LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

RUSTON, LOUISIANA

JUNE 30, 2018 AND 2017

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

RUSTON, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

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November 10, 2018

The Board of Directors
Louisiana Tech University Foundation, Inc.
Ruston, Louisiana

Independent Auditor's Report

Report on the Financial Statements
We have audited the accompanying financial statements of Louisiana Tech University Foundation, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the 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.

Auditor's Responsibility
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 audit 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 auditor's 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 above present fairly, in all material respects, the financial position of Louisiana Tech University Foundation, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2018 on our consideration of Louisiana Tech University Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Louisiana Tech University Foundation, Inc.'s internal control over financial reporting and compliance.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

A S S E T S	2018	2017
Cash and cash equivalents	5,782,512	15,965,061
Accounts receivable-Note 11	698,503	1,380,931
Contributions receivable, net-Note 6	5,403,532	5,760,035
Investments-Notes 3 and 4	25,951,009	21,592,279
Fixed assets, net-Note 5	584,823	658,355
Other assets	365,606	395,088
Note receivable, long-term	12,272,808	11,054,000
Restricted assets-investments-Notes 3 and 4	43,663,086	42,951,643
Total assets	94,721,879	99,757,392
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	127,389	3,857,651
Accrued interest payable	791	28,285
Annuities liability-Note 10	134,045	148,014
Deferred revenue-Note 11	655,253	1,310,506
Notes payable-Note 7	15,383,065	12,637,951
Due to Louisiana Tech University-Note 8	39,603,086	38,771,643
Total liabilities	55,903,629	56,754,050
Net assets:		
Unrestricted:		
Undesignated	5,349,717	2,568,479
Invested in capital assets, net of related debt	(775,434)	(925,596)
	4,574,283	1,642,883
Temporarily restricted-for specific purposes	1,705,788	10,709,327
Permanently restricted-endowment-Note 12	32,538,179	30,651,132
Total net assets	38,818,250	43,003,342
Total liabilities and net assets	94,721,879	99,757,392

See accompanying notes to financial statements.

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	4,383,190	10,347,368	1,428,087	16,158,645
Contributed services	1,785,681	-	-	1,785,681
Interest and dividends income	3,223	599,381	818	603,422
Service charges	1,134,025	36,552	-	1,170,577
Realized and unrealized gains (losses) on investments, net	8,169	784,860	-	793,029
Other	(27,666)	1,753,293	527,420	2,253,047
	7,286,622	13,521,454	1,956,325	22,764,401
Net assets released from restrictions	22,594,271	(22,524,993)	(69,278)	-
Total revenues, gains and other support	29,880,893	(9,003,539)	1,887,047	22,764,401
Expenses:				
Instructional support	2,313,927	-	-	2,313,927
Academic support	41,501	-	-	41,501
Research	2,246,954	-	-	2,246,954
Institutional support	6,844,052	-	-	6,844,052
Student financial aid	1,129,133	-	-	1,129,133
Student services	383,467	-	-	383,467
Auxiliary	8,393,504	-	-	8,393,504
General administrative services	3,176,906	-	-	3,176,906
Fundraising	2,420,049	-	-	2,420,049
Total expenses	26,949,493	-	-	26,949,493
Assets dedicated to Louisiana Tech University, net-Note 12	-	-	-	-
Change in net assets	2,931,400	(9,003,539)	1,887,047	(4,185,092)
Net assets, beginning of year	1,642,883	10,709,327	30,651,132	43,003,342
Net assets-end of year	4,574,283	1,705,788	32,538,179	38,818,250

See accompanying notes to financial statements.

