

**THE FOUNDATION FOR THE
LSU HEALTH SCIENCES CENTER**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
Financial Section	
Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Reports Required by <i>Government Auditing Standards</i>	
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 <i>Government Auditing Standards</i>	20
Schedule of Findings and Questioned Costs	22
Summary Schedule of Prior Audit Findings	23
Management's Corrective Action Plan	24

FINANCIAL SECTION

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Foundation for the LSU Health Sciences Center
New Orleans, Louisiana

We have audited the accompanying Statement of Financial Position of the Foundation for the LSU Health Sciences Center (the "Foundation") (a nonprofit organization) as of June 30, 2010, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from the Foundation's 2009 financial statements and, in our report dated August 27, 2009, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2010, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Reboue & Company

August 19, 2010

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2010
(with comparative totals for 2009)

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 792,868	\$ 10,725
Investments	4,106,702	4,304,270
Unconditional promises to give, net	1,300	17,520
Cash restricted for debt service	98,058	93,304
Other receivables	1,234,561	1,952,046
Total current assets	6,233,489	6,377,865
Noncurrent Assets		
Investments	83,037,963	72,496,948
Unconditional promises to give, net	10,255	22,927
Property and equipment, net	-	1,143,908
Land	315,467	315,467
Total noncurrent assets	83,363,685	73,979,250
Total assets	\$ 89,597,174	\$ 80,357,115
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 403,479	\$ 340,331
Bonds payable	85,000	80,000
Split-interest agreements	6,795	6,795
Total current liabilities	495,274	427,126
Noncurrent Liabilities		
Amounts held in custody for others	19,347,004	17,505,727
Bonds payable, net	1,482,728	1,566,137
Split-interest agreement	49,708	53,866
Total noncurrent liabilities	20,879,440	19,125,730
Total liabilities	21,374,714	19,552,856
Net Assets		
Unrestricted (Deficit)	(154,616)	(1,425,831)
Temporarily restricted	24,366,398	19,185,496
Permanently restricted	44,010,678	43,044,594
Total net assets	68,222,460	60,804,259
Total liabilities and net assets	\$ 89,597,174	\$ 80,357,115

See accompanying notes to the financial statements.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010
(with comparative totals for 2009)

	2010	2009
UNRESTRICTED NET ASSETS		
Unrestricted revenues and other support		
Contributions	\$ 74,128	\$ 9,169
Management and deposit fee income	1,263,660	1,282,392
Investment income (loss) – net	1,287,530	(3,535,664)
Other income	734,525	208,017
	3,359,843	(2,036,086)
Net assets released from restrictions	5,554,375	6,391,752
Total unrestricted revenues and other support	8,914,218	4,355,666
Expenses		
Program services	5,554,375	6,391,752
General and administrative	633,929	1,052,482
Development	380,826	248,738
Casualty loss - building	1,073,873	-
	7,643,003	7,692,972
(Increase) decrease in unrestricted net assets	1,271,215	(3,337,306)
TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted revenues and other support		
Contributions	3,354,920	1,949,604
Investment income (loss) – net	7,107,643	(14,467,602)
Other income (expense)	272,714	(221,202)
	10,735,277	(12,739,200)
Net assets released from restrictions	(5,554,375)	(6,391,752)
(Increase) decrease in temporarily restricted net assets	5,180,902	(19,130,952)
PERMANENTLY RESTRICTED NET ASSETS		
Permanently restricted revenues and other support		
Contributions	966,084	2,231,877
Other income	-	2,888,588
	966,084	5,120,465
Increase in permanently restricted net assets	966,084	5,120,465
Increase (decrease) in net assets	7,418,201	(17,347,793)
Net assets at beginning of year	60,804,259	78,152,052
Net assets at end of year	\$ 68,222,460	\$ 60,804,259

See accompanying notes to the financial statements.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2010
(with comparative totals for 2009)

