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LOUISIANA STATE UNIVERSITY SCHOOL OF MEDICINE IN NEW ORLEANS FACULTY GROUP d/b/a LSU HEALTHCARE NETWORK AND SUBSIDIARIES

Management's Discussion and Analysis,
Consolidated Financial Statements as of and
for the Years Ended June 30, 2008 and 2007,
and Independent Auditor's Report

Contents

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ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of
Louisiana State University School of Medicine in
New Orleans Faculty Group Practice

We have audited the accompanying consolidated balance sheet of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice d/b/a LSU Healthcare Network and Subsidiaries (a Louisiana non-profit corporation) (LSUHN) as of June 30, 2008, and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the LSUHN's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of LSUHN as of June 30, 2007, were audited by other auditors whose report dated October 4, 2007, expressed an unqualified opinion on those statements. We did not audit the financial statements of University Medical Group, LLC (a consolidated subsidiary) (UMG), which statements reflect total assets constituting 33% and 24% of consolidated total assets as of June 30, 2008 and 2007, respectively, and total revenues constituting 48% and 46% of consolidated total revenues for the years ended June 30, 2008 and 2007, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UMG, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of LSUHN as of June 30, 2008, and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2008, on our consideration of LSUHN's internal control over financial reporting and 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.

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Management's Discussion and Analysis on pages 4 through 13 is not a required part of the basic consolidated 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LSUHN's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of LSUHN. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 2, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice d/b/a LSU Healthcare Network's (LSUHN) annual financial report presents management's discussion and analysis of financial performance during the fiscal year ended June 30, 2008. It should be read in conjunction with the consolidated financial statements in this report.

FINANCIAL HIGHLIGHTS

Hurricane Katrina

On August 29, 2005, Hurricane Katrina struck the Greater New Orleans area causing widespread destruction that significantly impacted LSUHN. Business activity in the New Orleans area substantially came to a halt in September 2005, while Lafayette and Baton Rouge clinics experienced more moderate interruptions. Fiscal year 2008 was a year of consolidation of our clinic operations. Our medical practice has stabilized in permanent locations.

General

LSUHN reflected a change in net assets of $428,274 for the year ended June 30, 2008, compared to a change in net assets of $910,862 for the year ended June 30, 2007.

- Patient service revenue net of contractual adjustments and allowances and bad debt was about $2.22 million higher in fiscal year 2008 than fiscal year 2007.
- Net increase of $2.90 million in capitated revenue in excess of claims paid.
- Personnel and leased non-faculty expense increased $.98 million for the year.
- Physician compensation and enhancement fund expenses increased over $1.84 million.
- General and administrative expenses increased $2.84 million.
- A decrease in medical supplies expense of $.18 million.

Total assets at June 30, 2008, increased $1.08 million from June 30, 2007. Cash decreased $.58 million while accounts receivable increased $.26 million, and other assets increased $1.51 million. Current assets exceed current liabilities by nearly $7 million, and LSUHN has a current ratio of 1.67.

Change in Revenue Cycle Contractor

In February 2008, LSUHN and GE Healthcare (GE) agreed to an early termination of the LSUHN contract with GE Healthcare for information systems, back-office staffing and other revenue cycle support. Effective April 30, 2008, LSUHN contracted with PST Services, Inc. (PST), a McKesson Company, and with Acadiana Computer Systems, Inc. (ACS) to replace the GE services. PST will service the greater New Orleans area and ACS will service the Baton Rouge and Lafayette area. Both are contracted for a 3 year period ending in April 2011.

As part of the contract, PST purchased the Allscripts Touchworks® Practice Management System (Allscripts) and the servers and other software necessary to support the LSUHN clinics. LSUHN retains ownership of the software and hardware at the end of the contract term. The servers for the Practice Management System and the Electronic Health Record systems are under the management and control of the LSUHN Information Technology department.

The transition from GE to PST resulted in one time costs of $1.36 million for data transfer and early cancellation. LSUHN incurred an additional cost of $400,000 for the transfer of software licenses from GE to LSUHN for the Allscripts charge capture software.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Consolidated Financial Statements, and the OMB Circular A-133 Compliance and Government Auditing Standards Reports.

The *Consolidated Financial Statements* of LSUHN and its Subsidiaries report the consolidated financial position of LSUHN and the consolidated results of its operations and its cash flows. The consolidated financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about LSUHN's activities.

The *Consolidated Balance Sheets* include all of LSUHN's and its Subsidiaries' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to LSUHN's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of LSUHN and assessing the liquidity and financial flexibility of LSUHN.

All of the current and prior year's revenues and expenses are accounted for in the *Consolidated Statements of Revenues, Expenses and Changes in Net Assets*. These statements measure the performance of LSUHN's operations over the past two years and can be used to determine whether LSUHN has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the *Consolidated Statements of Cash Flows* is to provide information about LSUHN's cash from operations, investing, and financing activities. The cash flow statement outlines where the cash comes from, what the cash is used for, and the change in the cash balance during the reporting period.

The annual report also includes *Notes to Consolidated Financial Statements* that are essential to gain a full understanding of the data provided in the consolidated financial statements. The notes to the consolidated financial statements can be found immediately following the financial statements in this report.

FINANCIAL ANALYSIS OF THE HEALTHCARE NETWORK

The consolidated balance sheets and the consolidated statements of revenues, expenses and changes in net assets report information about the practice's activities. These two statements report the net assets of LSUHN and the changes in them. Increases or improvements, as well as decreases or declines in the net assets, are one indicator of the financial state of the practice. Other non-financial factors that should also be considered include changes in economic conditions, changes in population patterns (including uninsured and working poor) and new or changed government legislation.

Condensed Consolidated Balance Sheets
(In Thousands)

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Total % Change
Current and other assets	$ 19,820	$ 18,606	$ 1,214	7%
Capital assets	1,024	1,160	(136)	(12)%
Total assets	$ 20,844	$ 19,766	$ 1,078	5%
Debt Outstanding	$ 160	$ 217	$ (57)	(26)%
Other liabilities	10,368	9,661	707	7%
Total liabilities	10,528	9,878	650	7%
Invested in capital assets - net of related debt	864	942	(78)	(8)%
Unrestricted	9,452	8,946	506	6%
Total net assets	10,316	9,888	428	4%
Total liabilities and net assets	$ 20,844	$ 19,766	$ 1,078	5%

Net assets increased by $428,274 during the fiscal year ended June 30, 2008. Net income from operations decreased $210,475 from the prior fiscal year. There was also an increase in other non-operating expenses net of revenue of $272,113 from the prior fiscal year.