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
170,863	14,822,102	1,215,283	16,208,248
1,628,235	-	-	1,628,235
132,600	645,349	971	778,920
1,308,552	34,798	-	1,343,350
(10,538)	2,037,729	-	2,027,191
185,261	1,821,757	138,669	2,145,687
3,414,973	19,361,735	1,354,923	24,131,631
26,090,872	(25,868,673)	(222,199)	-
29,505,845	(6,506,938)	1,132,724	24,131,631
2,209,333	-	-	2,209,333
69,232	-	-	69,232
200,275	-	-	200,275
902,946	-	-	902,946
2,954,506	-	-	2,954,506
293,930	-	-	293,930
18,149,329	-	-	18,149,329
3,188,006	-	-	3,188,006
2,599,127	-	-	2,599,127
30,566,684	-	-	30,566,684
-	-	(380,000)	(380,000)
(1,060,839)	(6,506,938)	752,724	(6,815,053)
2,703,722	17,216,265	29,898,408	49,818,395
1,642,883	10,709,327	30,651,132	43,003,342

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	(4,185,092)	(6,815,053)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation and amortization	54,181	83,968
Net unrealized (gain) loss on long-term investments	(697,145)	(1,361,686)
Realized (gain) on sale of investments	(695,566)	(1,699,486)
Contributions restricted for long-term investment	(1,428,087)	(1,215,283)
(Increase) decrease in assets:		
Accounts receivable	682,428	2,034,500
Contributions receivable, net	356,503	(4,201,371)
Accrued interest receivable	-	6,835
Other assets	29,482	(47,127)
Increase (decrease) in liabilities:		
Accounts payable	(3,730,262)	3,009,927
Accrued interest payable	(27,494)	(605)
Annuities liability	(13,969)	(13,425)
Deferred revenue	(655,253)	(655,253)
Net cash provided (used) by operating activities	(10,310,274)	(10,874,059)
Cash flows from investing activities:		
Purchases of fixed assets	(2,650)	(81,515)
Proceeds from sale of fixed assets	27,033	17,007
Purchases of investments	(17,744,679)	(41,395,567)
Proceeds on sale of investments	19,142,513	53,783,840
Issuance of notes receivable	(1,700,000)	(11,054,000)
Proceeds from notes receivable	481,193	-
(Decrease) in due to Louisiana Tech University	(4,249,454)	(1,585,382)
Net cash provided (used) by investing activities	(4,046,044)	(315,617)
Cash flows from financing activities:		
Contributions restricted for investment in endowment	1,428,087	1,215,283
Payments of notes payable	(704,318)	(224,063)
Proceeds from issuance of debt	3,450,000	11,054,000
Net cash provided (used) by financing activities	4,173,769	12,045,220
Increase (decrease) in cash and cash equivalents	(10,182,549)	855,544
Cash and cash equivalents-beginning of year	15,965,061	15,109,517
Cash and cash equivalents-end of year	5,782,512	15,965,061
Interest paid	62,139	62,350

See accompanying notes to financial statements.

1. Organization and Significant Accounting Policies

Organization

The Louisiana Tech University Foundation, Inc. (the Foundation) was organized to solicit, receive, hold, invest and transfer funds for the benefit of Louisiana Tech University (Louisiana Tech University). Additionally, the Foundation assists Louisiana Tech University in meeting the criteria for accreditation as outlined by the Commission on Colleges for the Southern Association of Colleges and Schools. Louisiana Tech University and the Foundation are also in a management agreement related to endowed chairs and professorships. This agreement is in compliance with Board of Regents policy and allows the Foundation to manage funds on behalf of Louisiana Tech University. The Foundation is a separate legal entity and is not included as part of the reporting entity of Louisiana Tech University.

Significant Accounting Policies

Basis of accounting

The Foundation's financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America. Accordingly, they reflect revenues and related receivables when earned rather than when received and expenses and related payables when incurred rather than when paid.

The Foundation maintains its accounts in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Financial statement presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. However, these assets may be designated by management for specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time. This classification includes gifts, annuities and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.

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

1. Organization and Significant Accounting Policies (Continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Net Assets Released from Restrictions
Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions
Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Investment Income
Income and realized and unrealized net gains and losses on investments of endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- changes in unrestricted net assets in all other cases.

Temporarily Restricted Net Assets
With respect to temporarily restricted net assets, the Foundation has adopted the following accounting policies.

