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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, 2009 and 2008,
and Independent Auditor's Report

Contents

LaPorte Sehrt 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, 2009 and 2008, and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows for the years 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 audits. We did not audit the financial statements of University Medical Group, LLC (a consolidated subsidiary) (UMG), which statements reflect total assets constituting 35% and 33% of consolidated total assets as of June 30, 2009 and 2008, respectively, and total revenues constituting 42% and 48% of consolidated total revenues for the years ended June 30, 2009 and 2008, 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 audits 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits 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, 2009 and 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.

110 Veterans Memorial Boulevard, Suite 200, Metairie, LA 70005-4958 • 504.835.5522 • Fax 504.835.5535
5100 Village Walk, Suite 300, Covington, LA 70433-4012 • 985.892.5850 • Fax 985.892.5956
Town Hall West, 10000 Perkins Rowe, Ste. 200, Baton Rouge, LA 70810-1797 • 225.296.5150 • Fax 225.296.5151
www.laporte.com

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2009, 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.

Management's Discussion and Analysis on pages 4 through 14 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 an opinion on the basic financial statements of LSUHN taken as a whole. 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

September 16, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2009. It should be read in conjunction with the consolidated financial statements in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components – Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditors' Report, the Consolidated Financial Statements, and the Auditors' Report on Compliance and on Internal Control over Financial Reporting.

The *Consolidated Financial Statements* of LSU Healthcare Network and 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 the 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 basic financial statements in this report.

FINANCIAL ANALYSIS OF THE HEALTHCARE NETWORK

Financial results for LSUHN for fiscal year 2009 improved overall when compared to fiscal year 2008. Total assets at June 30, 2009 increased $2.93 million from June 30, 2008. Unrestricted cash decreased $.52 million and restricted cash increased $1.3 million, for a net increase in cash of $.8 million. Accounts receivable increased $.5 million, and other assets increased $1.68 million. Current assets exceed current liabilities by nearly $7 million, which is a current ratio of 1.57. The increase in other assets includes an additional investment of $2.2 million in People's Health Network by LSUHN's wholly owned subsidiary University Medical Group LLC (UMG).

Condensed Consolidated Balance Sheets
(In Thousands)

	Fiscal Year 2009	Fiscal Year 2008	Dollar Change	Total % Change
Current and other assets	$ 22,873	$ 19,820	$ 3,053	15 %
Capital assets	899	1,024	(125)	(12) %
Total assets	$ 23,772	$ 20,844	$ 2,928	14 %
Debt Outstanding	$ 94	$ 160	$ (66)	(41) %
Other liabilities	11,870	10,368	1,502	14 %
Total liabilities	11,964	10,528	1,436	14 %
Invested in capital assets - net of related debt	805	864	(59)	(7) %
Unrestricted	11,003	9,452	1,551	16 %
Total net assets	11,808	10,316	1,492	14 %
Total liabilities and net assets	$ 23,772	$ 20,844	$ 2,928	14 %

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, 2009 and 2008:

Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008
(In Thousands)

	Fiscal Year 2009	Fiscal Year 2008
Revenues		
Net patient service revenue	$ 39,405	$ 35,493
Capitation revenue	29,170	33,511
Grant revenue	963	600
Total Revenues	69,538	69,604
Operating Expenses		
Operating and administrative	40,245	37,492
Medical claims expense	22,933	27,191
Depreciation and amortization	883	1,136
Total Operating Expenses	64,061	65,819
Income from Operations	5,477	3,785
Non-operating Revenues (Expenses)		
Medical school enhancement fund	(3,926)	(3,518)
Interest income and other income and expenses	(59)	161
Change in Net Assets	1,492	428
Net Assets, Beginning of Year	10,316	9,888
Net Assets, End of Year	$ 11,808	$ 10,316

During fiscal year 2009, the practice generated 57% of its total revenues from patient care with the other 43% being derived from capitation revenue from University Medical Group, L.L.C. This represents a 6% increase in patient care revenue to capitation revenue over fiscal year 2008.

LSUHN provides care to patients in the Louisiana public hospital system in New Orleans, Baton Rouge and Lafayette, without regard to their ability to pay for those services. During the year ended June 30, 2009, charity charges entered into the billing system and adjusted off totaled over $35.6 million compared to $30.1 million during the year ended June 30, 2008.

Patient service revenue net of contractual adjustments and allowances and bad debt was $3.9 million higher in fiscal year 2009 than fiscal year 2008. Fiscal year 2008 patient service revenue included over $4 million in Medicaid Upper Payment Limit (UPL) funds, which fiscal year 2009 does not. Net capitation revenue in excess of claims paid decreased $.08 million compared to the previous fiscal year. Grant revenue increased $.36 million.

Personnel and leased non faculty expense increased $.73 million for the year. Physician compensation and enhancement fund expenses increased over $4.67 million. General and administrative expenses decreased $2.06 million. Medical supplies expense decreased $.18 million.

