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**UNIVERSITY OF NEW ORLEANS RESEARCH
AND TECHNOLOGY FOUNDATION**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor, or, where appropriate, at the office of the parish clerk of court.

Release Date ~~July 14, 1998~~

FINANCIAL AND COMPLIANCE AUDIT

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

FOR THE PERIOD MARCH 3, 1997 THROUGH DECEMBER 31, 1997

**Bruno
& Tervalon**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
**University of New Orleans Research
and Technology Foundation**
New Orleans, Louisiana

We have audited the accompanying statement of financial position of the **University of New Orleans Research and Technology Foundation** (a non-profit organization) as of December 31, 1997, and the related statements of activities and cash flows for the period March 3, 1997 through December 31, 1997. These financial statements are the responsibility of the management of the **University of New Orleans Research and Technology Foundation**. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **University of New Orleans Research and Technology Foundation** as of December 31, 1997, and the changes in its net assets, and its cash flows for the period March 3, 1997 through December 31, 1997 in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
**University of New Orleans Research and
Technology Foundation, Inc.**
New Orleans, Louisiana
Page 2

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the report (shown on page 19) is presented for the purpose of additional analysis and is not a required part of the financial statements of the University of New Orleans Research and Technology Foundation. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated August 7, 1998 on our consideration of **The University of New Orleans Research and Technology Foundation's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

August 7, 1998

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1997**

ASSETS

Cash	\$ 139,124
Account receivable-Cooperative Endeavor (NOTE 3)	6,000,000
Data processing equipment acquired under capital leases, net of accumulated depreciation of \$858,254 (NOTES 2, 7 and 8)	6,426,822
Office furniture and equipment, net of accumulated depreciation of \$59,916 (NOTES 2 and 7)	344,993
Construction in progress (NOTES 7 and 12)	8,228,549
Deferred charges, net of accumulated amortization of \$414,465 (NOTE 2)	<u>4,613,899</u>
 Total assets	 <u>\$ 25,753,387</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 2,812,649
Interest payable	377,158
Capital leases payable(NOTE 8)	5,433,541
Notes payable (NOTE 9)	8,560,235
Retainage payable	<u>392,424</u>

Total liabilities	<u>17,576,007</u>
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Commitments (NOTE 12)

Net Assets (NOTE 2)

Unrestricted	6,139,124
Unrestricted - fixed assets and deferred charges	<u>2,038,256</u>

Total net assets	<u>8,177,380</u>
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Total liabilities and net assets	<u>\$ 25,753,387</u>
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The accompanying notes are an integral part of these
financial statements.

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
STATEMENT OF ACTIVITIES**
For the period March 3, 1997 through December 31, 1997

	<u>Unrestricted</u>
<u>Operating Revenues</u>	
Cooperative Endeavor Agreement- State of Louisiana (NOTE 3)	\$ 9,743,673
Interest income	10,784
In-kind donation (NOTE 5)	<u>9,600</u>
Total operating revenues	<u>9,764,057</u>
<u>Operating expenses</u>	
UNO/Avondale Maritime Technology Center of Excellence	1,578,122
Management and general	<u>8,555</u>
Total operating expenses	<u>1,586,677</u>
Change in net assets	8,177,380
Net assets at beginning of period	<u>-0-</u>
Net assets at end of period	\$ <u>8,177,380</u>

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

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
STATEMENT OF CASH FLOWS**
For the period March 3, 1997 through December 31, 1997

<u>Cash Flows from Operating Activities</u>	
Changes in net assets	\$ 8,177,380
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,332,635
Increase in accounts receivable	(6,000,000)
Increase in accounts, interest and retainage payable	<u>3,582,231</u>
Net cash provided by operating activities	<u>7,092,246</u>
<u>Cash Flows Used in Investing Activities</u>	
Purchase of fixed assets	(7,689,985)
Construction in progress	(8,228,549)
Deferred charges	<u>(5,028,364)</u>
Cash flows used in investing activities	<u>(20,946,898)</u>
<u>Cash Flows from Financing Activities</u>	
Proceeds from notes payable	10,212,457
Repayment of notes payable	(1,652,222)
Proceeds from capital lease payable	7,285,076
Repayment of capital lease payable	<u>(1,851,535)</u>
Cash flows from financing activities	<u>13,993,776</u>
Net increase in cash	139,124
Cash at beginning of period	<u>-0-</u>
Cash at end of period	<u>139,124</u>
Supplemental disclosure:	
Interest paid in cash	<u>\$ 104,175</u>

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

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - Organization:

The University of New Orleans Research and Technology Foundation (the Foundation) was organized on March 3, 1997 as a non-profit organization to accomplish the following purposes:

- A. As its principal purpose, to support any and all appropriate programs, facilities and research and educational opportunities offered by the University of New Orleans (the "University") and the Louisiana State University System ("the LSU system");
- B. To promote and support the well-being and advancement of the University and all the colleges, schools, departments, and divisions comprising it, and to develop, expand, and improve the University's curricula, programs, and facilities so as to provide greater educational advantages and opportunities; encourage teaching, research, scholarship, and service, and increase the University's benefits to the citizens of the State of Louisiana, the United States of America and the world;
- C. To engage in scientific research carried on for the purpose of aiding a community or geographical area by attracting new industry to the community or area or by encouraging the development of or retention of, an industry in the community or area;
- D. To promote the development of high technology industries and research in Louisiana;
- E. To create, develop, construct, operate, manage and finance one or more research and technology parks, technology enterprise centers and other facilities and operations which promote development of research, development and high technology in Louisiana;

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 1 - Organization:
Continued

- F. To increase employment opportunities in Louisiana;
- G. To promote research and development in Louisiana;
- H. To promote cooperation between the public and private sector with respect to research and development;
- I. To attract nationally prominent scientists and researchers to the University;
- J. To maximize research capabilities in Louisiana;
- K. To solicit and accept, whether by way of outright, limited or conditional gifts, grants and bequests, in trust or otherwise, donations of all kinds, including property, both real and personal, whether principal or income, tangible or intangible, vested or contingent, for the purpose of providing funds or property for the general purposes of the corporation and for research, instructional activities, scholarships, public service activities, and such other designated benefits for the University and its faculty, staff and students as may be prescribed by donors or testators to the corporation;
- L. To exercise all such powers and authority as may be necessary for the accomplishment of the objects and purposes herein set forth and to do any and all other things related to or connected therewith which are not forbidden by law.

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 2 - Summary of Significant Accounting Policies

Principles of Accounting

The financial statements are prepared in accordance with generally accepted accounting principles and are prepared on the accrual basis. The preparation of financial statements in conformity with generally accepted accounting principles 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.

Basis of Reporting

SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories (i.e. unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) according to externally (donor) imposed restrictions.

A description of the three (3) net asset categories is as follows:

Unrestricted net assets include the following:

- o Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of the Foundation are included in this category. The Foundation has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the Foundation, and therefore, the Foundation's policy is to record these net assets as unrestricted. Also, the Foundation considers the revenues received from the Cooperative Endeavor Agreements (the Agreements) to be exchange transactions, since each party to the Agreements receive and sacrifice something of approximately equal value.
- o Unrestricted net assets-fixed assets and deferred charges represent the depreciated value of fixed assets and deferred charges net of the related debt service requirement.

UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies
Continued

Basis of Reporting, Continued

Temporarily restricted net assets include realized gains and losses, investment income and gifts and contributions for which donor imposed restrictions have not been met.

Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor imposed restrictions.

At December 31, 1997, the Foundation did not have any temporarily or permanently restricted net assets.

Fixed Assets

Fixed assets are stated at cost, if purchased, or at fair market value at the date of the gift, if donated. Depreciation of office furniture and equipment is provided using the straight-line method over the estimated useful life of the fixed assets which is 5 years.

Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all investments purchased with a maturity of three months or less to be cash equivalents.

Deferred Charges

Deferred charges represent software and labor costs incurred for the installation of the data processing equipment. Such costs are being amortized over five years. Amortization expense totaled \$414,465 at December 31, 1997.

UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies
Continued

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

NOTE 3 - Cooperative Endeavor Agreements

University of New Orleans/
Avondale Maritime Technology Center of Excellence

General

On May 16, 1997, the State of Louisiana (the State), the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (the University), the University of New Orleans Research and Technology Foundation (the Foundation), and Avondale Industries, Inc. entered into a Cooperative Endeavor Agreement (the Agreement) for an initial term of fifteen years, and from one-to-seven additional five year periods.

The Agreement provided for the use of annually appropriated State funds and the corporate guarantee by Avondale of certain financial obligations incurred by the Foundation for the purpose of enhancing or maintaining the economic well-being of the State of Louisiana. As a material inducement to the State to enter into the Agreement, Avondale represented that it was awarded a contract for the construction of certain U. S. Department of Navy vessels which will provide a substantial economic benefit to the State. The Foundation and Avondale represented that the economic benefit occurring as a result of the payment or performance of the State's obligation will equal or exceed the value of the State's obligations.