Contributions with Restrictions Met in the Same Year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of temporarily restricted net assets, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Building and Equipment - Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building and equipment without such donor stipulations concerning the use of such long-lived assets are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash and Cash Equivalents
Cash and cash equivalents principally include cash and money market investments not held by trustees. For purposes of the cash flow statement, all highly liquid instruments with original maturities of three months or less are considered cash equivalents.

1. Organization and Significant Accounting Policies (Continued)

In-Kind Gifts
Gifts of investments, real estate, and other property contributed to the Foundation are recorded at estimated fair value at date of contribution.

Accounts Receivable
Accounts receivable consists of amounts due from outside parties. Management evaluates the collectibility and aging of those accounts receivable in determining the need for an allowance for doubtful accounts.

Investments
Investments in marketable securities with readily determinable fair values are stated at fair value. Realized gains or losses on sales of investment securities are based upon the cost of the specific security sold. Unrealized gains and losses are included in the change in net assets.

Fixed Assets
Depreciation is provided on the straight-line method based on the estimated useful lives of the depreciable assets which range from two to thirty years. The Foundation capitalizes expenditures in excess of $2,500 for fixed assets at cost.

Tax Status
The Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3). Therefore, no provision for income taxes has been made in the financial statements, but the Foundation is required to file an annual information tax return. The Foundation is also required to review various tax positions it has taken with respect to its exempt status and to determine whether in fact it is a tax exempt entity. The Foundation must also consider whether it has nexus in jurisdictions in which it has income and whether a tax return is required in those jurisdictions. In addition, as a tax exempt entity, the Foundation must assess whether it has any tax positions associated with unrelated business income subject to income tax. The Foundation does not expect its positions to change significantly over the next twelve months. Any penalties related to late filing or other requirements would be recognized as penalties expense in the Foundation's accounting records.

The Foundation files U.S. federal Form 990 for informational purposes. The Foundation's federal income tax returns for the tax years 2013 and beyond remain subject to examination by the Internal Revenue Service.

Funds Functioning as Endowment
The Foundation has designated funds for which the income earned is designated for specific uses. Because there is no donor-imposed restriction, these funds are classified as unrestricted net assets; however, the Foundation restricts the use of the funds in the same manner as a donor would by creating an endowment.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. **Organization and Significant Accounting Policies** (Continued)

Reclassifications

Certain amounts in the fiscal year ended June 30, 2018 financial statements have been reclassified to the fiscal year ended June 30, 2017 presentation.

2. **Cash and Cash Equivalents**

At times throughout the year, the Foundation may maintain certain bank accounts in excess of federally insured limits, which is a concentration of credit risk. The risk is mitigated by maintaining deposits in only well capitalized financial institutions.

3. **Investments**

Fair values and unrealized appreciation (depreciation) of investments at June 30, 2018 and 2017 are summarized as follows:

	2018			2017		
	Cost	Fair Value	Unrealized Appreciation/ (Depreciation)	Cost	Fair Value	Unrealized Appreciation/ (Depreciation)
Held by investment custodians:						
Cash and cash equivalents	5,658,278	5,658,278	-	3,568,404	3,568,404	-
Certificates of deposit	285,000	285,000	-	385,000	385,000	-
Mutual funds	14,077,167	18,195,618	4,118,451	20,856,844	24,354,834	3,497,990
Government obligations and corporate bonds	24,783,420	24,356,732	(426,688)	19,093,823	19,021,134	(72,689)
Common stocks	11,218,044	15,983,549	4,765,505	13,598,556	16,572,519	2,973,963
Real estate held by the Foundation	5,134,918	5,134,918	-	642,031	642,031	-
	61,156,827	69,614,095	8,457,268	58,144,658	64,543,922	6,399,264
Included on the Statement of Financial Position:						
Investments	24,188,292	25,951,009	1,762,717	20,541,706	21,592,279	1,050,573
Restricted assets-investments	36,968,535	43,663,086	6,694,551	37,602,952	42,951,643	5,348,691
	61,156,827	69,614,095	8,457,268	58,144,658	64,543,922	6,399,264