Summary of Revenues, Expenses and Changes in Net Assets

The following table presents a summary of the practice's historical revenues and expenses for each of the fiscal years ended June 30, 2008 and 2007:

Condensed Statement of Revenues, Expenses and Changes in Net Assets
(In Thousands)

	Fiscal Year 2008	Fiscal Year 2007
Net patient service revenue	$ 35,493	$ 33,272
Capitation revenue	33,511	28,192
Grant revenue	600	-
Total operating revenues	69,604	61,464
Operating and administrative	37,492	32,113
Medical claims paid	27,191	24,772
Depreciation and amortization	1,136	584
Total operating expenses	65,819	57,469
Operating income	3,785	3,995
Nonoperating revenues (expenses):		
Medical school enhancement fund	(3,518)	(3,412)
Interest income, interest expense, other - net	161	328
Changes in net assets	428	911
Total net assets - beginning of year	9,888	8,977
Total net assets - end of year	$ 10,316	$ 9,888

During fiscal year 2008, the practice generated 51% of its total revenues from patient care with the other 49% being derived from capitation revenue from LSUHN's wholly owned subsidiary, University Medical Group, LLC (UMG). This represents a 2% decrease in patient care revenue to capitation revenue compared to fiscal year 2007.

LSUHN provides care to patients in the Louisiana public hospital system (Medical Center of Louisiana or MCL) without regard to their ability to pay for those services. During the year ended June 30, 2008, charity charges entered into the billing system and adjusted off totaled over $30.12 million compared to $22.39 million during the year ended June 30, 2007.

The following table represents the relative percentage of gross charges billed for patient services by payor for the years ended June 30, 2008 and 2007:

	Fiscal Year 2008	Fiscal Year 2007
Medicare	14 %	12 %
Medicaid	30	27
HMO/PPO	27	28
Self-pay	7	11
Free care/indigent	22	22
Total gross charges	100 %	100 %

OPERATING AND FINANCIAL PERFORMANCE

Operating and financial performance in fiscal year 2008 reflect the steady improvement and stabilization experienced during the post Katrina rebuilding of the practice. LSUHN continues to operate clinic sites in medical office buildings adjacent to Ochsner Baptist, Ochsner Kenner, Children's Hospital, East Jefferson Hospital and West Jefferson Hospital and in the Behavioral Sciences Center near Touro Infirmary. LSUHN's physicians also provide services in hospital-based clinics at Ochsner Kenner, East Jefferson, and the LSU Interim Hospital (Medical Center of Louisiana at New Orleans).

The following summarizes between 2008 and 2007, the practice's Statements of Revenue, Expenses and Changes in Net Assets:

- Revenue from patient services net of contractual allowances, adjustments and bad debt increased 6.68% from 2007 to 2008.
- Non-physician personnel expense increased $.98 million or nearly 16%.
- General and administrative expenses increased by $2.84 million in 2008 primarily due to the cost of implementing an electronic medical record and to the termination fee paid to GE.
- Medical supplies/drugs expense decreased $.18 million due to a reduction in the oncology physician staff.
- Medical claims paid decreased by $2.42 million during FY 2008.
- Payments for leased employees-faculty increased $1.74 million.
- Enhancement Fund payments increased $.11 million.

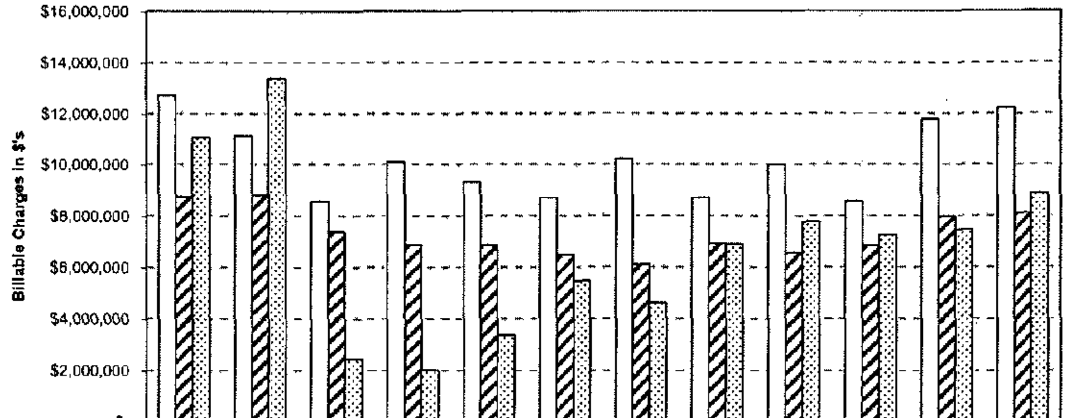
After considering other net revenues and expenses, the practice realized an increase in net assets of nearly $.43 million in 2008 compared to a $.9 million increase in 2007.

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
For the Years Ended June 30, 2008 and 2007

Management's Discussion and Analysis

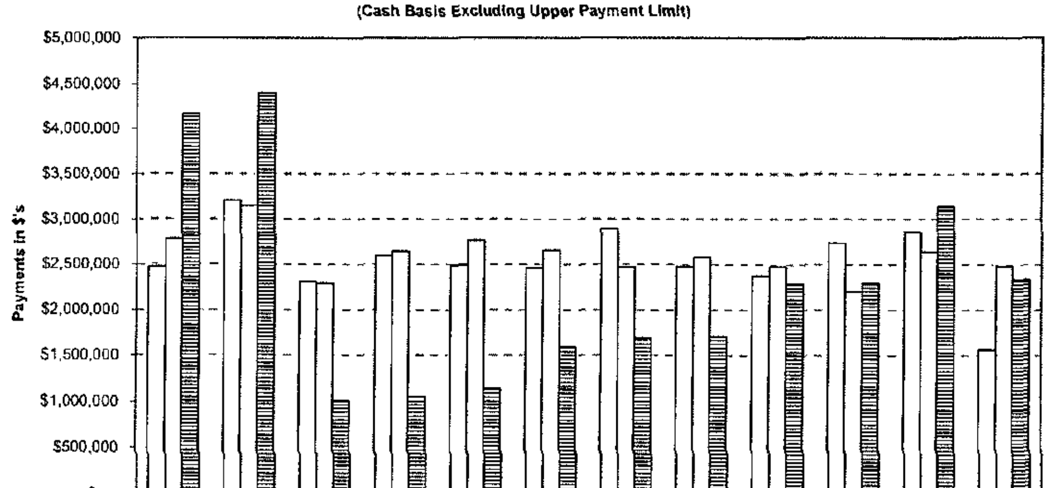
The following charts show the trend in billable charges, payments for the fiscal years 2008, 2007 and 2006:

LSU Healthcare Network
Billable Charges
FY 2008, FY 2007 and FY 2006
(Cash Basis)



