
Government obligations	7,490,802		109,384,044
Corporate obligations			4,775,434
Corporate stocks, common stocks, and indexed mutual funds	19,223,902		198,919,706
Mortgage-backed securities and CMOs			53,738,625
Shaw Center for the Performing Arts			20,480,293
Land			522,652
Royalty interest			147,528
Equities			33,565,773
Fixed income (Alpha Fund Notes)			28,360,800
Meridian Diversified Fund			18,394,848
Mineral interests			1,554,613
U.S. government agency/mortgage-backed securities			3,814,620
U.S. government agency bonds and notes			4,770,571
Corporate bonds and notes	3,300,263		7,408,588
Mutual funds	11,211,883		73,389,546
Louisiana Fund I			48,320
Sweep account		8,769	8,769
Short-term investments		3,032,432	3,032,432
Private equity			1,006,032
Hedged funds			16,651,808
Venture capital			126,028
Insurance contracts	2,572,936		2,572,936
Total investments	$52,353,907	$4,499,889	$603,585,589

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

4. RECEIVABLES

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

	Receivables	Doubtful Accounts	Net Receivables
Student tuition and fees	$14,869,818	$79,322	$14,790,496
Auxiliary enterprises	5,793,979	26,568	5,767,411
Contributions and gifts	1,170,193		1,170,193
Federal, state, and private grants and contracts	85,693,240		85,693,240
Clinics	63,192,786	47,416,662	15,776,124
Sales and services/other	10,604,971	1,539	10,603,432
Federal Emergency Management Agency	12,514,378		12,514,378
Social Services Block Grant	6,475,469		6,475,469
Insurance proceeds	2,645,185		2,645,185
Hospital	587,415,933	531,504,183	55,911,750
Other adjustments	(187,640,560)	(187,640,560)	
Total	$602,735,392	$391,387,714	$211,347,678

Accounts receivable and doubtful accounts include $70,513,237 for fiscal year 2004 and $117,127,323 for fiscal year 2005 uncompensated care cost (disproportionate share) on the "Hospital" line that was earned by HCSD during fiscal years 2004 and 2005. Because of the federal cap and Medicaid State Plan ceiling, it has been determined that this amount is uncollectible and therefore an allowance for doubtful accounts should be established for the full amount included in Accounts Receivable and Doubtful Accounts. These amounts are eliminated on the "Other Adjustments" line.

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5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

LSU SYSTEM

	Balance June 30, 2005	Prior Period Adjustment	Restated Balance June 30, 2005
Capital assets not being depreciated:			
Land	$112,582,015		$112,582,015
Construction-in-progress	78,138,068		78,138,068
Total capital assets not being depreciated	$190,720,083	NONE	$190,720,083
Other capital assets:			
Infrastructure	$56,878,739		$56,878,739
Less accumulated depreciation	(20,458,648)		(20,458,648)
Total infrastructure	36,420,091	NONE	36,420,091
Land improvements	63,208,638	($30,745)	63,177,893
Less accumulated depreciation	(42,957,672)	30,745	(42,926,927)
Total land improvements	20,250,966	NONE	20,250,966
Buildings	1,478,746,164	(372,000)	1,478,374,164
Less accumulated depreciation	(773,502,220)	369,114	(773,133,106)
Total buildings	705,243,944	(2,886)	705,241,058
Equipment	754,116,196	(262,923)	753,853,273
Less accumulated depreciation	(505,500,091)	1,076,162	(504,423,929)
Total equipment	248,616,105	813,239	249,429,344
Library books	195,429,112		195,429,112
Less accumulated depreciation	(176,738,802)		(176,738,802)
Total library books	18,690,310	NONE	18,690,310
Total other capital assets	$1,029,221,416	$810,353	$1,030,031,769
Capital asset summary:			
Capital assets not being depreciated	$190,720,083		$190,720,083
Other capital assets, at cost	2,548,378,849	($665,668)	2,547,713,181
Total cost of capital assets	2,739,098,932	(665,668)	2,738,433,264
Less accumulated depreciation	(1,519,157,433)	1,476,021	(1,517,681,412)
Capital assets, net	$1,219,941,499	$810,353	$1,220,751,852

LSU SYSTEM

	Additions	Transfers	Retirements	Balance June 30, 2006
Capital assets not being depreciated:				
Land	$112,948			$112,694,963
Construction-in-progress	55,612,169	($47,303,294)		86,446,943
Total capital assets not being depreciated	$55,725,117	($47,303,294)	NONE	$199,141,906
Other capital assets:				
Infrastructure				$56,878,739
Less accumulated depreciation	($1,274,327)			(21,732,975)
Total infrastructure	(1,274,327)	NONE	NONE	35,145,764
Land improvements	984,452	$3,772,848	($102,853)	67,832,340
Less accumulated depreciation	(1,724,495)		102,853	(44,548,569)
Total land improvements	(740,043)	3,772,848	NONE	23,283,771
Buildings	43,367,302	37,791,187	(7,719,300)	1,551,813,353
Less accumulated depreciation	(36,737,446)		1,588,100	(808,282,452)
Total buildings	6,629,856	37,791,187	(6,131,200)	743,530,901
Equipment	73,456,501		(50,285,241)	777,024,533
Less accumulated depreciation	(64,138,186)		42,916,378	(525,645,737)
Total equipment	9,318,315	NONE	(7,368,863)	251,378,796
Library books	8,603,760		(623,618)	203,409,254
Less accumulated depreciation	(9,255,520)		578,515	(185,415,807)
Total library books	(651,760)	NONE	(45,103)	17,993,447
Total other capital assets	$13,282,041	$41,564,035	($13,545,166)	$1,071,332,679
Capital asset summary:				
Capital assets not being depreciated	$55,725,117	($47,303,294)		$199,141,906
Other capital assets, at cost	126,412,015	41,564,035	($58,731,012)	2,656,958,219
Total cost of capital assets	182,137,132	(5,739,259)	(58,731,012)	2,856,100,125
Less accumulated depreciation	(113,129,974)	NONE	45,185,846	(1,585,625,540)
Capital assets, net	$69,007,158	($5,739,259)	($13,545,166)	$1,270,474,585

The prior period adjustments represent corrections of errors in recorded capital assets from prior years and for the change in capitalization policies for hospitals as described in note 1-H. As discussed in note 6, certain capital assets were idle at year-end.

COMPONENT UNITS

	Balance June 30, 2005	Prior Period Adjustment	Restated Balance June 30, 2005
Capital assets not being depreciated:			
Land	$6,991,409	$258,573	$7,249,982
Capitalized collections	6,065,623		6,065,623
Construction-in-progress	34,843,037		34,843,037
Total capital assets not being depreciated	$47,900,069	$258,573	$48,158,642
Other capital assets:			
Infrastructure	$214,460		$214,460
Less accumulated depreciation	(22,414)		(22,414)
Total infrastructure	192,046	NONE	192,046
Land improvements	2,416,681	($267,206)	2,149,475
Less accumulated depreciation	(218,106)	(48,093)	(266,199)
Total land improvements	2,198,575	(315,299)	1,883,276
Buildings	183,028,473	3,189	183,031,662
Less accumulated depreciation	(15,757,595)	48,095	(15,709,500)
Total buildings	167,270,878	51,284	167,322,162
Equipment	29,300,556	(58)	29,300,498
Less accumulated depreciation	(23,256,654)		(23,256,654)
Total equipment	6,043,902	(58)	6,043,844
Total other capital assets	$175,705,401	($264,073)	$175,441,328
Capital asset summary:			
Capital assets not being depreciated	$47,900,069	$258,573	$48,158,642
Other capital assets, at cost	214,960,170	(264,075)	214,696,095
Total cost of capital assets	262,860,239	(5,502)	262,854,737
Less accumulated depreciation	(39,254,769)	2	(39,254,767)
Capital assets, net	$223,605,470	($5,500)	$223,599,970

COMPONENT UNITS

	Additions	Transfers	Retirements	Balance June 30, 2006
Capital assets not being depreciated:				
Land	$100,000			$7,349,982
Capitalized collections	1,669,572		($40,372)	7,694,823
Construction-in-progress	65,820,635	($72,356,638)	(802,277)	27,504,757
Total capital assets not being depreciated	$67,590,207	($72,356,638)	($842,649)	$42,549,562
Other capital assets:				
Infrastructure				$214,460
Less accumulated depreciation	($19,205)			(41,619)
Total infrastructure	(19,205)	NONE	NONE	172,841
Land improvements			($372,838)	1,776,637
Less accumulated depreciation	(67,881)		101,646	(232,434)
Total land improvements	(67,881)	NONE	(271,192)	1,544,203
Buildings	2,132,367	$72,356,638	(1,394,584)	256,126,083
Less accumulated depreciation	(4,337,292)		227,334	(19,819,458)
Total buildings	(2,204,925)	72,356,638	(1,167,250)	236,306,625
Equipment	438,532		(3,828,354)	25,910,676
Less accumulated depreciation	(2,482,737)		2,116,969	(23,622,422)
Total equipment	(2,044,205)	NONE	(1,711,385)	2,288,254
Total other capital assets	($4,336,216)	$72,356,638	($3,149,827)	$240,311,923
Capital asset summary:				
Capital assets not being depreciated	$67,590,207	($72,356,638)	($842,649)	$42,549,562
Other capital assets, at cost	2,570,899	72,356,638	(5,595,776)	284,027,856
Total cost of capital assets	70,161,106	NONE	(6,438,425)	326,577,418
Less accumulated depreciation	(6,907,115)	NONE	2,445,949	(43,715,933)
Capital assets, net	$63,253,991	NONE	($3,992,476)	$282,861,485

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

In November 1993, the University of New Orleans (UNO) Foundation acquired by donation a 120,000 square foot office building located in downtown New Orleans valued at approximately $2.4 million. The building was subsequently upgraded to house the UNO Technology Enterprise Center. Before Hurricane Katrina, which struck the metropolitan area in August 2005, the university and other state agencies occupied approximately 78% of the building, nonprofits occupied 3%, and small and/or minority businesses occupied the remaining 19% in a business incubator for new and growing businesses. As a result of hurricane-related damages, the building was vacant for most of fiscal year 2006 and is not expected to reopen until some time in fiscal year 2007. All repairs are expected to be funded by insurance.

On December 30, 1994, the Foundation purchased a complex of buildings in the Lee Circle area of downtown New Orleans from a private company. The properties were purchased for $3.2 million, which was entirely financed by a local bank. The seller of the properties is leasing back a portion of the available space to use as corporate offices for $32,522 per month through 2019, periodically adjusted for increases or decreases in the prevailing rate of a five-year treasury note. Most of the remainder of the property will be used for the Ogden Museum of Southern Art (Museum) and to support the teaching mission of the UNO Fine Arts Department. A capital campaign is being conducted to raise the necessary funds to complete development of these properties by the Ogden Museum of Southern Art, Inc., a separate 501(c)3 corporation created to operate and support the Museum. During September 2004, the Foundation amended a lease agreement related to its Lee Circle properties and received an advance lease payment of $600,000 with the understanding that title to the property would transfer to the lessee at some time before 2014. As a result of the terms, the advance lease payment has been characterized as a sale for financial reporting purposes during the fiscal year ended June 30, 2005.

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

The Patrick F. Taylor Memorial Library phase of the Ogden Museum is being financed with private funds. Through June 30, 2006, the Foundation had expended $3,582,170 in construction related costs to renovate this historic building. Work on the renovation was suspended in 2003 to allow for securing additional private funding to complete the project. A separate board to govern the Ogden Museum (the Museum Board) is functioning and the Foundation is no longer funding or operating the Museum. The Foundation intends to make Taylor Library available to the Museum Board for completion of renovations by the Museum Board. As a result of delays in obtaining additional contributions to fund improvements and further delays because of Hurricane Katrina, which caused the Ogden Museum to suspend operations for approximately six months, no additional expenditures have been made on the Taylor Library since 2003, nor has it been placed in service. Despite its incomplete status, management of the Foundation believes there is no impairment in the carrying value of the Taylor Library.

In December 1996, an act of donation was executed whereby a collection of artwork was donated to the UNO Foundation contingent on completion of an appropriate museum structure to showcase the artwork. The donor is to maintain custody of the artwork until the Ogden Museum is completed. The donor agreed to maintain insurance against loss or damage of the artwork, designating the UNO Foundation as the named insured. A significant portion of the donor's artwork has been loaned to the Museum for display in the Goldring Hall portion of the Museum. In 2004, the UNO Foundation and the donor modified their understanding to clarify that the remainder of the artwork would be donated and title would be transferred by fiscal year 2007, assuming that the Taylor Library has been completed by that time and the tunnel connecting the Taylor Library to Goldring Hall is then operational. As of June 30, 2006, the fair value of the artwork has not been established and the Taylor Library remains incomplete. Because of no formal documentation of the artwork's value being provided, no amount has been recorded in the financial statements related to this proposed gift.

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

In July 2001, the UNO Foundation purchased the land and building of the University of New Orleans Studio Center from a private company. The properties were purchased for approximately $1.8 million, which was entirely financed through the issuance of bonds. The UNO Foundation has entered into a cooperative endeavor agreement with the university, whereby the university reimburses the UNO Foundation approximately $200,000 annually for the use of the Studio Center.

In August 2005, the UNO Foundation acquired by donation a 73,152 square foot warehouse valued at approximately $1.5 million located near the University of New Orleans Studio Center. The donor donated one-half of the warehouse to the UNO Foundation and irrevocably pledged the transfer and donation of the other half of the warehouse to the UNO Foundation at the end of the lease term, which is August 2010, or the passing of the donor, whichever is earlier. The UNO Foundation will lease from the donor one-half of the warehouse for five years for a nominal amount. As of June 30, 2006, one-half of the donation was recorded as unrestricted contribution and the remaining half of the donation was recorded as a temporarily restricted contribution because of the donor-imposed stipulation that expires with the passage of time.