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2018 and 2017:

	2018			2017		
	Unrestricted	Temporarily and Permanently Restricted	Total	Unrestricted	Temporarily and Permanently Restricted	Total
Interest and dividends income	3,223	600,199	603,422	132,600	646,320	778,920
Net realized and unrealized gains (losses)	8,169	784,860	793,029	(10,538)	2,037,729	2,027,191
Total investment return	11,392	1,385,059	1,396,451	122,062	2,684,049	2,806,111

Of the bank balances, those funds not covered by federal deposit insurance were covered by collateral held by the pledging banks' trust department.

4. **Fair Value of Financial Instruments**

The Foundation adopted FASB Accounting Standards Codification Topic 820, "Fair Value Measurements" (Topic 820). Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements. These strata included:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),

- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and

- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Foundation-specific data. These unobservable assumptions reflect the Foundation's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2018 and 2017 are as follows:

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Fair Value
Money Markets	5,658,278	-	-	5,658,278
Certificates of Deposit	285,000	-	-	285,000
Mutual Funds:				
Domestic Blended	239,070	-	-	239,070
Domestic Growth	424,782	-	-	424,782
Foreign Blended	1,040,688	-	-	1,040,688
Foreign Growth	401,883	-	-	401,883
Total Mutual Funds	2,106,423	-	-	2,106,423
Exchange Traded Funds	14,994,076	-	-	14,994,076
Government Obligations and Corporate Bonds	-	24,356,732	-	24,356,732
Common Stocks-Domestic	15,384,459	-	-	15,384,459
Alternatives	617,958	1,076,251	-	1,694,209
Real Estate	-	-	5,134,918	5,134,918
Total	39,046,194	25,432,983	5,134,918	69,614,095

4. Fair Value of Financial Instruments (Continued)

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Fair Value
Money Markets	3,568,404	-	-	3,568,404
Certificates of Deposit	385,000	-	-	385,000
Mutual Funds:				
Domestic Blended	221,201	-	-	221,201
Domestic Growth	392,586	-	-	392,586
Foreign Blended	1,820,426	-	-	1,820,426
Foreign Growth	372,507	-	-	372,507
Real Estate	18,153	-	-	18,153
Total Mutual Funds	2,824,873	-	-	2,824,873
Exchange Traded Funds	21,346,827	-	-	21,346,827
Government Obligations and Corporate Bonds	-	19,021,134	-	19,021,134
Common Stocks-Domestic	16,755,653	-	-	16,755,653
Real Estate	-	-	642,031	642,031
Total	44,880,757	19,021,134	642,031	64,543,922

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2018	2017
Balance-July 1	642,031	1,254,716
Gains (losses) realized and unrealized	-	-
Purchases, issuances, and settlements	4,853,271	4,875
Sales	(360,384)	(617,560)
Transfers in and/or out of Level 3, net	-	-
Balance-June 30	5,134,918	642,031

5. Fixed Assets

A summary of the fixed assets at June 30, 2018 and 2017 follows:

	Depreciable Lives	2018	2017
Automobiles	2-3	141,765	150,335
Furniture, fixtures and equipment	3-10	3,599,657	3,597,009
Engineering equipment	3-10	666,682	666,682
Real estate and other	-	114,557	136,557
		4,522,661	4,550,583
Less-accumulated depreciation		(3,937,838)	(3,892,228)
		584,823	658,355

Depreciation of $54,182 and $83,968 was recorded for the years ended June 30, 2018 and 2017, respectively.

