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**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**

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**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
LSU System Research and Technology Foundation  
Baton Rouge, Louisiana

**Report on Financial Statements**

We have audited the accompanying consolidated financial statements of the LSU System Research and Technology Foundation (the Foundation) which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the LSU System Research and Technology Foundation as of December 31, 2012 and 2011, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 20, 2014, on our consideration of the Foundation'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 internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 20, 2014

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2012 AND 2011**

**ASSETS**

	2012	(as restated) 2011
	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ -	\$ 293,912
Accounts receivable	7,050,370	941,232
Prepaid expenses	31,958	27,671
Property and equipment, net	40,775,176	24,667,293
Investment in partnership	1,631,733	1,579,859
<b>Total assets</b>	<b><u>\$ 49,489,237</u></b>	<b><u>\$ 27,509,967</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Outstanding checks in excess of bank balance	\$ 77,750	\$ -
Accounts payable	6,118,531	1,276,453
<b>Total liabilities</b>	<b><u>6,196,281</u></b>	<b><u>1,276,453</u></b>

**NET ASSETS**

Unrestricted net assets	43,292,956	26,233,514
<b>Total net assets</b>	<b><u>43,292,956</u></b>	<b><u>26,233,514</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 49,489,237</u></b>	<b><u>\$ 27,509,967</u></b>

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

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>(as restated)</u> <u>2011</u>
<b><u>REVENUES:</u></b>		
Department of Economic Development - operations	\$ 265,666	\$ 462,274
Department of Economic Development - regional director	152,897	312,944
Department of Economic Development - digital media center	16,491,993	1,758,261
Department of Economic Development - LBIA	70,000	70,000
Economic Development Administration - digital media center	2,438,032	-
Rental revenues	795,728	691,260
Other revenues	685,630	652,614
<b>Total revenues</b>	<b>20,899,946</b>	<b>3,947,353</b>
<b><u>EXPENSES:</u></b>		
Program :		
Salaries and benefits	611,478	750,970
Clinical manufacturing facility expenses	304	2,300
Depreciation expense	1,460,996	1,675,480
Lab supplies	215,138	4,776
Other expenses	710,779	711,474
Regional director fees	152,897	312,944
<b>Total program expenses</b>	<b>3,151,592</b>	<b>3,457,944</b>
Management and general:		
Bad debt expense	390,360	-
Legal and professional	228,539	155,971
Office expenses	37,249	71,092
Salaries and benefits	32,764	39,524
<b>Total management and general expenses</b>	<b>688,912</b>	<b>266,587</b>
<b>Total expenses</b>	<b>3,840,504</b>	<b>3,724,531</b>
<b><u>CHANGE IN NET ASSETS</u></b>	<b>17,059,442</b>	<b>222,822</b>
Net assets - beginning of the period	26,233,514	26,010,692
<b><u>NET ASSETS - END OF PERIOD</u></b>	<b>\$ 43,292,956</b>	<b>\$ 26,233,514</b>

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

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	(as restated) 2011
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 17,059,442	\$ 222,822
Depreciation expense	1,460,996	1,675,480
Bad debt expense	390,360	-
Unrealized gain in investment in partnership	(48,125)	(231,422)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) in accounts receivable	(6,499,498)	(86,647)
(Increase) in prepaid expenses	(4,287)	(174)
Increase in accounts payable	4,842,079	127,622
<b>Net cash provided by operating activities</b>	<b>17,200,967</b>	<b>1,707,681</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Acquisition and/or construction of property and equipment	(17,568,879)	(1,846,893)
Capital contributions to partnership	(3,750)	-
<b>Net cash used in investing activities</b>	<b>(17,572,629)</b>	<b>(1,846,893)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Outstanding checks in excess of bank balance	77,750	-
<b>Net cash provided by financing activities</b>	<b>77,750</b>	<b>-</b>
Net decrease in cash and cash equivalents	(293,912)	(139,212)
Cash and cash equivalents - beginning of year	293,912	433,124
Cash and cash equivalents - end of year	<b>\$ -</b>	<b>\$ 293,912</b>

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

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. **The Foundation**

The LSU System Research and Technology Foundation (the Foundation) is a non-profit corporation which was formed on July 3, 2002, and began operations on July 18, 2003. The Foundation was organized (1) to encourage, support, facilitate, foster, and manage research, technology, and start-up life sciences business emanating from the Louisiana State University System and other research institutions and facilities in Louisiana to enhance economic growth; (2) to coordinate and manage the transfer of intellectual property and other intangible property and rights derived from such research and technology to the marketplace; and (3) to pursue all other activities and actions contemplated by the foregoing.