At June 30, 2006, real estate held for investment, development, or sale consists of the following:

Technology Enterprise Center	$2,901,269
Film Studio Center	4,775,976
Lee Circle Properties:	
Taylor Library - construction-in-progress	3,582,170
Land and commercial buildings	1,719,700
Total	12,979,115
Less accumulated depreciation	(1,777,121)
Total	$11,201,994

6. IMPAIRMENT OF CAPITAL ASSETS

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. It establishes accounting and financial reporting standards for impairment of capital assets. It requires evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss.

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Hurricanes Katrina and Rita destroyed several buildings including the largest HCSD hospital (the Medical Center of Louisiana at New Orleans), which management believes cannot be repaired for use as a medical facility. Many of these buildings were old and largely depreciated.

The loss of carrying value on capital assets considered impaired is as follows:

Type of Asset	Amount of Impairment Loss Before Insurance Recovery	Indication of Impairment	Insurance Recovery in the Same Fiscal Year	Reason for Impairment
Buildings	$6,122,581	Physical damage	$3,940,954	Hurricanes
Movable property	4,688,185	Physical damage		Hurricanes
Total	$10,810,766		$3,940,954	

The carrying amount of impaired capital assets idle at year-end is disclosed, regardless of whether the impairment is considered permanent or temporary. The following is the carrying value of capital assets idle at the end of the fiscal year.

Type of Asset	Carrying Value
Buildings	$30,437,410
Movable property	15,518,673
Total	$45,956,083

7. DISAGGREGATION OF ACCOUNTS PAYABLE

Accounts payable at June 30, 2006, were as follows:

Activity	Amount
Vendors	$99,776,835
Salaries and benefits	59,517,894
Accrued interest	152,487
Uncompensated care payable	159,297,738
Other payables	5,329,094
Total	$324,074,048

8. PENSION PLANS

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

Funding Policy. The contribution requirements of employee plan members and the university system are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.0% (TRSLA) and 7.5% (LASERS) of covered salaries. In fiscal year 2006, the state contributed 15.9% of covered salaries to TRSLA and 19.1% 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, 2006, 2005, and 2004, were $32,228,751; $31,683,189; and $25,864,416, respectively, and to LASERS for the years ended June 30, 2006, 2005, and 2004, were $80,129,472; $85,757,783; and $74,606,740, respectively, equal to the required contributions for each year.

Optional Retirement System

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

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

Total contributions by the university system are 15.9% of the covered payroll. The participant's contribution (8.0%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the actuarial committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligations of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled $52,117,206 and $27,355,245, respectively, for the year ended June 30, 2006.

9. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The university system provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university system’s employees become eligible for these benefits if they reach normal retirement age while working for the university system.

These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program, as well as the Definity Health Plan and various insurance companies whose monthly premiums are paid jointly by the employee and the university system. The university system recognizes the cost of providing these benefits to retirees (university's portion of premiums) as an expense when paid during the year. These retiree benefits for 6,464 retirees totaled $34,335,210 for the year ended June 30, 2006.

10. 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 11 lawsuits that are handled by contract attorneys at June 30, 2006. The attorneys have estimated a possible liability of $1,386,898 relating to eight of the lawsuits of which $240,000 has been accrued in the accompanying financial statements. The amount accrued relates to a lawsuit filed by a former employee against both the LSU Health Sciences Center in New Orleans and the Teachers' Retirement System of Louisiana seeking to have all supplemental compensation received by the employee be considered part of the average monthly compensation for purposes of retirement and other Deferred Retirement Option Program benefits. This case is under appeal. All other lawsuits are handled by either the Office of Risk Management or the Attorney General's Office.

In addition, the university is exposed to various risks of losses related to the self-insured and self-funded Definity Health Plan, which provides health insurance benefits to active and retired university employees and which began as a pilot program for the fiscal year ended June 30, 2003. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. According to the requirements of GASB Statement No. 10, as amended by Statements 17 and 30, total claims expenditures were $57,626,031. Changes in the reported liability since June 30, 2003, resulted from the following:

	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Recoveries From Settled and Unsettled Claims	Balance at Fiscal Year-End
2003-04	$2,573,000	$45,241,320	$40,460,482	$2,219,748	$5,134,090
2004-05	5,134,090	58,352,153	52,129,483	3,423,913	7,932,847
2005-06	7,932,847	60,932,795	57,626,031	2,539,611	8,700,000

CONTINGENCIES - COMPONENT UNITS

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

11. COMPENSATED ABSENCES

At June 30, 2006, employees of the university have accumulated and vested annual, sick, and compensatory leave benefits of $82,665,163; $31,214,255; and $5,446,659, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

12. OPERATING LEASES

For the year ended June 30, 2006, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed, is $12,104,140. 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, 2006:

Nature of Operating Lease	2007	2008	2009	2010	2011	2012-2016	2017-2021	Total Minimum Payments Required
Office space	$6,982,734	$4,228,819	$4,007,688	$3,858,862	$3,775,425	$14,926,274	$742,800	$38,522,602
Equipment	2,968,190	2,074,362	560,679					5,603,231
Other	1,843,891	1,637,442	1,578,089	1,137,429	704,267	1,959,731		8,860,849
Total	$11,794,815	$7,940,623	$6,146,456	$4,996,291	$4,479,692	$16,886,005	$742,800	$52,986,682

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

OPERATING LEASES - COMPONENT UNITS

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

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

The terms of the sub-lease agreement during the first 12 years (1997-2008) provides for Avondale Industries, Inc., to pay as rental the sum of $100,000 per year by September 1 of each year provided that the state has made the annual appropriation provided for in the Cooperative Endeavor Agreement (note 25). Beginning September 1, 2009, and for each year thereafter during the term of the sub-lease, rent for $100,000 is due and payable by September 1 of each year without regard to the state appropriation.

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

13. LESSOR LEASES

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

The following schedule provides an analysis of the cost and carrying amount of the university system's investment in property on operating leases and property held for lease as of June 30, 2006:

Nature of Lease	Cost	Accumulated Depreciation	Carrying Amount
Office space	$13,725,372	($7,951,833)	$5,773,539
Land	6,324,221		6,324,221
Total	$20,049,593	($7,951,833)	$12,097,760

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2006:

Fiscal Year Ending June 30,	Nature of Lease: Office Space	Land	Other	Total
2007	$1,731,452	$155,730	$112,367	$1,999,549
2008	336,216	155,730	82,446	574,392
2009	241,176	155,729	35,890	432,795
2010	157,694	90,479	27,399	275,572
2011	108,370	90,479		198,849
2012-2016	541,850	451,394		993,244
2017-2021	541,850	413,585		955,435
2022-2026	106,000	209,570		315,570
2027-2031		164,490		164,490
2032-2036		164,490		164,490
2037-2041		164,490		164,490
2042-2046		162,021		162,021
2047-2051		157,500		157,500
2052-2056		98,747		98,747
Total	$3,764,608	$2,634,434	$258,102	$6,657,144

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 $457,171 for the year ended June 30, 2006.

14. LONG-TERM LIABILITIES

The following is a summary of bond and other long-term debt transactions of the university for the year ended June 30, 2006:

University

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Notes and bonds payable:					
Notes payable	$45,676,942	$12,943,428	$13,902,150	$44,718,220	$15,577,952
Bonds payable	228,385,000		9,815,000	218,570,000	10,120,000
Subtotal	274,061,942	12,943,428	23,717,150	263,288,220	25,697,952
Other liabilities:					
Compensated absences payable	127,773,260	23,864,852	32,312,035	119,326,077	9,162,074
Capital lease obligations	65,438,107	1,177,885	4,414,802	62,201,190	3,972,651
Claims and litigation payable		240,000		240,000	
Amounts held in custody for others	6,762,937	67,670,106	67,708,748	6,724,295	6,724,295
Subtotal	199,974,304	92,952,843	104,435,585	188,491,562	19,859,020
Total long-term liabilities	$474,036,246	$105,896,271	$128,152,735	$451,779,782	$45,556,972

Component Units

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Notes and bonds payable:					
Notes payable	$15,913,275		$2,462,919	$13,450,356	$4,323,009
Bonds payable	199,839,000	$5,345,000	8,566,000	196,618,000	6,606,494
Subtotal	215,752,275	5,345,000	11,028,919	210,068,356	10,929,503
Other liabilities:					
Compensated absences payable	117,506	23,900		141,406	141,406
Capital lease obligations	785,920		31,123	754,797	21,800
Amounts held in custody for others	87,689,048	12,505,243	893,019	99,301,272	4,239,999
Subtotal	88,592,474	12,529,143	924,142	100,197,475	4,403,205
Total long-term liabilities	$304,344,749	$17,874,143	$11,953,061	$310,265,831	$15,332,708

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, 2006:

Balance at July 1, 2005	$45,676,942
Installment purchases in 2006	12,943,428
Installment payments in 2006	(13,902,150)
Installment notes payable at June 30, 2006	$44,718,220

The following is a summary of future minimum installment payments as of June 30, 2006:

Fiscal Year Ending June 30:	
2007	$17,296,055
2008	12,266,037
2009	7,858,916
2010	7,755,168
2011	2,207,599
2012-2016	1,238,357
2017-2021	876,498
Total minimum installment payments	49,498,630
Less - amount representing interest	(4,780,410)
Total	$44,718,220

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

Included in the installment purchase agreements, the university system has entered into loan agreements with the Louisiana Public Facilities Authority (LPFA) on October 31, 1988. The LPFA loan agreement totaling $28,500,000 is for financing, refinancing, or reimbursing the cost of facilities; improvements and expansions of the LSU Athletic Department; construction of the Student Recreation Sports Center for LSU; improvements for parking and safety at LSU; improvements to residential life facilities ($26,200,000); additions to the parking garage at the LSU Health Sciences Center in New Orleans ($1,000,000); and building a child care center at the University of New Orleans ($1,300,000). The loan repayments are payable from the fees, rates, rentals, charges, grants, or other receipts or income derived by or in connection with the facilities, equipment, and improvements. According to terms of the loan agreement, the university system is to repay principal and interest on the obligation on the 28th day of each month for 20 years commencing August 28, 1991. The university system made principal payments during the year totaling $1,851,951. At June 30, 2006, the outstanding balance is $9,346,062, which is included in installment notes payable.

NOTES PAYABLE - COMPONENT UNITS

The component units have entered into a number of notes payable agreements for various purposes. These agreements require scheduled payments either on a monthly, semiannual, or annual basis with interest rates ranging from zero to 7.50%. The following is a summary of notes payable by component unit as of June 30, 2006:

Component Unit	Principal Outstanding June 30, 2005	Redeemed	Principal Outstanding June 30, 2006
Tiger Athletic Foundation*	$4,131,337	($1,156,001)	$2,975,336
UNO Foundation	3,544,219	(616,050)	2,928,169
UNO Research and Technology Foundation	8,237,719	(144,926)	8,092,793
Total	$15,913,275	($1,916,977)	$13,996,298

* For the year ended December 31, 2005

Certain debt of the Pennington Medical Foundation that was reported as part of notes payable in prior years was reevaluated and determined to be bonds payable but previously reported as notes payable in error. The balance, totaling $40,175,000 at December 31, 2004, was removed from notes payable and reported as bonds payable for the year ended December 31, 2005.

The unamortized discount relative to the note payable for the UNO Research and Technology Foundation totaled $545,942 at June 30, 2006, which is reported by the foundation as a reduction of the note payable. Notes payable totaling $13,450,356 for all discrete component units are reflected on Statement B.

The following is a summary of future minimum installment payments, net of unamortized discount for the component units as of June 30, 2006:

Fiscal Year Ending June 30:	
2007	$4,416,759
2008	1,589,118
2009	681,425
2010	287,801
2011	302,553
2012-2016	1,669,430
2017-2021	1,891,565
2022-2026	2,611,705
Total	$13,450,356

Bonds and Contracts Payable - System

Detailed summaries, by issues, of all bond and reimbursement contract debt outstanding at June 30, 2006, including future interest payments of $92,711,215 for LSU; $17,441,794 for the LSU Health Sciences Center in New Orleans; $16,440,199 for the University of New Orleans; and $10,554,294 for LSU at Eunice follow:

Bonds Payable

Issue	Date of Issue	Original Issue	Outstanding July 1, 2005
LSU			
Student Housing System Bonds - 1966:			
Series B	July 1, 1966	$2,175,000	$95,000
Series C	July 1, 1966	1,250,000	15,000
1968 - Series B	July 1, 1968	1,275,000	60,000
2000 Auxiliary Revenue Bonds	June 28, 2000	27,000,000	25,450,000
2002 Auxiliary Revenue Bonds	October 3, 2002	11,435,000	11,165,000
2004 Auxiliary Revenue Refunding Bonds	April 6, 2004	16,035,000	16,035,000
2004 Auxiliary Revenue Bonds - Series B	October 26, 2004	51,885,000	51,820,000
2005 (Series A and B) Auxiliary Revenue Refunding Bonds	June 2, 2005	41,840,000	40,225,000
LSU Health Sciences Center			
New Orleans - Building Revenue Bonds - Series 2000	January 1, 2000	15,910,000	14,815,000
Health Care Services Division - Revenue Bonds, Series 2002	December 1, 2002	36,600,000	28,350,000
University of New Orleans			
Revenue Bonds of 1997 - Series A	January 15, 1997	5,965,000	280,000
Revenue Bonds of 1998	August 15, 1998	15,915,000	14,975,000
Revenue Bonds of 2004 - Series A	June 17, 2004	9,440,000	8,590,000
Revenue Bonds of 2004 - Series B	October 19, 2004	8,480,000	8,265,000
LSU at Eunice			
1998 Auxiliary Revenue Bonds	June 1, 1998	1,650,000	1,245,000
2002 Auxiliary Revenue Bonds	January 17, 2002	7,000,000	7,000,000
Total Bonds Payable		$253,855,000	$228,385,000

Defeased Bonds

In prior years, the university advance refunded the following bonds, which are considered defeased in substance and not included in the financial statements:

Issue	Outstanding at June 30, 2006
LSU	
1996 Revenue Bonds	$29,559,500
1997 Auxiliary Revenue Bonds	4,415,000
Total	$33,974,500

