
LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011



A Professional Accounting Corporation

www.pncpa.com

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Consolidated Financial Statements</u>	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 11
<u>Other Independent Auditors' Reports</u>	
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>	12 - 13

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, 2011 and 2010, 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, 2011 and 2010, 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 October 10, 2012, 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
October 10, 2012

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	(as restated) 2010
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 293,912	\$ 433,124
Accounts receivable	941,232	854,585
Prepaid expenses	27,671	27,497
Property and equipment, net	24,667,293	24,495,880
Investment in partnership	3,591,235	3,060,500
Total assets	<u>\$ 29,521,343</u>	<u>\$ 28,871,586</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 1,276,453	\$ 1,148,831
Total liabilities	<u>1,276,453</u>	<u>1,148,831</u>

NET ASSETS

Unrestricted net assets	28,244,890	27,722,755
Total net assets	<u>28,244,890</u>	<u>27,722,755</u>

Total liabilities and net assets	<u>\$ 29,521,343</u>	<u>\$ 28,871,586</u>
---	-----------------------------	-----------------------------

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, 2011 AND 2010

	<u>2011</u>	<u>(as restated)</u> <u>2010</u>
<u>REVENUES:</u>		
Department of Economic Development - operations	\$ 462,274	\$ 1,568,808
Department of Economic Development - building and equipment	-	13,341
Department of Economic Development - regional director	312,944	494,752
Department of Economic Development - computer facility	1,758,261	953,613
Department of Economic Development - LBIA	70,000	70,600
Product sales	-	368,000
Rental revenues	691,260	519,225
Other revenues	951,927	693,529
Total revenues	<u>4,246,666</u>	<u>4,681,868</u>
<u>EXPENSES:</u>		
Clinical manufacturing facility expenses	2,300	105,899
Depreciation expense	1,675,480	1,763,206
Lab supplies	4,776	115,147
Legal and professional	155,971	176,282
Office expenses	71,092	69,209
Other expenses	711,474	822,670
Regional director fees	312,944	494,752
Salaries and benefits	790,494	1,568,612
Total expenses	<u>3,724,531</u>	<u>5,115,777</u>
<u>CHANGE IN NET ASSETS</u>	522,135	(433,909)
Net assets - beginning of the period	<u>27,722,755</u>	<u>28,156,664</u>
<u>NET ASSETS - END OF PERIOD</u>	<u>\$ 28,244,890</u>	<u>\$ 27,722,755</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, 2011 AND 2010

	<u>2011</u>	<u>(as restated)</u> <u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 522,135	\$ (433,909)
Depreciation expense	1,675,480	1,763,206
Unrealized gain in investment in partnership	(530,735)	(73,205)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	(86,647)	90,725
(Increase) decrease in prepaid expenses	(174)	634
Increase in accounts payable	127,622	36,129
Decrease in accrued expenses	-	(20,517)
Decrease in amounts due to the LDED	-	(1,250,000)
Net cash provided by operating activities	1,707,681	113,063
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(1,846,893)	(877,497)
Capital distributions from partnership	-	36,050
Capital contributions to partnership	-	(7,500)
Net cash used in investing activities	(1,846,893)	(848,947)
Net decrease in cash and cash equivalents	(139,212)	(735,884)
Cash and cash equivalents - beginning of year	433,124	1,169,008
Cash and cash equivalents - end of year	\$ 293,912	\$ 433,124

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.

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. 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, Louisiana Research and Technology Company, LLC, 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.

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 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, 2011 or 2010.

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)

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, 2008.

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.

3. Property and equipment

Property and equipment consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 4,384,606	\$ 4,384,606
Building and improvements	24,508,846	24,508,846
Construction in progress	<u>3,014,217</u>	<u>1,167,325</u>
	31,907,669	30,060,777
Less: accumulated depreciation	<u>(7,240,376)</u>	<u>(5,564,897)</u>
	<u>\$ 24,667,293</u>	<u>\$ 24,495,880</u>

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 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 were converted into equity in the Louisiana Research and Technology Company, LLC. The Foundation recognized revenues relating to this agreement of \$1,250,000 during the year ended December 31, 2010.

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 connection with the planning, designing, and construction of the Louisiana Emerging Technology Center, a wet-lab business incubator. Through these various amendments, the cooperative endeavor agreement was expanded to include the purchase of equipment and was extended until June 30, 2010. The Foundation recognized revenues relating to this agreement of approximately \$0 and \$13,000 during the years ended December 31, 2011 and 2010, respectively.

Effective July 1, 2006, the Foundation entered into another 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 \$313,000 and \$495,000 during the years ended December 31, 2011 and 2010, 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 \$401,000 and \$298,000 for the years ended December 31, 2011 and 2010, 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, funding for this project was not received from the State, and the project was abandoned. With the agreement still in effect, the funding was redirected 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, 2012. The Foundation recognized revenues relating to this agreement of approximately \$1,758,000 and \$954,000 during the years ended December 31, 2011 and 2010, respectively.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 of these 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 \$691,000 and \$519,000 for the years ended December 31, 2011 and 2010, 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 a 50% 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.

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

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 2011 which required royalty payments. This agreement may be terminated upon sixty days notice to the Licensor.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Concentrations of credit risk

The Foundation's revenues included approximately \$2,606,000 and \$3,101,000 relating to cooperative endeavor agreements with the Department of Economic Development during the years ended December 31, 2011 and 2010, respectively. These amounts represented approximately 70% and 67% of the Foundation's total revenues for the years ended December 31, 2011 and 2010, 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 \$18,535,000 with approved change orders to date of \$12,909, of which \$10,406,909 relates to facility construction and \$8,141,000 is for tenant improvements. The remaining commitment on this contract was approximately \$17,061,000 at December 31, 2011.

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 a 50% ownership and is the general partner of the Louisiana Fund I General Partner, LP (the General Partnership). The General Partnership holds a 1% interest and is the general partner for Louisiana Fund I, LP (the Fund).

During the current year, it was discovered that the equity interest recorded by the Foundation in this investment was understated due to the difference between the tax bases of the accounts and the book bases of the accounts being larger 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 of these differences on previously issued financial statements is as follows:

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Net assets, at December 31, 2008	\$ 22,717,307	\$ -	\$ 22,717,304
Change in net assets for the year ended December 31, 2009	<u>2,469,307</u>	<u>2,970,053</u>	<u>5,439,360</u>
Net assets, at December 31, 2009	25,186,611	2,970,053	28,156,664
Change in net assets for the year ended December 31, 2010	<u>(471,064)</u>	<u>37,155</u>	<u>(433,909)</u>
Net assets, at December 31, 2010	<u>\$ 24,715,547</u>	<u>\$ 3,007,208</u>	<u>\$ 27,722,755</u>

12. Subsequent events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, October 10, 2012, and determined that there were no events that require additional disclosure. 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 the accompanying consolidated financial statements of the LSU System Research Technology Foundation (the Foundation) as of and for the year ended December 31, 2011, and have issued our report thereon dated October 10, 2012. 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

Management of the Foundation is responsible for establishing and maintaining effective 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 *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Postlethwaite: Wettenhall

Baton Rouge, Louisiana
October 10, 2012