	Program Services - Scientific, Research and Educational Enhancement of The LSU Health Sciences Center	Supporting Services		Totals	
		General and Administrative	Development	2010	2009
Advertising	\$ 4,125	\$ 300	\$ 2,000	\$ 6,425	\$ 333,173
Bank charges	805	21,447	-	22,252	20,681
Clinical trials, professional education and seminars	51,248	1,540	-	52,788	160,528
Community support	178,645	12,707	4,710	196,062	980,468
Conferences, meetings, and other travel	626,602	-	-	626,602	582,015
Credit card fees	9,029	83	-	9,112	9,330
Depreciation and amortization	-	88,155	-	88,155	1,591
Dues and subscriptions	98,015	9,662	56,821	164,498	148,472
Entertainment	654,799	1,740	76	656,615	945,043
Equipment purchases	68,285	3,130	7,400	78,815	60,979
Honoraria	30,255	-	-	30,255	37,477
Insurance	-	36,531	25,438	61,969	58,561
Interest expense	-	12,985	-	12,985	38,167
Management and deposit fees	1,263,660	-	-	1,263,660	1,282,392
Meeting expenses	15,330	2,427	-	17,757	9,275
Miscellaneous	14,514	334	-	14,848	780
Occupancy	31,314	18,504	1,661	51,479	84,570
Postage and shipping	5,238	1,310	-	6,548	12,290
Printing and publications	31,720	2,536	50	34,306	65,331
Professional fees and contract service payments	363,381	98,858	31,438	493,677	615,899
Recruitment and relocation	54,406	-	-	54,406	-
Repairs and maintenance	958	103	-	1,061	2,324
Salaries and benefits	-	310,051	238,596	548,647	564,124
Salary supplemental payments	1,112,009	-	12,500	1,124,509	984,030
Scholarships and awards	143,086	-	-	143,086	198,162
Supplies	796,951	11,526	136	808,613	497,310
	<u>\$ 5,554,375</u>	<u>\$ 633,929</u>	<u>\$ 380,826</u>	<u>\$ 6,569,130</u>	<u>\$ 7,692,972</u>

See accompanying notes to the financial statements.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2010
(with comparative totals for 2009)

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ 7,418,201	\$ (17,347,793)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	88,155	1,591
Loss on disposition of building	1,073,873	-
Provision for uncollectible promises to give and contribution receivable	34,494	279,621
Net change in discount on unconditional promises to give	(5,602)	(53,964)
Realized and unrealized (gain) loss on investments	(8,655,001)	18,815,861
Changes in operating assets and liabilities:		
Decrease in interest receivable	-	165,468
Decrease in other receivables	717,485	496,988
Increase (decrease) in accounts payable and accrued expenses	63,148	(129,746)
Increase (decrease) in split-interest agreement	(4,158)	1,779
Increase (decrease) in funds held in custody	1,841,277	(2,784,675)
Contributions permanently restricted by donors	(966,084)	(5,120,465)
Net cash provided by (used in) operating activities	1,605,788	(5,675,335)
Cash Flows From Investing Activities		
Net (purchases) sales and maturities of investments	(1,688,446)	175,365
Change in cash restricted for debt service	(4,754)	5,201
Purchase of property and equipment	(16,529)	(70,035)
Net cash provided by (used in) investing activities	(1,709,729)	110,531
Cash Flows From Financing Activities		
Payments on bonds payable	(80,000)	(80,000)
Contributions permanently restricted by donors	966,084	5,120,465
Net cash provided by financing activities	886,084	5,040,465
Net Increase (decrease) in cash and cash equivalents	782,143	(524,339)
Cash and Cash Equivalents		
Beginning of year	10,725	535,064
End of year	\$ 792,868	\$ 10,725
Supplemental data:		
Cash paid for interest	\$ 12,985	\$ 38,167

See accompanying notes to the financial statements.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

NOTE 1 - NATURE OF ACTIVITIES

The Foundation for the LSU Health Sciences Center (the "Foundation") supports the activities of the LSU Health Sciences Center. The Foundation's activities and purpose include scientific research, educational, solicitation and management of funds, including endowments, and other functions for the benefit of the LSU Health Sciences Center. The Foundation is supported primarily through donor contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Organization and Income Taxes

The Foundation is a nonprofit corporation organized under the laws of the State of Louisiana. It is exempt from Federal income tax by Section 501(c)(3) of the Internal Revenue Code of 1986, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is exempt from Louisiana income tax under the authority of R.S. 47:121(5).

b) Basis of Accounting

The financial statements of the Foundation are prepared on the accrual basis of accounting.

c) Reporting Entity

Using the criteria established in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Foundation is reported as a component unit of the LSU system and it is legally separate from and is financially accountable to the LSU system.