Bonds Payable

Issue	Redeemed	Outstanding June 30, 2006	Maturities	Interest Rates	Future Interest Payments June 30, 2006
LSU					
Student Housing System Bonds - 1966:					
Series B	$95,000			3%	
Series C	15,000			3%	
1968 - Series B	55,000	$5,000	2007-2008	3%	$150
2000 Auxiliary Revenue Bonds	650,000	24,800,000	2007-2030	Variable	21,450,000
2002 Auxiliary Revenue Bonds	60,000	11,105,000	2007-2032	Variable	9,520,966
2004 Auxiliary Revenue Refunding Bonds	1,305,000	14,730,000	2005-2015	4.0% - 5.25%	3,987,175
2004 Auxiliary Revenue Bonds - Series B	235,000	51,585,000	2007-2030	2.0% - 5.25%	41,529,092
2005 (Series A and B) Auxiliary Revenue Refunding Bonds	1,370,000	38,855,000	2007-2034	3% - 5%	16,223,832
LSU Health Sciences Center					
New Orleans - Building Revenue Bonds - Series 2000	255,000	14,560,000	2007-2031	5%	14,756,044
Health Care Services Division - Revenue Bonds, Series 2002	4,300,000	24,050,000	2007-2011	3.12%	2,685,750
University of New Orleans					
Revenue Bonds of 1997 - Series A	135,000	145,000	2007	3.75% - 5.65%	7,250
Revenue Bonds of 1998	300,000	14,675,000	2007-2031	3.9% - 5%	10,940,844
Revenue Bonds of 2004 - Series A	835,000	7,755,000	2007-2014	3% - 4.125%	1,418,275
Revenue Bonds of 2004 - Series B	135,000	8,130,000	2007-2026	3% - 4.67%	4,073,830
LSU at Eunice					
1998 Auxiliary Revenue Bonds	70,000	1,175,000	2007-2018	5%	416,250
2002 Auxiliary Revenue Bonds		7,000,000	2007-2033	7.35%	10,138,044
Total Bonds Payable	$9,815,000	$218,570,000			$137,147,502

BONDS PAYABLE - COMPONENT UNITS

Issue	Date of Issue	Original Issue	Outstanding July 1, 2005	Issued
LSU Foundation				
Pooled Loan Program Revenue Bonds,				
Series 2003A	April 1, 2003	$12,725,000	$12,725,000	
The Foundation for the LSU Health Sciences Center				
Equipment and Capital Facilities Pooled Loan				
Program Revenue Bonds, Series 2002A	January 1, 2002	2,035,000	1,970,000	
University of New Orleans Foundation				
Regions Bank Bonds	July 11, 2001	2,000,000	1,724,000	
UNO Research and Technology Foundation				
Louisiana Local Government Environmental Facilities				
and Community Development Authority	October 20, 1999	24,950,000	4,735,000	
Tiger Athletic Foundation*				
Revenue Bonds, Series 1999	March 4, 1999	43,575,000	43,575,000	
Revenue Bonds, Series 2001	July 26, 2001	10,200,000	4,935,000	
Revenue Bonds, Series 2004	March 23, 2004	90,000,000	90,000,000	
Pennington Medical Foundation*				
Series 2001 Bonds	April 1, 2001	40,815,000	40,175,000	
Series 2005 Bonds	July 1, 2005	5,345,000		$5,345,000
Total Bonds Payable		$231,645,000	$199,839,000	$5,345,000

*As of January 1 and December 31, 2005

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

The Foundation for the LSU Health Sciences Center (the foundation) financed the renovation of a building (2000 Tulane Avenue) purchased on May 15, 2003, with bond proceeds of $2,035,000 over a 20-year period through the LPFA Capital Facilities Pool Program. The bond issue is supported by a bank letter of credit. The foundation’s ability to service this debt will be based on its ability to raise funds and earn other revenue from lease payments from the occupants. The building was heavily damaged by Hurricane Katrina on August 29, 2005. The roof has been replaced and the building has been gutted. It remains unoccupied and the foundation has not yet determined when it will be renovated. The foundation has budgeted future reductions in certain expenditures and foundation management believes it will be able to meet this obligation even with the loss of the rental income from the building.

BONDS PAYABLE - COMPONENT UNITS

Issue	Redeemed	Outstanding June 30, 2006	Maturities	Interest Rates	Future Interest Payments June 30, 2006
LSU Foundation					
Pooled Loan Program Revenue Bonds,					
Series 2003A	$155,000	$12,570,000	2007-2026	4.88%	$4,183,590
The Foundation for the LSU Health Sciences Center					
Equipment and Capital Facilities Pooled Loan					
Program Revenue Bonds, Series 2002A	70,000	1,900,000	2007-2024	variable	
University of New Orleans Foundation					
Regions Bank Bonds	106,000	1,618,000	2007-2017	5.3%-7.5%	516,275
UNO Research and Technology Foundation					
Louisiana Local Government Environmental Facilities					
and Community Development Authority	3,945,000	790,000	2007	5%	18,763
Tiger Athletic Foundation*					
Revenue Bonds, Series 1999		43,575,000	2010-2028	variable	
Revenue Bonds, Series 2001	2,135,000	2,800,000	2006-2011	variable	
Revenue Bonds, Series 2004	1,465,000	88,535,000	2006-2033	variable	
Pennington Medical Foundation*					
Series 2001 Bonds	690,000	39,485,000		3%	34,699,544
Series 2005 Bonds		5,345,000		2.7%	2,762,235
Total Bonds Payable	$8,566,000	$196,618,000			$42,180,407

The unamortized bond issuance costs for the foundation totaled $28,636 at June 30, 2006, which is reported by the foundation as a reduction of the bonds payable. The bond proceeds were used to finance the renovation of the new building. Bond proceeds available at June 30, 2006, are held by the trustee in restricted cash accounts. Restricted cash at June 30, 2006, totaled $100,396. Principal payments of $70,000 were made on the bond in the year ended June 30, 2006. Interest was paid on the bonds for $59,878 for the fiscal year ended June 30, 2006. Bonds payable totaling $196,589,364 for all discrete component units are reflected on Statement B.

The annual requirements to amortize all university bonds outstanding at June 30, 2006, are presented in the following schedule. The schedule uses rates as of June 30, 2006, for debt service requirements of the variable-rate bonds and interest rate swap payments, assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year	Interest Rate Swap (Note 15)	Principal	Interest	Total
2007	($94,966)	$10,120,000	$10,325,911	$20,350,945
2008	(94,966)	11,430,000	9,916,012	21,251,046
2009	(94,966)	11,905,000	9,453,900	21,263,934
2010	(94,966)	12,440,000	8,920,856	21,265,890
2011	(94,966)	12,805,000	8,355,110	21,065,144
2012-2016	(468,309)	39,275,000	35,491,040	74,297,731
2017-2021	(335,435)	33,195,000	26,843,440	59,703,005
2022-2026	(131,155)	40,790,000	18,234,306	58,893,151
2027-2031	(26,252)	34,320,000	8,391,018	42,684,766
2032-2036	(3,375)	12,290,000	1,215,909	13,502,534
Total	($1,439,356)	$218,570,000	$137,147,502	$354,278,146

The annual requirements to amortize all component unit bonds outstanding at June 30, 2006, are as follows:

Fiscal Year	Principal	Interest*	Total
2007	$6,606,494	$1,656,015	$8,262,509
2008	3,656,395	2,694,719	6,351,114
2009	3,257,395	2,661,571	5,918,966
2010	3,699,395	2,624,764	6,324,159
2011	5,316,395	2,552,360	7,868,755
2012-2016	30,114,975	11,518,434	41,633,409
2017-2021	36,469,975	9,044,269	45,514,244
2022-2026	44,816,976	6,221,271	51,038,247
2027-2031	45,120,000	3,106,825	48,226,825
2032-2036	17,560,000	100,178	17,660,178
Total	$196,618,000	$42,180,406	$238,798,406

*Excludes floating interest rate amounts for Tiger Athletic Foundation Revenue Bond Series 1999, Series 2001, and Series 2004 as well as for the Foundation for the LSU Health Sciences Center Equipment and Capital Facilities Pooled Loan Program Revenue Bonds, Series 2002A.

The following is a summary of the system debt service reserve requirements of the various bond issues at June 30, 2006:

Bond Issue	Cash/ Investment Reserves Available	Reserve Requirement	Excess
Auxiliary Plant:			
LSU	$7,700	$5,150	$2,550
University of New Orleans	152,250	152,250	
Total	$159,950	$157,400	$2,550
Educational Plant -			
LSU Health Sciences Center -			
Health Care Services Division	$3,660,000	$3,660,000	
Total	$3,660,000	$3,660,000	NONE

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

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

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

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

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

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

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

As permitted by the Bond Resolution for the Revenue and Refunding Bonds, (UNO 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, 2006:

Fiscal Year Ending June 30:	
2007	$6,959,643
2008	6,707,530
2009	5,604,958
2010	5,253,127
2011	5,083,678
2012-2016	25,622,078
2017-2021	24,309,313
2022-2026	12,699,900
Total minimum lease payments	92,240,227
Less - amount representing interest	(30,039,037)
Present value of net minimum lease payments	$62,201,190

15. INTEREST RATE SWAP AGREEMENT

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

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

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

Fair value: The fair value of the swap agreement as of June 30, 2006, which is not reported in the financial statements, was $1,247,914 in favor of LSU. The fair value was provided by Deutsche Bank.

Credit risk: Credit risk is the risk that a counterparty will not fulfill its obligations. At June 30, 2006, the university was exposed to credit risk in the amount of the derivative's fair value because the fair value of the swap was in the university's favor. However, should interest rates change and the fair value of the swap become in the bank's favor, the university would not be exposed to credit risk. Deutsche Bank was rated "Aa3" by Moody's Investors Service and "AA-" by Standard & Poor's as of June 30, 2006. To mitigate the potential for credit risk, the swap agreement includes provisions for collateral thresholds and transfer amounts that correspond to the credit rating of the swap counterparty's senior unsecured debt and rating.

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

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

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

16. DUE FROM STATE TREASURY

As shown on Statement A, the university system has a total of $38,160,185 (net) due from the state treasury at June 30, 2006. This amount consists of the following:

Description	Due (to)/from
State appropriations	$7,776,875
Tobacco Tax funds	4,731,194
HCSD - DHH Funds (Medicaid and WIC)	25,811,146
Higher Education Initiatives	92,163
Self-Generated Funds - Direct Judgment Settlement	103,920
Refund from prior year orders	(10,715)
Unclaimed property	(145,675)
Unexpended appropriation - current year	(82,974)
Unexpended appropriation - prior year	(89,386)
Recovery of accounts previously written off	(2,685)
Other - Overdrawn State Direct	(23,678)
Total	$38,160,185

17. RESTRICTED NET ASSETS

The university system's restricted nonexpendable net assets of $144,253,939 as of June 30, 2006, are comprised entirely of endowment funds.

The university system had the following restricted expendable net assets as of June 30, 2006:

Restricted Expendable Net Assets

Account Title	Amount
Student fees	$9,160,831
Grants and contracts	24,485,254
Gifts	10,801,808
Endowment earnings	25,246,104
Auxiliary enterprises	17,833,091
Student loan fund	37,694,300
Capital construction	22,559,359
Debt service	3,402,280
Other	19,501,540
Total	$170,684,567

Of the total restricted net assets reported on Statement A for the year ended June 30, 2006, a total of $3,216,253 is restricted by enabling legislation.

RESTRICTED NET ASSETS - COMPONENT UNITS

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

	LSU Foundation	Tiger Athletic Foundation*	UNO Foundation
Temporarily restricted:			
Chairs and professorships	$37,796,574		
Scholarships and fellowships	20,493,662		$929,323
Specific academic and research projects	25,175,905		
Academic support	13,837,440		3,109,895
Capital outlay and improvements	25,786,247		
Research support	2,189,513		623,917
Institutional support	12,213,010		
Faculty - salary supplements			99,865
Donor restrictions		$8,598,868	
Restricted contributions receivable		8,295,964	
Restricted accounts payable		(19,542)	
Building funds			2,667,918
Educational Studies Program			1,090,626
Total temporarily restricted	$137,492,351	$16,875,290	$8,521,544

	LSU Foundation	Tiger Athletic Foundation*	UNO Foundation
Permanently restricted:			
Chairs and professorhips	$88,741,485		
Scholarships and fellowships	39,844,434		$3,024,195
Specific academic and research projects	21,372,904		1,606,628
Academic support	5,588,787		
Capital outlay and improvements	788,768		
Research support	1,576,264		12,163,615
Institutional support	3,368,089		
Endowment funds		$860,262	
Educational Studies Program			12,191,378
Faculty - salary supplements			2,541,465
Total permanently restricted	$161,280,731	$860,262	$31,527,281

*As of December 31, 2005

At December 31, 2005, the Pennington Medical Foundation reported no restricted net assets. At June 30, 2006, the UNO Research and Technology Foundation reports no restricted net assets.

At June 30, 2006, the LSU Foundation for the LSU Health Sciences Center has $17,266,477 in temporarily restricted net assets and $47,563,373 in permanently restricted net assets.