The following table represents the relative percentage of gross charges billed for patient services by payor for the years ended June 30, 2009 and 2008:

	Fiscal Year 2009	Fiscal Year 2008
Medicare	18 %	14 %
Medicaid	30	30
Managed Care	23	27
Self-pay	10	7
Free care/indigent	19	22
Total gross charges	100 %	100 %

OPERATING AND FINANCIAL PERFORMANCE

Operating and financial performance in fiscal year 2009 reflect the steady improvement and stabilization experienced during the four years ending June 30, 2009. LSUHN continues to operate clinic sites in medical office buildings adjacent to Ochsner Baptist, Ochsner Kenner, Children's Hospital, East Jefferson Hospital, West Jefferson Hospital and in the Behavioral Sciences Center near Touro Infirmary as well as a private clinic in Baton Rouge. LSUHN's physicians also provide services in hospital-based clinics at Ochsner Kenner, East Jefferson, and the LSU Interim Hospital in New Orleans, Earl K. Long Hospital in Baton Rouge, and University Medical Center in Lafayette.

In fiscal year 2009, the financial relationship between LSUHN and the LSU School of Medicine changed dramatically. In previous years, LSUHN retained revenue to cover all operating expenses, transferring the remaining funds to the School of Medicine as faculty leased employee expense.

Management's Discussion and Analysis

LSUHN management proposed a different business model for fiscal year 2009, moving to a management fee model based on a percentage of collections rather than the previous cost reimbursement model. LSUHN is now at risk for meeting revenue and expense goals. The fee structure set for the initial year varies by site of service and reflects the costs incurred by LSUHN to generate and collect the revenue. The fees are budgeted to decrease over a three year period as total revenue increases.

The following summarizes between 2009 and 2008, 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 11% from 2008 to 2009.
- Non-physician personnel expense increased $.73 million, or nearly 10%.
- General and administrative expenses decreased by over $2 million in 2009 primarily due to the onetime cost in 2008 of changing revenue cycle vendors and implementing a new practice management system.
- Medical supplies/drugs expense decreased $.18 million because oncology services were no longer provided
- Medical claims paid decreased by 16% during FY 2008 together with a 13% reduction in capitation revenue.
- Payments for leased employees-faculty increased 28%, or $4.5 million, because of increased patient care revenue and because of the change in the financial relationship between LSUHN and the School of Medicine.
- Enhancement Fund payments increased $.4 million, or 11.6%, because of increased collections on patient care services.

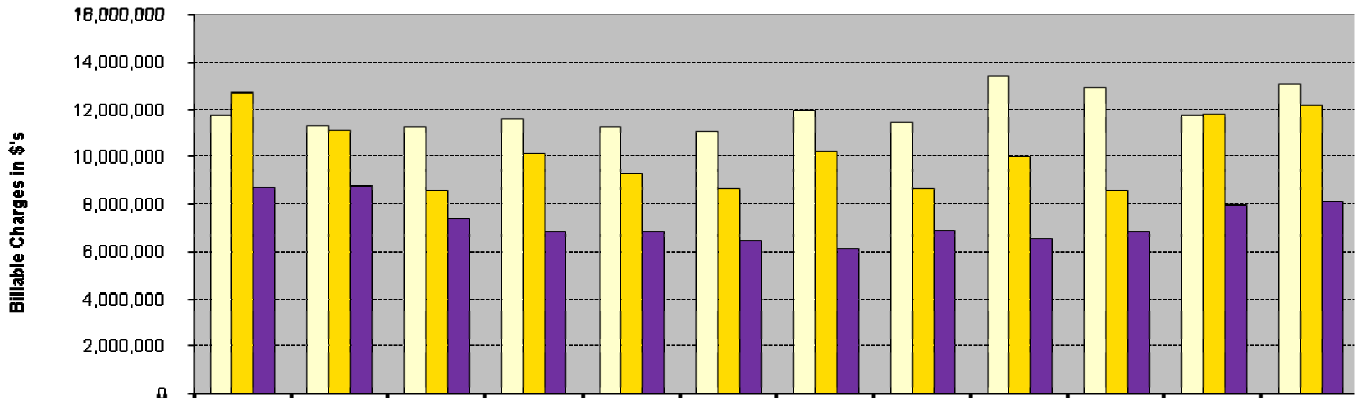
After considering other net revenues and expenses, the practice realized an increase in net assets of over $1.5 million in 2009 compared to a $.43 million increase in 2008.

