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**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

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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 2/8/09

**P&N** Postlethwaite  
& Netterville

A Professional Accounting Corporation

www.pncpa.com

**LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated statements of financial position of the LSU System Research and Technology Foundation (the Foundation) as of December 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years 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 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 consolidated financial statements are free of material misstatement. An audit includes the consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 financial position of the LSU System Research and Technology Foundation as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years 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 April 30, 2009, 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, 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 read in conjunction with this report in considering the results of our audit.

*Postlethwaite: Netterville*

Baton Rouge, Louisiana  
April 30, 2009

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2008 AND 2007**

**ASSETS**

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,671,492	\$ 989,642
Certificate of deposit	-	2,000,000
Accounts receivable - Louisiana Department of Economic Development	1,102,595	1,337,838
Accounts receivable - other	28,859	4,894
Prepaid expenses	27,677	-
Property and equipment, net	22,361,757	19,348,378
Investment in partnership	34,542	21,409
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 25,226,922</b>	<b>\$ 23,702,161</b>
	<hr/>	<hr/>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 1,222,945	\$ 1,934,289
Accrued expenses	36,673	35,960
Deferred revenue	-	1,250,000
Due to the Louisiana Department of Economic Development	1,250,000	1,250,000
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>2,509,618</b>	<b>4,470,249</b>
	<hr/>	<hr/>

**NET ASSETS**

Unrestricted net assets	22,717,304	19,231,912
	<hr/>	<hr/>
<b>Total net assets</b>	<b>22,717,304</b>	<b>19,231,912</b>
	<hr/>	<hr/>

<b>Total liabilities and net assets</b>	<b>\$ 25,226,922</b>	<b>\$ 23,702,161</b>
	<hr/>	<hr/>

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

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b><u>REVENUES:</u></b>		
Department of Economic Development - operations	\$ 3,825,870	\$ 2,582,164
Department of Economic Development - building	4,088,493	4,820,468
Department of Economic Development - regional director and research	1,847,985	1,396,914
Department of Economic Development - supercomputer	1,632,848	-
Department of Economic Development - LBIA	50,000	-
Rental revenues	264,950	118,550
Other revenues	340,786	127,722
<b>Total revenues</b>	<u>12,050,932</u>	<u>9,045,818</u>
<b><u>EXPENSES:</u></b>		
Advertising	89,924	109,028
Clinical manufacturing facility expenses	2,728,041	1,860,000
Depreciation expense	957,483	744,635
Impairment of supercomputer project	1,676,137	-
Lab supplies	384,038	-
Legal fees	108,532	13,277
Office expenses	93,520	237,442
Other expenses	420,101	279,966
Professional fees	869,098	927,709
Regional director fees	597,410	644,507
Salaries and benefits	641,256	425,016
<b>Total expenses</b>	<u>8,565,540</u>	<u>5,241,580</u>
<b><u>CHANGE IN NET ASSETS</u></b>	<u>3,485,392</u>	<u>3,804,238</u>
Net assets - beginning of the period	<u>19,231,912</u>	<u>15,427,674</u>
<b><u>NET ASSETS - END OF PERIOD</u></b>	<u>\$ 22,717,304</u>	<u>\$ 19,231,912</u>

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

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 3,485,392	\$ 3,804,238
Depreciation expense	957,483	744,635
(Gain)/Loss from partnership investment	(1,843)	(1,264)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	211,278	(765,157)
Increase in prepaid expenses	(27,677)	-
Increase (decrease) in accounts payable	(711,344)	1,355,206
Increase in accrued expenses	713	30,493
Increase (decrease) in deferred revenue	(1,250,000)	1,250,000
<b>Net cash provided by operating activities</b>	<b>2,664,002</b>	<b>6,418,151</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of property and equipment	(3,970,862)	(4,644,618)
Redemption (purchase) of certificate of deposit	2,000,000	(2,000,000)
Capital contributions to partnership	(11,290)	(11,250)
<b>Net cash used in investing activities</b>	<b>(1,982,152)</b>	<b>(6,655,868)</b>
Net increase (decrease) in cash and cash equivalents	681,850	(237,717)
Cash and cash equivalents - beginning of period	989,642	1,227,359
Cash and cash equivalents - end of period	\$ 1,671,492	\$ 989,642

The accompanying notes are an integral part of these 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.

The 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, the 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. 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)**

**Property and equipment**

Property and equipment are stated at cost. Additions, renewals, and improvements that extend the lives of these assets are capitalized. Replacements, maintenance, and repairs that do not improve 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 December 31, 2008 or 2007.

**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 the Louisiana Research and Technology Company, LLC, the 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.

**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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

2. Summary of significant accounting policies (continued)

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.