18. RESTATEMENT OF BEGINNING NET ASSETS

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

Net assets at June 30, 2005	$1,276,502,018
Capitalization of movable equipment - LSU	638,337
Capitalization of movable equipment - LSU Agricultural Center	20,266
Reimbursement from LSU Foundation for purchase of a bus - LSU	42,630
Capitalization of donated equipment - PBRC	57,900
Prior year depreciation - LSUHSC at Shreveport	(338,409)
Depreciation on completed capital assets - LSUHSC at Shreveport	(44,269)
Reclassify equipment - LSUHSC at Shreveport	(33,750)
Capital assets - LSUHSC in New Orleans	510,278
Net assets at July 1, 2005, restated	$1,277,355,001

19. FUNCTIONAL VERSUS NATURAL CLASSIFICATION OF EXPENSES

Function	Employee Compensation	Benefits	Utilities	Supplies and Services
Instruction	$339,903,062	$76,125,348	$142,807	$67,616,842
Research	163,877,321	39,643,695	2,328,632	83,904,378
Public service	161,282,533	25,152,371	1,017,837	94,602,739
Academic support	60,034,868	16,236,202	261,463	15,461,001
Student services	17,900,646	4,375,245	469,153	8,761,040
Institutional support	59,007,238	19,385,368	18,708	44,557,206
O & M of plant	36,343,077	10,635,130	27,791,599	33,831,897
Scholarships and fellowships				
Auxiliary enterprises	43,832,011	10,112,040	9,511,073	69,946,599
Hospital	436,856,793	111,542,505	14,668,256	380,448,641
Total operating expenses	$1,319,037,549	$313,207,904	$56,209,528	$799,130,343

20. FOUNDATIONS

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

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

Function	Scholarships and Fellowships	Depreciation	Compensated Absences	Total
Instruction		$13,271,975	($2,120,741)	$494,939,293
Research		13,840,330	(1,028,600)	302,565,756
Public service		3,101,510	1,984,027	287,141,017
Academic support		11,821,375	(72,373)	103,742,536
Student services		663,862	(116,051)	32,053,895
Institutional support		3,978,777	360,999	127,308,296
O & M of plant		30,769,800	11,283	139,382,786
Scholarships and fellowships	$40,843,026			40,843,026
Auxiliary enterprises		1,930,415	185,762	135,517,900
Hospital		33,749,734	(7,654,120)	969,611,809
Total operating expenses	$40,843,026	$113,127,778	($8,449,814)	$2,633,106,314

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

21. 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.

22. 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 C for fiscal year ended June 30, 2006, was $392,828. There were no on-behalf payments made as contributions to a pension plan for which the university is legally responsible.

23. IMPROVEMENTS TO PLANT ON BEHALF OF THE UNIVERSITY

Improvements at University of New Orleans

The UNO Research and Technology Foundation, a separate corporation created for or on behalf of the University of New Orleans, issued long-term debt instruments for research park improvements as follows:

Land improvements	$258,573
Building and Parking Garage - Navy Facilities	56,323,276
Building - Advanced Technology Center	9,004,555
Total	$65,586,404

The infrastructure improvements and the construction of facilities on land owned by the university and leased to the foundation were completely financed by the UNO Research and Technology Foundation through private lending and the sale of bonds through the LPFA, the Louisiana Local Government Environmental Facilities and Community Development Authority, and bank notes. The university leases the land to the UNO Research and Technology Foundation in accordance with terms outlined in the ground leases. The improvements are owned by the UNO Research and Technology Foundation but will revert to the university after 99 years, in November 2097, unless the ground lease is terminated earlier.

Expansion of Tiger Stadium

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

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

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

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

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

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

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

24. 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, 2006.

Auxiliary Enterprises	
Residential life	$27,713,483
Student union services, including bookstore	22,471,393
Student Health Center	6,671,907
Athletics	59,971,415
Golf course	1,335,939
Procurement auxiliary services	12,925,335
Contracted auxiliary services	1,803,875
Parking, traffic, and transportation	6,586,939
Health Sciences Center stores	7,860,621
LSU Press	2,487,197
Student media	1,731,511
Miscellaneous	2,139,055
Total	$153,698,670

25. COOPERATIVE ENDEAVOR AGREEMENTS

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

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

> Subject to an annual appropriation by the legislature, 42.8% of the monies collected under authority of R.S. 47:841(B)(4) in the fund shall be used solely for the purpose of providing funding for the Louisiana Cancer Research Center of LSU Health Sciences Center in New Orleans/Tulane Health Sciences Center, and 29.2% of monies collected under authority of R.S. 47:841(B)(4) shall be used solely for the purposes of funding for the creation of smoking prevention mass media programs and evidence-based tobacco control programs within the public hospital system and the public school system and community development programs directed at cessation among children and pregnant women and the screening, prevention, and treatment of tobacco use and dependence among individuals with diseases caused or exacerbated by tobacco use.

The funds are budgeted in Other Charges for flow through to the Louisiana Cancer Research Center via cooperative endeavor agreement. The Louisiana Cancer Research Center is responsible for spending the funds in accordance with the General Appropriations Act, Act 19 of the 2002 Regular Session, Act 41 of the First Extraordinary Session of 2002, and the terms and conditions of the cooperative endeavor. The two cooperative endeavor agreements will expire on June 30, 2010.

COOPERATIVE ENDEAVOR AGREEMENTS - COMPONENT UNIT

Tiger Athletic Foundation

In 1999, the Tiger Athletic Foundation (TAF) entered into a cooperative endeavor agreement with LSU that obligated TAF to acquire, construct, and maintain new scoreboards in LSU athletic venues at a total cost of approximately $5.2 million. In return for its fulfillment of this obligation, TAF was given an eight-year license to solicit certain qualified corporate sponsorship contracts. In connection with its issuance of the Series 2004 Revenue Bonds, LSU extended TAF's rights to solicit qualified corporate sponsorship contracts for a period of approximately 35 years. Effective July 1, 2005, TAF, with approval of LSU, entered into a ten-year lease agreement with Viacom Outdoor Advertising, Inc., d/b/a LSU Sports Properties, whereby TAF leased its rights to the scoreboards to Viacom in return for an annual guaranteed rental payment. The rent payment, which was $1.4 million in year one and will increase by $25,000 annually each year during the life of the lease agreement, is due in two equal installments payable in July and October of each year.

University of New Orleans/Avondale Maritime Technology Center of Excellence

General

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

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

Obligations

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

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

On or before September 1, 2006	$796,598

The Foundation shall submit to the State on or before November 1, documentation supporting the amount to be appropriated for the immediately following year in satisfaction of the State's obligation. On July 1, 2006, the Foundation submitted a request totaling $796,598 to the State's Department of Economic Development for the 2006 funding. Such amount was received in July 2006.

In addition, Avondale agreed that:

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

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

Louisiana Educational Television Authority

General

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

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

LETA made an initial payment of $500,000 to the UNO Research and Technology (UNOR&T) Foundation, through an appropriation by the State of Louisiana in 2001, for the development phase of the Teleplex. As of June 30, 2006, the UNOR&T Foundation has received a total of $2,500,000 from LETA to fund planning and development costs. WYES-TV and WLAE-TV have pledged to provide an aggregate of $3,000,000 toward the construction of the Teleplex and an aggregate $1,000,000 toward equipping the Teleplex as a joint obligation. During the year ended 2006, WLAE, one of the broadcast entities to the cooperative endeavor agreement for which the project was designed, withdrew from the Teleplex Project for programmatic and financial reasons. The UNOR&T Foundation consulted with the Louisiana Public Broadcasting (LPB) and LPB determined that the project was no longer feasible as conceived and designed because of the withdrawal of WLAE. After determining that all contractual obligations for design and testing of the project had been satisfied, the UNOR&T Foundation notified LPB that the project may be closed out and returned all of the unexpended funds to LPB. The total amount returned to the LPB totaled $1,682,600. The balance of the construction-in-progress account, which totaled $793,412, has also been written off during the year ended June 30, 2006.

26. AMOUNTS HELD IN CUSTODY FOR OTHERS - COMPONENT UNITS

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

Entity	LSU Foundation	Tiger Athletic Foundation*	Foundation for the LSU Health Sciences Center	UNO Foundation	UNO Research and Technology Foundation	Total
LSU at Alexandria Foundation	$8,260,406					$8,260,406
LSU at Eunice Foundation	1,158,781					1,158,781
State matching funds	55,366,237		$16,739,311	$13,490,755		85,596,303
Charitable remainder trusts	1,451,069					1,451,069
Coaches' escrow accounts		$1,039,963				1,039,963
Various affiliated organizations				1,743,746		1,743,746
Building tenant security deposits					$51,004	51,004
Total temporarily restricted	$66,236,493	$1,039,963	$16,739,311	$15,234,501	$51,004	$99,301,272

*As of December 31, 2005

27. RELATED PARTY TRANSACTIONS - COMPONENT UNIT

The Pennington Medical Foundation had architectural contracts for $396,808 with a trustee of the Foundation of which approximately $303,164 was incurred by December 31, 2005.

28. UNCONDITIONAL PROMISES TO GIVE - COMPONENT UNITS

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

	LSU Foundation	Tiger Athletic Foundation*	Foundation for the LSU Health Sciences Center	UNO Foundation
Promises to give expected to be collected in:				
Less than one year	$5,921,445	$2,574,604	$421,029	$533,500
One to five years	3,842,224		2,202,272	903,498
More than five years	6,000	7,877,842	666,791	200,000
Subtotal	9,769,669	10,452,446	3,290,092	1,636,998
Less discount on promises to give	(572,075)	(1,503,173)	(227,168)	(245,934)
Less allowance for uncollectible accounts	(181,668)	(653,309)	(1,151,531)	(194,375)
Subtotal	(753,743)	(2,156,482)	(1,378,699)	(440,309)
Net unconditional promises to give	$9,015,926	$8,295,964	$1,911,393	$1,196,689

*As of December 31, 2005

At December 31, 2005, and June 30, 2006, the Pennington Medical Foundation and the UNO Research and Technology Foundation report no unconditional promises to give. Total unconditional promises to give (current and noncurrent) of $20,419,972 are reported on Statement B.

29. SUBSEQUENT EVENTS

Louisiana State University and A&M College issued $97,095,000 of its auxiliary revenue bonds (Series 2006) that were approved on July 14, 2006, for the purpose of providing funds to finance the costs of the planning, acquisition, and construction of (a) renovations to and expansion of the student union; (b) a new men's baseball stadium; (c) a new women's softball stadium; (d) other athletic facilities and enhancements; and (e) surface and garage parking facilities.

30. HURRICANES KATRINA AND RITA

During August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these events and the resulting damages sustained by the state and LSU System facilities, it is unknown exactly what economic impact recovery efforts will have on state and local government operations. The Medical Center of Louisiana in New Orleans reopened its university campus facility in November 2006; however, the primary hospital remains closed.

HURRICANES KATRINA AND RITA - COMPONENT UNITS

Foundation for the LSU Health Sciences Center

On August 29, 2005, Hurricane Katrina caused catastrophic property damage to New Orleans. New Orleans was evacuated and, as a result, the Foundation for the LSU Health Sciences Center has temporarily relocated its operations. The Foundation for the LSU Health Sciences Center moved into a building owned by the LSU Health Sciences Center. The impact of the hurricane on the Foundation's future revenues and its operations has been considered by the Foundation for budgeting purposes and will not significantly affect the Foundation's future operations. In addition, uninsured losses to the Foundation's property and equipment have been recorded as of June 30, 2006.

UNO Foundation

On August 29, 2005, Hurricane Katrina struck the New Orleans metropolitan area causing unprecedented damages attributable to the storm and subsequent flooding because of the levee failures. The university curtailed operations at the beginning of the fall semester of 2005 and reopened from remote locations during the fall semester. The university moved back to the main campus in January 2006 albeit with a smaller student body. UNO Foundation staff were forced to vacate their offices and relocated out of the metropolitan area for several months. The repopulation of the metropolitan area has progressed slowly with authorities estimating in August 2006 that population in the metropolitan area approximated 80% of pre-Katrina levels. As a result of the disruption caused by the hurricane, both in terms of the UNO Foundation staffing and activities as well as the university's traditional benefactors and alumni, the pace of fundraising and development activities were severely impacted in fiscal year 2006.

Some of the UNO Foundation's properties were damaged as a result of the hurricane and related flooding. The properties are insured by the State of Louisiana Office of Risk Management and management expects to recover all of the cost of repairing the facilities and returning them to service. During the repair phase, no rents are being received on the properties and some tenants may ultimately be lost to relocation.

The material presented in this section is designed to provide the reader with additional information supporting the financial statements.

Combining Schedule of Net Assets, by University

Schedule 1 presents the current and long-term portions of assets and liabilities and net assets for each university within the LSU System. Included in Schedule 1 are amounts due to and due from the other campuses and the state treasury. While these due to and due from amounts have been reported at net or eliminated in the consolidated statements, they are shown when presenting individual campus financial information.

Combining Schedule of Revenues, Expenses, and Changes in Net Assets, by University

Schedule 2 presents information showing how the net assets of each university changed as a result of current year operations.

Combining Schedule of Cash Flows, by University

Schedule 3 presents information showing how each university's cash changed as a result of current year operations.