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
For the Years Ended June 30, 2009 and 2008

Management's Discussion and Analysis

The following charts show the trend in billable charges and payments for the fiscal years 2009, 2008, and 2007:

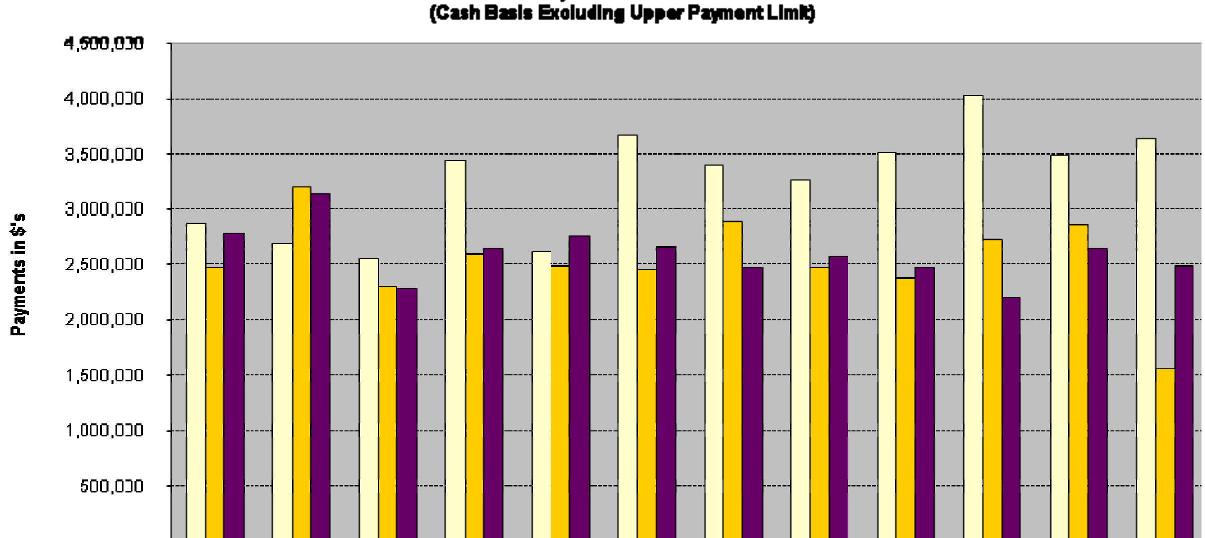
LSU Healthcare Network
Billable Charges
FY 2009, FY 2008 and FY 2007
(Cash Basis)



	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2009	11,739,141	11,328,366	11,301,021	11,604,123	11,279,999	11,079,760	11,959,599	11,466,717	13,386,563	12,893,441	11,735,370	13,037,905
2008	12,722,404	11,123,079	8,573,196	10,100,982	9,303,379	8,696,659	10,223,636	8,695,010	9,969,276	8,587,431	11,790,669	12,211,143
2007	8,726,241	8,792,994	7,380,073	6,861,631	6,845,227	6,476,060	6,116,665	6,901,006	6,546,649	6,842,537	7,969,792	8,092,634

Month

LSU Healthcare Network
Payments Posted
FY 2009, FY 2008 and FY 2007
(Cash Basis Excluding Upper Payment Limit)



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2009	2,872,254	2,683,629	2,549,649	3,436,496	2,610,461	3,633,948	3,398,615	3,261,138	3,512,923	4,028,633	3,488,459	3,630,347
2008	2,470,107	3,201,283	2,305,840	2,593,517	2,485,392	2,457,144	2,887,294	2,476,118	2,374,373	2,733,519	2,858,738	1,561,437
2007	2,781,286	3,144,203	2,286,779	2,644,173	2,758,732	2,652,487	2,468,382	2,578,402	2,474,723	2,200,158	2,641,766	2,477,356

Month

Patient volume in LSUHN private clinics increased over 30% in fiscal year 2009. Charges exceeded prior year in most months of fiscal year 2009, reflecting the increase number of patient encounters. Cash collections increased because of the increased patient activity. Collections in June and July 2008 were unusually low because of the change from one revenue cycle vendor to another in May 2008.

PERFORMANCE AGAINST BUDGET

In comparing actual versus budgeted fiscal year 2009 results, the following is noted (in thousands):

	FY 2009 Actual	FY 2009 Budget	Variance Favorable (Unfavorable)
Revenues			
Net patient service revenue	$ 39,405	$ 37,036	$ 2,369
Capitation revenue	29,170	28,564	606
Grant revenue	963	651	312
Total Revenues	69,538	66,251	3,287
Operating Expenses			
Leased employees - faculty	19,227	17,304	(1,923)
Leased employees - non-faculty	1,360	997	(363)
Personnel - salaries and benefits	6,455	5,662	(793)
General and administrative	12,193	11,147	(1,046)
Medical supplies	1,010	1,329	319
Medical claims expense	22,933	24,633	1,700
Depreciation and amortization	883	1,126	243
Total Operating Expenses	64,061	62,198	(1,863)
Operating Income	5,477	4,053	1,424
Total Other Revenues (Expenses), Net	(3,985)	(4,053)	68
Change in Net Assets	$ 1,492	$ -	$ 1,492