Louisiana Research and Technology Company, LLC (the Company) was organized as a for-profit company to maximize the opportunities of the Foundation and its investors. The Foundation is the sole member of the Company.

During the year ended December 31, 2005, the Foundation formed a for-profit subsidiary, LAETC Management Company, LLC (the Management Company), to manage the operations of the Louisiana Emerging Technology Center. The Foundation is the sole member of the Management Company.

During the year ended December 31, 2008, the Foundation formed another for-profit subsidiary, Tempest Biotech, LLC (Tempest), to manage the operations of the clinical wet lab. In late 2011, the management of the operations of the clinical wet lab was outsourced to an unrelated third party. The Foundation is the sole member of Tempest.

2. **Summary of significant accounting policies**

The accounting and reporting policies of the Foundation conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the non-profit industry. A summary of significant accounting policies is as follows:

**Consolidation**

The consolidated financial statements include the accounts of the LSU System Research and Technology Foundation, the Louisiana Research and Technology Company, LLC, the LAETC Management Company, LLC, and Tempest Biotech, LLC. All significant inter-company accounts and transactions have been eliminated in consolidation.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 these estimates.

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

2. Summary of significant accounting policies (continued)

Accounts receivable

Revenues from cooperative endeavor agreements are recognized in the period in which the Foundation is eligible to receive the funding, and accounts receivable are stated at the amount that management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2012 and 2011, all accounts were considered collectible; therefore no allowance for uncollectible accounts has been established.

Property and equipment

Property and equipment are stated at cost. Additions, renewals, and improvements that increase the value or extend the lives of these assets are capitalized. Replacements, maintenance, and repairs that do not improve the value of or extend the lives of the respective assets are expensed as incurred. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in income for that period.

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. The Foundation did not have any temporarily restricted or permanently restricted net assets at either December 31, 2012 or 2011.

Revenue recognition

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

Grants for fee income are recorded as unrestricted net assets in the Statements of Activities.

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

2. Summary of significant accounting policies (continued)

Income taxes

The Foundation is a not-for-profit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. As previously noted, the consolidated financial statements include the accounts of Louisiana Research and Technology Company, LLC, LAETC Management Company, LLC, and Tempest Biotech, LLC, for-profit entities. Accordingly, a provision for income taxes, if necessary, is included in the accompanying consolidated financial statements.

The Foundation accounts for income taxes in accordance with income tax accounting guidance included in the Accounting Standards Codification (ASC). The Foundation recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than fifty percent likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Foundation has evaluated its positions regarding the accounting for uncertain tax positions and does not believe it has any material uncertain tax positions.

The statute of limitations for the examination of the Foundation's income tax returns is generally 3 years from the due date of the tax return including extensions. The tax years open for assessment are years ending on or after December 31, 2009.

Statement of cash flows

For purposes of the cash flow presentation, the Foundation considers cash in operating bank accounts and cash on hand to be cash and cash equivalents.

Investment in general partnership

Investments in partnerships in which the Foundation holds 20% or more of the voting stock of the corporation is accounted for under the equity method of accounting. Under the equity method, the Foundation records in its earnings its proportionate share of the partnerships earnings.

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

3. Property and equipment

Property and equipment consisted of the following at December 31, 2012 and 2011:

	2012	2011
Equipment	\$ 4,384,606	\$ 4,384,606
Building and improvements	24,508,846	24,508,846
Construction in progress	20,583,097	3,014,217
	49,476,549	31,907,669
Less: accumulated depreciation	( 8,701,373)	( 7,240,376)
	\$ 40,775,176	\$ 24,667,293

Depreciation expense for the years ended December 31, 2012 and 2011, totaled \$1,460,996 and \$1,675,480, respectively.

4. Cooperative endeavor agreements with the Louisiana Department of Economic Development

Effective July 1, 2006, the Foundation entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development to assist in providing regional economic development representation covering eight labor market areas of the State of Louisiana to seek out opportunities for the creation and enhancement of economic growth. Through various amendments, this agreement was amended to increase assistance and extend the terms of the agreement through June 30, 2012. The Foundation recognized revenues relating to these agreements of approximately \$153,000 and \$313,000 during the years ended December 31, 2012 and 2011, respectively.

The LAETC Management Company, LLC entered into various one year cooperative endeavor agreements with the Louisiana Department of Economic Development to support the operation of the wet lab incubator. The Management Company recognized revenues relating to these agreements of approximately \$155,000 and \$401,000 for the years ended December 31, 2012 and 2011, respectively.