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Combining Schedule of Net Assets, by University
June 30, 2006

	Board and System Administration	Pennington Biomedical Research Center	LSU	LSU at Alexandria	LSU at Eunice	Paul M. Hebert Law Center	Agricultural Center
ASSETS							
Current assets:							
Cash and cash equivalents	$11,654,066	$6,670,917	$55,554,118	$1,531,626	$3,112,275	$1,983,946	$13,881,061
Investments	76,239	262,771	113,322,782	101,365	33,791	144,085	140,458
Receivables (net)	1,213,189	2,395,288	41,686,460	837,937	1,072,018	205,166	5,789,035
Due from other campuses			122,573				
Due from state treasury			7,000		92,163		641,379
Inventories		56,846	2,216,612		266,828		4,836,761
Deferred charges and prepaid expenses		8,150	2,134,921	12,721	2,820	14,890	75,827
Notes receivable (net)			3,686,861		72,587		
Other current assets			1,477,055				
Total current assets	12,943,494	9,393,972	220,208,382	2,483,649	4,652,482	2,348,087	25,364,521
Noncurrent assets:							
Restricted:							
Cash and cash equivalents		3,156	51,263,239	461,803	429,058	195,314	3,222,596
Investments		5,223,885	88,624,913	1,127,802	778,621	1,989,874	1,530,801
Receivables (net)			16,000	12,518			
Notes receivable (net)			10,093,851	1,870	471,975		
Other			6,857,866	177,369	16,188	63,359	1,025,175
Investments							
Other noncurrent assets							
Capital assets (net)	505,790	52,721,609	505,761,577	13,775,118	19,985,101	16,880,497	27,948,294
Total noncurrent assets	505,790	57,948,650	662,617,446	15,556,480	21,680,943	19,129,044	33,726,866
Total assets	13,449,284	67,342,622	882,825,828	18,040,129	26,333,425	21,477,131	59,091,387
LIABILITIES							
Current liabilities:							
Accounts payable and accruals	8,929,769	541,121	29,839,591	201,222	640,178	494,093	422,448
Due to other campuses			75,885,762				
Due to state treasury			35,080			(687)	
Deferred revenues		2,996,378	43,256,856	389,091	422,710	139,605	2,670,784
Amounts held in custody for others	110	24,068	3,484,421	31,841	38,679	122,007	36,211
Compensated absences payable	25,512	145,500	1,978,072	60,934	63,348	54,353	611,604
Capital lease obligations			667,814				
Notes payable			2,650,206				
Bonds payable			3,865,000		90,000		
Other current liabilities			1,477,055				
Total current liabilities	8,955,391	3,707,067	163,139,857	683,088	1,254,915	809,371	3,741,047

(Continued)

	University of New Orleans	LSU in Shreveport	LSU Health Sciences Center in New Orleans	LSU Health Sciences Center in Shreveport	Eliminations	Total
ASSETS (CONT.)						
Current assets:						
Cash and cash equivalents	$10,006,108	$4,784,992	$121,241,417	$98,501,698		$328,922,224
Investments		114,695	5,956,214	7,785,886		127,938,286
Receivables (net)	26,209,576	2,228,374	105,922,188	23,749,320		211,308,551
Due from other campuses			76,578,600		($76,701,173)	
Due from state treasury			36,525,688	1,249,068		38,515,298
Inventories	1,126,129	504,798	13,237,156	8,651,842		30,896,972
Deferred charges and prepaid expenses	267,414	578,086	280,838	336,307		3,711,974
Notes receivable (net)	835,878		2,118,041	394,026		7,107,393
Other current assets						1,477,055
Total current assets	38,445,105	8,210,945	361,860,142	140,668,147	(76,701,173)	749,877,753
Noncurrent assets:						
Restricted:						
Cash and cash equivalents	12,489,416	339,881	451,512	3,157,221		72,013,196
Investments	14,072,674	2,828,179	33,351,116	39,053,212		188,581,077
Receivables (net)	10,609					39,127
Notes receivable (net)	3,870,815		7,472,862	1,523,651		23,435,024
Other						8,139,957
Investments	15,229					15,229
Other noncurrent assets			3,705,615			3,705,615
Capital assets (net)	164,557,298	29,727,887	310,316,797	128,294,617		1,270,474,585
Total noncurrent assets	195,016,041	32,895,947	355,297,902	172,028,701	NONE	1,566,403,810
Total assets	233,461,146	41,106,892	717,158,044	312,696,848	(76,701,173)	2,316,281,563
LIABILITIES (CONT.)						
Current liabilities:						
Accounts payable and accruals	11,103,332	1,882,652	249,956,361	20,063,281		324,074,048
Due to other campuses	18,653			796,758	(76,701,173)	
Due to state treasury		2,685	215,939	102,096		355,113
Deferred revenues	6,964,698	777,449	30,222,341	1,669,332		89,509,244
Amounts held in custody for others	2,121,274	161,665	664,663	39,356		6,724,295
Compensated absences payable	673,455	98,903	4,210,318	1,240,075		9,162,074
Capital lease obligations	558,690	2,993	103,850	2,639,304		3,972,651
Notes payable	93,757		12,292,496	541,493		15,577,952
Bonds payable	1,455,000		4,710,000			10,120,000
Other current liabilities			40,929	42,611		1,560,595
Total current liabilities	22,988,859	2,926,347	302,416,897	27,134,306	(76,701,173)	461,055,972

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Combining Schedule of Net Assets, by University
June 30, 2006

	Board and System Administration	Pennington Biomedical Research Center	LSU	LSU at Alexandria	LSU at Eunice	Paul M. Hebert Law Center	Agricultural Center
LIABILITIES (CONT.)							
Noncurrent liabilities:							
Compensated absences payable	$632,050	$1,728,138	$23,300,993	$596,329	$576,450	$907,799	$8,112,290
Capital lease obligations			37,912,247				
Claims and liabilities payable							
Notes payable			7,740,009				
Bonds payable			137,215,000		8,085,000		
Other noncurrent liabilities			452,179		(43,481)		80,224
Total noncurrent liabilities	632,050	1,728,138	206,620,428	596,329	8,617,969	907,799	8,192,514
Total liabilities	9,587,441	5,435,205	369,760,285	1,279,417	9,872,884	1,717,170	11,933,561
NET ASSETS							
Invested in capital assets, net of related debt	505,790	52,721,609	354,625,203	13,775,118	13,816,752	16,880,497	27,948,294
Restricted for:							
Nonexpendable		5,223,885	49,548,729	1,127,802	273,766	2,247,822	1,530,801
Expendable	1,536,575	3,412,309	85,262,711	824,472	2,291,244	442,557	5,839,027
Unrestricted	1,819,478	549,614	23,628,900	1,033,320	78,779	189,085	11,839,704
Total net assets	$3,861,843	$61,907,417	$513,065,543	$16,760,712	$16,460,541	$19,759,961	$47,157,826

(Concluded)

	University of New Orleans	LSU in Shreveport	LSU Health Sciences Center in New Orleans	LSU Health Sciences Center in Shreveport	Eliminations	Total System
LIABILITIES (CONT.)						
Noncurrent liabilities:						
Compensated absences payable	$6,782,620	$2,049,637	$42,777,850	$22,699,847		$110,164,003
Capital lease obligations	9,590,423		487,073	10,238,796		58,228,539
Claims and liabilities payable			240,000			240,000
Notes payable	352,681		20,203,904	843,674		29,140,268
Bonds payable	29,250,000		33,900,000			208,450,000
Other noncurrent liabilities	535,905					1,024,827
Total noncurrent liabilities	46,511,629	2,049,637	97,608,827	33,782,317	NONE	407,247,637
Total liabilities	69,500,488	4,975,984	400,025,724	60,916,623	($76,701,173)	868,303,609
NET ASSETS						
Invested in capital assets, net of related debt	133,630,265	29,724,894	236,332,535	114,031,350		993,992,307
Restricted for:						
Nonexpendable	15,565,206	2,727,825	27,876,544	38,131,559		144,253,939
Expendable	14,434,084	1,627,726	34,719,894	20,293,968		170,684,567
Unrestricted	331,103	2,050,463	18,203,347	79,323,348		139,047,141
Total net assets	$163,960,658	$36,130,908	$317,132,320	$251,780,225	NONE	$1,447,977,954

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Combining Schedule of Revenues, Expenses, and Changes in Net Assets, by University
For the Fiscal Year Ended June 30, 2006

	Board and System Administration	Pennington Biomedical Research Center	LSU	LSU at Alexandria	LSU at Eunice	Paul M. Hebert Law Center	Agricultural Center
OPERATING REVENUES							
Student tuition and fees			$182,117,127	$8,034,017	$4,865,445	$10,187,648	
Less scholarship allowances			(25,909,158)	(3,014,331)	(3,109,242)	(1,365,506)	
Net student tuition and fees	NONE	NONE	156,207,969	5,019,686	1,756,203	8,822,142	NONE
Federal appropriations							$9,613,764
Federal grants and contracts		$20,969,215	104,489,445	3,991,510	4,937,393	435,351	8,686,825
State and local grants and contracts		1,409,821	33,558,912	948,259	540,265	2,457	9,271,536
Nongovernmental grants and contracts		6,918,160	10,659,437	12,168	116,109	136,605	4,897,657
Sales and services of educational departments		86,232	9,613,456	15,746	40,470	182,353	5,059,484
Hospital income							
Auxiliary enterprise revenues (including revenues pledged to secure debt per note 24)			112,941,163	889,123	2,511,034		
Less scholarship allowances			(4,718,754)	(135,442)	(261,581)		
Net auxiliary revenues	NONE	NONE	108,222,409	753,681	2,249,453	NONE	NONE
Other operating revenues	$1,204,375	105,211	5,080,464	40,578	93,545	6,296	4,642,991
Total operating revenues	1,204,375	29,488,639	427,832,092	10,781,628	9,733,438	9,585,204	42,172,257
OPERATING EXPENSES							
Educational and general:							
Instruction			205,693,550	9,226,234	7,428,208	8,190,887	
Research		28,470,508	106,416,696			711,205	59,718,294
Public service		341,356	35,893,192	328,470		98,946	42,279,782
Academic services		2,557,771	53,219,727	1,111,662	613,817	3,163,781	3,184,325
Student services			14,279,192	1,334,025	1,323,331	1,003,438	
Institutional support	6,454,150	3,635,074	23,986,693	2,596,943	1,967,722	2,375,232	9,808,527
Operations and maintenance of plant	213,609	6,293,225	66,738,444	2,578,543	3,047,657	2,077,473	5,074,726
Scholarships and fellowships			23,119,548	973,676	724,138	1,121,808	162,460
Auxiliary enterprises			98,898,857	1,013,401	2,133,715		
Hospital							
Total operating expenses	6,667,759	41,297,934	628,245,899	19,162,954	17,238,588	18,742,770	120,228,114
OPERATING LOSS	(5,463,384)	(11,809,295)	(200,413,807)	(8,381,326)	(7,505,150)	(9,157,566)	(78,055,857)
NONOPERATING REVENUES (Expenses)							
State appropriations	5,900,988	10,627,049	190,303,764	7,545,808	7,292,332	7,864,155	75,909,853
Gifts	95,816	3,248,045	10,089,691	150,493	21,176	556,522	2,724,000
Net investment income	60,521	603,538	5,825,597	105,727	114,026	147,407	910,663
Interest expense			(8,131,142)		(581,169)		
Other nonoperating revenues			62,237	12,475			449,857
Other nonoperating revenues - Social Services Block Grant							
Other nonoperating revenues - FEMA			1,348,697	31,231			342,854
Other nonoperating expenses - FEMA			(1,348,697)	(31,231)			(342,854)
Net nonoperating revenues (expenses)	6,057,325	14,478,632	198,150,147	7,814,503	6,846,365	8,568,084	79,994,373

(Continued)

	University of New Orleans	LSU in Shreveport	LSU Health Sciences Center in New Orleans	LSU Health Sciences Center in Shreveport	Eliminations	Total
OPERATING REVENUES (CONT.)						
Student tuition and fees	$41,086,923	$11,845,950	$18,049,205	$5,547,803		$281,734,118
Less scholarship allowances	(4,014,742)	(2,284,159)	(2,510,545)	(218,410)		(42,426,093)
Net student tuition and fees	37,072,181	9,561,791	15,538,660	5,329,393	NONE	239,308,025
Federal appropriations						9,613,764
Federal grants and contracts	25,135,450	4,526,753	43,462,199	15,993,621		232,627,762
State and local grants and contracts	25,056,590	5,826,369	14,206,847	13,588,778		104,409,834
Nongovernmental grants and contracts	8,893,483	1,724,240	36,658,732	11,033,671		81,050,262
Sales and services of educational departments	37,162	24,796	68,125,545	94,843,543		178,028,787
Hospital income			643,473,543	340,441,868		983,915,411
Auxiliary enterprise revenues (including revenues pledged to secure debt per note 24)	8,067,593	3,877,520	9,224,234	9,034,243		146,544,910
Less scholarship allowances	(233,193)	(284,391)				(5,633,361)
Net auxiliary revenues	7,834,400	3,593,129	9,224,234	9,034,243	NONE	140,911,549
Other operating revenues	1,584,087	320,351	585,609	414,653		14,078,160
Total operating revenues	105,613,353	25,577,429	831,275,369	490,679,770	NONE	1,983,943,554
OPERATING EXPENSES						
Educational and general:						
Instruction	64,548,722	14,536,164	130,037,731	55,277,797		494,939,293
Research	19,621,415	740,673	52,806,603	34,080,362		302,565,756
Public service	1,685,790	2,984,617	141,486,640	62,042,224		287,141,017
Academic services	14,133,795	4,483,997	15,901,352	5,372,309		103,742,536
Student services	8,343,106	1,662,155	3,081,114	1,027,534		32,053,895
Institutional support	17,647,067	4,504,999	34,374,910	22,701,911	($2,744,932)	127,308,296
Operations and maintenance of plant	21,171,180	3,746,214	15,562,196	12,879,519		139,382,786
Scholarships and fellowships	9,931,750	3,747,897	229,571	832,178		40,843,026
Auxiliary enterprises	9,770,845	4,070,616	11,809,539	7,820,927		135,517,900
Hospital			629,509,677	340,102,132		969,611,809
Total operating expenses	166,853,670	40,477,332	1,034,799,333	542,136,893	(2,744,932)	2,633,106,314
OPERATING LOSS	(61,240,317)	(14,899,903)	(203,523,964)	(51,457,123)	2,744,932	(649,162,760)
NONOPERATING REVENUES (Expenses)						
State appropriations	50,432,223	13,113,254	207,217,294	62,142,375	(2,744,932)	635,604,163
Gifts	1,880,564	317,177	10,438,248	36,390		29,558,122
Net investment income	1,963,491	429,217	9,446,382	5,107,521		24,714,090
Interest expense	(1,409,106)		(3,017,791)	(735,355)		(13,874,563)
Other nonoperating revenues			2,338,884			2,863,453
Other nonoperating revenues - Social Services Block Grant			54,246,730			54,246,730
Other nonoperating revenues - FEMA	3,484,599	59,211	53,027,304	69,205		58,363,101
Other nonoperating expenses - FEMA	(3,484,599)	(59,211)	(61,582,589)	(69,205)		(66,918,386)
Net nonoperating revenues (expenses)	52,867,172	13,859,648	272,114,462	66,550,931	(2,744,932)	724,556,710

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Combining Schedule of Revenues, Expenses, and Changes in Net Assets, by University
June 30, 2006

	Board and System Administration	Pennington Biomedical Research Center	LSU	LSU at Alexandria	LSU at Eunice	Paul M. Hebert Law Center	Agricultural Center
INCOME (Loss) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES	$593,941	$2,669,337	($2,263,660)	($566,823)	($658,785)	($589,482)	$1,938,516
Capital appropriations		58,771	9,234,016	3,737,836	56,218	349,536	1,407,616
Capital grants and gifts		1,105,005	32,663,999	203,905	271,360	12,162	1,024,113
Additions to permanent endowment			4,619,497	600,000		80,000	480,000
Other additions (deductions)	10,802,888	(75,000)	(223,111)	(5,672)	(1,380)	(10,724)	37,220
Extraordinary item - loss on impairment of capital assets							
CHANGE IN NET ASSETS	11,396,829	3,758,113	44,030,741	3,969,246	(332,587)	(158,508)	4,887,465
NET ASSETS - BEGINNING OF YEAR (Restated)	(7,534,986)	58,149,304	469,034,802	12,791,466	16,793,128	19,918,469	42,270,361
NET ASSETS - END OF YEAR	$3,861,843	$61,907,417	$513,065,543	$16,760,712	$16,460,541	$19,759,961	$47,157,826