- Overall patient service revenue net of contractual adjustments, allowances and bad debt expense were over budget by 6.4% in 2009.
  - Net patient service revenue before Medicaid upper payment limit exceeded budget by 17%.
  - The surgery department exceeded budget by 47% because of the addition of a hand surgeon, and the increased volume in plastic surgery, vascular surgery and oncology surgery.
  - Medicine, neurology, family medicine, neurosurgery were under budget in total by 6% because volume growth assumed in the budget estimates did not materialize.
  - The departments of Anesthesiology, Obstetrics and Gynecology, Audiology, Pediatrics, Psychiatry and Urology each exceeded budget by over $100,000.
  - Baton Rouge and Lafayette exceeded budget by 36% because of improved processes which captured charges that were previously left unbilled. These processes were put in place by the new revenue cycle vendor for Baton Rouge and Lafayette.
- General and administrative expenses reflected an unfavorable variance of 9.4% when compared to budget primarily due to:
  - Higher expenses for billing and collection services which are the direct result of actual collections exceeding budget.
  - Outside services and other professional fees for strategic planning consulting, a contract for staff and equipment for vascular lab, and outside ultrasound services for Urology.
  - Insurance expense for a new neurosurgeon that was unbudgeted.
  - Membership and implementation fees for the University Hospital Consortium benchmarking system.
  - Higher than expected expense for support and maintenance of the electronic health record.
- Personnel expenses for leased and employed staff exceeded budget by 17.3%.
  - Excess leased personnel expense is largely related to personnel paid for through the PCASG (Primary Care Access and Stabilization Grant) funds.
  - Employee salary and benefit expense were over budgeted because two clinics were not closed and consolidated as expected. The position of Vice President for Business Development was added to the administration.
- Leased faculty expense exceeded budget by 11% because of increased collections.
- Medical supplies were below budget because of decreased oncology drug usage.
- Medical claims expense was slightly below budget because of a lower than budgeted number of covered lives under the capitation contract.
- Depreciation expense was below budgeted because budgeted capital purchases did not occur in Fiscal Year 2009.

- Other operating expenses were below budget because Medical School expenses were lower than expected. Enhancement fund expense exceeded budget because collections exceeded budget.
- Operating income exceeded budget by 35.2%.

Capital Asset Summary
(In Thousands)

	Fiscal Year 2009	Fiscal Year 2008	Dollar Change	Total % Change
Office furniture and telephones	$ 762	$ 870	$ (108)	(12)
Computers and related equipment	521	562	(41)	(7)
Medical equipment	684	621	63	10
Leasehold improvements	364	364	-	0
Totals at historical cost	2,331	2,417	(86)	(4)
Less accumulated depreciation	(1,432)	(1,393)	(39)	3
Capital assets - Net	$ 899	$ 1,024	$ (125)	(12)

Capital asset purchases in fiscal 2009 consisted of computer equipment for the electronic health record, software and hardware to bring vital sign readings directly into the electronic health record, and portable radiology equipment for a total of $242,000. Obsolete computer equipment and telephone equipment costing over $328,000 were disposed of in the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET
LSUHN's Board and senior management considered many factors while developing the fiscal year 2010 budget. The new business model implemented in fiscal 2009 was successful as indicated by a significant increase in patient volume and increased provider availability in the private clinics. LSUHN committed to reducing fees and overhead rates being covered by the School of Medicine over a three year period. Because the School of Medicine faced severe budget cuts from the State of Louisiana, LSUHN reduced management fees and overhead rates in most cases to the levels expected in year three of the new business model implementation. These reduced fees will allow LSUHN to push cash reserves to the School of Medicine to help cover reductions in State general funds.

The Pediatrics Department of the School of Medicine is withdrawing from LSUHN as of July 31, 2009, which will reduce revenue to LSUHN by approximately $7 million. Increased revenue from continued growth and new services reduces the total revenue loss to $2.9 million. General and administrative expenses are being reduced in fiscal 2010 through reductions in administrative staff. Clinic expenses are projected to increase because of additional staffing, a full year of increased rental expense and the cost of new services such as an in-house vascular diagnostic laboratory.