Annually, the State of Louisiana issues a comprehensive financial report, which includes the activity contained in the accompanying financial statements. The Louisiana Legislative Auditor audits the basic financial statements of the State of Louisiana.

d) Basis of Presentation

Financial statement presentation follows the reporting requirements of FASB Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which establishes external financial reporting for not-for-profit organizations. Under ASC 958, net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets - Net assets that are subject to donor-imposed stipulations that the principal not be expended, but rather, invested to provide a permanent source of income for the Foundation's programs.

e) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

f) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation consider 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.

g) Investments

Investments are carried at estimated current market value. Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the Statement of Financial Position.

h) Noncurrent Liabilities

Noncurrent liabilities include principal amounts of bonds payable and other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

i) Funds Held in Custody for Others

The Foundation considers all state matching funds and unexpended income from these funds to be reported as Funds Held in Custody for Others. All Funds Held in Custody for Others are recorded at fair market value.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

k) Unconditional Promises to Give

Contributions are recognized when a donor makes a promise to give to the Foundation that is, in substance, unconditional. The promises to give are recognized as assets and revenues, net of an allowance for uncollectible amounts. The allowance is based on historical experience and management's analysis of specific promises made. Management's estimate for the allowance of uncollectible promises to give at June 30, 2010 and 2009 was \$7,611 and \$26,187, respectively. A provision for uncollectible promises to give was not recorded for the years ended June 30, 2010 and 2009.

l) Property and Equipment

The Foundation capitalizes acquisitions of property, furniture, equipment, and accounting software purchased with unrestricted funds in excess of \$5,000. Costs of property, furniture, equipment, and accounting software purchased with unrestricted funds that are less than \$5,000 are charged to expense. The cost of these assets that is classified as program services expense is not capitalized by the Foundation as these assets are owned and used by departments of the LSU Health Sciences Center. Acquisitions of these assets with restricted private donations are also not capitalized by the Foundation as these assets belong to the State of Louisiana. Capitalized assets are carried at cost or, if donated, at the approximate fair value at the date of donation. As of June 30, 2010, all other furniture, equipment, and accounting software owned by the Foundation were purchased with restricted private donations and have not been capitalized. Accounting software is being depreciated over estimated useful lives of one to five years using a straight-line method.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Expense Allocation

The costs of providing various programs and other activities are summarized on a functional basis in the financial statements. Accordingly, certain costs are allocated among the programs and supporting services benefited.

n) Required Transfers

The Foundation has received various matching grants from the State of Louisiana under the Eminent Scholars Endowed Chairs and Endowed Professorships programs, which are only approved after certain levels of private funding have been raised. The Foundation must comply with certain policies, procedures, and regulations regarding the administration of these programs. One of the requirements of the Board of Regents for Higher Education's investment policy relates to increasing each program's endowment balance each year and some transfers to permanently restricted net assets were made to comply with this policy.

o) Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

p) Subsequent Events

Subsequent events have been evaluated through August 19, 2010, the date the financial statements were available to be issued.

q) Reclassifications

Certain financial statement balances included in the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 3 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted by donors for specific programs, purposes, or to assist specific departments of the LSU Health Sciences Center. The Foundation conducts numerous program services, including assistance with research, scientific endeavors, educational assistance through faculty salary supplemental compensation and student scholarships,

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 3 - RESTRICTIONS ON ASSETS (CONTINUED)

equipment purchases for specific departments, etc. These restrictions are considered to expire when payments for restricted purposes are made. None of the temporarily restricted net assets are time-restricted by donors.