(Concluded)

	University of New Orleans	LSU in Shreveport	LSU Health Sciences Center in New Orleans	LSU Health Sciences Center in Shreveport	Eliminations	Total
INCOME (Loss) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES (CONT.)	($8,373,145)	($1,040,255)	$68,590,498	$15,093,808		$75,393,950
Capital appropriations	325,868		19,528,088	11,222,037		45,919,986
Capital grants and gifts	457,670		649,194	109,186		36,496,594
Additions to permanent endowment	840,000	720,000	2,143,060			9,482,557
Other additions (deductions)	58,957	11,220		(394,720)		10,199,678
Extraordinary item - loss on impairment of capital assets	(942,976)		(5,926,836)			(6,869,812)
CHANGE IN NET ASSETS	(7,633,626)	(309,035)	84,984,004	26,030,311	NONE	170,622,953
NET ASSETS - BEGINNING OF YEAR (Restated)	171,594,284	36,439,943	232,148,316	225,749,914	NONE	1,277,355,001
NET ASSETS - END OF YEAR	$163,960,658	$36,130,908	$317,132,320	$251,780,225	NONE	$1,447,977,954

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

Combining Schedule of Cash Flows, by University
For the Fiscal Year Ended June 30, 2006

	Board and System Administration	Pennington Biomedical Research Center	LSU	LSU at Alexandria	LSU at Eunice	Paul M. Hebert Law Center	Agricultural Center
CASH FLOWS FROM OPERATING ACTIVITIES:							
Tuition and fees			$156,475,255	$4,752,291	$1,764,786	$8,772,295	
Federal appropriations							$9,685,238
Grants and contracts	$1,875	$28,477,104	143,810,374	4,986,649	5,442,877	588,305	22,274,153
Sales and services of educational departments		29,042	8,554,391	15,746	40,470	175,141	5,100,739
Hospital income							
Auxiliary enterprise receipts			111,468,615	762,388	2,216,761		
Payments for employee compensation	(875,458)	(20,653,305)	(311,510,718)	(10,045,513)	(7,945,766)	(9,659,251)	(67,251,363)
Payments for benefits	(50,684)	(5,084,718)	(76,771,767)	(3,170,051)	(2,486,112)	(2,282,430)	(21,031,163)
Payments for utilities	(92,364)	(2,130,616)	(22,280,807)	(586,620)	(410,512)	(518,147)	(2,818,975)
Payments for supplies and services	(5,527,520)	(10,363,514)	(155,483,091)	(3,760,479)	(4,441,159)	(3,576,920)	(25,676,197)
Payments for scholarships and fellowships			(23,103,885)	(973,676)	(724,138)	(1,121,809)	(162,460)
Loans to students			(4,093,114)	465	(74,312)		
Collection of loans to students			4,112,470		89,055		
Other receipts (payments)	1,218,947	103,332	25,744,029	34,674	95,089	11,816	4,619,721
Net cash provided (used) by operating activities	(5,325,204)	(9,622,675)	(143,078,248)	(7,984,126)	(6,432,961)	(7,611,000)	(75,260,307)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
State appropriations	5,900,988	10,630,968	190,657,956	7,557,895	7,212,453	7,883,592	75,930,083
Gifts and grants for other than capital purposes	95,816	3,248,045	10,225,965	148,350	20,165	544,004	2,695,375
Private gifts for endowment purposes		(546,765)	244,210	5,848	1,380	10,724	7,945
TOPS receipts			47,656,619	741,488	633,288		
TOPS disbursements			(47,656,619)	(740,262)	(633,288)		
FEMA receipts							
FEMA disbursements							
Other receipts			62,237				449,856
Net cash provided (used) by noncapital financing sources	5,996,804	13,332,248	201,190,368	7,713,319	7,233,998	8,438,320	79,083,259
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:							
Proceeds from capital debt							
Capital appropriations received		58,771	5,888,684	1,797,024	55,625	423,966	
Capital grants and gifts received		1,105,005	33,217,442	214,211	262,943	12,162	799,199
Purchase of capital assets	(5,206)	(4,574,232)	(67,072,552)	(2,515,108)	(372,637)	(1,052,151)	(2,955,178)
Principal paid on capital debt and leases			(7,040,351)		(70,000)		
Interest paid on capital debt and leases			(8,126,498)		(581,169)		
Other sources	10,802,888	(75,000)	(344,197)	(5,672)	(1,380)	(10,724)	37,220
Net cash provided (used) by capital financing activities	10,797,682	(3,485,456)	(43,477,472)	(509,545)	(706,618)	(626,747)	(2,118,759)

(Continued)

	University of New Orleans	LSU in Shreveport	LSU Health Sciences Center in New Orleans	LSU Health Sciences Center in Shreveport	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES: (CONT.)						
Tuition and fees	$36,127,858	$9,621,271	$15,106,206	$4,509,055		$237,129,017
Federal appropriations						9,685,238
Grants and contracts	54,932,752	11,733,757	107,636,774	39,362,478		419,247,098
Sales and services of educational departments	362,421	24,796	71,367,779	97,030,437		182,700,962
Hospital income			688,134,951	350,951,163		1,039,086,114
Auxiliary enterprise receipts	7,827,901	3,576,880	11,853,113	9,030,051		146,735,709
Payments for employee compensation	(86,849,858)	(18,128,805)	(476,506,181)	(284,779,355)		(1,294,205,573)
Payments for benefits	(20,024,070)	(5,108,586)	(111,056,231)	(59,544,180)		(306,609,992)
Payments for utilities	(1,455,548)	(834,033)	(17,430,247)	(7,495,360)		(56,053,229)
Payments for supplies and services	(36,875,620)	(10,667,531)	(443,160,306)	(164,906,048)	$2,744,932	(861,693,453)
Payments for scholarships and fellowships	(9,936,753)	(3,747,897)	(226,874)	(832,178)		(40,829,670)
Loans to students	(490,233)		(2,113,604)	(644,744)		(7,415,542)
Collection of loans to students	727,889		2,020,453	394,026		7,343,893
Other receipts (payments)	1,828,689	242,933	(20,113,385)	401,112		14,186,957
Net cash provided (used) by operating activities	(53,824,572)	(13,287,215)	(174,487,552)	(16,523,543)	2,744,932	(510,692,471)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
State appropriations	50,563,552	13,113,254	199,555,420	61,900,408	(2,744,932)	628,161,637
Gifts and grants for other than capital purposes	2,197,089	317,177	58,194,509	36,390		77,722,885
Private gifts for endowment purposes		720,000				443,342
TOPS receipts	3,083,560	1,947,285	537,370	66,674		54,666,284
TOPS disbursements	(3,843,772)	(1,947,285)	(549,229)	(66,674)		(55,437,129)
FEMA receipts	3,484,599	59,211	69,740,550	69,205		73,353,565
FEMA disbursements	(3,484,599)	(59,211)	(59,260,515)	(69,205)		(62,873,530)
Other receipts			4,429,277			4,941,370
Net cash provided (used) by noncapital financing sources	52,000,429	14,150,431	272,647,382	61,936,798	(2,744,932)	720,978,424
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:						
Proceeds from capital debt			309,794			309,794
Capital appropriations received	325,868			11,222,037		19,771,975
Capital grants and gifts received	417,600		649,194	109,186		36,786,942
Purchase of capital assets	(4,918,778)	(754,194)	(38,816,633)	(25,197,822)		(148,234,491)
Principal paid on capital debt and leases	(2,018,933)	(11,220)	(3,375,168)	(3,053,354)		(15,569,026)
Interest paid on capital debt and leases	(1,409,106)		(3,015,874)	(735,355)		(13,868,002)
Other sources	548,145	11,220	2,645,185	153,248		13,760,933
Net cash provided (used) by capital financing activities	(7,055,204)	(754,194)	(41,603,502)	(17,502,060)	NONE	(107,041,875)

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Combining Schedule of Cash Flows, by University
June 30, 2006

	Board and System Administration	Pennington Biomedical Research Center	LSU	LSU at Alexandria	LSU at Eunice	Paul M. Hebert Law Center	Agricultural Center
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from sales and maturities of investments			$14,333,896		$128,766		
Interest received on investments	$60,521	$546,767	9,995,171	$123,258	122,891	$240,455	$956,982
Purchase of investments			(16,170,626)				
Net cash provided (used) by investing activities	60,521	546,767	8,158,441	123,258	251,657	240,455	956,982
NET INCREASE (Decrease) IN CASH AND CASH EQUIVALENTS	11,529,803	770,884	22,793,089	(657,094)	346,076	441,028	2,661,175
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR, RESTATED	124,263	5,903,189	84,024,268	2,650,523	3,195,257	1,738,232	14,442,482
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$11,654,066	$6,674,073	$106,817,357	$1,993,429	$3,541,333	$2,179,260	$17,103,657
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:							
Operating income (loss)	($5,463,384)	($11,809,295)	($200,413,807)	($8,381,326)	($7,505,150)	($9,157,566)	($78,055,857)
Adjustments to reconcile operating loss to net cash used by operating activities:							
Depreciation expense	50,827	2,969,569	35,232,835	575,387	1,122,890	1,440,471	3,578,313
Changes in assets and liabilities:							
(Increase) Decrease in accounts receivable, net	(948,699)	675,908	(7,434,210)	(64,415)	(167,787)	5,145	(711,958)
(Increase) Decrease in inventories		(8,254)	218,211	5,127	67,544		393,660
(Increase) Decrease in deferred charges and prepaid expenses	1,240	5,719	187,368	(8,244)	1,927	15,843	(20,556)
(Increase) Decrease in notes receivable			331,201	465	46,164		
(Increase) Decrease in other assets			228,312				
Increase (Decrease) in accounts payable and accrued liabilities	987,728	(104,833)	3,151,243	78,426	59,265	28,806	69,133
Increase (Decrease) in deferred revenue		(1,481,416)	3,182,580	(152,527)	(45,576)	(45,917)	(72,569)
Increase (Decrease) in amounts held in custody for others	110	(1,879)	538,720	1,799	(1,476)	3,525	(41,246)
Increase (Decrease) in compensated absences	46,974	131,806	541,756	(10,722)	(10,762)	99,401	(476,502)
Increase (Decrease) in other liabilities			21,157,543	(28,096)		(708)	77,275
Net cash provided (used) by operating activities	(5,325,204)	(9,622,675)	(143,078,248)	(7,984,126)	(6,432,961)	(7,611,000)	(75,260,307)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:							
Cash and cash equivalents classified as current assets	11,654,066	6,670,917	55,554,118	1,531,626	3,112,275	1,983,946	13,881,061
Cash and cash equivalents classified as noncurrent assets		3,156	51,263,239	461,803	429,058	195,314	3,222,596
Cash and cash equivalents at end of the year	$11,654,066	$6,674,073	$106,817,357	$1,993,429	$3,541,333	$2,179,260	$17,103,657
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:							
Capital assets appropriated by State of Louisiana			$7,309,624	$1,985,208			$959,137

(Concluded)

	University of New Orleans	LSU in Shreveport	LSU Health Sciences Center in New Orleans	LSU Health Sciences Center in Shreveport	Eliminations	Total
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sales and maturities of investments				$5,715,028		$20,177,690
Interest received on investments	$1,251,146	$429,217	$9,761,143	5,025,950		28,513,501
Purchase of investments		(855,127)	1,328,185	(11,577,505)		(27,275,073)
Net cash provided (used) by investing activities	1,251,146	(425,910)	11,089,328	(836,527)	NONE	21,416,118
NET INCREASE (Decrease) IN CASH AND CASH EQUIVALENTS	(7,628,201)	(316,888)	67,645,656	27,074,668	NONE	124,660,196
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR, RESTATED	30,123,725	5,441,761	54,047,273	74,584,251	NONE	276,275,224
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$22,495,524	$5,124,873	$121,692,929	$101,658,919	NONE	$400,935,420
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:						
Operating income (loss)	($61,240,317)	($14,899,903)	($203,523,964)	($51,457,123)	$2,744,932	($649,162,760)
Adjustments to reconcile operating loss to net cash used by operating activities:						
Depreciation expense	10,176,448	1,851,114	33,922,054	22,207,867		113,127,775
Changes in assets and liabilities:						
(Increase) Decrease in accounts receivable, net	(7,173,471)	(262,378)	60,134,869	11,236,665		55,289,669
(Increase) Decrease in inventories	95,705	(30,692)	5,471,015	(196,478)		6,015,838
(Increase) Decrease in deferred charges and prepaid expenses	333,080	(368,831)	959,227	(101,095)		1,005,678
(Increase) Decrease in notes receivable	237,656		(110,922)	(250,718)		253,846
(Increase) Decrease in other assets			(7,491,617)			(7,263,305)
Increase (Decrease) in accounts payable and accrued liabilities	1,527,744	414,715	(58,256,213)	1,963,156		(50,080,830)
Increase (Decrease) in deferred revenue	2,458,775	(37,996)	568,377	(857,549)		3,516,182
Increase (Decrease) in amounts held in custody for others	244,602	(61,645)	(703,121)	(13,541)		(34,152)
Increase (Decrease) in compensated absences	(484,794)	124,174	(9,332,994)	921,849		(8,449,814)
Increase (Decrease) in other liabilities		(15,773)	3,875,737	23,424		25,089,402
Net cash provided (used) by operating activities	(53,824,572)	(13,287,215)	(174,487,552)	(16,523,543)	2,744,932	(510,692,471)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:						
Cash and cash equivalents classified as current assets	10,006,108	4,784,992	121,241,417	98,501,698		328,922,224
Cash and cash equivalents classified as noncurrent assets	12,489,416	339,881	451,512	3,157,221		72,013,196
Cash and cash equivalents at end of the year	$22,495,524	$5,124,873	$121,692,929	$101,658,919	NONE	$400,935,420
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Capital assets appropriated by State of Louisiana			$19,528,088			$29,782,057

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OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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

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

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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

April 17, 2007

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

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units, which collectively comprise the basic financial statements of the Louisiana State University (LSU) System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2006, and have issued our report thereon dated April 17, 2007. Our report was modified to include a reference to other auditors; an explanatory paragraph for the implementation of new reporting standards; an emphasis of a matter regarding the impact of hurricanes Katrina and Rita; and an emphasis of a matter regarding nonaudit services. We did not audit the financial statements of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice doing business as LSU Healthcare Network and subsidiaries and the Eunice Student Housing Foundation, Inc., which are nonprofit corporations included as blended component units in the basic financial statements of the Louisiana State University System. We also did not audit the financial statements of the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are discretely presented component units presented in the basic financial statements. The financial statements of the blended and discretely presented component units were audited by other auditors whose reports have been furnished to us, and this report, insofar as it relates to the amounts reported for those component units, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the LSU Foundation and the Pennington Medical Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Unlocated Movable Property

For the second consecutive year, the LSU System did not have adequate internal control over movable property at all campuses (including hospitals) within the LSU System. Certain campuses within the LSU System reported unlocated movable property items totaling $29,329,057 as a result of the property inventory certification or other procedures for the four-year period from fiscal year 2003 through 2006. Good internal control and the Louisiana Administrative Code prescribe that efforts should be made to locate all movable property items for which there are no explanations available for their disappearance. Assets should be adequately monitored to safeguard against loss or theft, and periodic counts of property inventory, as well as the search for missing items, should be thorough.

