

**LSU HEALTH SCIENCES FOUNDATION
IN SHREVEPORT AND SUBSIDIARIES
SHREVEPORT, LOUISIANA
JUNE 30, 2008 AND 2007**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/21/09

LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

SHREVEPORT, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

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January 9, 2009

The Board of Directors
LSU Health Sciences Foundation in Shreveport
Shreveport, Louisiana

Independent Auditor's Report

We have audited the accompanying consolidated statements of financial position of the LSU Health Sciences Foundation in Shreveport and Subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the LSU Health Sciences Foundation in Shreveport and Subsidiaries as of June 30, 2008 and 2007, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying other financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of the LSU Health Sciences Foundation in Shreveport and Subsidiaries. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2009, on our consideration of LSU Health Sciences Foundation in Shreveport and Subsidiaries' 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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LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 AND 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	533,507	108,699
Accounts receivable	399,874	2,855
Pledges receivable	78,000	250,000
Investments-Note 3	35,617,821	35,839,064
Investments-Feist legacy-Note 10	40,596,479	34,411,364
Beneficial interest in estate-Note 12	6,233,949	-
Donated land and buildings	894,000	894,000
Equipment and furniture, less accumulated depreciation of \$37,666 and \$32,901, respectively	7,742	6,748
Investment in real estate-Notes 7 and 8	3,653,617	3,535,684
Other assets	<u>1,295</u>	<u>1,151</u>
Total assets	<u>88,016,284</u>	<u>75,049,565</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities:</u>		
Accounts payable	70,974	43,097
Payroll and related taxes payable	1,603	307
Refundable donation-Note 9	-	506,997
Notes payable-Note 8	851,058	1,001,447
Due to LSU Health Sciences Center Shreveport-Note 6	<u>4,722,672</u>	<u>4,353,653</u>
Total liabilities	5,646,307	5,905,501
 <u>Net assets:</u>		
Unrestricted	11,123,793	4,351,469
Temporarily restricted-Note 4	62,017,863	55,943,838
Permanently restricted-Note 5	<u>9,228,321</u>	<u>8,848,757</u>
Total net assets	<u>82,369,977</u>	<u>69,144,064</u>
Total liabilities and net assets	<u>88,016,284</u>	<u>75,049,565</u>

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

LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
<u>Support, revenues and gains:</u>				
Contributions and grants	6,616,896	7,492,505	1,082,611	15,192,012
Income on investments	257,823	2,807,828	270,809	3,336,460
Net realized and unrealized gains (losses) on investments	(95,900)	(2,026,714)	(469,287)	(2,591,901)
Management fee income	1,004,629	-	-	1,004,629
Rental income	168,083	-	-	168,083
Total support, revenues and gains	<u>7,951,531</u>	<u>8,273,619</u>	<u>884,133</u>	<u>17,109,283</u>
<u>Net assets released from restrictions</u>	<u>2,704,163</u>	<u>(2,199,594)</u>	<u>(504,569)</u>	<u>-</u>
<u>Total support, revenues, gains and reclassifications</u>	10,655,694	6,074,025	379,564	17,109,283
<u>Expenses:</u>				
Management and general	2,168,309	-	-	2,168,309
Feist-Weiller Cancer Center	1,646,318	-	-	1,646,318
Grants and honorariums	68,743	-	-	68,743
Total expenses	<u>3,883,370</u>	<u>-</u>	<u>-</u>	<u>3,883,370</u>
<u>Increase in net assets</u>	6,772,324	6,074,025	379,564	13,225,913
<u>Net assets at beginning of period</u>	<u>4,351,469</u>	<u>55,943,838</u>	<u>8,848,757</u>	<u>69,144,064</u>
<u>Net assets at end of period</u>	<u>11,123,793</u>	<u>62,017,863</u>	<u>9,228,321</u>	<u>82,369,977</u>

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

2007

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
304,897	8,928,534	474,986	9,708,417
270,699	2,094,853	240,512	2,606,064
82,285	1,872,566	1,194,986	3,149,837
881,067	-	-	881,067
261,622	-	-	261,622
<u>1,800,570</u>	<u>12,895,953</u>	<u>1,910,484</u>	<u>16,607,007</u>
<u>3,333,720</u>	<u>(2,793,862)</u>	<u>(539,858)</u>	<u>-</u>
5,134,290	10,102,091	1,370,626	16,607,007
1,897,448	-	-	1,897,448
1,601,732	-	-	1,601,732
68,122	-	-	68,122
<u>3,567,302</u>	<u>-</u>	<u>-</u>	<u>3,567,302</u>
1,566,988	10,102,091	1,370,626	13,039,705
<u>2,784,481</u>	<u>45,841,747</u>	<u>7,478,131</u>	<u>56,104,359</u>
<u>4,351,469</u>	<u>55,943,838</u>	<u>8,848,757</u>	<u>69,144,064</u>

LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>Cash flows from operating activities:</u>		
Increase in net assets	13,225,913	13,039,705
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	3,311	3,417
Net realized and unrealized loss (gain) on long-term investments	2,591,901	(3,149,837)
(Increase) in accounts receivable	(397,019)	(2,855)
Decrease in pledges receivable	172,000	-
(Increase) in beneficial interest	(6,233,949)	-
(Increase) in other assets	(144)	(870)
Increase in accounts payable	27,877	15,822
Increase (decrease) in payroll taxes payable	1,296	(180)
(Decrease) in refundable donation	(506,997)	-
Increase in due to LSU Health Sciences Center Shreveport	<u>369,019</u>	<u>774,823</u>
Net cash provided by operating activities	9,253,208	10,680,025
<u>Cash flows from investing activities:</u>		
Purchase of real estate and fixed assets	(122,238)	(858,692)
Purchase of investments-net	<u>(8,555,773)</u>	<u>(9,713,130)</u>
Net cash (used) by investing activities	(8,678,011)	(10,571,822)
<u>Cash flows from financing activities:</u>		
Repayment of notes payable	<u>(150,389)</u>	<u>(172,448)</u>
Net cash (used) by financing activities	(150,389)	(172,448)
<u>Net increase (decrease) in cash and cash equivalents</u>	424,808	(64,245)
<u>Cash and cash equivalents at beginning of period</u>	<u>108,699</u>	<u>172,944</u>
<u>Cash and cash equivalents at end of period</u>	<u>533,507</u>	<u>108,699</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest	<u>64,170</u>	<u>74,067</u>

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

LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

1. Nature of Business.

The consolidated financial statements include the LSU Health Sciences Foundation in Shreveport and its wholly-owned subsidiaries - Foundation Property, LLC; Foundation General Holdings, LLC; and Intermodal Transit Facility, LLC. All significant intercompany accounts and transactions, except for management fees, have been eliminated in consolidation.

The LSU Health Sciences Foundation in Shreveport (the Foundation) is a public, nonprofit corporation formed in 1997 and governed by a board of directors. The organization's goal is to support, enhance, and assist the LSU Health Sciences Center Shreveport (the Center) in its many endeavors by expanding the public's awareness of the Center's many contributions to medical research, education of medical professionals, and quality health care, to develop and enhance financial support for the Center, and provide the means through which financial support is received and administered.

Foundation Property, LLC and Foundation General Holdings, LLC were formed in July 2006. Foundation Property, LLC was formed to hold all real estate previously acquired by the Foundation, and Foundation General Holdings, LLC was formed to hold all new acquisitions of real estate.

Intermodal Transit Facility, LLC was formed in March 2007 to purchase property and construct an intermodal transit oriented facility as a ride link for the City of Shreveport's SporTran passengers and the Center's patients, employees, students, and customers. Intermodal Transit Facility, LLC has entered into a Cooperative Endeavor Agreement with the City of Shreveport which governs the use of \$1,235,949 of Section 5309 Federal Transit Administration funds earmarked as an 80% match for construction of the intermodal transit facility. In order to receive these grant funds, Intermodal Transit Facility, LLC must provide a match equal to 20% of the project cost which amounts to \$308,987. In addition, Intermodal Transit Facility, LLC must pay the City of Shreveport an administrative fee in the amount of 10% of the total FTA grant funds which amounts to \$123,595. As of June 30, 2008 Intermodal Transit Facility, LLC has expended \$927,930 (including \$68,732 of administrative fees) for the purchase of property and construction of the facility which is reflected as an investment in real estate in the consolidated financial statements. For the years ended June 30, 2008, and 2007, \$88,322 and \$598,999, respectively, of grant income has been recorded for Intermodal Transit Facility, LLC and is reflected as temporarily restricted contributions and grants in the consolidated financial statements.

2. Summary of Significant Accounting Policies.

- a. The financial statements of the Foundation are prepared on the accrual basis, under which revenues are recorded when earned, and expenses are recorded when the liability is incurred.

Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets as follows:

2. Summary of Significant Accounting Policies. (Continued)

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Some *unrestricted net assets* may be designated by the Board for specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation, and/or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, donors permit all or part of the income earned on these assets to be used for general or specific purposes.