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)

Joel Sellers,
Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Cash and Cash Equivalents	$ 5,636,570	$ 6,158,620
Restricted Cash	1,327,616	-
Accounts Receivable (Net of Contractual Allowances and Doubtful Accounts of $23,521,598 in 2009 and $39,223,025 in 2008)	11,653,370	11,155,606
Prepaid Expenses	139,740	69,656
Total Current Assets	18,757,296	17,383,882
Capital Assets, Net	899,239	1,024,044
Other Assets		
License Fees, Net of Amortization	1,524,421	2,040,618
Deposits and Investments	2,591,401	395,172
Total Other Assets	4,115,822	2,435,790
Total Assets	$ 23,772,357	$ 20,843,716
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 2,044,972	$ 695,014
Medical Claims Payable	2,380,611	4,109,738
Unearned Income	384,391	532,552
Leases Payable, Current Portion	61,859	59,555
Due to LSU Health Sciences Center	7,060,575	5,030,111
Total Current Liabilities	11,932,408	10,426,970
Leases Payable, Less Current Portion	32,286	100,376
Total Liabilities	11,964,694	10,527,346
Net Assets		
Invested in Capital Assets, Net of Related Debt	805,094	864,113
Unrestricted	11,002,569	9,452,257
Total Net Assets	11,807,663	10,316,370
Total Liabilities and Net Assets	$ 23,772,357	$ 20,843,716

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, 2009 and 2008

	2009	2008
Revenues		
Patient Service Revenue, Net of Contractual Adjustments and Allowances	$ 39,404,947	$ 35,493,441
Capitation Revenue	29,170,183	33,510,887
Grant Revenue	962,725	600,070
Total Revenues	69,537,855	69,604,398
Operating Expenses		
Leased Employees - Faculty	19,226,910	14,968,586
Leased Employees - Non-Faculty	1,360,394	1,135,058
Personnel - Salaries and Benefits	6,455,181	5,949,702
General and Administrative	12,192,208	14,248,797
Medical Supplies	1,010,149	1,190,320
Medical Claims Expense	22,933,106	27,191,077
Depreciation and Amortization	882,940	1,135,864
Total Operating Expenses	64,060,888	65,819,404
Income from Operations	5,476,967	3,784,994
Other Revenues (Expenses)		
Medical School Enhancement Fund	(3,926,187)	(3,518,030)
Interest Income and Other Income and Expenses	(59,726)	172,472
Interest Income (Expense)	239	(11,162)
Total Other Revenues (Expenses), Net	(3,985,674)	(3,356,720)
Change in Net Assets	1,491,293	428,274
Net Assets, Beginning of Year	10,316,370	9,888,096
Net Assets, End of Year	$ 11,807,663	$ 10,316,370

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, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Cash Received from Clinic Operations	$ 38,715,575	$ 34,821,528
Cash Received from Grant Operations	1,146,585	432,070
Cash Received from Capitation Revenue	29,681,700	33,827,222
Cash Payments for Personnel	(7,861,255)	(6,849,908)
Cash Payments for Leased Faculty	(17,341,721)	(15,541,871)
Cash Payments for Supplies and General and Administrative	(12,527,257)	(15,578,568)
Cash Payments for Medical Claims	(24,586,265)	(26,527,081)
Net Cash Provided by Operating Activities	7,227,362	4,583,392
Cash Flows from Non-Capital Financing Activities		
Cash Payments for Enhancement Fund	(3,653,124)	(3,545,018)
Cash Payments for Medical School Expenses	(109,686)	(30,182)
Cash (Payments) Receipts for Unearned Grant Income	(198,262)	736,993
Cash Refund (Payment) for Deposits	3,770	(4,228)
Cash Payments for Allscripts' License	-	(1,980,984)
Increase in Restricted Cash	(1,327,616)	-
Net Cash Used in Non-Capital Financing Activities	(5,284,918)	(4,823,419)
Cash Flows from Capital and Related Financing Activities		
Payments on Leases Payable	(65,787)	(57,541)
Purchase of Capital Assets	(241,938)	(556,889)
Investments by UMG	(2,200,000)	(56,213)
Interest Payments	(1,861)	(11,859)
Net Cash Used in Capital and Relating Financing Activities	(2,509,586)	(682,502)
Cash Flows from Investing Activities		
Interest and Other Income Received	45,092	343,967
Net Cash Provided by Investing Activities	45,092	343,967
Net Decrease in Cash and Cash Equivalents	(522,050)	(578,562)
Cash and Cash Equivalents, Beginning of Year	6,158,620	6,737,182
Cash and Cash Equivalents, End of Year	$ 5,636,570	$ 6,158,620
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations	$ 5,476,967	$ 3,784,994
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation and Amortization	882,940	1,135,865
Change in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable, Net	(497,764)	355,578
Decrease (Increase) in Prepaid Expenses and Other Assets	296,659	(504,673)
(Decrease) in Accounts Payable and Other Liabilities	(688,840)	(727,397)
Increase in Due to LSU Health Sciences Center	1,757,400	539,025
Net Cash Provided by Operating Activities	$ 7,227,362	$ 4,583,392

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 October 31, 2009.

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 consolidated financial statements include the accounts of LSUHN and its wholly owned subsidiaries; University Medical Group, LLC, LSUHN Surgery Center, LLC, University Technology Group, LLC, and LSUHN Billing, LLC. The significant intercompany transactions and balances have been eliminated. The activity of the following subsidiaries of LSUHN is as follows:

Note 1. Summary of Significant Accounting Policies (Continued)

Consolidation (Continued)

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.