	July	August	September	October	November	December	January	February	March	April	May	June
2008	$12,722,404	$11,123,079	$8,573,196	$10,100,582	$9,303,379	$8,696,859	$10,223,638	$8,695,010	$9,989,276	$8,567,431	$11,790,669	$12,211,143
2007	8,728,241	8,792,994	7,360,073	6,861,631	6,845,227	6,478,060	6,116,885	6,901,006	6,548,849	6,842,537	7,969,792	8,092,534
2006	11,055,499	13,358,769	2,463,369	2,023,961	3,379,675	5,456,884	4,627,175	6,888,976	7,759,313	7,237,291	7,454,073	8,864,233

LSU Healthcare Network
Payments Posted
FY 2008, FY 2007 and FY 2006
(Cash Basis Excluding Upper Payment Limit)



	July	August	September	October	November	December	January	February	March	April	May	June
2008	$2,470,107	$3,201,283	$2,306,640	$2,593,517	$2,485,395	$2,452,144	$2,892,294	$2,476,118	$2,374,370	$2,733,519	$2,858,738	$1,561,437
2007	2,781,266	3,144,203	2,288,779	2,644,173	2,758,738	2,652,487	2,468,382	2,578,402	2,474,728	2,200,158	2,641,786	2,477,386
2006	4,161,775	4,402,308	1,012,001	1,058,850	1,143,768	1,595,628	1,690,180	1,705,002	2,289,466	2,290,914	3,140,936	2,333,000

Month

Katrina impacted the practice on several levels. First is the impact on the population in the city needing medical services, second is the number of faculty practicing with LSUHN and third the number of facilities available in which to provide services. Recent population studies show about 78% of the pre-Katrina New Orleans population has returned. Population in the larger suburbs is generally near pre-Katrina levels while St. Bernard and Plaquemines parishes continue to be well below pre-storm levels. From 2005 to 2006, the practice lost about one-third of its top forty producers and closed its ambulatory surgery facility. With the current level of faculty and patients in New Orleans, charges and payments for the entire practice have returned to about 70% of pre-storm levels as of June 30, 2008. Baton Rouge and Lafayette have generally experienced increased levels of charge volume, primarily as the result of some of the displaced New Orleans residents remaining in those areas.

PERFORMANCE AGAINST BUDGET

In comparing actual versus budgeted fiscal year 2008 results, the following is noted (in thousands):

	FY 2008 Actual	FY 2008 Budget	Variance Favorable (Unfavorable)
Revenues:			
Net patient service revenue	$ 35,493	$ 34,680	$ 813
Capitation revenue	33,511	26,747	6,764
Grant revenue	600	-	600
Total revenues	69,604	61,427	8,177
Operating expenses:			
Leased employees - faculty	14,968	15,020	52
Personnel - salaries and benefits	7,085	6,324	(761)
General and administrative	14,249	11,076	(3,173)
Medical supplies and drugs	1,190	1,455	265
Medical claims paid	27,191	23,888	(3,303)
Depreciation and amortization	1,136	613	(523)
Total operating expenses	65,819	58,376	(7,443)
Operating income	3,785	3,051	734
Other revenues (expenses) - net	(3,357)	(3,051)	(306)
Change in net assets	$ 428	$ -	$ 428

- Overall patient service revenue net of contractual adjustments, allowances and bad debt expense were over budget by 2.3% in 2008.
    - Increased activity for Anesthesiology resulted in a positive budget variance for the department.
    - New physicians in Neurosurgery, OB-GYN, Urology, Baton Rouge and Lafayette resulted in a positive variance.
- General and administrative expenses reflected an unfavorable variance of 28.7% when compared to budget primarily due to:
    - Higher expenses for billing and collection services which are the direct result of baseline activity exceeding budget.
    - Termination fee paid to GE.
    - Expenses associated with the electronic health record.
    - Other professional fees for a Temporary Information System Consultant and Chief Financial Officer.
    - Personnel expense was over budget by about 12% primarily due to vacant positions not filled during the fiscal year and leased personnel for Westbank Surgery and leased LSU Health Sciences Center's (LSUHSC) personnel.
    - Moving expenses associated with the relocation and consolidation of Baton Rouge and New Orleans offices.
- Payment to LSUHSC for Leased faculty employee payments and Enhancement Fund payments were over budget by .3%. Actual payments for lease faculty are determined by cash available to departments after covering operating expenses. Enhancement Fund payments are based upon actual cash collections which were less than budget primarily due to the lower than expected Upper Payment Limit funds.

Capital Assets Summary
(In Thousands)

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Total % Change
Office furniture and fixtures	$ 870	$ 558	$ 312	56%
Computers and related equipment	562	1,007	(445)	(44)%
Medical equipment	621	1,213	(592)	(49)%
Leasehold improvements	364	201	163	81%
Subtotal	2,417	2,979	(562)	19%
Less accumulated depreciation	(1,393)	(1,820)	427	(23)%
Net capital assets	$ 1,024	$ 1,159	$ (135)	(12)%

The major capital outlay anticipated in FY 2008 is the purchase of cardiology equipment and telephone systems. Medical equipment totaling $687,932 were written off since it was not in service.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

LSUHN's Board and senior management considered many factors while developing the fiscal year 2009 budget. Southeast Louisiana has made significant progress since Hurricane Katrina, although many challenges remain for the practice and many of our patients. As a result, the focus of fiscal years 2007 and 2008, was stabilizing and rebuilding the practice. Our focus in 2009 will be growth in patient volume and improved practice productivity. The practice's major clinical site at Ochsner Baptist continues to grow, as do our secondary sites at Ochsner Kenner and East Jefferson. LSUHN opened clinics at West Jefferson in fiscal year 2008 and expects to expand in 2009. The implementation of an electronic medical record places LSUHN in a leadership role in the community and positions the practice to be a major contributor to the recovery of healthcare in the region.

Other important economic factors include:

- A successful relationship with our practice management partner
- Strategic relationships with our hospital partners
- Government regulations, including HIPAA
- Potential changes in Medicare reimbursement
- Cost of drugs and supplies
- Turnover in University faculty
- Cost of technology
- Maintaining a qualified workforce

CONTACTING THE PRACTICE'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of LSUHN's finances. If you have questions about this report or need additional financial information, please contact the Chief Financial Officer, LSU Healthcare Network, 1340 Poydras St., Suite 1640, New Orleans, LA 70112.

REPORT OF MANAGEMENT'S RESPONSIBILITY

The management of LSUHN is responsible for the preparation and integrity of the financial information presented in this report. The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and the Financial Accounting Standards Board and include amounts based on judgments and estimates made by management. Management also prepares the other information included in the report and is responsible for its accuracy and consistency with the consolidated financial statements.

The consolidated financial statements have been audited by the independent accounting firm of LaPorte Sehrt Romig Hand who was given unrestricted access to all financial records and related data, including the minutes of all meetings of the Board of Directors. The Board of Directors, through its Finance Committee (the Committee), provides oversight to the financial reporting process. Integral to this process is the Committee's review and discussion with management of the monthly financial statements and the external auditors for the annual consolidated financial statements.