Concentrations of credit risk

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. At December 31, 2008, cash in excess of FDIC insurance limits totalled approximately \$1,182,000.

3. Property and equipment

Property and equipment consisted of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Office equipment	\$ 2,383,349	\$ 2,055,533
Building and improvements	21,077,653	14,347,574
Construction in progress	<u>1,233,113</u>	<u>4,320,146</u>
	24,694,115	20,723,253
Less: accumulated depreciation	<u>(2,332,358)</u>	<u>( 1,374,875)</u>
	<u>\$ 22,361,757</u>	<u>\$ 19,348,378</u>

Depreciation expense totaled \$957,483 and \$744,635 for the years ended December 31, 2008 and 2007, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

4. Funding agreement with the Louisiana Department of Economic Development

The Foundation entered into a funding agreement with the Louisiana Department of Economic Development on April 11, 2003. In accordance with the terms of this agreement, the Department of Economic Development agreed to provide funding of \$750,000 to the Foundation to provide for early stage funding to research-based companies that seek to commercialize technology developed at Louisiana universities.

All of the payments to the Foundation are made upon the receipt from the Foundation and approval by the Louisiana Department of Economic Development of cost reports certifying that such expenses have been incurred and that the Foundation has provided matching funds of twenty-five percent of the expenses. All of the funds paid to the Foundation under this agreement are required to be converted into equity in the Louisiana Research and Technology Company, LLC.

The Foundation recognized revenues relating to this agreement of approximately \$30,200 and \$80,700 during the years ended December 31, 2008 and 2007, respectively.

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

The Foundation entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development (LDED) on March 31, 2003. In accordance with the terms of this agreement, the Department of Economic Development will reimburse the Foundation up to \$10,000,000 for costs incurred in connection with the planning, designing, and construction of the Louisiana Emerging Technology Center, a wet-lab business incubator. During the year ended December 31, 2005, this agreement was amended to increase the allowable reimbursable costs associated with the construction of the wet-lab business incubator an additional \$2,500,000, and in February of 2008, this agreement was again amended to increase the allowable reimbursable costs associated with the construction of the wet-lab business incubator an additional \$2,000,000. Through various amendments, the cooperative endeavor agreement was extended until June 30, 2009. The Foundation recognized revenues relating to this agreement of approximately \$4,088,000 and \$4,820,000 during the years ended December 31, 2008 and 2007, respectively.

Effective July 1, 2006, the Foundation entered into another cooperative endeavor agreement with the Louisiana Department of Economic Development. In accordance with the terms of the original agreement the Louisiana Department of Economic Development will provide up to \$1,872,000 to the Foundation 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 up to \$3,912,000, broaden its scope to include the design and implementation of a program that will assist in the research, development and commercialization of technology with an emphasis in the areas of sickle cell anemia and leukemia, and extended the terms of the agreement through June 30, 2009. The Foundation recognized revenues relating to this agreement of approximately \$1,848,000 and \$1,397,000 during the years ended December 31, 2008 and 2007, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

5. Cooperative endeavor agreements with the Louisiana Department of Economic Development *(continued)*

The LAETC Management Company, LLC entered 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 \$3,722,000 and \$2,535,000 for the years ended December 31, 2008 and 2007, respectively.

Effective January 1, 2008, the Foundation entered into another cooperative endeavor agreement with the Louisiana Department of Economic Development. In accordance with the terms of this agreement, the Louisiana Department of Economic Development will provide up to \$15,000,000 to the Foundation 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, funding for this project was not received from the State, and the project was abandoned. The Foundation recognized revenues and expenses of approximately \$1,673,000 for this project during the year ended December 31, 2008.

6. Commitments

As of December 31, 2008, the Foundation had several contracts outstanding with contractors for the build-out of a section of the building for a modular clean room and an HVAC control system. The contracts total approximately \$1,615,000, and the remaining commitments on these contracts were approximately \$742,000 at December 31, 2008.

7. Leases

In August of 2003, 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. The lease is for a term of fifty years 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 of these lease agreements are on month-to-month bases and require 30-day written notice for termination. The monthly rental payments range from \$175 to \$9,000, and rental revenues totaled approximately \$265,000 and \$119,000 for the years ended December 31, 2008 and 2007, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

8. 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 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 Foundation 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, 2008, the Foundation had contributed \$42,040 of its \$75,000 commitment.

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

**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 the accompanying consolidated financial statements of the LSU System Research and Technology Foundation (the Foundation) as of and for the year ended December 31, 2008, and have issued our report thereon dated April 30, 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 the Foundation's internal control over financial reporting in order to determine 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 Entity'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 to 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 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 consolidated 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 the 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 Board of Directors and management of the LSU System Research and Technology Foundation and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Portletta: Metairie*

Baton Rouge, Louisiana

April 30, 2009