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 3 - Cooperative Endeavor Agreement
Continued

University of New Orleans/
Avondale Maritime Technology Center of Excellence, Continued

Obligations

Avondale donated certain property to the University which will be leased to the Foundation pursuant to the terms of a Ground Lease. A ship design facility including a laboratory and support area (the Facility) for the UNO School of Naval Architecture and Marine Engineering will be built on such property by the Foundation and will be sub-leased to Avondale. Also, the Foundation will equip the facility and lease such equipment to Avondale.

The State of Louisiana will pay to the Foundation no more than the present value of \$40,000,000, which amount may be paid in one or more installments on or before September 1 of each year as follows:

On or before September 1, 1997	\$3,743,673
On or before September 1, 1998	\$6,257,928
On or before September 1, 1999	\$7,054,081
On or before September 1, 2000	\$7,194,789
On or before September 1, 2001	\$7,194,789
On or before September 1, 2002	\$7,194,789
On or before September 1, 2003	\$7,194,789
On or before September 1, 2004	\$7,194,789
On or before September 1, 2005	\$7,194,789
On or before September 1, 2006	\$3,451,116
On or before September 1, 2007	\$ 936,861
On or before September 1, 2008	\$ 140,708

The Foundation shall submit to the State of Louisiana on or before November 1 documentation supporting the amount to be appropriated for the immediately following year in satisfaction of the State's obligation. On September 30, 1997, the Foundation submitted a request totaling \$6,257,928 to the State of Louisiana's Department of Economic Development for the 1998 funding.

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 3 - Cooperative Endeavor Agreement
Continued

University of New Orleans/
Avondale Maritime Technology Center of Excellence, Continued

Additionally, Avondale agreed that:

- o In the event that the State fails to fulfill its obligations to make payments to the Foundation, Avondale will make such payments but will recover these payments only when and if the Foundation receives the appropriation for which Avondale made payment to the Foundation; and
- o In the event the costs of the project required to be expended by the Foundation in constructing the facility and acquiring the equipment exceed the amounts paid by the State, Avondale will pay to the Foundation the amounts required for the Foundation to fulfill the obligations to construct and equip the facility.

Naval Reserve Information Systems Office

On November 14, 1997, the State of Louisiana and the Louisiana Economic Development Corporation (the State), the University and the Foundation entered into another Cooperative Endeavor Agreement (the Cooperative Agreement) for a term of three years.

The Cooperative Agreement provided for the use of State funds to pay for project costs associated with the planning, financing and construction of buildings, professional fees and other project costs for the Naval Reserve Information Systems Office located in Orleans Parish. Such facilities will accommodate the consolidation of the Navy and Department of Defense Military personnel systems research and development and Navy information systems. As a material inducement to the State to enter into the Cooperative Agreement, the Foundation represented that certain economic benefits would be derived from the Naval Consolidation which will equal or exceed the value of the State's obligation under the terms of the Cooperative Agreement.

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 3 - Cooperative Endeavor Agreements
Continued

Naval Reserve Information System Office, Continued

Obligations

The University will lease the Research Park Lakefront Property to the Foundation pursuant to the terms of a Ground Lease. The Foundation will construct buildings on the leased property and will sub-lease the facilities to the Navy.

The State of Louisiana will pay to the Foundation no more than the lessor of \$24,000,000 or total project costs as follows:

On or before December 31, 1997	\$6,000,000
On or before September 1, 1998	\$6,000,000
On or before September 1, 1999	\$6,000,000
On or before September 1, 2000	\$6,000,000

All payment obligations of the State shall be subject to appropriation by the Legislature of sufficient funds and the availability of funds following Legislative appropriation.

NOTE 4 - Income Taxes

The Foundation is exempt from corporate income taxes under Section 501(c)(4) of the Internal Revenue Code.

NOTE 5 - In-Kind Donation

During the year ended December 31, 1997, the Foundation received a personnel support donation totaling \$5,000, which represented the Foundation's Executive Director salary cost paid by the University of New Orleans Foundation. Also, the Foundation received donated accounting services from the University of New Orleans Foundation totaling \$4,600.

UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Credit Risk

The Foundation maintains a checking account at a financial institution. The accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Cash balance	\$129,783
Federal insurance	<u>(100,000)</u>
Credit risks	<u>\$ 29,783</u>

The Foundation is the recipient of Cooperative Endeavor Agreement funds from the State of Louisiana. The continued success of the Foundation is dependent upon the continued appropriation of funds by the State of Louisiana to fund the Cooperative Endeavor Agreements.

NOTE 7 - Fixed Assets

Fixed assets consist of data processing equipment acquired under the terms of a capital lease, office furniture and equipment, and construction in progress. The construction in progress amounts represent costs expended on the construction of the Avondale/UNO Maritime Technology Center located in Jefferson Parish.