LSUHN maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded and that assets are properly safeguarded, and also provide reasonable assurance to our management and the Board of Directors regarding the reliability of our consolidated financial statements. The internal control system includes:

- A documented organizational structure and division of responsibility
- Established policies and procedures that are regularly communicated and that demand highly ethical conduct from all employees

LSUHN's Executive Committee and Finance Committee monitor the operations and internal control system and report findings and recommendations to management and the Board of Directors as appropriate. Corrective actions are taken to address control deficiencies and other opportunities for improvement as they are identified.

Louisiana State University School of Medicine in New Orleans Faculty Group Practice (d/b/a. LSU Healthcare Network)

Frank G. Opelka, M.D.
Chief Executive Officer

Joel Sellers,
Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2008 and 2007

	2008	2007
Assets		
Current Assets		
Cash and Cash Equivalents	$ 6,158,620	$ 6,737,182
Accounts Receivable (Net of Contractual Allowances and Doubtful Accounts of $39,223,025 in 2008 and $31,531,828 in 2007)	11,155,606	10,900,074
Prepaid Expenses	69,656	43,962
Total Current Assets	17,383,882	17,681,218
Capital Assets, Net	1,024,044	1,159,687
Other Assets		
License Fees, Net of Amortization	2,040,618	590,000
Deposits and Investments	395,172	334,732
Total Other Assets	2,435,790	924,732
Total Assets	$ 20,843,716	$ 19,765,637
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 695,014	$ 618,203
Medical Claims Payable	4,109,738	3,445,742
Unearned Income	532,552	-
Leases Payable, Current Portion	59,555	57,702
Due to LSU Health Sciences Center	5,030,111	5,596,124
Total Current Liabilities	10,426,970	9,717,771
Leases Payable, Less Current Portion	100,376	159,770
Total Liabilities	10,527,346	9,877,541
Net Assets		
Invested in Capital Assets, Net of Related Debt	864,113	942,215
Unrestricted	9,452,257	8,945,881
Total Net Assets	10,316,370	9,888,096
Total Liabilities and Net Assets	$ 20,843,716	$ 19,765,637

The accompanying notes are an integral part of these consolidated financial statements.

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	2008	2007
Revenues		
Patient Service Revenue, Net of Contractual Adjustments and Allowances	$ 35,493,441	$ 33,271,875
Capitation Revenue	33,510,887	28,191,939
Grant Revenue	600,070	-
Total Revenues	69,604,398	61,463,814
Operating Expenses		
Leased Employees - Faculty	14,968,586	13,228,667
Leased Employees - Non-Faculty	1,135,058	711,872
Personnel - Salaries and Benefits	5,949,702	5,391,759
General and Administrative	14,248,797	11,404,631
Medical Supplies	1,190,320	1,374,605
Medical Claims Expense	27,191,077	24,772,382
Depreciation and Amortization	1,135,864	584,429
Total Operating Expenses	65,819,404	57,468,345
Income from Operations	3,784,994	3,995,469
Other Revenues (Expenses)		
Medical School Enhancement Fund	(3,518,030)	(3,412,186)
Interest Income and Other Income and Expenses	172,472	341,032
Interest Expense	(11,162)	(13,453)
Total Other Revenues (Expenses), Net	(3,356,720)	(3,084,607)
Change in Net Assets	428,274	910,862
Net Assets, Beginning of Year	9,888,096	8,977,234
Net Assets, End of Year	$ 10,316,370	$ 9,888,096

The accompanying notes are an integral part of these consolidated financial statements.

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Cash Received from Clinic Operations	$ 34,821,528	$ 33,348,827
Cash Received from Grant Operations	432,070	-
Cash Received from Capitation Revenue	33,827,222	27,726,297
Cash Payments for Personnel	(6,849,908)	(6,128,912)
Cash Payments for Leased Faculty	(15,541,871)	(21,317,068)
Cash Payments for Supplies and General and Administrative	(15,578,568)	(13,645,828)
Cash Payments for Medical Claims	(26,527,081)	(23,287,958)
Net Cash Provided by (Used in) Operating Activities	4,583,392	(3,304,642)
Cash Flows from Non-Capital Financing Activities		
Cash Payments for Enhancement Fund	(3,545,018)	(3,430,356)
Cash Payments for Medical School Expenses	(30,182)	-
Cash Receipts for Unearned Grant Income	736,993	-
Cash Received from Accounts Receivable - Other	-	40,588
Cash Payment for Deposits	(4,228)	(14,931)
Cash Payments for Allscripts' License	(1,980,984)	(600,000)
Contributions Received	-	15,000
Net Cash Used in Non-Capital Financing Activities	(4,823,419)	(3,989,699)
Cash Flows from Capital and Related Financing Activities		
Payments on Leases Payable	(57,541)	(76,112)
Purchase of Capital Assets	(556,889)	(658,268)
Investments by UMG	(56,213)	-
Proceeds from Sale of Capital Assets and Insurance Claim	-	643,534
Interest Payments	(11,859)	(10,470)
Net Cash Used in Capital and Relating Financing Activities	(682,502)	(101,316)
Cash Flows from Investing Activities		
Interest and Other Income Received	343,967	382,188
Net Cash Provided by Investing Activities	343,967	382,188
Net (Decrease) in Cash and Cash Equivalents	(578,562)	(7,013,469)
Cash and Cash Equivalents, Beginning of Year	6,737,182	13,750,651
Cash and Cash Equivalents, End of Year	$ 6,158,620	$ 6,737,182
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations	$ 3,784,994	$ 3,995,469
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation and Amortization	1,135,865	584,429
Change in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable, Net	355,578	(386,518)
(Increase) in Prepaid Expenses and Other Assets	(504,673)	(9,641)
(Decrease) Increase in Accounts Payable and Other Liabilities	(727,397)	636,653
Increase (Decrease) in Due to LSU Health Sciences Center	539,025	(8,125,034)
Net Cash Provided by (Used in) Operating Activities	$ 4,583,392	$ (3,304,642)

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Louisiana State University School of Medicine in New Orleans Faculty Group Practice, d/b/a LSU Healthcare Network and Subsidiaries (LSUHN), a Louisiana non-profit corporation, assists the LSU Health Sciences Center (LSUHSC) in carrying out its medical, educational, and research functions. The Board of Directors consists of seven (7) members who are representatives of the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU), the LSUHSC and the LSU School of Medicine in New Orleans as well as eight (8) Public or Community members who are not employees of LSU and are nominated by either the Nominating Committee or any member of the Board of Directors. Upon dissolution of LSUHN, any remaining assets would be distributed to the Board of Supervisors of LSU or its successor for distribution to LSUHSC or to the Louisiana State University Medical Center Foundation. LSUHN provides health care to the general public including, but not limited to, the delivery of physician medical services and other health care services to individuals. LSUHN receives compensation for these services from the Medicare and Medicaid programs, certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and directly from patients.