The statement of activities presents expenses of the Foundation's operations functionally between management and general expenses, Feist-Weiller Cancer Center expenses, and grants and honorariums.

- b. In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions.
- c. Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- d. 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- e. For purposes of the statement of cash flows, the Foundation considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.
- f. The LSU Health Sciences Foundation in Shreveport qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Foundation Property, LLC; Foundation General Holdings, LLC; and Intermodal Transit Facility, LLC are single-member LLCs and are considered disregarded entities for tax purposes. Therefore, no provision for income taxes has been made in the financial statements.
- g. Investments are reported at fair value, which is determined by the last reported sales price at current exchange rates, if traded on a national exchange, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.
- h. Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method. Equipment and furniture are depreciated over an estimated useful life of five to seven years. Improvements to investments in real estate are depreciated over an estimated useful life of twenty years.
- i. Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

3. Investments.

During the year ended June 30, 2008, the Foundation changed investment managers. The Foundation transferred all investment funds (except for Feist Legacy) to Commonfund and recategorized certain portions of its investment portfolio. As of June 30, 2008, the investments of all funds were held in *Commonfund investment pools*, which are recorded at market value, as detailed below:

	<u>2008</u>	
	<u>Market Value</u>	<u>Cost</u>
<u>Commonfund Nonendowed Pool</u>		
Fixed Income:		
CFI Core Plus Bond Fund	4,455,960	4,655,195
Evergreen Institutional Money Mkt Cls I	<u>260,986</u>	<u>260,986</u>
Total Fixed Income	<u>4,716,946</u>	<u>4,916,181</u>
Total Nonendowed Pool	<u>4,716,946</u>	<u>4,916,181</u>
<u>Commonfund Feist Endowed Pool</u>		
Equity:		
CF Multi-Strategy Equity Investors LLC	<u>11,308,763</u>	<u>11,523,653</u>
Total Equity	11,308,763	11,523,653
Fixed Income:		
CF Multi-Strategy Bond Investors, LLC	6,080,157	6,283,987
Evergreen Institutional Money Mkt Cls I	<u>5,959</u>	<u>5,959</u>
Total Fixed Income	<u>6,086,116</u>	<u>6,289,946</u>
Total Feist Endowed Pool	<u>17,394,879</u>	<u>17,813,599</u>
<u>Commonfund General Endowed Pool</u>		
Equity:		
CF Multi-Strategy Equity Investors LLC	<u>1,524,637</u>	<u>1,553,609</u>
Total Equity	1,524,637	1,553,609
Fixed Income:		
CF Multi-Strategy Bond Investors, LLC	819,672	847,151
Evergreen Institutional Money Mkt Cls I	<u>6,260</u>	<u>6,260</u>
Total Fixed Income	<u>825,932</u>	<u>853,411</u>
Total General Endowed Pool	<u>2,350,569</u>	<u>2,407,020</u>
<u>Commonfund BRSF Pool</u>		
Equity:		
CF Multi-Strategy Equity Investors LLC	<u>7,263,311</u>	<u>7,408,888</u>
Total Equity	7,263,311	7,408,888
Fixed Income:		
CFI Core Plus Bond Fund	3,890,373	4,062,206
Evergreen Institutional Money Mkt Cls I	<u>1,743</u>	<u>1,743</u>
Total Fixed Income	<u>3,892,116</u>	<u>4,063,949</u>
Total BRSF Pool	<u>11,155,427</u>	<u>11,472,837</u>
Total Investments	<u>35,617,821</u>	<u>36,609,637</u>

3. Investments. (Continued)

As of June 30, 2007, the investments consisted of marketable securities and trust assets held in bank pools and brokerage accounts, which are recorded at market value, as detailed below:

	<u>2007</u>	
	<u>Market Value</u>	<u>Cost</u>
<u>Nonendowed Pool:</u>		
Schwab Institutional Funds:		
Cash and money market funds	390,132	390,132
Fixed income-U.S. government obligations	3,318,811	3,415,412
Fixed income-CMO and asset backed securities	1,247,460	1,292,427
Accrued income	<u>52,169</u>	<u>52,169</u>
Total Nonendowed Pool	<u>5,008,572</u>	<u>5,150,140</u>
<u>Endowed Pool:</u>		
Schwab Institutional Funds:		
Money market funds	182,597	182,597
Fixed income-U.S. government obligations	3,287,933	3,347,646
Fixed income-U.S. mortgage pools	371,014	396,386
Fixed income-CMO and asset backed securities	476,268	511,641
Domestic equities	6,735,328	5,882,273
International equities	1,447,630	1,129,952
Accrued income	<u>55,122</u>	<u>55,122</u>
	12,555,892	11,505,617
Morgan Keegan:		
Cash	1,997	1,997
Bond mutual funds	<u>772,575</u>	<u>758,970</u>
	<u>774,572</u>	<u>760,967</u>
Total Endowed Pool	<u>13,330,464</u>	<u>12,266,584</u>
<u>Feist Investments:</u>		
JP Morgan Chase:		
Cash and cash equivalents	8,899	8,899
Fixed income-U.S. government obligations	3,616,405	3,630,672
Fixed income-bond funds	1,058,187	1,025,592
Equities	3,855,941	3,499,538
Accrued income	<u>36,016</u>	<u>36,016</u>
	8,575,448	8,200,717
Schwab Institutional Funds:		
Money market funds	70,570	70,570
Fixed income-U.S. government obligations	1,034,918	1,038,111
Fixed income-U.S. mortgage pools	1,502,952	1,513,460
Fixed income-CMO/Asset backed	494,145	494,375
Fixed income-bond funds	250,222	250,272
Equity funds	5,553,160	4,858,641
Accrued income	<u>18,613</u>	<u>18,613</u>
	<u>8,924,580</u>	<u>8,244,042</u>
Total Feist Investments	<u>17,500,028</u>	<u>16,444,759</u>
Total Investments	<u>35,839,064</u>	<u>33,861,483</u>

The investments in the bank pools and the brokerage accounts were uninsured and were not collateralized, making a total of approximately \$35,600,000 and \$35,800,000 in off-balance sheet risk at June 30, 2008 and 2007, respectively. The possibility of loss exists if the investment funds holding uninsured deposits were to fail.

4. Temporarily Restricted Net Assets.

Temporarily restricted net assets consisted of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Feist Legacy	40,891,204	34,291,263
Feist-Weiller Investment Account	15,839,035	16,658,050
Feist-Weiller Cancer Center	162,314	48,319
LSUMC Alumni Association	125,725	127,677
Rheumatology/Wolf Flex Residual	67,257	100,730
Feist-Chancellor Fund	289,602	289,602
CME/Chesson	143,539	120,697
Neurosurgery/Nanda Flex Residual	117,301	46,008
Oral Surgery/Ghali/Discretionary Spending	181,072	237,162
Neurosurgery/Nanda/Research	344,722	440,383
Jack W. Pou, M.D. Chair in Otolaryngology Spending	168,775	124,968
E. Earle Dilworth, M.D. Chair in Obstetrics and Gynecology Spending	216,906	172,641
Carroll W. Feist Chair for the Study of Cancer Spending	268,039	197,547
Jack W. Gamble M.D. Chair in Oral/Maxillofacial Surgery Spending	127,358	82,983
Selber Donated Land and Buildings	890,000	890,000
Other	<u>2,185,014</u>	<u>2,115,808</u>
 Total temporarily restricted net assets	 <u>62,017,863</u>	 <u>55,943,838</u>

5. Permanently Restricted Net Assets.

Permanently restricted net assets consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
John C. McDonald, M.D. Chair in Surgery	782,229	838,631
Jack W. Pou, M.D. Chair in Otolaryngology	733,829	786,752
E. Earle Dilworth, M.D. Chair in Obstetrics and Gynecology	740,737	792,290
Carroll W. Feist Chair for the Study of Cancer	1,494,497	1,598,766
Archibald Bell Nelson Professorship in Orthopaedics	98,134	104,980
Jack W. Gamble, M.D. Chair in Oral/Maxillofacial Surgery	759,505	812,265
Muslow Endowed Chair	470,203	325,463
Smith Chair of Spinal Treatment	470,932	185,013
Comegys Library Endowment	284,247	228,810
Urology/Womack Endowment	172,594	184,150
Psychiatry/Frost Endowment	748,464	798,584
Dr. Y. S. Goel Student Scholarship	121,668	127,975
Other	<u>2,351,282</u>	<u>2,065,078</u>
 Total permanently restricted net assets	 <u>9,228,321</u>	 <u>8,848,757</u>

6. Due to LSU Health Sciences Center Shreveport.

The amount due to LSU Health Sciences Center Shreveport represents the state match for the following chairs and professorships, which are being held and invested for the Center by the LSU Health Sciences Foundation in Shreveport. The liability consists of the following at June 30:

6. Due to LSU Health Sciences Center Shreveport. (Continued)

	<u>2008</u>	<u>2007</u>
John C. McDonald, M.D. Chair in Surgery	486,329	503,076
Jack W. Pou, M.D. Chair in Otolaryngology	485,832	502,562
Albert Sklar Professorship in Surgery	56,583	58,514
E. Earle Dilworth, M.D. Chair in Obstetrics and Gynecology	549,099	567,555
Mary Louise and Ben Levy Professorship in Neurosurgery	56,509	58,443
Paul R. Winder, M.D. Professorship in Dermatology	60,108	62,164
H. Whitney Boggs, Jr., M.D. Professorship of Colon and Rectal Surgery	53,524	55,356
Albert G. and Harriet G. Smith Professorship in Pathology	53,029	54,845
Randy Bryn, M.D. Professorship in Pulmonology	48,272	49,947
W. R. Matthews, M.D. Professorship in Pathology	48,271	49,946
Albertson's Distinguished Professorship in Allied Health Sciences	53,515	55,346
Robert E. Wolf, M.D. Professorship in Rheumatology	40,000	-
Donald Mack, M.D. Professorship in Pediatric Oncology	48,259	49,933
Edward J. Crawford, Jr., M.D. Professorship in OB/GYN Resident Education	48,263	49,937
Edward J. Crawford, Jr., M.D. Professorship in GYN Surgery	48,263	49,937
Edward J. Crawford, Jr., M.D. Professorship in OB/GYN Resident Recruitment	48,258	49,932
Burdette E. Trichel, M.D. Professorship in Urology	48,260	49,934
Charles D. Knight, Sr. Professorship in General Surgery	48,261	49,935
J. Woodfin Wilson, M.D. Professorship in Internal Medicine	48,261	49,935
Eugene St. Martin Professorship in Urology	45,515	47,045
Edward J. Crawford Professorship in Continuing Education	45,513	47,044
George Khoury & Donald Mack, M.D. Professorship in Pediatric Oncology	38,578	-
Joe E. Holoubek Professorship in Medicine	45,513	47,044
Thomas Norris, M.D. Professorship in Orthopedic Resident Support	38,578	-
E. Earle Dilworth, M.D. Professorship in OB/GYN Excellence	38,578	-
Mrunalini Shah and Bipin, M. D. Professorship in Anesthesiology Education	38,578	-
James A. Ardoin, M.D. Professorship in OB/GYN	38,578	-
Brad and Kay McPherson Professorship in Child Psychiatry	40,000	-
Edward J. Crawford, Jr., M.D. Professorship in OB/GYN Resident Education	40,000	-
Edward J. Crawford, Jr., M.D. Professorship in OB/GYN Faculty Recruitment	40,000	-
Edward J. Crawford, Jr., M.D. Professorship in OB/GYN Oncology Education	40,000	-
Edward Jr. Crawford, Jr., M.D. Professorship in OB/GYN Reproductive Endocrinology	40,000	-
Edward J. Crawford, Jr., M.D. Professorship in OB/GYN Faculty Enhancement	40,000	-
Edward Jr. Crawford, Jr., M.D. Professorship in OB/GYN Technology Enhancement	40,000	-
Carroll W. Feist Chair for the Study of Cancer	1,094,878	1,132,246
Archibald Bell Nelson Professorship in Orthopaedics	71,899	74,354
Joanna Gunning Magale Professorship in Neurology	61,600	63,703
Jack W. Gamble, M.D. Chair in Oral/Maxillofacial Surgery	555,968	574,920
	<u>4,722,672</u>	<u>4,353,653</u>

7. Investment in Real Estate.

During the fiscal year ended June 30, 2002, the Foundation began purchasing property adjacent to and near the LSU Health Sciences Center. The Foundation's intent is to ultimately transfer ownership of this property to the LSU Health Sciences Center either by sale or donation. At June 30, 2008 and 2007, this property consists of:

	<u>2008</u>	<u>2007</u>
Chevy Land property	250,000	250,000
St. Vincent Avenue property, less accumulated depreciation of \$7,977 and \$6,629, respectively, on improvements of \$163,466	155,489	156,837
Yokem property	125,000	125,000
Sklar Phillips property	250,000	250,000
Caddo Exceptional School property	510,000	510,000
Yokem Body Shop property	118,930	118,930
Monsour property	235,238	235,238
Crawford property	79,656	79,656
Kings Highway property	261,000	261,000
Blood Center property	600,000	600,000
1341 Jennings Street	35,896	35,896
1328 Woodrow Street	60,447	60,447
1345 Jennings Street	44,031	44,031
Intermodal Transit Facility property	<u>927,930</u>	<u>808,649</u>
	<u>3,653,617</u>	<u>3,535,684</u>