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.

Restricted Cash

This amount represents UMG's allocable portion of the distributable cash in the catastrophic reserve pool.

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2009 and 2008, charity charges entered into the billing system and adjusted off were approximately $35,593,000 and $30,124,000, 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
UMG, the wholly owned subsidiary of 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 UMG is obligated to provide health care services to these members. UMG 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, 2009 and 2008, $962,725 and $600,070, respectively, is included as revenue on the Consolidated Statement of Revenues and Expenses and Changes in Net Assets. The grant funds received, but not expended, including interest was $379,853 and $532,552, as of June 30, 2009 and 2008, respectively and is reflected on the Consolidated Balance Sheets as unearned income.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Medical Claims Expense (Continued)

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 $75,000 per member per year for calendar year 2009 and between $10,000 and $12,500 per member per year for calendar year 2008. 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 on the consolidated balance sheets.

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 $17,341,721 and $15,541,871, during the years ended June 30, 2009 and 2008, respectively. As of June 30, 2009 and 2008, $5,575,626 and $3,690,437, respectively, was owed to LSUHSC for physician and non-physician services, including amounts accrued relating to accounts receivable.

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.

Note 2. Related - Party Transactions (Continued)

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 $3,653,124 and $3,545,018, were made to the MSEF during the fiscal years ended June 30, 2009 and 2008, respectively. As of June 30, 2009 and 2008, $1,292,506 and $1,019,443, respectively, was due to LSUHSC for MSEF payments, including amounts accrued relating to accounts receivable.

In addition, as of June 30, 2009 and 2008, leased faculty expense and other expenses due to LSUHSC were $192,443 and $320,231, 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 June 30, 2009, continued to own one acute care hospital and a diagnostic imaging service. Several IPAs, including UMG, Hospital Risk Pools, and NORPHO operate as the Network (Network). Effective May 1, 2009, the Network operates under a master operating agreement with People's Health, Inc. (PHI), a health maintenance organization, wholly owned by NORPHO. Prior to May 1, 2009, the Network operated under a master operating agreement with Tenet Choices, Inc. (TCI), a health maintenance organization, wholly owned by Tenet, with Tenet, through its Hospital Risk Pools, operating as a component of the Network. 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.

On February 19, 2009, TCI entered into a definitive agreement with PHI, a wholly owned subsidiary of NORPHO, pursuant to which PHI assumed 100% of TCI's book of business (including the Medicare and non-Medicare business). Following receipt of all required regulatory approvals, this transaction closed on April 30, 2009, and became effective on May 1, 2009. As a related part of the overall transaction, NORPHO redeemed all stock held in NORPHO by an affiliate of Tenet Healthcare Corporation. In addition, NORPHO issued 4,800 additional shares of Class A Common Stock, of which UMG purchased 733.32 shares for $2,200,000 on April 30, 2009, effective May 1, 2009.

As a result of the overall transaction, the IPAs collectively own 100% of the issued and outstanding shares of Class A common stock of NORPHO. No other class of stock is issued and outstanding as of June 30, 2009. UMG holds a less than 20% investment interest in NORPHO and continues to account for the investment under the cost method. However, because UMG holds more than a 10% investment interest in NORPHO, it is subject to those provisions of the Louisiana Insurance Code relating to insurer holding companies, which include disclosure of certain transactions, prior approval of certain transactions, and filing and reporting obligations.

Note 2. Related - Party Transactions (Continued)

UMG does not believe that compliance with these laws will have a material adverse affect on the operations of UMG.

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. As a result of the overall transaction, and effective retroactively to January 1, 2009, the assets, liabilities, revenues, and expenses of the areas served outside of the greater New Orleans area, and for all hospital medical services, will be consolidated by NORPHO and will no longer be allocated to the IPAs for inclusion in their financial statements.

At June 30, 2009, a liability of $552,149 for service area expansion losses incurred through December 31, 2008 has been allocated to UMG and included in accounts payable and accrued liabilities on the consolidated balance sheets. At June 30, the following expansion area assets, liabilities, revenues, and expenses were allocated to UMG and included in the consolidated financial statement amounts:

	Year Ended June 30, 2009	2008
Assets		
Cash and Cash Equivalents	$ -	$ 290,964
Receivables	-	391,562
Total Assets	$ -	$ 682,526
Liabilities and Deficit		
Medical Expense Liabilities	$ **552,149**	$ 1,226,767
Total Liabilities	**552,149**	1,226,767
Deficit	**(552,149)**	(544,241)
Total Liabilities and Deficit	$ -	$ 682,526
Revenue	$ **4,237,257**	$ 7,634,994
Expenses	**4,245,165**	8,179,235
Net Loss	$ **(7,908)**	$ (544,241)

UMG, the wholly owned subsidiary of LSUHN, operates under a management services agreements with NORPHO. The agreement expires on December 31, 2009. Management fees were $3,515,434 and $4,419,642, in 2009 and 2008, respectively.