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Permanently restricted purposes	\$ 21,750	\$ 74,820
Less: unamortized discount	(2,584)	(8,186)
Less: allowance for uncollectible amounts	<u>(7,611)</u>	<u>(26,187)</u>
Net unconditional promises to give	<u>\$ 11,555</u>	<u>\$ 40,447</u>
Amount due in:		
Less than one year	\$ 1,300	\$ 17,520
One to five years	9,600	37,300
Over five years	<u>10,850</u>	<u>20,000</u>
Total	<u>\$ 21,750</u>	<u>\$ 74,820</u>

NOTE 5 - INVESTMENTS

As of June 30, 2010, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
U.S. Government Agency mortgage-backed securities	\$ 3,637,326	\$ 3,729,791	\$ 92,465
U.S. Government Agency bonds and notes	25,852,211	26,509,405	657,194
Corporate bonds and notes	9,543,732	9,786,345	242,613
Mutual funds and Other Equities	34,410,126	35,284,879	874,753
Hedge funds	7,580,596	7,773,304	192,708
Money Market/Certificate of Deposit	<u>4,060,941</u>	<u>4,060,941</u>	-
Total	<u>\$ 85,084,932</u>	<u>\$ 87,144,665</u>	<u>\$ 2,059,733</u>

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 5 - INVESTMENTS (CONTINUED)

Investment return for the year ended June 30, 2010 is summarized as follows:

Interest and dividend income	\$ 2,360,847
Net gains	<u>8,655,001</u>
Total investment income	<u>\$ 11,015,848</u>

As of June 30, 2009, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
U.S. Government Agency mortgage-backed securities	\$ 3,736,110	\$ 3,425,334	\$ (310,776)
U.S. Government Agency bonds and notes	25,097,277	23,009,645	(2,087,632)
Corporate bonds and notes	9,038,706	8,286,853	(751,853)
Mutual funds and Other Equities	32,711,905	29,990,875	(2,721,030)
Hedge funds	8,703,628	7,979,646	(723,982)
Money Market/Certificate of Deposit	<u>4,108,865</u>	<u>4,108,865</u>	-
Total	<u>\$ 83,396,491</u>	<u>\$ 76,801,218</u>	<u>\$ (6,595,273)</u>

Investment return for the year ended June 30, 2009 is summarized as follows:

Interest and dividend income	\$ 812,594
Net losses	<u>(18,815,861)</u>
Total investment gain	<u>\$ (18,003,267)</u>

The Board of Directors has been advised by legal counsel that under Louisiana state law, the gains from sales of securities and increases in market value are to be treated as principal, and must be retained in endowment fund accounts. However, under the Uniform Management of Institutional Funds Act adopted in Louisiana, such gains and appreciation in value may be expended for the purposes designated by the donors if it is prudent in the judgment of the Board of Directors after considering the long and short term needs of the LSU Health Sciences Center, its present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions.

If any donor stipulates that realized and unrealized investment gains should not be spent on the restricted purpose for which a fund was originated, then such gains will be added to investment principal and will not be expendable in the future. No such stipulations were present at June 30, 2010.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 5 - INVESTMENTS (CONTINUED)

Investment income from interest, dividends and realized gains and losses are allocated to various activities and programs under the Foundation's investment policy. The portion that pertains to unrestricted and short term donor restricted activities is reported as unrestricted revenue, and the portion that pertains to permanent endowment activities is reported as temporarily restricted revenue, because it could be expended on the restricted purposes of the endowments in subsequent periods.

The Foundation invests in a hedge fund. The investment is a sophisticated, multi-strategy, multi-manager program designed to achieve an optimal balance of upside return potential and downside protection. The investment offers a diversified strategy protecting and preserving the Foundation's capital and a hedged equity strategy providing long-term capital growth. Both strategies also work to deliver risk-adjusted returns by capturing the market's return potential but with much less volatility. The portfolios are constructed using a time tested, disciplined methodology focused first on risk management. The managers then work to identify strategies within a framework and to develop relationships with investment managers. The fund has a demonstrated track record of superior performance in maintaining a highly disciplined and effective investment allocation decision process. The result is a portfolio with a demonstrated ability to protect capital from loss in adverse market conditions and to produce superior risk-adjusted returns. The derivative instrument is designated as a fair value hedging instrument. The fund's fair market value was \$7,773,304 and \$7,979,646 at June 30, 2010 and 2009, respectively.

The Foundation's objective is to maximize its returns related to this investment. The Foundation does not invest in individual hedge funds, but instead, monitors the activity and returns of the manager. The Foundation's investment committee continuously examines the returns of the manager to ensure the Foundation's investment objectives are reached.