6. Contributions Receivable

Contributions receivable, net, is summarized as follows as of June 30, 2018 and 2017:

	2018	2017
Unconditional pledges expected to be collected in:		
Less than one year	1,902,819	1,630,647
One year to five years	4,090,292	4,549,280
	5,993,111	6,179,927
Less-discount on future contributions receivable (discount rate of 2.52% and 1.70% in 2018 and 2017, respectively)	(306,873)	(195,806)
Less-allowance for uncollectible contributions receivable	(282,706)	(224,086)
Contributions receivable, net	5,403,532	5,760,035

7. Notes Payable

Notes payable consist of the following at June 30, 2018 and 2017:

	2018	2017
Note payable to Origin Bank for construction of football stadium video board dated November 2, 2009, original amount of $2,050,000, renewed December 3, 2013 for $1,508,621, variable rate interest at prime rate (5.00% at June 30, 2018 and 2017, respectively, not to exceed 5.00%), payable in nine semi-annual payments of $95,000, and one final payment of		

7. Notes Payable (Continued)

	2018	2017
$825,595, maturing July 15, 2018. Renewed August 2018 for $748,639; fixed rate of 5.25%, payable in eight semi-annual payments of $95,000 and one final payment of $91,577, maturing January 2023.	824,140	974,911
Note payable to Origin Bank for construction of basketball arena video board dated December 4, 2013, original amount of $752,650, variable rate interest at prime rate (5.00% and 4.25% at June 30, 2018 and 2017, respectively not to exceed 5.00%), payable in seven semi-annual payments of $45,000, and one final payment of $521,397, maturing July 15, 2018. Renewed August 2018 for $487,660, fixed rate of 5.25%, payable in nine semi-annual payments of $45,000 and one final payment of $171,367, maturing July 2023.	520,111	586,268
Note payable to Ford Motor Credit for the purchase of a 2015 Ford Taurus, dated November 20, 2015, original purchase of $31,477, fixed interest rate of 3.89%, payable monthly for 60 months beginning January 1, 2016.	16,575	22,772
Line of credit to Origin Bank for operating capital up to $3,000,000 dated June 29, 2018, secured by cross-collateralization of other loans. Interest at banks prime rate (5.00% at June 30, 2018), maturing June 28, 2019	1,750,000	-
	3,110,826	1,583,951

Notes payable maturities are as follows:

Year Ended June 30,	
2019	1,973,246
2020	229,509
2021	238,202
2022	247,515
2023	256,336
Thereafter	166,018
	3,110,826

7. **Notes Payable** **(Continued)**

Interest expense for the years ended June 30, 2018 and 2017 was \$62,930 and \$61,743, respectively.

Effective May 23, 2017, the board of directors approved self-financing, through the Foundation, to facilitate the timely completion of an athletics expansion project with the use of endowment funds. The funds were borrowed at an interest rate of four percent, with no formalized repayment schedule. Funds will be paid back as proceeds from charitable gifts along with income generated from above said project are available. The financial statements reflect a note receivable from the Foundation, in the amount of \$12,272,808 and \$11,054,000 as of June 30, 2018 and 2017, respectively, and an unsecured note payable in the same amount to the Louisiana Tech University Foundation endowment investment account.

8. **Transactions with Louisiana Tech University**

Louisiana Tech University provides to the Foundation, without cost, services for the administration of the Foundation in the form of personnel. In addition, Louisiana Tech University provides, without cost, certain other operating services associated with the Foundation. These services are valued at their actual cost to Louisiana Tech University. For the year ended June 30, 2018, contributed personnel costs and operating services were determined to be \$1,785,630 and \$51, respectively. For the year ended June 30, 2017, contributed personnel costs and operating services were determined to be \$1,625,471 and \$2,763, respectively. The amounts for these services have been reflected as contributed services revenue and corresponding general administrative services and fundraising expenses in the accompanying financial statements.

For the years ended June 30, 2018 and 2017, expenses totaling approximately \$9,001,384 and \$9,071,694, respectively, were paid directly to or for the benefit of Louisiana Tech University.