LSUHN's activities include services provided in both the public hospitals and the private clinics serviced by LSUHSC. LSUHN and LSUHSC (through the Board of Supervisors of LSU) have entered into Cooperative Endeavor and Operating Agreements that permit the two entities to work together on a mutually beneficial basis. The agreements delineate the obligations and responsibilities of both LSUHN and LSUHSC. Both parties have the right to terminate the Cooperative Endeavor Agreement with or without cause upon 60 days written notice. The agreements expired October 31, 2005, and have been renewed through September 30, 2008.

Basis of Accounting

The financial statements of LSUHN have been prepared using the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting/or Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the LSUHN has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) except those that conflict with a GASB pronouncement, including those issued after November 30, 1989.

Consolidation

The activity of the following entities that are controlled by LSUHN is included in these financial statements on a consolidated basis:

University Medical Group, LLC - LSUHN is the sole member of University Medical Group, LLC (UMG). UMG indirectly contracts with health maintenance organizations and other third-party payors under capitated arrangements to provide physician health care services to members who select UMG primary care physicians. UMG operates primarily in the New Orleans, Louisiana metropolitan area.

The purpose of UMG is to pursue risk contracts in which providers accept capitated payments for health care services. UMG has two primary goals: (1) to gain and protect market share for its providers, and (2) to generate and distribute surpluses in the event that capitation payments received exceed the cost of health care services provided.

Note 1. Summary of Significant Accounting Policies (Continued)

Consolidation (Continued)

LSUHN Surgery Center, LLC - LSUHN is the sole member of LSUHN Surgery Center LLC (LSUHN SC). LSUHN SC was formed to manage the day-to-day operations, including the billing and collection efforts, of the surgery center located at 2020 Gravier Street in New Orleans, Louisiana. LSUHN SC has not resumed activity since August 29, 2005, when Hurricane Katrina struck. There are no plans for LSUHN SC to resume activity.

University Technology Group, LLC - LSUHN is the only member of University Technology Group, LLC (UTG). UTG was formed to participate in technology ventures that will assist LSUHN in the delivery of health care services or any other activities that will enhance LSUHSC's ability to carry out its medical, educational or research missions. UTG has been inactive for several years and there are no plans to resume activity.

LSUHN Billing, LLC - LSUHN is the sole member of LSUHN Billing, LLC (LSUHN Billing). LSUHN Billing was formed in December 2007 for use by the billing company that handles Baton Rouge and Lafayette billing.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Estimates which are significant for LSUHN include contractual and bad debt allowances and the liability for medical claims payable. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

LSUHN considers all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents. Amounts are recorded at fair value.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from 3-5 years. Assets held under capital lease obligations are recorded at the present value of the minimum lease payments and are included in equipment. Amortization of leased assets is included in depreciation and amortization expense.

Medical Claims Payable

The unpaid medical claims liability represents management's best estimate of the ultimate net cost of all reported and unreported claims incurred during the reporting period, including out-of-network claims. The estimate is based on actuarial projections of the historical development of claims incurred, but not reported and case-basis estimates of claims reported prior to the end of the reporting period.

The estimate of the unpaid medical claims liability was based on the best data available to LSUHN; however, because of the limited number of members covered by LSUHN, the estimates are subject to a significant degree of inherent variability. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Although management believes the estimate of the unpaid medical claims liability is reasonable under the circumstances, it is possible that LSUHN's actual incurred claims expense will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of the claims may vary significantly from the estimate included in the accompanying financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

Operating Versus Non-Operating Revenue and Expenses

LSUHN distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with LSUHN's principal ongoing operations. The principal operating revenue of LSUHN is for patient services. Operating expenses include patient services expense, general and administrative expenses, supply and other expenses, and depreciation and amortization expenses. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Patient Service Revenue Net of Contractual Adjustments and Allowances

LSUHN has agreements with third parties that provide for payments at amounts different from its established rates. Net patient service revenue is reported in the financial statements at the estimated net amounts realizable from patients, third-party payors, and others for services rendered. Major third-party payor arrangements include the Medicaid and Medicare programs.

LSUHN has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to LSUHN under these agreements includes prospectively determined rates per office visit and discounts from established charges.

Charity Care

LSUHN provides care to patients in the Louisiana public hospital system without regard to their ability to pay for those services. LSUHN does not pursue collection of charges generated from providing services to patients that are determined to qualify for charity care and, as a result, these charges are not reported as revenue. However, in certain areas, the billing process requires that some free care charges be entered into the system before they are adjusted out of revenues. During the years ended June 30, 2008 and 2007, charity charges entered into the billing system and adjusted off were approximately $30,124,000 and $22,389,000, respectively.

As noted above, for those charity care charges entered into the billing system and adjusted off, LSUHN had previously allowed the charges to age in accounts receivable for ninety days while the accounts were screened for insurance coverage and then written off. In May 2007, the process was changed by management whereby accounts classified as charity care are no longer entered into the billing system and aged, but written off immediately.

Capitation Revenue

LSUHN receives capitated payments as compensation for a commitment to provide health care services to covered members. Capitation payments are recognized as revenue during the period in which LSUHN is obligated to provide health care services to these members. LSUHN pays a management fee to New Orleans Regional Physician Hospital Organization, Inc. (NORPHO) for management services provided under a management services contract.

Grant Revenue

LSUHN has received a grant from Louisiana Public Health Institute (LPHI) to provide discounted or free psychiatric services. As of June 30, 2008, $1,131,309 was received by LSUHN through this grant. Of the total amount received, $600,070 is included as revenue on the Consolidated Statement of Revenues and Expenses and Changes in Net Assets. The grant funds received, but not expended during the year was $531,239. This amount plus interest of $1,313 is reflected on the Consolidated Balance Sheet as of June 30, 2008, as unearned income. The total amount of unearned income is $532,552, as of June 30, 2008.

Note 1. Summary of Significant Accounting Policies (Continued)

Medical Claims Expense

LSUHN contracts with various physicians, physician groups, and other ancillary providers under the terms of Primary/Specialty Care Physician Agreements or other ancillary agreements for the purpose of providing health care services on behalf of LSUHN. Based on the nature of the agreements, medical expense is recognized either during the period in which LSUHN is obligated to provide medical services for members or during the period in which medical services are incurred by members.

LSUHN participates in a catastrophic reserve pool with the other independent physician associations (IPAs) in the Network to provide shared-risk insurance coverage on physician charges between $10,000 and $12,500 per member per year for calendar year 2008 and between $10,000 and $75,000 per member per year for calendar year 2007. LSUHN has stop-loss insurance coverage with an unrelated insurer for charges in excess of $12,500 per member per year up to a maximum of $1,000,000 per member per year. Amounts recoverable from the catastrophic reserve pool and the insurer are classified as accounts receivable.