The returns from this hedge fund are reported and posted quarterly reflecting the fair market value as of the reporting date. The earnings on the hedge fund are included in unrealized gains (losses) in the Statement of Activities.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Accounting software	\$ 86,564	\$ 70,035
Building	-	1,123,342
Less accumulated depreciation	<u>(86,564)</u>	<u>(49,469)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$1,143,908</u>
Land	<u>\$ 315,467</u>	<u>\$ 315,467</u>

The Foundation recorded depreciation expense of \$86,564 and \$0 as of June 30, 2010 and 2009, respectively.

The building owned and operated by the Foundation located at 2000 Tulane Avenue was heavily damaged by Hurricane Katrina August 29, 2005 and was demolished during fiscal year 2010 (See Note 16).

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash accounts in several financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation and collateralized for greater amounts by agreement with some financial institutions.

NOTE 8 - FUNDS HELD IN CUSTODY

Under agreements with Louisiana State University Agricultural and Mechanical College (the "University"), the Foundation holds and manages funds received by the University as state matching funds for various accounts of the Eminent Scholars Endowed Chairs and the Endowed Professorship Programs. Funds held in custody were \$19,347,004 and \$17,505,727 on June 30, 2010 and 2009, respectively. The amount of state matching funds received was \$80,000 and \$1,800,000 for the years ended 2010 and 2009, respectively.

NOTE 9 - ADVERTISING

The Foundation advertises to promote its programs. The production costs of advertising are expensed as incurred. Advertising costs for the fiscal years ended June 30, 2010 and 2009 were \$6,425 and \$333,173, respectively.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 10 - BONDS PAYABLE

The Foundation financed the renovation of a building (2000 Tulane Avenue) purchased on May 15, 2003 with bond proceeds of \$2,035,000 over a 20-year period through the LPFA Capital Facilities Pool Program. The bond issue is supported by a bank letter of credit. The Foundation's ability to service this debt will be based on its ability to raise funds and earn other revenue from lease payments from the occupants. As discussed in Note 16, the building was heavily damaged by Hurricane Katrina on August 29, 2005 and during fiscal year 2010, the building was demolished. The Foundation has budgeted future reductions in certain expenditures and management believes it will be able to meet this obligation even with the loss of the rental income from the building.

The Foundation issued bonds in January 2002 totaling \$2,035,000 with a variable interest rate. The interest rate paid for 2010 and 2009 amounted to approximately 0.8% and 2.2%, respectively. The bond issuance costs were \$35,000 and are being amortized over the life of the bonds beginning July 1, 2002. Bond amortization expense for each of the fiscal years ended June 30, 2010 and 2009 was \$1,591.

Unamortized bond issuance costs at June 30, 2010 and June 30, 2009 were \$22,272 and \$23,863, respectively. Bonds payable, net at June 30, 2010 and 2009 were \$1,567,728 and \$1,646,137, respectively.

The bond proceeds were used to finance the renovation of the new building. Bond proceeds available at June 30, 2010 are held by a trustee in restricted cash accounts. Restricted cash at June 30, 2010 and 2009 totaled \$98,058 and \$93,304, respectively. Principal payments of \$80,000 and \$80,000 were made on the bond in the years ended June 30, 2010 and 2009, respectively. Interest was paid on the bonds in the amounts of \$12,985 and \$38,167 for the years ended June 30, 2010 and 2009, respectively.

The future maturities of bonds payable are as follows:

Years ending June 30:	
2011	\$ 85,000
2012	90,000
2013	95,000
2014	95,000
2015	100,000
2016-2020	575,000
2021-2024	<u>550,000</u>
Total	<u>\$1,590,000</u>

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 11 - RETIREMENT PLAN

Effective July 1, 2002, the Foundation established a Tax Deferred Annuity or 403(b) Plan. The Foundation's total contributions expense was \$26,603 and \$26,923 as of June 30, 2010 and 2009, respectively, which is included in salaries and benefits.

The Foundation contributes to the Louisiana State University Health Sciences Center Foundation 403(b) Plan, which is intended to be an ERISA Section 404(c) participant-directed plan. Participants exercise control over the assets in their accounts, which is funded exclusively through the purchase of annuity contracts for The Variable Annuity Life Insurance Company (VALIC). Employees are eligible to participate upon the date of employment. Under the Plan, the Foundation matches amounts contributed up to 6% of the employee's compensation only if the employee has completed a year of service and is at least 21 years of age.