Funds administered by the Foundation on behalf of Louisiana Tech University are not commingled with funds belonging to the Foundation. Classified as amounts due to Louisiana Tech University at June 30, 2018 and 2017 is \$39,603,086 and \$38,771,643, respectively, related to certain endowed chairs and professorships matched by the State of Louisiana. Initially, the donor portion of these funds is recorded as contributions to the Foundation. Once the state matching is received, the donor portion is deducted from the permanently restricted, temporarily restricted, and unrestricted net assets of the Foundation and reflected as due to Louisiana Tech University.

Various other services and facilities are contributed to the Foundation, the values of which are not readily determinable and, therefore, are not reflected as contributions or expenses in the accompanying financial statements.

9. **Commitments**

As of June 30, 2018 and 2017, there was approximately \$504,255 and \$455,883, respectively, in awarded but unpaid scholarships, which were funded subsequent to year-end.

10. **Annuities Liability**

The Foundation receives donations through split-interest agreements with contributors. These split-interest agreements specify that the donation is made in return for an individual or joint annuity for the remaining lives of the contributors. The difference between the fair market value of the assets received and liability under the annuity is recognized as revenue in the year received. Upon the death of the contributor, the remaining liability, if any, is recognized as revenue. The Foundation has received four donations under such agreements that result in an annuities liability totaling \$134,045

10. Annuities Liability (Continued)

and $148,014 at June 30, 2018 and 2017, respectively. The liabilities were calculated using discount rates of 4.9%, 5.0%, 3.25%, and 7.5%.

11. Multimedia Sponsorship Rights

On August 28, 2008, the Foundation entered into an agreement with Louisiana Tech University ("University") for the exclusive promotion and management of multimedia sponsorships rights for Louisiana Tech University Athletics. The term of the agreement is July 1, 2009 through June 30, 2019. The agreement indicates that the Foundation will contract with a third party company to sell multimedia sponsorship rights on behalf of Louisiana Tech University Athletics. As payment for rights granted under this agreement, the Foundation is required to pay the University an annual minimum fee of $200,000. Future minimum payments to the University related to this agreement are:

Year ended June 30,	
2019	200,000
	200,000

On November 25, 2008, the Foundation entered into an agreement with LA Tech Sports Properties, LLC ("Learfield"), a Missouri limited liability company owned by Learfield Communications, Inc. with respect to the licensing rights related to the promotion of Louisiana Tech University Athletics. The term of the agreement is July 1, 2009 through June 30, 2019. As payment for the rights granted under this agreement, Learfield will pay the Foundation an annual minimum guaranteed payment of $655,253 each year for the remainder of the contract. Payments of $655,253 were received under this agreement for the fiscal years ended June 30, 2018 and 2017, respectively, and recorded as temporarily restricted other income. At June 30, 2018 and 2017, accounts receivable and deferred revenue of $655,253 and $1,310,506, respectively, were recorded related to this agreement using a net present value calculation with an average discount rate of 2.52%.

12. Endowed Net Assets

The Foundation has established prudent investment and spending policies with the objective of maintaining the purchasing power of its endowed assets in perpetuity and to provide a stable level of support to the beneficiaries. To achieve this objective, the Foundation's asset allocation strategy is reviewed periodically and adjusted to target a total return that covers inflation, administrative expenses, and spending allocations, while minimizing volatility.

Private endowed contributions received for professorships and chairs are included in endowed net assets. Certain endowed funds are provided by the State of Louisiana as a match to these qualifying private endowed contributions. Once the match is received, the private endowed funds along with the matching endowed funds are transferred to the Due to Louisiana Tech University liability account. These endowed assets are further subject to the investment and spending policies established by the Louisiana Board of Regents, which has statutory authority to administer the matching funds program.

A spending rate is determined by the Foundation's Board of Directors, with consideration given to market conditions, the spending levels of peer institutions, and historical returns. The objective is to provide relatively stable spending allocations. The spending rate approved by the Board for the fiscal year ended June 30, 2018 is 4.5%. Prior state law dictated that no portion of the corpus (original amount of donation) of the endowed assets shall be allocated for spending. However, in June 2010,

12. Endowed Net Assets (Continued)

the state legislature passed the Uniform Prudential Management of Institutional Funds Act (UPMIFA). This act changed the law regarding spending in endowments, to allow for a portion of the corpus to be spent.