Note 2. Related - Party Transactions (Continued)

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 $211,664 and $472,399, in 2009 and 2008, respectively.

Note 3. Major Payor

Currently, all contracts with third-party payors are executed through NORPHO. UMG, the wholly owned subsidiary of LSUHN, earned 100% of capitation revenue from TCI for the twelve months ended June 30, 2008, and through April 30, 2009. From May 1, 2009 through June 30, 2009, UMG earned 100% of capitation revenue from PHI. PHI 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, PHI 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, 2009. Approximately 100% of PHI'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% of capitation revenue for the year ended June 30, 2008.

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. Gross Capitation Revenue

The plans provide prescription drug benefits to members under the Medicare Part D contract. The capitation revenue is subject to risk corridor adjustment, which permits the plans and CMS to share the risk associated with the ultimate costs of the Part D benefit. The adjustment may be positive or negative based on the application of risk corridors that compare a plan's actual prescription drug costs to their targeted costs, as reflected in the Medicare Part D bid.

Note 4. Gross Capitation Revenue (Continued)

The plans also receive subsidies from CMS for all or a portion of the deductible, co-insurance, and co-payment amounts for low-income beneficiaries. A settlement with CMS of the prospective subsidies based on actual prescription drug costs paid by the plans is made after the plans' year-end.

UMG, the wholly owned subsidiary of LSUHN, estimates and recognizes an adjustment to gross capitation revenue related to the risk corridor adjustment and an adjustment to drug costs for the low-income cost subsidy based upon prescription drug claims experience to date. UMG recorded a liability of $199,021 at June 30, 2009, for the 2008 plan year for its share of the Network plan settlements with CMS. In November 2008, the Network Plan received notification from CMS related to the reconciliation and final settlement of the calendar year 2007 Network Part D Plan. UMG's share of the final settlement liability required a decrease to premium revenue of $189,461 during the twelve months ended June 30, 2009.

The difference between the recorded estimate and the final determination of the amount to be received or paid will be recorded when such determinations are made and the final settlement amount could vary significantly from the amount recorded at June 30, 2009.

UMG periodically receives retroactive revenue adjustments from CMS resulting from changes in risk adjustment scores from prior periods. At June 30, 2009, UMG believes an accrual for these adjustments is not material.

At June 30, 2009, UMG accrued $365,000 for estimated risk score adjustments to 2008 revenue. The amount was received by UMG in August 2009.

Note 5. Capital Assets

Capital asset activity for the fiscal years ended June 30, 2009 and 2008, were as follows:

	Balance 2008	Additions	Deletions	Balance 2009
Office Furniture and Fixtures	$ 869,886	$ -	$ (107,840)	$ 762,046
Computers and Related Equipment	561,875	179,381	(220,637)	520,619
Medical Equipment	621,523	62,557	-	684,080
Leasehold Improvements	363,982	-	-	363,982
Total at Historical Cost	2,417,266	241,938	(328,477)	2,330,727
Less: Accumulated Depreciation	(1,393,222)	(366,743)	328,477	(1,431,488)
Capital Assets, Net	$ 1,024,044	$ (124,805)	$ -	$ 899,239

Note 5. Capital Assets (Continued)

	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

Depreciation expense amounted to $366,743 and $605,499, for the fiscal years ended June 30, 2009 and 2008, respectively.

Note 6. Other Assets

Investments

On January 1, 2008, UMG sold a portion of its interest in NORPHO to another IPA for approximately $14,900. On April 30, 2009, effective May 1, 2009, UMG (see Note 1) purchased an additional 733.32 shares of NORPHO Class A Common Stock for $2,200,000. At June 30, 2009 and 2008, UMG's investment in NORPHO was $2,531,213 and $331,213, respectively. At June 30, 2009, UMG holds less than a 20% investment 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 2008, UMG paid approximately $71,200 to acquire its proportionate interest of the departing IPA's shares in NORPHO.

Note 6. Other Assets (Continued)

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, 2009 and 2008:

License Fees	2009	2008
Cost	$ 2,580,984	$ 2,580,984
Accumulated Amortization	(1,056,563)	(540,366)
Total	$ 1,524,421	$ 2,040,618

The amortization expense for the years ended June 30, 2009 and 2008, was $516,197 and $530,366, respectively. Future amortization expense for the intangible assets at June 30, 2009, is as follows:

Years Ending June 30,	Amount
2010	$ 516,197
2011	516,197
2012	492,027
Total	$ 1,524,421

Note 7. 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.

Note 7. Lease Commitments (Continued)

Minimum annual lease payments as of June 30, 2009, are as follows:

Years Ending June 30,	Amount
2009	$ 1,477,857
2010	1,199,653
2011	684,651
2012	130,871
2013	7,658
Total	$ 3,500,690

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, 2009 and 2008, was $1,287,771 and $1,086,433, respectively.