Depreciation of data processing equipment acquired under the terms of a capital lease and office furniture and equipment totaled \$918,170 at December 31, 1997.

NOTE 8 - Lease Commitments

The Foundation is the lessee of computer equipment acquired under capital leases expiring in various years through 2000. The lessee provides at expiration, an option to purchase the equipment at a price equal to \$1.00. The assets and liabilities under capital leases are recorded at the fair value of the assets. The assets are depreciated over their estimated productive lives of five years. Depreciation of assets under capital leases totaling \$858,254 is included in depreciation expense.

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 8 - Lease Commitments, Continued

Minimum future lease payments under capital leases as of December 31, 1997 are as follows:

1998	\$2,677,738
1999	2,677,738
2000	<u>724,806</u>
 Total minimum lease payments	 6,080,282
 Less: amount representing interest	 <u>646,738</u>
 Present value of net minimum lease payments	 <u>\$5,433,544</u>

Interest rates on capitalized leases vary from 7.44% to 7.58% and are imputed based upon the lessor's implicit rate of return. Interest expense incurred on capital leases totaled \$242,887 at December 31, 1997.

NOTE 9 - Notes Payable

On August 14, 1997, the Foundation entered into Construction Loan Agreements totaling \$26,000,000 with local banks. At December 31, 1997, the Foundation had received construction loan advances totaling \$10,212,457 with a related repayment being made of \$1,652,222.

The loan agreements provide for interest on the outstanding principal amount at a 7.30% rate per annum and requires the repayment of principal as follows:

<u>Date</u>	<u>Amount</u>
September 1, 1998	\$ 800,000
September 1, 1999	250,000
September 1, 2000	2,500,000
September 1, 2001	2,700,000
September 1, 2002	4,000,000
Thereafter	<u>14,100,000</u>
 Total	 \$ <u>24,350,000</u>

UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 9 - Notes Payable, Continued

Interest capitalized as part of construction in progress totaled \$238,447 at December 31, 1997. The loan is guaranteed by Avondale Industries, Inc. under the provisions of a continuing guaranty.

NOTE 10 - Ground Leases

On May 20, 1997, the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, acting on behalf of the University of New Orleans (the University) entered into a non-transferable ground lease agreement with the University of New Orleans Research and Technology Foundation, Inc. (the Foundation). The terms of the lease agreement provides that the University will lease a tract of approximately 4.57 acres of land that is located in Jefferson Parish to the Foundation who will in turn develop construct, maintain, operate, manage and lease improvements on such land for the purpose set forth in the Cooperative Endeavor Agreement. The lease agreement is for a term of fifty years with annual rent totaling \$100. At the expiration of the lease, the facilities and all furniture, fixtures, equipment and furnishings permanently affixed to the facilities shall become the property of the University.

On December 1, 1997, the University entered into a non-transferable ground lease agreement with the Foundation. The terms of the lease agreement provides that the University will lease a tract of approximately 30 acres of certain lakefront property that is located in Orleans Parish to the Foundation who will develop, construct, maintain, operate, manage and/or lease improvements on such land. Prior to entering into the ground lease agreement with the Foundation, the University, the State of Louisiana and the U. S. Department of Commerce invested \$3,923,191 in the infrastructure of the site, which improved the Foundation's ability to sub-lease the property to tenants. The lease agreement is for a term of ninety-nine years with annual rent totaling \$10,000 provided however, that the rent payments will be offset dollar-for-dollar by property operating expenses paid for by the Foundation. The first payment is due on the 30th day of November, 1998.

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 11 - Property, Facility and Equipment Lease Agreement

On May 16, 1997, the Foundation and Avondale Industries, Inc. entered into a sub-lease agreement which provides for Avondale Industries, Inc. to lease from the Foundation, the land located in Jefferson Parish together with the facilities to be constructed on the land, the facility equipment and the right of uninterrupted access to and from all streets and roads adjoining the land.

The terms of the sub-lease agreement during the first twelve years (1997-2008) provides for Avondale, Inc. to pay as rental the sum of \$100,000 per year by September 1 of each year provided that the State has made the annual appropriation provided for in the Cooperative Endeavor Agreement. Beginning September 1, 2009 and for each year thereafter during the term of the sub-lease, rent in the amount of \$100,000 is due and payable by September 1 of each year without regard to the State Appropriation.

The sub-lease agreement also stipulates that rent payments are not initially due and payable, if either Avondale makes a payment for the Foundation on the loan financing the facilities and/or the facility equipment as a result of non-payment by the State of Louisiana, or the facility is not ready for occupancy.