Various annual property certifications to the Louisiana Property Assistance Agency (LPAA) and other information for the LSU and A&M College, the LSU Health Sciences Center in Shreveport, the LSU Health Sciences Center in New Orleans, the University of New Orleans (UNO), and the Health Care Services Division (HCSD) disclosed the following:

- LSU and A&M College's inventory certification, which includes LSU, System Administration, Agriculture Center, Alexandria, and Eunice campuses, identified unlocated movable property items totaling $5,875,995. Of that amount, items totaling $1,508,171 were removed from the property records because they had not been located for three consecutive years. Of the unlocated total, the amount of unlocated computers and computer-related equipment totaled $3,383,641. The certification of property inventory disclosed $322,794,374 in total movable property administered by these campuses.

- The LSU Health Sciences Center in Shreveport's inventory certification identified unlocated movable property items totaling $3,134,148. Of that amount, items totaling $230,392 were removed from the property records because they had not been located for three consecutive years. Of the unlocated total, the amount of unlocated medical and related equipment totaled $1,624,757 and the amount of computers and computer-related equipment totaled $1,378,195. The certification of property inventory disclosed $118,705,780 in total movable property administered by the LSU Health Sciences Center in Shreveport.

- The LSU Health Sciences Center in New Orleans' inventory certification identified unlocated movable property items totaling $4,849,657. Of that amount, items totaling $485,876 were removed from the property records because they had not been located for three consecutive years. Of the unlocated total, the amount of unlocated computers and computer-related equipment totaled $1,579,745. The certification of property inventory disclosed $99,616,065 in total movable property administered by the Health Sciences Center in New Orleans.

- The University of New Orleans' management did not enforce its existing property control and operating procedures, in large part due to the damage and staff disruptions caused by Hurricane Katrina. UNO received an exemption from LPAA from taking the inventory in May 2006, but completed an inventory in September 2006. The university reported 1,225 items of movable property as missing/stolen with a total value of $3,183,708 in the current fiscal year. The items of movable property reported stolen consisted of approximately 113 computers, 19 video projectors, 20 digital cameras/camcorders, seven 42-inch plasma displays, 11 flat screen monitors, 1 Aerostar Minivan, and various other movable property items.

- The Medical Center of Louisiana at New Orleans (MCLNO), within the HCSD, was granted an exemption by LPAA from taking its annual inventory in 2006 because of various conditions caused by Hurricane Katrina. However, HCSD and its contractors performed special inventory procedures to account for movable property items in various locations throughout MCLNO campuses. As a result of these special inventory procedures, MCLNO reported 2,250 unlocated items at June 30, 2006, with an original acquisition cost of $12,285,549.

In the period immediately following Hurricane Katrina, many LSU System personnel in the New Orleans area were displaced and access to facilities was severely limited because of environmental concerns, lack of utilities, safety issues, and damage. Some buildings are still closed. However, failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects the campuses to noncompliance with state laws and regulations. Also, the risk exists that sensitive information could be improperly retrieved from the missing computers and/or computer-related equipment, which could compromise the campuses' data integrity.

Management should strengthen its internal controls over movable property, including procedures for securing its movable assets and conducting its physical inventories, and should devote additional efforts to locating movable property reported as unlocated in previous years for all campuses within the LSU System. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-13).

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

Compliance and Other Matters

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

Other Reports

Other external auditors audited the LSU Healthcare Network and the Eunice Student Housing Foundation, which are blended component units included in the LSU System's basic financial statements for the year ended June 30, 2006. In addition, other external auditors audited the LSU Foundation, the Tiger Athletic Foundation, the Pennington Medical Foundation, the Foundation for the LSU Health Sciences Center, the University of New Orleans Foundation, and the University of New Orleans Research and Technology Foundation, which are discretely presented component units included in the basic financial statements. To obtain copies of those reports, refer to note 1-B to the basic financial statements for mailing addresses.

As a part of our audit of the LSU System's basic financial statements for the year ended June 30, 2006, we performed certain procedures on campuses and hospitals within the LSU System. Our reports on those procedures for those campuses and hospitals are listed as follows:

	Report Date
LSU and Related Campuses	April 17, 2007
LSU Health Sciences Center - New Orleans	April 24, 2007
LSU Health Sciences Center - Shreveport	January 26, 2007
Health Care Services Division	February 28, 2007
University of New Orleans	March 5, 2007
LSU in Shreveport	December 6, 2006

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

To provide financial information required for application for accreditation by SACS, our audit report for the Paul M. Hebert Law Center was dated March 29, 2007.

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

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

ETM:ES:PEP:dl

LSU06

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Management's Corrective Action Plans and Responses to the Finding and Recommendation

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

Office of the Senior Executive Vice President
and Chief Operating Officer

225 / 578-6935
225 / 578-5524 fax

April 5, 2007

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

Dear Mr. Theriot:

In regard to the finding that the LSU System did not have adequate internal control over moveable property during the fiscal year ending June 30, 2006, we concur with the finding. We agree that all of our campuses and not just those cited should continuously review and improve their internal controls over moveable property, and should especially focus on trying to account for any unlocated inventory that remains after completion of the annual physical inventory.

While the value of the unlocated moveable property items in the finding totaled $29,329,057 we would like to point out that this represents the original purchase price rather than the current value of the property. The individual response from LSU points out that the actual carrying value of the unlocated inventory items at their campus is much less than the original cost as cited, and we're sure this is the case at the other campuses as well.

Nevertheless, we should make every effort to account for all property in current inventory. We will again have our internal audit section contact all LSU System campuses and urge greater efforts in the future to account for items that remain unlocated after the initial property inventory has been taken.

Sincerely,

John Antolik
Assistant Vice President

cc: Mr. Chad Brackin

LSU
LOUISIANA STATE UNIVERSITY
Finance & Administrative Services

March 7, 2007

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

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College (LSU) for the fiscal year ended June 30, 2006, we are responding to the audit finding concerning unlocated moveable property. We concur with your finding in general.

It should be noted that this certification of our annual property inventory was submitted on December 19, 2006, approximately six months after the end of the fiscal year under audit. Typically, inventory certifications submitted during the fiscal year under audit are reviewed by the Legislative Auditor, and any resulting findings are presented to the University nine to twelve months after the inventory was originally submitted. This was the case last year during the audit of fiscal year ended June 30, 2005. Historically, LSU locates much of the unaccounted for property during the interval between the certification and the audit. For example, in our response to last years' audit finding, we indicated that items costing over $1 million had been subsequently located and properly accounted for. Due to the unusual timing of the current audit of the inventory, however, we're not yet able to determine how much of the unlocated property will ultimately be located and properly inventoried.

As required by state regulations, after conducting a physical inventory, LSU did report four years of unlocated property items originally costing $5,875,995. In accordance with state regulations, and with the approval of the Louisiana Property Assistance Agency (LPAA), the University then removed items originally costing $1,508,171 from our property records. These items had been held in our "suspense" file for three years, while we continued our attempts to locate or properly account for them. The original cost of the remaining unlocated items was $4,367,824. With respect to these remaining items, a current analysis of our moveable property detail records produces the following results:

- This remaining unlocated balance includes certain equipment items originally costing $5,000 or more individually that had been capitalized and depreciated subsequent to their purchase, with depreciation calculations made by LSU using the state approved guidelines for useful lives. The original cost of these items was $1,230,807, and the book value net of depreciation was only $96,537.

- The remaining unlocated balance also includes items costing less than $5,000 individually that were expensed for accounting purposes, not capitalized and depreciated, for which the book value does not exist. The original cost of these items was $3,137,017. However, $1,324,003 of these items had been purchased in 1997 or earlier.

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- The total inventory value reported by the University, net of the oldest suspense file items removed with the approval of the LPAA, was $321,286,203. Excluding the depreciation taken on capitalized items as well as the expensed items purchased in 1997 or prior, the remaining unlocated items amount to $1,909,551. This amounts to only slightly less than six-tenths of one percent of the total moveable property inventory managed by LSU.

- The audit finding also indicates that $3,383,641 of computers and computer-related equipment was reported as unlocated. However, after removal of the oldest suspense file items from our property records, the balance of computers and related equipment amounted to $2,499,913. Of this amount, $542,789 was more than 10 years old, $631,513 was 8-10 years old, and $641,942 was 6-7 years old. Only $683,669 of the unlocated computer and related items were aged 5 years or less. Moreover, the total book value was only $18,980 for all capitalized computers and related equipment reported as unlocated.

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

Please let me know if anything further is needed.

Sincerely,

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

xc: Chancellor Sean O'Keefe

LSU Health Sciences Center
SHREVEPORT
Administration and Finance

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

October 3, 2006

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

Dear Mr. Theriot:

LSUHSC-S was issued a finding regarding Un-located Movable Property. In regard to this finding, LSUHSC-S does concur in part with the finding or the recommendations.

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

2) LSUHSC-S is aware of the requirements of Louisiana Administrative Code (LAC) 34:VII.313 and has complied with the requirement by making efforts to locate all movable property for which there are no explanations available for their disappearance. There is no requirement that the items be located but that efforts must be made to locate all movable property. This effort to locate all movable property is successful based on the number of items that are located a reported in subsequent years.

3) It is true that good internal controls dictate assets should be properly monitored to safeguard against loss or theft. It is also true that good internal control does not guarantee that thefts or losses will not occur but serves to deter them. It is also true that periodic physical counts should be conducted. The records, that have been reviewed during the audit, will reflect that periodic physical counts are conducted.

4) The fact that everyone will not choose to obey the laws, regulations or administrative directives does not indicate LSUHSC-S is not making all efforts to enforce the requirements any more than saying the state troopers are not consistently enforcing the law because there are so many people speeding on the interstate. Meetings have been held with the business managers from

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the various departments to continue their education regarding what is required to track the movement of assets. The result of the meetings is the reduction of un-located assets. It is not where management wants to be but it shows improvement.

5) Management concurs that the three items in Radiology were not tagged due to the following: a) Facility Planning and Control was in possession of all of the paper work for theses assets; b) Assets cannot be placed on the inventory until the value of said assets are known (amounts paid per the invoices). Once all of the paperwork has been obtained, the assets will be properly recorded according to the policy. The point regarding potentially lost revenue through the Cost Reporting process because the assets were not tagged is not correct. There would only be a timing difference. The revenue would not be lost. The point regarding the risk of sensitive information on the missing computers and/or related equipment falling into the wrong hands is quite a stretch. Most of the computers in question were technologically and functionally obsolete and were not the type that would have what management considers sensitive information on them.

Management does not concur that it has not enforced and consistently applied existing laws and regulations for conducting the annual inventory. As stated above, the Revised Statute (R.S.) 39:325 and Louisiana Administrative Code have been complied with and a copy of the report sent to the Louisiana Property Assistance Agency has been provided to the Auditors.

Management concurs that it does not have 100% compliance with the Administrative Directive for tracking the movement of property items and has taken the following steps to rectify the deficiency:

1. Review the policy and make updates as needed;
2. Schedule meetings with the department business manager (at least two per year);
3. Discussed the inventory requirements with the Chairmen of the various departments and Hospital Administration;
4. Obtained a listing of the missing assets by department and sent a memo from the Vice Chancellor's office to follow up; and
5. If this is not successful, send a memo from the Chancellor's office.

Sincerely,

Harold White
Harold White
Vice Chancellor
for Business and Reimbursements

LSU Health Sciences Center
NEW ORLEANS
Administration and Finance
Office of the Vice Chancellor

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

February 14, 2007

Re: Response to Audit Finding: Unlocated Movable Property

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

Dear Mr. Theriot,

I concur in part with the finding as reported.

LSUHSC-NO did report unlocated movable property of $ 4,849,657 to the Louisiana Property Assistance Agency (LPAA) for the four-year period from fiscal year 2003 to fiscal year 2006. However, even though the university filed its report with LPAA, the university has continued to conduct a search for these unlocated items of movable equipment.

The fiscal year 2006 physical inventory was started six months later than normal as a direct result of Hurricane Katrina and the resulting closure of LSUHSC-NO's facilities. The fiscal year 2006 physical inventory has been complicated by the number of temporary locations that LSUHSC-NO was required to establish in order to meet the mission of the university during the aftermath of Hurricane Katrina. LSUHSC-NO has been steadily identifying these temporary locations and once identified, physical inventories are being conducted at these locations. The fiscal year 2006 physical inventory has also been complicated by buildings that are closed with no access allowed and buildings with limited access. Unlocated movable equipment with an original acquisition cost of $506,842 is thought to be located in buildings that are currently closed with no access allowed. LSUHSC-NO is working diligently to bring all facilities within our control back to full access. We are also working to obtain permission from other agencies for access to non-LSUHSC-NO buildings where access is limited or not allowed.