NOTE 12 - SPLIT-INTEREST AGREEMENTS

The Foundation has entered into two (2) charitable gift annuity agreements. A charitable gift annuity provides for the payment of distributions to the grantor or designated beneficiaries over the trust's term. In consideration of the contribution, the Foundation shall pay an annual annuity of \$6,795 paid in quarterly installments to the donor so long as they are living. The Foundation's obligation will terminate upon the donor's death. The present value of the estimated future payments (\$56,503 at June 30, 2010) is calculated using a discount rate of 3.2% and the applicable mortality rates. The Foundation made payments to the donor in the amount of \$6,795 for each of the years ended June 30, 2010 and 2009, respectively.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") and FASB ASC 825, *Financial Instruments* ("ASC 825") require disclosure of fair value information about financial instruments, whether or not recognized in the Statements of Net Assets. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. ASC 825 excludes certain financial instruments from its disclosure requirements.

Level 1 classification is applied to any asset that has a readily available quoted price from an active market where there is significant transparency in the executed/quoted price.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 2 classification is applied to assets that have evaluated prices received from fixed income vendors with data inputs which are observable either directly or indirectly, but do not represent quoted prices from an active market for each individual security.

Level 3 classification is applied to assets for which prices are not derived from existing market data.

Investment securities - The fair value of investment securities including U.S. government agency mortgage-backed securities, U.S. government agency bonds and notes, corporate bonds and notes, hedge funds and mutual funds and other equities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quoted prices are not available, fair value is based on externally developed models that use unobservable inputs due to the limited market activity of the investment.

Money market/certificate of deposit - The fair value of money market accounts and certificates of deposit are the amounts payable on demand at the reporting date. The fair value is estimated by discounting the future cash flows using the market rates offered as of December 31 for similar deposits with the same remaining maturities.

Unconditional promises to give - The fair value of contributions is equal to the carrying value for contributions expected to be collected within one year. Contributions expected to be collected in future periods are discounted to present value based on management's assumptions.

Split interest agreements - The fair value of split interest agreements is based on the present value of estimated future payments based on management's assumptions.

The valuation of the Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2010 and 2009 are as follows:

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement at reporting date using above description:

June 30, 2010

ASSETS	Balance as of 6/30/2010	Level 1	Level 2	Level 3
Unconditional promises to give	\$ 11,555	\$ -	\$ -	\$ 11,555
U.S. government agency mortgage-backed securities	3,729,791	-	3,729,791	-
U.S. government agency bonds and notes	26,509,411	-	26,509,411	-
Corporate bonds and notes	9,786,345	9,786,345	-	-
Mutual funds and other equities	35,284,873	35,284,873	-	-
Hedge funds	7,773,304	-	7,773,304	-
Money market/certificate of deposit	4,060,941	-	4,060,941	-
Total	\$ 87,156,220	\$ 45,071,218	\$ 42,073,447	\$ 11,555

LIABILITIES	Balance as of 6/30/2010	Level 1	Level 2	Level 3
Split interest agreements	\$ 56,503	\$ -	\$ 56,503	\$ -
Total	\$ 56,503	\$ -	\$ 56,503	\$ -

The changes in investments measured at fair value for which the Foundation has used Level 3 inputs to determine fair values are as follows:

ASSETS	Level 3 beginning balance 7/1/2009	Net realized and unrealized gains (losses)	Net payments and gifts	Level 3 ending balance 6/30/2010
Unconditional promises to give	\$ 40,447	\$ (39,742)	\$ 10,850	\$ 11,555
Total	\$ 40,447	\$ (39,742)	\$ 10,850	\$ 11,555

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement at reporting date using above description:

June 30, 2009

ASSETS	Balance as of 6/30/2009	Level 1	Level 2	Level 3
Unconditional promises to give	\$ 40,447	\$ -	\$ -	\$ 40,447
U.S. government agency mortgage-backed securities	3,425,334	-	3,425,334	-
U.S. government agency bonds and notes	23,009,645	-	23,009,645	-
Corporate bonds and notes	8,286,853	8,286,853	-	-
Mutual funds and other equities	29,990,875	29,990,875	-	-
Hedge funds	7,979,646	-	7,979,646	-
Money market/certificate of deposit	4,108,865	-	4,108,865	-
Total	\$ 76,841,665	\$ 38,277,728	\$ 38,523,490	\$ 40,447