Income Taxes

LSUHN is a non-profit corporation organized under the laws of the State of Louisiana. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, and qualifies as a support organization, as defined in Section 501(a) of the Code.

Net Assets

LSUHN prepares its financial statements in accordance with Governmental Accounting Standards Board Statement (GASBS) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in Capital Assets - Net of Related Debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Note 2. Related - Party Transactions

LSUHSC provides certain clinical and administrative services to LSUHN. Amounts paid for services provided under this arrangement were $15,541,871 and $22,298,636 during the years ended June 30, 2008 and 2007, respectively. As of June 30, 2008 and 2007, $3,690,437 and $4,466,722, respectively, was owed to LSUHSC for physician and non-physician services, including amounts accrued relating to accounts receivable.

Note 2. Related - Party Transactions (Continued)

In accordance with the Cooperative Endeavor and Operating Agreements with LSUHSC, LSUHN will provide management services, nursing services, technical support services, clerical services, billing and collection services and other support personnel as necessary. Also under this agreement, LSUHSC requires LSUHN to pay at least ten percent (10%) of its annual gross cash receipts to LSUHSC, through the Medical School Enhancement Fund (MSEF) to support the clinical, academic and research missions of LSUHSC. Cash payments totaling $3,545,018 and $3,430,356, were made to the MSEF during the fiscal years ended June 30, 2008 and 2007, respectively. As of June 30, 2008 and 2007, $1,019,443 and $1,046,430, respectively, was due to LSUHSC for MSEF payments, including amounts accrued relating to accounts receivable.

In addition, as of June 30, 2008 and 2007, leased faculty expense and other expenses due to LSUHSC were $320,231 and $82,972, respectively.

Tenet Healthcare Corporation and its subsidiaries (Tenet) formerly owned several acute care and specialty hospitals located in the New Orleans metropolitan area, and as of December 31, 2007, continued to own one acute care hospital and a diagnostic imaging service. Several IPAs, including UMG, Tenet, through its Hospital Risk Pools, and NORPHO operate as the Network (Network). The Network operates under a master operating agreement with Tenet Choices, Inc. (TCI), a health maintenance organization, wholly owned by Tenet. The Network provides covered medical services under certain Medicare Advantage Prescription Drug HMO, POS and PPO products plan members located in southeast Louisiana.

NORPHO is a physician hospital organization that contracts with TCI under a capitated arrangement to provide physician and hospital health care services to plan members. NORPHO provides all administrative services necessary for the operation of the Network, including, but not limited to, financial services, medical management, claims processing, member services, and provider relations for the Network. Tenet owns 50% of NORPHO and the IPAs, collectively, own the remaining 50% of NORPHO.

Over the past few years, the Network has expanded to provide services to certain areas in south Louisiana. Tenet, through its hospital risk pools, and the related IPAs have assumed an equal share of risk for the expansion area services. The risk primarily relates to medical expenses exceeding revenue during the start-up phase of the expansion areas and is allocated to the hospital risk pools and IPAs based on ownership in NORPHO. No similar allocation was made as of June 30, 2007.

Note 2. Related - Party Transactions (Continued)

At June 30, 2008, the following expansion area assets, liabilities, revenues, and expenses were allocated to UMG and included in the financial statement amounts:

Assets		
Cash and Cash Equivalents	$	290,964
Receivables		391,562
Total Assets	$	682,526
Liabilities and Deficit		
Medical Expense Liabilities		1,226,767
Total Liabilities	$	1,226,767
Deficit		(544,241)
Total Liabilities and Deficit	$	682,526
Revenue	$	7,634,994
Expenses		8,179,235
Net Loss	$	(544,241)

UMG, the wholly owned subsidiary of LSUHN, operates under a management services agreements with NORPHO. The agreement expires on December 31, 2008. Management fees were $4,419,642 and $2,945,499 in 2008 and 2007, respectively.

Beginning January 1, 2007, UMG had an out-of-network claims reimbursement agreement with NORPHO that required NORPHO to reimburse UMG monthly for out-of-network claim payments that exceeded 5% of the period's capitation revenue. Under the terms of this agreement, UMG recovered $472,399 and $51,664 in 2008 and 2007, respectively.

This agreement was not effective for July through December 2006.

Note 3. Major Payor

Currently, all contracts with third-party payors are executed through NORPHO. UMG earned 100% of capitation revenue from TCI in 2008 and 2007. TCI and NORPHO contract with Centers for Medicare and Medicaid Services (CMS) under a Medicare Advantage contract and a Medicare PPO contract (the Plans).

Under the terms of the Medicare Advantage contract, TCI has agreed to provide medical services to Medicare enrollees in return for capitated payments under the products Choices 65, HealthCare Select, Choices Plus, and Secure Health. The contract originally expired December 31, 2000, but automatically renews for successive periods of one year unless written notice of intention not to renew is given. The contract has been renewed through December 31, 2008. Approximately 100% of TCI's revenue is earned under contracts for these products. A significant modification to or termination of this arrangement could have a material effect on UMG's results of operations and financial condition.

UMG had contracted with other Network members to provide medical services through August 31, 2007. Effective September 1, 2007, UMG terminated this contract with other Network members to provide medical services. NORPHO provides these medical services to the Network. These contracts accounted for 2% and 13% of capitation revenue in 2008 and 2007, respectively.

Beginning January 1, 2006, UMG through the Network, began offering Medicare Part D prescription drug insurance coverage under a contract with CMS. The CMS Premium, the Member Premium, and the Low-Income Premium Subsidy represent payments for UMG's insurance risk coverage under the Medicare Part D program and therefore are recorded as gross capitation revenue in operations. Gross capitation revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. Pharmacy benefit costs and administrative costs under the contract are expensed as incurred and included in medical claims expense.

Note 4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 2007	Additions	Deletions	Transfers	Balance 2008
Office Furniture and Fixtures	$ 558,109	$ 91,000	$ (4,144)	$ 224,921	$ 869,886
Computers and Related Equipment	1,006,687	218,921	(411,175)	(252,558)	561,875
Medical Equipment	1,213,184	136,050	(687,932)	(39,779)	621,523
Leasehold Improvements	201,324	110,918	(15,676)	67,416	363,982
Total at Historical Cost	2,979,304	556,889	(1,118,927)	-	2,417,266
Less: Accumulated Depreciation	(1,819,617)	(605,499)	1,031,894	-	(1,393,222)
Capital Assets, Net	$ 1,159,687	$ (48,610)	$ (87,033)	$ -	$ 1,024,044

Note 5. Other Assets

Investments

UMG (see Note 1) invested $275,000 in NORPHO during the year ended June 30, 2000. NORPHO is responsible for pursuing contracts and third-party payors and for management functions such as financial services, medical management, claims management, member services, and provider relations for its hospital and independent physician association members, including UMG. UMG holds less than a 10% interest in NORPHO and accounts for the investment under the cost method.