The Caddo Exceptional School and Blood Center properties are currently leased by the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College. The Kings Highway property is leased by various businesses. The 1328 Woodrow Street property is leased by a physician. Rental income under noncancellable leases is due as follows:

2009	132,561
2010	116,381
2011	116,381
2012	80,151
2013	6,660
	<u>452,134</u>

8. Notes Payable.

Notes payable consists of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Note payable to JP Morgan Chase Bank, original amount of \$510,000, interest at the "Eurodollar Rate," due in consecutive monthly installments of \$4,250, plus interest beginning July 15, 2003 with unpaid principal and interest due in full on June 15, 2008. On February 10, 2006, refinanced \$378,250, interest at a fixed rate 6.85%, due in consecutive monthly installments of \$5,475, including interest beginning February 15, 2006 with unpaid principal and interest due in full on June 15, 2013, secured by assignment of real estate leases and rents of the Caddo Exceptional School real estate.	274,820	319,614

8. Notes Payable. (Continued)

	<u>2008</u>	<u>2007</u>
Note payable to JP Morgan Chase Bank, original amount of \$276,000, interest at prime rate due in consecutive monthly installments of \$2,836 including interest beginning August 23, 2004 with unpaid principal and interest due in full on July 23, 2009. On February 10, 2006, refinanced \$248,044, interest at a fixed rate 6.85%, due in consecutive monthly installments of \$3,529 including interest beginning February 23, 2006 with unpaid principal and interest due in full on June 15, 2013, unsecured.	182,222	210,867
Note payable to AmSouth Bank, original amount of \$600,000, interest at 6.38%, due in consecutive monthly installments of \$8,875 including interest beginning September 17, 2005, with unpaid principal and interest due in full on August 17, 2012, secured by investment in Blood Center real estate and assignment of real estate leases and rents of the Blood Center real estate.	394,016	470,966
	<u>851,058</u>	<u>1,001,447</u>
<u>Less-current portion</u>	<u>(163,426)</u>	<u>(153,015)</u>
	<u>687,632</u>	<u>848,432</u>

Notes payable maturities are as follows:

<u>Due In</u>	
2009	163,426
2010	174,557
2011	186,451
2012	199,154
2013	<u>127,470</u>
	<u>851,058</u>

Included in management and general expense is \$64,170 and \$74,067 in interest expense for the years ended June 30, 2008 and 2007, respectively.

9. Contingency.

During the year ended June 30, 2005, the Foundation received funds from a donor for the possible construction of an Oral and Maxillofacial clinic. Subsequent to June 30, 2005, the Foundation determined that construction of the clinic was unlikely, and the Foundation was uncertain as to whether the donor's contribution would have to be refunded. Therefore, the Foundation recorded a liability in the amount of \$506,997. As of June 30, 2007, such amount was classified as a refundable donation in the statement of financial position. During the year ended June 30, 2008, the funds were transferred to another foundation per the recommendation of the donor; therefore, the balance of the refundable donation was \$-0- at June 30, 2008.

10. Feist Legacy.

Carroll W. Feist died on July 29, 2005. His Will and codicils created ambiguities with respect to the identity of the universal legatee. The proper universal legatee was either Louisiana State University or The LSU Health Sciences Foundation in Shreveport. The parties compromised and agreed that Mr. Feist's Will should be interpreted so that the universal legatee is the Foundation. The parties entered into a written agreement whereby the management details of the legacy from Mr. Feist were outlined.

The bequest will be used for cancer research at the Feist-Weiller Cancer Center at the LSU Health Sciences Center, Shreveport, Louisiana. After appropriate approvals, the Foundation may spend income of the Feist account up to a maximum in any one fiscal year of \$1,000,000. Principal may also be spent after appropriate approvals have been obtained.

Because of the difficulty in valuing certain assets in the Succession, the contribution will be recorded as the assets are received from the Succession. Approximately \$26,000,000 (principal-\$24,200,000 and income-\$1,800,000) was received from the Succession during the year ended June 30, 2006. The asset and revenue were reflected in the financial statements.

As of June 30, 2008 and 2007, the investments from the Feist Legacy consisted of marketable securities and trust assets held in a Regions Bank brokerage account, which are detailed below:

	2008		2007	
	Market Value	Cost	Market Value	Cost
Cash and money market funds	1,888,426	1,888,426	505,828	505,828
Fixed income-U.S. treasuries	510,665	498,438	499,765	498,437
Fixed income-U.S. government obligations	20,872,141	20,759,824	29,847,621	29,714,663
Fixed income-corporates	7,238,068	7,314,397	-	-
Fixed income - miscellaneous	1,195,044	1,250,000	-	-
Equities	7,300,294	7,874,682	3,309,666	3,251,758
International equities	1,370,297	1,505,012	196,829	186,126
Accrued income	221,544	221,544	51,655	51,655
	<u>40,596,479</u>	<u>41,312,323</u>	<u>34,411,364</u>	<u>34,208,467</u>

Following is a summary of the transactions on the Feist Legacy for the year ended June 30, 2008. All of the activity is reflected in the Foundation's accompanying consolidated financial statements as of and for the year ended June 30, 2008.