As a result of these challenges, LSUHSC-NO approached LPAA and was provided with the minimum level at which the fiscal year 2006 inventory would be certified. Once this level was reached, LSUHSC-NO filed its inventory report with LPAA in order to receive inventory certification. LPAA has certified LSUHSC-NO's fiscal year 2006 Property Inventory in accordance with their standards and guidelines.

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

LSUHSC-NO has started its next inventory cycle (fiscal year 2007) and is placing heavy emphasis on items that were reported unlocated in fiscal years 2004 through fiscal years 2006 and is providing the Legislative Audit staff with periodic updates of the continuing progress of this inventory. The latest report was sent to the Legislative Audit staff on February 8, 2007. This report indicated that $487,272 of previously reported unlocated movable equipment has been located in the fiscal year 2007 physical inventory.

Corrective action plan:

As part of the current year physical inventory, LSUHSC-NO will issue updated unlocated movable equipment reports to all Deans and Vice Chancellors of LSUHSC-NO. These reports will include all unlocated movable property from fiscal year 2004 through fiscal year 2006. The Deans and Vice Chancellors will instruct Department Heads with unlocated movable equipment to conduct a thorough search for unlocated movable property and to provide explanations for all items that cannot be located. LSUHSC-NO will also gain access to all closed facilities and conduct physical inventories of movable equipment in these facilities. Lastly, LSUHSC-NO will distribute the policy for reporting the relocation of movable equipment to all Deans, Vice Chancellor, Department Heads, Business Managers and Property Custodians.

Anticipated Completion Date:

The university anticipates the corrective action plan to be completed no later than November 30, 2007.

Person responsible for corrective action:

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

Respectfully,

Ronnie Smith
Vice Chancellor for Administration and Finance

cc: Larry Hollier, MD
Terry Ullrich
David Dotter

THE UNIVERSITY of NEW ORLEANS

OFFICE OF THE CHANCELLOR

October 24, 2006

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

Re: Management Response to Finding Regarding Missing/Stolen Movable Property

Dear Mr. Theriot:

In response to the 2005/2006 audit finding concerning "Missing/Stolen Movable Property", the University of New Orleans provides the following information:

The University of New Orleans concurs with the finding that the University did not maintain adequate control over moveable property and was unable to follow its property control operating procedures. The University does feel it is relevant to consider the extreme circumstances presented in the aftermath of Hurricane Katrina and that this year in no way represents normal conditions for the control of movable property at the University. The University has responded in detail to each of the three components of the finding to demonstrate the extreme circumstances under which the University was operating and why the University would have been in compliance had it not been for the extreme conditions and devastation caused by hurricane Katrina.

Failure to maintain adequate control over movable property
After Hurricane Katrina struck on August 29, 2005, the UNO main campus was surrounded by water for several weeks. Rescue personnel transported over 2,000 evacuees on the University's campus leaving them without food, water, or security. The evacuees broke into many buildings on campus causing damage to structures and contents. No prior agreement was made or even inquired about for evacuees to be housed on campus. Because we were not aware that the UNO main campus would serve as an evacuation site, no plans were in place to provide additional security to maintain control over movable property. Unfortunately, the evacuees were responsible for considerable vandalism, theft, and damage to property.

Almost all campus buildings were damaged by flood and/or wind and required mold remediation prior to normal access or occupancy. Obviously, damage and the need for remediation were extensive. The Louisiana Office of Facility Planning and Control contracted with mold remediation companies to perform the remediation of the buildings. University personnel were prohibited from accessing buildings during remediation or supervise the performance of the mold remediation companies. Unfortunately, we suspect that many items were stolen by the mold remediation vendor personnel during the remediation efforts that occurred in the early period prior to general campus occupancy (January 2006). During this early period, it was extremely difficult to abide by traditional property control procedures since university personnel were not permitted to enter University buildings.

2000 Administration Bldg. *Lakefront Campus* 2000 Lakeshore Drive New Orleans, Louisiana 70148 504.280.6201 *fax* 504.280.6872

The major reason for the magnitude of missing equipment was the timing of the inventory in relation to our recovery from the hurricane. Over half of our buildings were not remediated and fully accessible until February 2006 or later. Because of this, the University requested and received an exemption from the Louisiana Property Assistance Agency from completing its Annual inventory for fiscal year 2005-2006. It was not until mid-August of 2006 that the University was informed that we would need to conduct an inventory prior to the end of September 2006. As stated in the finding, an inventory was completed in September 2006, however, because of the extreme conditions (including lack of time and staff to conduct the inventory) along with the great number of equipment movements necessitated by the storm, it was impossible to conduct the inventory in the thorough and complete manner that we would in a normal year (we usually conduct the inventory over a 9 month period). Time and personnel were just not available to follow-up on missing items as we would normally.

It is probable that many of the missing items will be located during the next inventory which should be completed in May of 2007. This is because the campus is returning to normal operations as more buildings are cleared for occupancy and UNO departments are returning to their pre-Katrina locations. Also, the massive equipment movement which was necessary to continue operations during the recovery and remediation process should diminish considerably. The Property Control Office is now fully staffed and should be able to confirm the location of many of the missing items and reduce the list significantly.

Failure to follow its property control operating procedures
There are many aspects of UNO's property control operating procedures including: tagging property, updating the master equipment inventory for acquisitions and transfers, surplusing/deleting movable property, conducting and certifying an annual inventory, handling federal property, etc. Despite the unique challenges the University faced, UNO was able to follow all property control operating procedures with the exception of the requirement for "immediate notification for stolen or missing items". This portion of the finding could have been more accurately stated as "the University did not follow its property control operating procedures regarding immediate notification for stolen or missing items" rather than the blanket statement that we did not follow our procedures generally.

Because buildings were not normally accessible prior to remediation, University departments were unable to notify Campus Police and Property Control of stolen or missing items until their buildings were remediated and accessible, which is the reason some of the reports of stolen and missing equipment were made months after that actual storm.

Did not notify the District Attorney and Legislative Auditor of thefts immediately
This portion of the finding, although true, is a direct consequence of the above listed portion of the finding, the department heads' failure to report stolen equipment immediately to the Campus Police. We feel it may have been more appropriately listed as a consequence of that area of noncompliance. Of course, management could not report thefts to the District Attorney and Legislative Auditor without first being notified of the theft.

The following corrective action plan will be implemented to correct the internal control weakness and noncompliance. Mandatory training sessions will be conducted for all property custodians and their supervisors during the month of December 2006. The sessions will focus on departmental responsibilities for the control of movable property including a general review of property control
operating procedures with an emphasis on timely reporting of stolen and missing equipment. Our property control operating procedures will also be amended to address the need for departmental

interaction with Property Control after a natural disaster or other catastrophic events. Roy D. Robertson will be the contact person responsible for the corrective action and it is anticipated that the plan will be completed prior to January 1, 2007.

In conclusion, we concur with the finding and have implemented a corrective action plan to correct the internal control weaknesses and areas of noncompliance brought to light in the aftermath of hurricane Katrina. However, in fairness to the University, we also believe that it is important to acknowledge that the conditions of noncompliance would not have occurred had it not been for the devastation caused by the worst natural disaster to hit the United States in recorded history.

Sincerely,

Timothy P. Ryan
Chancellor

No.	Building	Remediation Dates
1	Computer Center	11/1/05 – 11/23/05
2	Library	10/31/05 - 12/01/05
3	Kirschman Hall	11/28/05 – 12/08/05
4	Bienville Hall & Commons	11/29/05 – 2/8/06
5	Jefferson Center	10/24/05 – 12/13/05
6	Biology	11/27/05 – 12/27/05
7	Science	12/9/05 – 1/8/06
8	Administration Annex	11/28/05 – 1/14/06
9	Mathematics	12/14/05 – 2/3/06
10	Liberal Arts	12/19/05 – 2/4/06
11	Chemical Science Annex	1/17/06 – 2/8/06
12	University Center	11/22/05 – 2/20/06
13	Lakefront Arena	12/7/05 – 2/23/06
14	Engineering Building	1/6/06 – 2/25/06
15	Business Building	1/16/06 – 3/24/06
16	Recreation & Fitness	3/6/06 – 4/10/06
17	Education Building	11/9/05 -5/2/06
18	Geology & Psychology	5/1/06 – 6/21/06
19	CERM	5/23/06 – 6/23/06
20	Performing Arts	6/23/06 – 7/19/06
21	Fine Arts	6/30/06 – 7/21/06
22	Alumni & Development	Not complete
23	Cove	Not complete
24	East Campus Athletics	Not complete
25	East Campus Central Plant	Not complete
26	Lafitte Village	Not complete
27	Slidell	Not complete

LSU
HEALTH CARE SERVICES DIVISION
LOUISIANA'S HEALTH SYSTEM

BOGALUSA MEDICAL CENTER
EARL K. LONG MEDICAL CENTER - BATON ROUGE
HUEY P. LONG MEDICAL CENTER - ALEXANDRIA
LALLIE KEMP REGIONAL MEDICAL CENTER - INDEPENDENCE
L. J. CHABERT MEDICAL CENTER - HOUMA
MEDICAL CENTER OF LA AT NEW ORLEANS
UNIVERSITY MEDICAL CENTER - LAFAYETTE
W. O. MOSS REGIONAL MEDICAL CENTER - LAKE CHARLES

February 16, 2007

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

RE: Legislative Audit Finding
Un-located Movable Property
Medical Center of LA at New Orleans
Fiscal Year Ended June 30, 2006

Dear Mr. Theriot:

The Louisiana State University Health Care Services Division (LSUHCSD) concurs with the referenced legislative audit finding. Comments and corrective action taken are outlined in the preliminary response submitted by Bob Plaisance, Interim Chief Financial Officer of MCLNO, on January 23, 2007.

It should be noted that these infractions occurred immediately following the worst disaster in our nation's history – Hurricane Katrina. We recognize that it is our responsibility to have disaster and business continuity plans in place to ensure internal controls during a disaster, which we had and have since strengthened as a result of lessons learned during and after the storm.

Edmond Toscano, MCLNO Director of Property, and Reginald Ratcliff, Sr., HCSD Financials Asset Manager, are responsible for follow up and adherence to the corrective actions already put in place.

Sincerely,

Donald R. Smithburg
Executive Vice-President, LSU System
CEO, LSU Health Care Services Division

Louisiana State University Health Care Services Division • 8550 United Plaza Blvd., Ste. 400 • Baton Rouge, Louisiana 70809-2256
WWW.LSUHSC.EDU/HCSD PHONE (225) 922 - 0490 FAX (225) 922 - 2259

LSU
HEALTH CARE SERVICES DIVISION
LOUISIANA'S HEALTH SYSTEM

BOGALUSA MEDICAL CENTER- BOGALUSA
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L. J. CHABERT MEDICAL CENTER-HOUMA
MEDICAL CENTER OF LOUISIANA AT NEW ORLEANS
UNIVERSITY MEDICAL CENTER-LAFAYETTE
W. O. MOSS REGIONAL MEDICAL-LAKE CHARLES

January 23, 2007

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

Dear Mr. Theriot:

Attached please find MCLNO's response to the Legislative Auditor's Finding Number 1 presented in your letter to me of January 16, 2007. I appreciate your and the Legislative Auditor's review and findings involving the operation of the Medical center of Louisiana at New Orleans. Please advise if additional information or documentation is required relative to this matter.

Respectfully,

Robert M. Plaisance
Interim Chief Financial Officer
Medical Center if Louisiana at New Orleans

RMP/js

cc: Dr. Dwayne Thomas
Mitch Perlin
Donald R. Smithburg
Bill Boston
Art Landry

8550 UNITED PLAZA BLVD. STE. 400 • BATON ROUGE, LOUISIANA 70809 – 2256
PH: 225.922.0488 FX: 225.922.2259 WWW.LSUHSC.EDU/HCSD

Response to Legislative Audit Finding
Dated January 16, 2007

Finding Number 1-Unlocated Movable Property

Management Concurs

Explanation-As a result of the Storms in 2005, real property in Charity and University Hospitals was damaged beyond recognition by flood waters. Much of the equipment was removed by contracted vendors and discarded. Serial numbers and inventory tags were not readable. Therefore, necessary data for completion of the Property Disposal Authorization form could not be obtained.

Evacuation of the city caused our managers and other inventory essential employees to be spread throughout the State and the United States. In addition to the impact caused by the physical evacuation of our employees, our manpower capacities were further diminished by the furlough and eventual lay-off of personnel which occurred post the storm. Employment of essential personnel was maintained by the Hospital when available but many employees were and continue to be physically located in other cities and therefore are not available to complete the paperwork proscribed by internal policy. In many cases we were not aware of how to contact these people.

When the military left New Orleans, we did not have enough MCLNO Police staff available to adequately lock down all of our buildings and secure our assets and a direct result of that inability to staff resulted in the loss of assets to both undocumented transfers to other facilities and the actual loss of assets through theft although it should be clearly understood that we at MCLNO believe that portions of the Unlocated Movable Property have yet to be located and remain within one or more of our facilities.

Corrective Action- Management has reinstated appropriate controls and reinforces the mandated use of the Property Disposal Authorization form. Additional Officers have been brought back to secure our buildings. A contract has been let to provide for additional personnel to secure the buildings. Management has contacted other HCSD facilities to obtain the necessary paperwork for equipment shipped to those facilities. The Property Accounting Department has begun to perform an internal inventory and has found some of the missing equipment and we expect to find more in the coming weeks. Property Accounting has increased staff. Management is exploring better methods to secure assets in the future. The Medical Center of Louisiana New Orleans and the Healthcare Services Division is currently assessing all existing policies to assure that the lessons learned from our experiences are memorialized and better practices used in the future. The Director of Property Accounting is the responsible party within MCLNO for the control of capital assets. Completion date for the review and adoption of new policies is slated for the spring of 2007.