NOTE 12 - Commitments

On May 16, 1997, Avondale entered into and assigned to the Foundation a design-build construction agreement with a general contractor to construct a Maritime Technological Center located in Jefferson Parish. At December 31, 1997, the construction contract totaled \$10,685,494 including build-out change orders totaling \$1,457,294. The construction of the Center was completed on May 5, 1998.

On December 16, 1997, the Foundation entered into a \$20,300,000 development and construction management agreement with a developer to construct a Naval Reserve Information Systems Office located in Orleans Parish.

UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 13 - Subsequent Events

Facility Lease

On January 15, 1998 the Foundation entered into a lease agreement with the United States of America (the Government) to lease from the Foundation, approximately 200,000 square feet of administrative space, 700 hard surface parking spaces, and 9.22 acres of land located at the University of New Orleans Research and Technology Park. The terms of the facility lease agreement provides that the Government will have and hold the noted facility for the term beginning on the date of completion of the facility for an initial ten year term with fifteen individual one year renewal terms.

The lease agreement also provides for an annual rent for the premises and services of \$1.00 and \$827,033, respectively.

Issuance of Bonds

On January 1, 1998, the Louisiana Public Facilities Authority (the Authority) and the Foundation entered into a Loan Agreement that provided for the Authority to issue \$16,695,000 of Louisiana Public Facilities Authority Revenue Bonds (Series 1998), the proceeds of the sale of such Bonds to be loaned to the Foundation for the purpose of acquiring, constructing and equipping two buildings, including equipment, furnishings, fixtures and facilities incidental or necessary in connection therewith to be located in Orleans Parish at the University of New Orleans Research Park.

SUPPLEMENTARY INFORMATION

UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
SCHEDULE OF EXPENSES
FOR THE PERIOD MARCH 3, 1997 THROUGH DECEMBER 31, 1997

<u>Description</u>	<u>UNO/Avondale Maritime Technology Center of Excellence</u>	<u>Management and General</u>	<u>Total</u>
In-Kind support (NOTE 5)	\$ 2,500	\$ 7,100	\$ 9,600
Office supplies	-0-	1,455	1,455
Rent expense (NOTE 10)	100	-0-	100
Interest expense (NOTE 13)	242,887	-0-	242,887
Depreciation expense (NOTES 7 and 8)	918,170	-0-	918,170
Amortization expense (NOTE 2)	<u>414,465</u>	<u>-0-</u>	<u>414,465</u>
Total operating expenses	\$ <u>1,578,122</u>	\$ <u>8,555</u>	\$ <u>1,586,677</u>

See the Independent Auditors' Report on Supplementary Information.

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

To the Board of Directors of
University of New Orleans Research and
Technology Foundation

We have audited the financial statements of the University of New Orleans Research and Technology Foundation (the Foundation) as of December 31, 1997 and for the period March 3, 1997 through December 31, 1997, and have issued our report thereon dated August 7, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

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

To the Board of Directors of
University of New Orleans Research and
Technology Foundation

Internal Control Over Financial Reporting

In planning and performing our audit, except for the functions performed at Avondale Industries, Inc. in connection with reviewing and approving invoices for payment of computer programming labor costs billings and travel costs associated with the construction by Avondale of the Navy Vessel LPD-17, 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 financial statements and not to provide assurance on the internal control over financial reporting. For the internal control structure categories at Avondale Industries, Inc., internal auditors obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation, and assessed control risk. Furthermore, the scope of our work did not extend to these internal control structure policies and procedures established and maintained at Avondale Industries, Inc.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted that internal auditors for Avondale Industries, Inc. indicated that they noted no matters involving the internal control structure and its operations that they consider to be material weaknesses.

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

To the Board of Directors of
University of New Orleans Research and
Technology Foundation

This report is intended for the information of the Board of Directors, management and the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

August 7, 1998

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION
EXIT CONFERENCE
December 31, 1997**

An exit conference was held with the following individuals:

**UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION**

Mr. Patrick M. Gibbs	--	Executive Director
Ms. Eileen Herbert	--	Assistant Vice Chancellor of Property and Facilities Development- University of New Orleans

BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Michael B. Bruno, CPA	--	Managing Partner
Mr. Edward J. Phillips, Jr.	--	Senior Manager
Mrs. Lydia W. Joseph	--	In-Charge Accountant

The audit report was discussed. This report is intended solely for the use of the Board of Directors, management and the State of Louisiana and should not be used for any other purpose.

Bruno & Tervalon
**BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS**

August 7, 1998