Effective January 1, 2008, the Foundation entered into another cooperative endeavor agreement with the Louisiana Department of Economic Development to assist in the design and construction of a new computer facility on the University's campus. The design phase was completed during the year ended December 31, 2008; however, continued funding for this project was not appropriated by the State, and the project was abandoned. With the agreement still in effect and new funding appropriated by the State, the agreement was amended to assist in the design and construction of a new digital media facility on the University's campus with its terms extended through June 30, 2013. The Foundation recognized revenues relating to this agreement of approximately \$16,492,000 and \$1,758,000 during the years ended December 31, 2012 and 2011, respectively.

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

5. Financial Assistance Award with the United States Department of Commerce,  
Economic Development Administration (EDA)

In August 2010, the Foundation was awarded a \$3,000,000 federal grant with the United States Department of Commerce, Economic Development Administration to assist in the construction of a new digital media facility on the University's campus. The grant award requires a non-federal cash contribution of \$14,000,000 which is being funded through a cooperative endeavor agreement with the Louisiana Department of Economic Development as discussed in Note 4. The Foundation recognized revenues relating to this agreement of approximately \$2,438,000 for the year ended December 31, 2012. No federal expenditures were incurred during the year ended December 31, 2011.

6. Leases

The Foundation entered into a lease agreement with the Louisiana State University and Agriculture and Mechanical College (the University) for approximately 6 acres of property located on the campus of the University in August of 2003 (the effective date) and was amended in May of 2011. The lease is for a term of fifty years from the effective date and requires annual rental payments of \$100. Since the fair value of this land lease cannot be determined with reasonable certainty, it is not included in the accompanying financial statements. In addition, unless the University and the Foundation enter into a written agreement providing otherwise, upon termination of the lease agreement by lapse of term, the Louisiana Emerging Technology Center building and improvements shall be transferred to the University by the Foundation or demolished at the Foundation's expense at the sole discretion of the University.

The Management Company has entered into various operating lease agreements with the tenants of the Louisiana Emerging Technology Center. All lease agreements are on month-to-month bases and require 30-day written notice for termination. The monthly rental payments range from \$150 to \$19,275, and rental revenues totaled approximately \$796,000 and \$691,000 for the years ended December 31, 2012 and 2011, respectively.

7. Investment in General Partnership

As discussed in Note 1, the Foundation is the sole member of the Louisiana Research and Technology Company, LLC (the Company), which holds an approximate 22% ownership and is the general partner of the Louisiana Fund I General Partner, LP (the General Partnership). Due to the fact that the limited partners in the General Partnership have substantive participating rights, the Company does not consolidate the General Partnership in its financial statements and records its investment in the General Partnership using the equity method of accounting. As of December 31, 2012, the Foundation had contributed \$64,500 of its \$75,000 commitment.

The General Partnership holds a 1% interest and is the general partner for Louisiana Fund I, LP (the Fund).

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

8. License Agreement

During 2011, Tempest Biotech, LLC entered into a twelve year Biological Material License Agreement with the U.S. Army Walter Reed Army Institute of Research (Licensor). Under the terms of the agreement, Tempest Biotech, LLC is licensed to use the Materials and/or Methods as defined in the agreement in its commercial product development and marketing activities. Under this agreement, Tempest Biotech, LLC paid a one-time execution fee of \$2,000. The agreement requires royalties to be paid to the Licensor based on Net Sales for the Materials and/or Methods Used in Licensed Products. There were no sales during 2012 or 2011 which required royalty payments. This agreement may be terminated upon sixty days notice to the Licensor.

9. Concentrations of credit risk

The Foundation's revenues included approximately \$19,419,000 and \$2,603,000 relating to cooperative endeavor agreements with the Department of Economic Development during the years ended December 31, 2012 and 2011, respectively. These amounts represented approximately 93% and 61% of the Foundation's total revenues for the years ended December 31, 2012 and 2011, respectively. The continuation of these revenues at these levels is dependent upon the execution of new agreements and/or the extension and amendment of existing agreements.

The Foundation maintains its cash in bank deposit accounts at one financial institution. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

10. Commitments

During 2011, the Foundation entered into a contract for the construction of a new digital media facility. The contract awarded totaled approximately \$19,125,000 which included approved change orders to date of approximately \$589,600, of which approximately \$10,984,00 relates to facility construction and \$8,141,000 is for tenant improvements. The remaining commitment on this contract was approximately \$2,591,000 at December 31, 2012.

11. Restatement of prior year net assets

As discussed in Note 7, the Foundation is the sole member of the Louisiana Research and Technology Company, LLC (the Company), which holds an approximate 22% ownership and is the general partner of the Louisiana Fund I General Partner, LP (the General Partnership).