	Income	Principal	Total Market Value
Net asset balances at June 30, 2007	4,163,835	30,127,428	34,291,263
Activity during the year ended June 30, 2008:			
Distributions from Succession	2,728,319	3,648,281	6,376,600
Interest and dividend income	232,028	-	232,028
Bond interest income	1,623,099	-	1,623,099
Realized loss	-	(82,265)	(82,265)
Unrealized loss	-	(918,741)	(918,741)
Management fees	(281,991)	(281,991)	(563,982)
Other expenses	(66,798)	-	(66,798)
Net asset balances at June 30, 2008	<u>8,398,492</u>	<u>32,492,712</u>	<u>40,891,204</u>

10. Feist Legacy. (Continued)

Consists of:

Above investments	40,596,479
Checking account	444,031
Management fees and other payable	<u>(149,306)</u>
Total net assets at June 30, 2008	<u>40,891,204</u>

In addition to the above, there are undistributed assets in the Succession totaling approximately \$18,510,000 (principal - \$18,500,000 and income \$10,000). As stated above, such assets will be reflected in the Foundation's financial statements when distributed by the Succession and received by the Foundation.

11. Retirement Plan.

Effective January 1, 2004, the Foundation established a retirement plan for the purpose of purchasing annuity contracts for its employees pursuant to Section 403(b) of the Internal Revenue Code of 1986, as amended. Management determines annual contributions. Employees may contribute a portion of their annual compensation. During the year ended June 30, 2008, management identified an operational violation of the plan. Upon discovery of the violation, management consulted with legal counsel and filed a formal correction statement with the Internal Revenue Service. The plan was terminated effective December 31, 2007. The Foundation's contributions to the plan were \$84,407 (including \$64,410 of catch-up contributions and \$10,803 of lost earnings) and \$16,107 for the years ended June 30, 2008 and 2007, respectively.

12. Beneficial Interest in Estate.

The Foundation is the beneficiary of the Residuary Estate of Cleveland C. Burton. Mr. Burton died on February 22, 2008. The balance shown on the statement of financial position represents the fair value of the Foundation's interest in the estate as of June 30, 2008. The Foundation will take possession of the assets subsequent to June 30, 2008.

13. Subsequent Event.

Subsequent to June 30, 2008, economic conditions (and investment valuations) significantly deteriorated. As a result, the market value of the Foundation's investments (including Feist Legacy and the Beneficial interest in Estate) decreased from \$82,448,249 to approximately \$71,600,000 as of about November 30, 2008.

OTHER FINANCIAL INFORMATION

LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

CONSOLIDATED SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>Relating to unrestricted expenses:</u>		
Salary expense	407,562	344,321
Employee benefit expense	88,713	24,000
Payroll taxes	32,057	25,745
Advertising and promotional expenses	3,711	2,892
Bank charges	32,755	17,696
Depreciation	3,311	3,417
Consulting services	60,026	60,989
Postage	7,806	12,170
Office expense	9,933	10,690
Telephone expense	3,200	3,347
Gifts and acknowledgments	898	404
Donor recognition expense	283	1,151
Printing	10,358	13,002
Travel	1,516	867
Meals and entertainment	3,607	1,484
Dues and subscriptions	6,046	2,525
Rent	6,395	8,683
Miscellaneous	20,522	9,503
Professional services	177,382	45,386
Fundraising	158,376	48,379
Interest expense	64,170	74,067
Real estate expense	-	9,455
Software	9,461	7,075
Employee excellence award expense	10,307	9,737
Grant program expense	10,852	5,202
Children's hospital campaign	-	50,269
Chancellor search expense	109,278	-
Total unrestricted expenses	<u>1,238,525</u>	<u>792,456</u>

Relating to temporarily restricted expenses:

Admissions	6,634	6,281
Allied Health	72,502	49,020
Alumni affairs	42,329	37,680
Anesthesiology	31,135	64,793
Biochemistry	573	1,532
Cardiology	3,868	-
Cardiopulmonary	-	200
Chancellor	4,905	51,162
Continuing medical education	22,195	31,405
Dermatology	488	11,848
Emergency medicine	9,032	17,041
Endocrinology	3,292	3,286

LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

CONSOLIDATED SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>Relating to temporarily restricted expenses: (Continued)</u>		
Family medicine	41,903	10,403
Foundation	3,604	-
Health sciences library	7,807	8,179
Human resources management	1,190	-
Internal medicine	-	266
Legal affairs	2,350	1,955
Medicine	-	5,355
Microbiology	1,949	1,811
Nephrology	7,532	4,890
Neurology	52,596	128,704
Neurosurgery	62,734	44,729
Nursing administration	7,097	7,366
OB/GYN	12,335	7,414
Oral/maxiofacial	116,428	129,093
Orthopaedic	26,687	6,330
Ortho surgery	3,210	514
Otolaryngology	-	5,661
Patient relations	281	235
Pathology	26,551	2,808
Pediatrics	58,719	48,686
Pharmacology	2,241	5,825
Physiology	16,534	15,742
Psychiatry	32,771	32,328
Pulmonary	3,001	-
Radiology	10,217	9,484
Rheumatology	4,860	6,378
Social services	2,681	2,828
Student affairs	-	934
Surgery	83,375	167,413
Urology	1,874	1,935
Foundation management fees	<u>12,777</u>	<u>24,067</u>
Total temporarily restricted expenses	<u>800,257</u>	<u>955,581</u>
<u>Relating to permanently restricted expenses:</u>		
Academic affairs	23	4,367
Oral/maxiofacial	-	28
Surgery – head/neck	28	-
Rheumatology	3,987	-
Foundation management fees	<u>125,489</u>	<u>145,016</u>
Total permanently restricted expenses	<u>129,527</u>	<u>149,411</u>
Total management and general expenses	<u>2,168,309</u>	<u>1,897,448</u>

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January 9, 2009

The Board of Directors
LSU Health Sciences Foundation in Shreveport
Shreveport, Louisiana

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*

We have audited the consolidated financial statements of the LSU Health Sciences Foundation in Shreveport and Subsidiaries as of and for the year ended June 30, 2008 and have issued our report thereon dated January 9, 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 LSU Health Sciences Foundation in Shreveport and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 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 a 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 following deficiencies to be significant deficiencies in internal control.

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Reconciliation of Contributions

Observation

During our testing of contributions, we noted that the contributions received and recorded in the Blackbaud fundraising management software are not reconciled to the contributions received and recorded in the general ledger.

Recommendation

The Foundation should reconcile the contributions recorded in Blackbaud to the contributions recorded in the general ledger on either a monthly or quarterly basis.

Transfer of Properties

Observation

During our testing of investments in real estate, we noted that all real estate purchased by the Foundation prior to the formation of Foundation Property, LLC had been properly transferred to the Foundation Property, LLC general ledger. However, we noted that the lease agreements related to the properties had not been transferred from the Foundation to Foundation Property, LLC and the promissory notes had not been updated to reflect Foundation Property, LLC as the primary obligor.

Recommendation

We recommend that all lease agreements related to the properties should be legally transferred to Foundation Property, LLC. We also recommend that all promissory notes be updated to reflect Foundation Property, LLC as the primary obligor.

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. We did not identify any material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the consolidated financial statements of LSU Health Sciences Foundation in Shreveport and Subsidiaries 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, the board of directors, and the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

Heath, McCoy & Vestal, LLP

LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

We have audited the consolidated financial statements of the LSU Health Sciences Foundation in Shreveport and Subsidiaries as of and for the year ended June 30, 2008, and have issued our report thereon dated January 9, 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. Our audit of the consolidated financial statements as of June 30, 2008 resulted in an unqualified opinion.

Section I - Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control – Two significant deficiencies were noted, none of which was a material weakness.

Compliance – No material noncompliance was noted.

b. Federal Awards – Not applicable.

Section II - Financial Statement Findings

No matters were reported.

LSU HEALTH SCIENCES FOUNDATION IN SHREVEPORT AND SUBSIDIARIES

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2008

The prior year significant deficiency related to the reconciliation of contributions is a repeat finding in the current year.

The prior year significant deficiency related to the transfer of properties was partially corrected in the current year by transferring all properties to the books of Foundation Property, LLC and recording all lease income and related real estate expenses on the books of Foundation Property, LLC. The legal transfer of all lease agreements related to the properties from the Foundation to Foundation Property, LLC is a repeat finding in the current year.

The prior year material weakness related to financial reporting was corrected in the current year by hiring a CPA with not-for-profit auditing experience who is capable of preparing complete financial statements with notes, in accordance with generally accepted accounting principles.