LIABILITIES	Balance as of 6/30/2009	Level 1	Level 2	Level 3
Split interest agreements	\$ 60,661	\$ -	\$ 60,661	\$ -
Total	\$ 60,661	\$ -	\$ 60,661	\$ -

The changes in investments measured at fair value for which the Foundation has used Level 3 inputs to determine fair values are as follows:

ASSETS	Level 3 beginning balance 7/1/2008	Net realized and unrealized gains (losses)	Net payments and gifts	Level 3 ending balance 6/30/2009
Unconditional promises to give	\$ 266,104	\$ (322,657)	\$ 97,000	\$ 40,447
Total	\$ 266,104	\$ (322,657)	\$ 97,000	\$ 40,447

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2010

NOTE 14 - RELATED PARTY TRANSACTIONS

In the normal course of business, the Foundation reimburses the LSU Health Sciences Center for certain expenses and makes distributions to or on behalf of the Health Sciences Center. The Foundation also provides certain services for the Health Sciences Center. Included in expenses for the year ended June 30, 2010 and 2009 are \$4,266,537 and \$5,109,360, respectively, which represents payments on behalf of the Health Sciences Center. At June 30, 2010 and 2009, there were no funds due to or from the Health Sciences Center.

NOTE 15- CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2008, the Foundation changed its method of valuation of funds held in custody of others from using a consumer price index adjusted growth rate to adjusting for actual realized and unrealized gains or losses. The funds are periodically adjusted to fair value. Management believes the fair value method results in better matching of actual returns with the actual value of funds held in custody and more accurately accounts for changes in the financial markets that directly impact the value of the funds held in custody. It was impracticable to determine the cumulative effect of this accounting change and the retroactive application of the fair value method to prior years, because the Foundation's accounting records do not provide sufficient information to apply the new method. As a result, the effect of the change has been applied prospectively in fiscal year 2009. The effect of the change in fiscal year 2009 was to decrease funds held in custody of others by approximately \$2,785,000 and increase other income by approximately \$2,785,000.

NOTE 16 - REPLACEMENT FACILITY

During fiscal 2006, Hurricane Katrina substantially damaged the building that housed the Foundation's offices. During fiscal 2010, the building was demolished and the resulting loss was recorded on the Foundation's Statement of Activities and the value of the building recorded on the Foundation's Statement of Financial Position was written off. The Foundation has negotiated with Federal Emergency Management Agency (FEMA) and received a project worksheet for approximately \$4 million. The Foundation is currently working with FEMA to arrive at an approved design for the replacement facility. FEMA has also drafted a new version of the project worksheet requesting additional obligated funds in order to adequately fund the new facility. Once the necessary funds are obligated by FEMA, the Foundation intends to pursue construction of the new facility.

REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

REBOWE & COMPANY

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CONSULTANTS

A PROFESSIONAL CORPORATION

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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*

Board of Directors
The Foundation for the LSU Health Sciences Center
New Orleans, Louisiana

We have audited the financial statements of The Foundation for the LSU Health Sciences Center (the "Foundation") (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated August 19, 2010. 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 the Foundation's internal control over financial reporting as a basis for designing our auditing 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 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.

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 Foundation'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 Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

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 Foundation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 the Foundation'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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Rebowe & Company

August 19, 2010

**THE FOUNDATION FOR
THE LSU HEALTH SCIENCES CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010**

A - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Foundation for the LSU Health Sciences Center.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *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*.
3. No instances of noncompliance material to the financial statements of the Foundation for the LSU Health Sciences Center, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. A management letter was not issued for the year ended June 30, 2010.

B - Findings - Financial Statement Audit

There were no findings related to financial statements for the year ended June 30, 2010.

**THE FOUNDATION FOR
THE LSU HEALTH SCIENCES CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2010**

FINDINGS - FINANCIAL STATEMENT AUDIT

There were no prior year findings related to the financial statements for the year ended June 30, 2009.

MANAGEMENT LETTER

A management letter was not issued for the year ended June 30, 2009.

**THE FOUNDATION FOR
THE LSU HEALTH SCIENCES CENTER
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2010**

There were no findings for the year ended June 30, 2010; therefore, a corrective action plan is not required.