During the current year, it was discovered that the equity interest recorded by the Foundation in this investment was overstated due to the actual ownership percentage being less than previously reported to the Foundation.

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

11. Restatement of prior year net assets (continued)

The effect of correcting these differences on the previously issued financial statements is as follows:

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Investment in partnership, at December 31, 2010	\$ 3,060,500	\$ (1,712,063)	\$ 1,348,437
Proportionate share of net income for the year ended December 31, 2011	<u>530,735</u>	<u>(299,313)</u>	<u>231,422</u>
Investment in partnership, at December 31, 2011	<u>\$ 3,591,235</u>	<u>\$ (2,011,376)</u>	<u>\$ 1,579,859</u>
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Net assets, at December 31, 2010	\$ 27,714,155	\$ (1,712,063)	\$ 26,002,092
Change in net assets for the year ended December 31, 2011	<u>530,735</u>	<u>(299,313)</u>	<u>231,422</u>
Net assets, at December 31, 2011	<u>\$ 28,244,890</u>	<u>\$ (2,011,376)</u>	<u>\$ 26,233,514</u>

12. Subsequent events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 20, 2014, and determined that the following events require disclosure:

As described in Notes 5, 6, and 10, the Foundation was in the process of constructing a new digital media center. Subsequent to year end, the construction of this facility has been completed and the facility has been donated to the University.

In September 2013, a cooperative endeavor agreement was entered into between the Foundation and the University whereby the Foundation is operating and managing the improvements of the digital media center, which include janitorial services and major repairs, for a monthly fee of \$38,750. From this monthly amount, \$5,000 is being retained by the University and placed into a reserve maintenance fund.

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

12. Subsequent events (continued)

During 2013, the largest tenant that was operating the wet lab and clean room in the Louisiana Emerging Technology Center filed for bankruptcy. The majority of the lab and clean room equipment has been sold at 20% of the original cost.

No events occurring after this date have been considered for inclusion in these financial statements.

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

Board of Directors  
LSU System Research and Technology Foundation  
Baton Rouge, Louisiana

We have audited, 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, the consolidated financial statements of the LSU System Research Technology Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2012, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 20, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 20, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
LSU System Research and Technology Foundation  
Baton Rouge, Louisiana

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of the LSU System Research Technology Foundation (the Foundation) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended December 31, 2012. The Foundation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the Foundation's major federal program based on our audit of the types of compliance requirements referred to above. 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 that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the LSU System Research Technology Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

## Report On Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Foundation's internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a *material weakness in internal control* over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of the Foundation as of and for the year ended December 31, 2012, and have issued our report thereon dated May 20, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Pastlethwaite & Metterville*

Baton Rouge, Louisiana

May 20, 2014

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED NOTES**  
**YEAR ENDED DECEMBER 31, 2012**

<u>Federal Grantor / Program Title / Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Department of Commerce/ Direct Program Economic Adjusted Assistance /08-79-04623	11.307	\$ <u>2,438,032</u>

Notes to the Schedule of Expenditures of Federal Awards

**(1) General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of the LSU System Research and Technology Foundation (the Foundation). The Foundation's reporting entity is defined in note 1 to the consolidated financial statements as of and for the year ended December 31, 2012. All federal awards received from federal agencies are included on the schedule.

**(2) Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the Foundation's consolidated financial statements as of for the year ended December 31, 2012.

**(3) Relationship to Financial Statements**

Federal awards are included in the financial statement line item titled "Economic Development Administration – digital media center" in the consolidated statement of activities in the financial statements of the Foundation. Expenditures related to the construction of the digital media center were capitalized and included in construction in progress at December 31, 2012.

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2012**

(1) Summary of Auditors' Results

**Financial Statements**

- a) The type of report issued on the financial statements: unqualified (unmodified) opinion
- b) Material weaknesses identified: none
- c) Significant deficiencies identified that are not considered to be material weaknesses: none reported
- d) Noncompliance which is material to the financial statements: none

**Federal Awards**

- a) Material weaknesses identified: none
- b) Significant deficiencies identified that are not considered to be material weaknesses: none reported
- c) The type of report issued on compliance for major programs: unqualified (unmodified) opinion
- d) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: no
- e) Identification of major programs:
  - CFDA No. 11.307 - Department of Commerce- Direct Program Economic Adjusted Assistance
- f) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- g) The Foundation did not qualify as a low-risk auditee under Section 530 of OMB Circular A-133.

(2) Findings relating to the financial statements reported in accordance with *Government Auditing Standards*: none

(3) Findings and Questioned Costs relating to Federal Awards: none

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2012**

**A. Findings - Financial Statement Audit:**

(1) None