As of December 31, 2004, another IPA terminated its management services agreement with NORPHO and ceased operations. Under the terms of a shareholders' agreement to which all of the IPAs are parties, termination of the management services agreement resulted in the loss of that IPA's eligibility to continue as a shareholder in Peoples Health Network (PHN). However, a dispute over the valuation of the withdrawing IPA's shares ensued, and the matter proceeded to arbitration. In 2007, a panel of arbitrators established the value of the shares of the departing IPA. Consequently, during 2007, UMG paid approximately $71,200 to acquire its proportionate interest of the departing IPA's shares in NORPHO.

On January 1, 2008, UMG sold a portion of its interest in NORPHO to another IPA for approximately $14,900. At June 30, 2008, UMG's investment in NORPHO was $331,213.

License Fees

License fees and installation expenses for the electronic health records system have been capitalized and are being amortized using the straight line method over a 5 year period. LSUHN's intangible assets consisted of the following at June 30, 2008 and 2007:

License Fees	2008	2007
Cost	$ 2,580,984	$ 600,000
Accumulated Amortization	(540,366)	(10,000)
Total	**$ 2,040,618**	$ 590,000

The amortization expense for the years ended June 30, 2008 and 2007, was $530,366 and $10,000, respectively. Future amortization expense for the intangible assets at June 30, 2008, is as follows:

Years Ending June 30,	Amount
2009	$ 516,197
2010	516,197
2011	516,197
2012	492,027
Total	$ 2,040,618

Note 6. Lease Commitments

Operating Leases

LSUHN leases office space and equipment under operating leases that expire at various dates through 2013. Certain of the lease agreements provide for escalations based on cost of operations. Several locations where LSUHN rented medical or office space prior to Hurricane Katrina were not renewed either due to a lack of need or an inability to rent in the same location.

Minimum annual lease payments as of June 30, 2008, are as follows:

Years Ending June 30,	Amount
2009	$ 1,105,145
2010	766,955
2011	594,384
2012	204,924
2013	71,873
Total	$ 2,743,281

In addition, LSUHN has a lease for the rental of clinic space and personnel services. Effective June 1, 2008, this lease is on a month to month basis for a monthly amount of $26,000.

Total rent expense for all of the above leases for the years ended June 30, 2008 and 2007, was $1,086,433 and $914,000, respectively.

Capital Leases

LSUHN leases certain medical equipment under three to five year capital lease agreements that include varying interest rates (5.82% - 12.5%) and bargain purchase options. Future minimum lease payments under capital leases, together with the present value of net minimum lease payments as of June 30, 2008, are as follows:

Years Ending June 30,	Amount
2009	$ 67,625
2010	66,451
2011	39,457
Total Minimum Lease Payments	173,533
Less: Amount Representing Interest	(13,602)
Present Value of Net Minimum Lease Payments	159,931
Less: Current Maturities	59,555
Leases Payable - Less Current Portion	$ 100,376

Note 7. Line of Credit

LSUHN maintains a $1,250,000 line of credit which expires on December 10, 2008. Interest is payable monthly and is computed on the basis of the actual number of days elapsed in a year of 360 days at "the adjusted LIBOR Rate" (the Note Rate) and at the rate of 3.00% per annum above the Note Rate, at the Bank's option, upon the occurrence of any default under this Note, whether or not the Bank elects to accelerate the maturity of this Note, from the date such increased rate is imposed by the Bank. "Adjusted LIBOR Rate" means, with respect to the relevant Interest Period, the sum of (i) the applicable margin plus (ii) the quotient of (a) the LIBOR Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirements (expressed as a decimal) applicable to such Interest Period. Borrowings against the line of credit are secured by accounts receivable and other assets. At June 30, 2008 and 2007, there were no outstanding borrowings against this line of credit.

Note 8. 401(k) Plan

In December 1997, LSUHN established a 401(k) plan for the benefit of its employees. The plan permits employees to contribute up to 15% of their compensation to the plan, subject to certain limitations. At its discretion, LSUHN may make contributions to the 401(k) plan for the benefit of participating employees. For the years ended June 30, 2008 and 2007, 401(k) plan expenses were $195,341 and $139,310, respectively.

Note 9. Concentrations of Credit Risk

LSUHN provides services in New Orleans, Baton Rouge, and Lafayette. LSUHN grants credit to its patients, some of whom are insured under third-party payor agreements. LSUHN routinely obtains assignment of, or is otherwise entitled to receive patients' benefits from, Medicare, Medicaid and other third-party payors. The mix of receivables from its patients and third-party payors at June 30, 2008 and 2007, was as follows:

	2008	2007
Medicare	**42.6 %**	38.1 %
Medicaid	**16.3**	12.5
Commercial	**21.2**	29.7
Self-pay	**19.9**	19.7
Total	**100 %**	100 %

LSUHN routinely invests available operating funds in highly liquid U.S. Government and agency obligations and money market mutual funds that generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. Government; however, management believes the credit risk related to these investments is minimal.

Note 10. Change in Third Party Billing Companies

LSUHN has terminated its billing contract with GE Healthcare (GE), as of April 30, 2008, and has contracted with PST Services, Inc. (PST), a McKesson Company, and Acadiana Computer Services, Inc. (ACS) to provide for these billing and follow up activities. There was a termination fee paid to GE during the year ended June 30, 2008, in the amount of $1,356,400. Transition services will be provided by GE for 180 days after the termination date.

Note 11. Insurance Coverage

Malpractice Insurance
The physicians leased to LSUHN by LSUHSC are provided professional liability coverage by LSUHSC in accordance with the provisions of LA. R.S. 40:1299.39 et seq. for the services provided under the Cooperative Endeavor and Operating Agreements. These provisions provide the physician with coverage on malpractice claims up to $500,000 per occurrence, which is the limit on medical malpractice claims under current state law.

Note 12. Government Regulations

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government oversight has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The office of the Inspector General of the Department of Health and Human Services has undertaken a project to audit Medicare billings of certain academic medical institutions. The government has stated that it believes that a significant amount of Medicare claims filed by teaching physicians are not properly documented as required by current interpretations of Medicare standards. If a provider is found to be in violation of these documentation standards, the government may require repayment of any overcharges and may impose a penalty of treble damages plus up to $10,000 per false claim. Management believes that LSUHN is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations, and with the Medicare documentation standards. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operations of LSUHN. Federal healthcare reform legislation proposals debated in Congress in recent years have included proposals for the imposition of price controls and/or healthcare spending budgets or targets, significant reductions in Medicare and Medicaid program reimbursement to healthcare providers and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of LSUHN's principal payors. It is not possible at this time to determine the impact on LSUHN of government plans to reduce Medicare and Medicaid spending, government implementation of national and state healthcare reform or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results and cash flows of LSUHN in future years.