Capital Leases

LSUHN leases certain medical equipment under a five year capital lease agreement that includes an interest rate of 5.82% and a bargain purchase options Future minimum lease payments under the capital lease, together with the present value of net minimum lease payments as of June 30, 2009, are as follows:

Years Ending June 30,	Amount
2010	$ 66,451
2011	33,225
Total Minimum Lease Payments	99,676
Less: Amount Representing Interest	(5,531)
Present Value of Net Minimum Lease Payments	94,145
Less: Current Maturities	61,859
Leases Payable - Less Current Portion	$ 32,286

Note 8. Line of Credit

LSUHN maintained a $1,250,000 line of credit which expired on December 10, 2008 and was not renewed for the year ending June 30, 2009. Interest was payable monthly and was 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, there were no outstanding borrowings against this line of credit.

Note 9. 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, 2009 and 2008, 401(k) plan expenses were $226,819 and $195,341, respectively.

Note 10. 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, 2009 and 2008, was as follows:

	2009	2008
Medicare	**17.4 %**	16.3 %
Medicaid	**35.3**	42.6
Commercial	**25.4**	21.2
Self-Pay	**21.9**	19.9
Total	**100.0 %**	100.0 %

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 11. Change in Third Party Billing Companies

LSUHN 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. There is a final payment due to GE included in accounts payable and accrued liabilities on the consolidated balance sheets as of June 30, 2009, in the amount of $53,535. Transition services were provided by GE for 180 days after the termination date.

Note 12. 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 13. 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.

Note 13. Government Regulations (Continued)

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 14. 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.

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.

Note 15. Subsequent Events

In May 2009, the Financial Accounting Standards Board issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 modifies the definition of subsequent events and requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. In Accordance with SFAS No. 165, Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 16, 2009, and determined that the following events occurred that require disclosure.

Note 15. Subsequent Events (Continued)

As of August 2009, LSUHN is no longer the billing company for the Department of Pediatrics. The department has contracted with Children's Hospital as of this date. The loss of revenue will be partially offset by increased charges and collections from current operations and new ventures such as the Vascular Associates Laboratory transitioning from contract services to in-house services on July 1, 2009. LSUHN is billing for both professional and technical services for the vascular lab studies subsequent to June 30, 2009. With this transition, there are additional leases that were entered into for the equipment needed for these services.

No subsequent events occurring after the date above have been evaluated for inclusion in these financial statements.

OMB CIRCULAR A-133 SECTION

LAPORTE SEHRT
ROMIG HAND
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, 2009, and have issued our report thereon dated September 16, 2009. 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.

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.

110 Veterans Memorial Boulevard, Suite 200, Metairie, LA 70005-4958 • 504.835.5522 • Fax 504.835.5535
5100 Village Walk, Suite 300, Covington, LA 70433-4012 • 985.892.5850 • Fax 985.892.5956
Town Hall West, 10000 Perkins Rowe, Ste. 200, Baton Rouge, LA 70810-1797 • 225.296.5150 • Fax 225.296.5151
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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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.*

We noted certain matters that we reported to management of LSU in a separate letter dated September 16, 2009.

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

September 16, 2009

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, 2009. 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, 2009.

110 Veterans Memorial Boulevard, Suite 200, Metairie, LA 70005-4958 • 504.835.5522 • Fax 504.835.5535
5100 Village Walk, Suite 300, Covington, LA 70433-4012 • 985.892.5850 • Fax 985.892.5956
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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

September 16, 2009

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor Program Title	Federal 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	-	$ 962,725
Total U.S. Department of Health and Human Services			$ 962,725
Total Expenditures of Federal Awards			$ 962,725

See accompanying notes to schedule of expenditures of federal awards

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Note 1. *Basis of Presentation*

The accompanying schedule of expenditures of federal awards includes the federal grant activity of LSUHN and is presented on the accrual basis 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.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

There were no payments to subrecipients for the fiscal year ended June 30, 2009.

LSU HEALTHCARE NETWORK AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

I. Summary of Auditor's Results

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

2. No 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*.

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 are 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 issued for the year ended June 30, 2009.

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 low-risk auditee.

II. Findings - Financial Statement Audit

None

III. Findings and Questioned Costs - Major Federal Award Programs Audit

None

LSU HEALTHCARE NETWORK AND SUBSIDIARIES
Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended June 30, 2009

I. Findings - Financial Statement Audit

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.

Current Status: This issue has been resolved. No similar findings were noted in the 2009 audit.

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.

Current Status: This issue has been resolved. No similar findings were noted in the 2009 audit

II. Findings and Questioned Costs - Major Federal Award Programs Audit

None

There are no compliance and/or internal control findings as described in the Schedule of Findings and Questioned Costs. Accordingly, no corrective action plan is required as a part of this section.