The Foundation classifies as permanently restricted net assets the original value of gifts donated for permanent endowment, any subsequent gifts to such endowments, and accumulations subsequently made at the direction of the applicable donor instrument.

Endowment fund net asset composition as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	-	1,742,218	30,651,132	32,393,350
Contributions	-	-	1,428,087	1,428,087
Income (loss) on long-term investments	-	544,389	-	544,389
Net appreciation/(depreciation)	-	735,059	-	735,059
Other income	-	-	528,238	528,238
Released from restriction	-	(1,355,667)	(69,278)	(1,424,945)
Assets dedicated to LA Tech University	-	-	-	-
Endowment net assets, June 30, 2018	-	1,665,999	32,538,179	34,204,178

Endowment fund net asset composition as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	-	1,870,791	29,898,408	31,769,199
Contributions	-	-	1,215,283	1,215,283
Income (loss) on long-term investments	-	642,943	-	642,943
Net appreciation/(depreciation)	-	1,813,732	-	1,813,732
Other income	-	-	139,640	139,640
Released from restriction	-	(2,585,248)	(222,199)	(2,807,447)
Assets dedicated to LA Tech University	-	-	(380,000)	(380,000)
Endowment net assets, June 30, 2017	-	1,742,218	30,651,132	32,393,350

13. New Accounting Guidance Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. On April 1, 2015, the FASB proposed to defer the effective date by one year until January 1, 2018, but would allow early adoption as of the original January 1, 2017, effective date. The standard permits the use of either the retrospective or cumulative effect transition method. The Foundation is evaluating the effect that ASU 2014-09 will have on its financial

13. <u>New Accounting Guidance Not Yet Adopted</u> (Continued)

statements and related disclosures. The Foundation has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- Lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and

- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Additional qualitative and quantitative disclosures will be required so that users can understand more about the nature of an entity's leasing activities. Also, the new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

ASU No. 2016-02 will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The Foundation is currently evaluating the potential impact of adopting this guidance on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities,*" with the stated purpose of improving financial reporting by those entities. Among other provisions, this ASU reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications, and requires additional disclosures concerning liquidity and the availability of financial resources. This standard is effective for fiscal years beginning after December 15, 2017, and requires the use of the retrospective transition method. However, an entity has the option to omit the presentation by both the natural and functional classification, as well as the disclosure about liquidity and availability of financial resources, for any comparative periods originally presented before the period of adoption. The Foundation is currently in the process of implementing these changes.

14. <u>Subsequent Events</u>

In accordance with FASB Accounting Standards Codification Topic 740 "Subsequent Events," the Foundation evaluated events and transactions that occurred after the statement of financial position date but before the financial statements were made available for issuance for potential recognition or disclosure in the financial statements. The Foundation evaluated such events through November 10, 2018 and noted no such subsequent events.

OTHER REPORTS

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November 10, 2018

The Board of Directors
Louisiana Tech University Foundation, Inc.
Ruston, Louisiana

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 financial statements of Louisiana Tech University Foundation, Inc., which comprise the statement of financial position as of June 30, 2018, and 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 November 10, 2018.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Louisiana Tech University Foundation, Inc.'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 Louisiana Tech University Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Louisiana Tech University Foundation, Inc.'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 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 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 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.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Louisiana Tech University Foundation, Inc.'s 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

A. **Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the basic financial statements of Louisiana Tech University Foundation, Inc.

2. No material weaknesses or significant deficiencies relating to the audit of the financial statements were reported.

3. No instances of noncompliance material to the financial statements of Louisiana Tech University Foundation, Inc. were disclosed during the audit.

4. Louisiana Tech University Foundation, Inc. was not subject to a federal single audit for the year ended June 30, 2018.

B. **Financial Statement Findings**

No matters were reported.

LOUISIANA TECH UNIVERSITY FOUNDATION, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2018

No matters were noted in the prior year.