Note 13. Commitments and Contingencies

In October 2006, LSUHN was named as a defendant in two lawsuits claiming wrongful death and damages resulting from the action of a physician leased by LSUHN from LSUHSC. The incidents occurred in a New Orleans hospital during the aftermath of Hurricane Katrina. LSUHN intends to vigorously defend itself and its representatives against these actions. At this time management is unable to determine with any certainty the settlement prospects or probability of success in either of these suits.

LSUHN has certain other pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed LSUHN's insurance coverage, and will not materially affect the financial position of LSUHN or the results of its operations.

An investigation of PHN was performed by the U.S. Justice Department, Eastern District of Louisiana. UMG, a wholly owned subsidiary of LSUHN, is a shareholder in PHN, a joint venture between Tenet and seven independent physician associations, including UMG. Beginning in 2003, several subpoenas were issued by the U.S. Justice Department requesting financial and organizational information. A subpoena was issued to UMG and a response was made on its behalf. Legal counsel was advised that Tenet settled numerous matters with the U.S. Department of Justice including all claims against PHN. The settlement included the payment of $15,423,316 by Tenet to the government for the PHN claims. It is unknown what amount UMG will be asked to contribute to the cost of the settlement, if any. Legal counsel has not made an evaluation of the likelihood that UMG would have to contribute to the reimbursement of Tenet nor determined a range of any potential contribution.

LSUHN has contracted with PST and ACS as the third party billing companies effective April 30, 2008. The contracts with PST and ACS are for a 3 year period expiring in 2011. The contract rate for net cash collections for PST and ACS are 7.5% and 13%, respectively.

OMB CIRCULAR A-133 SECTION

LaPorte Sehrt
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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Louisiana State University School of Medicine in
New Orleans Faculty Group Practice

We have audited the financial statements of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice, d/b/a LSU Healthcare Network and Subsidiaries (a Louisiana non-profit corporation) (LSUHN) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LSUHN's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LSUHN's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LSUHN's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LSUHN'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 herein under *Government Auditing Standards*.

LSUHN's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit LSUHN's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, the Louisiana Legislative Auditor and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statue 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 2, 2008

LaPorte Sehrt
Romig Hand
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Louisiana State University School of Medicine in
New Orleans Faculty Group Practice

Compliance

We have audited the compliance of Louisiana State University School of Medicine in New Orleans Faculty Group Practice, d/b/a LSU Healthcare Network and Subsidiaries (a Louisiana non-profit corporation) (LSUHN) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. LSUHN's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of LSUHN's management. Our responsibility is to express an opinion on LSUHN's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LSUHN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on LSUHN's compliance with those requirements.

In our opinion, LSUHN complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of LSUHN is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered LSUHN's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LSUHN's internal control over compliance.

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Internal Control Over Compliance

The management of LSUHN is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered LSUHN's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LSUHN's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the Louisiana Legislative Auditor and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statue 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 2, 2008

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through the State of Louisiana, through the Department of Health and Hospitals:			
Primary Care Access and Stabilization Grant	93.776	-	$ 600,070
Total U.S. Department of Health and Human Services			$ 600,070
Total Federal Financial Assistance			$ 600,070

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of LSUHN and is prepared in accordance with the accrual method of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Note 2. Subrecipients

There were no payments to subrecipients for the fiscal year ended June 30, 2008.

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of LSUHN.

2. Significant deficiencies relating to the audit of the financial statements of LSUHN are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. See items 2008-1 and 2008-2.

3. No instances of noncompliance material to the financial statements of LSUHN were reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditor's report on compliance for the major federal award program for LSUHN expresses an unqualified opinion.

6. There were no findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. A management letter was not issued for the year ended June 30, 2008.

8. The program tested as a major program included:

Program	CFDA No.
Primary Care and Access Stabilization Grant	93.776

9. The threshold for distinguishing Types A and B programs was $300,000.

10. LSUHN was determined to be a high-risk auditee.

B. Findings Related to the Financial Statements

2008 - 1 Payroll Segregation of Duties

Condition: LSUHN has one person responsible for preparing payroll input, reviewing the payroll journals from the payroll system, finalizing each payroll for employees and amounts, determining the bank transfer, and distribution of bank transfers to the employee's accounts for each payroll.

Cause: LSUHN does not have procedures in place to ensure segregation of duties within the payroll process.

Effect: This combination of duties is completely incompatible and significantly increases the chance of an error or irregularity going undetected.

Recommendation: We strongly suggest that some of these functions be segregated among other employees to protect the assets of the organization. At a minimum, we suggest having someone else finalize each payroll and transfer the funds.

Management's Response: See management's corrective action plan.

2008 - 2 Fixed Asset Detail

Condition: LSUHN maintains its fixed asset detail and depreciation schedule utilizing an Excel spreadsheet. The fixed asset listing is categorized by department/clinic. Within each department, a listing of individual assets and assets by classification is not maintained. Tracking assets in this manner does not provide a clear audit trail to support the appropriateness of management's asset classifications and depreciation calculations.

Cause: LSUHN does not have procedures in place to maintain an individual listing of assets by asset classification in addition to its department classification.

Effect: This lack of detail increases the chance of an asset being categorized and depreciated incorrectly.

Recommendation: We recommend that LSUHN consider fully utilizing its current fixed asset software, FAS, to account for and monitor its physical assets and related depreciation. At a minimum, the Excel spreadsheet that is maintained should include the following information on each asset:

- Description, asset number, and location.
- Acquisition cost and date of acquisition.
- Assigned life and method of depreciation.
- Depreciation taken on an annual basis with accumulation thereof.

B. Findings Related to the Financial Statements (Continued)

2008 - 2 Fixed Asset Detail (Continued)

Management's Response: See management's corrective action plan.

C. Findings and Questioned Costs Related to Major Federal Award Programs

None

Section I Findings Related to the Financial Statements

None

Section II Findings and Questioned Costs Related to Major Federal Award Programs

None

Section III Management Letter

None

Findings Related to the Financial Statements

2008 - 1 Payroll Segregation of Duties

LSUHN has implemented new procedures to ensure segregation of duties within the payroll process. Beginning with the 10/10/08 payroll, the Human Resource Director will review and finalize each payroll and approve the transfer of funds. In the absence of the Human Resource Director, the Accounting Manager will review and finalize each payroll and approve the transfer of funds.

2008 - 2 Fixed Asset Detail

LSUHN will, in the upcoming year, work towards implementing a process which will fully utilize our fixed asset software, FAS, to maintain the physical assets and the related depreciation. If this is not feasible we will prepare an extended excel spreadsheet providing the information that was recommended.