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**BIOMEDICAL RESEARCH FOUNDATION OF  
NORTHWEST LOUISIANA**

Consolidated Financial Statements

December 31, 1999 and 1998

(With Independent Auditors' Report Thereon)

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

Release Date APR 7 9 2000

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

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## Independent Auditors' Report

The Board of Directors  
Biomedical Research Foundation of Northwest Louisiana:

We have audited the accompanying consolidated statements of financial position of the Biomedical Research Foundation of Northwest Louisiana and subsidiaries (the "Foundation") as of December 31, 1999 and 1998, 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 consolidated financial statements based on our audits.

We conducted our audits 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Biomedical Research Foundation of Northwest Louisiana and subsidiaries as of December 31, 1999 and 1998, and the changes in their net assets and their cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 11, 2000, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

**KPMG LLP**

February 11, 2000



**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Consolidated Statements of Financial Position

December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,574,767	2,080,630
Receivables:		
Grants	62,406	237,347
Caddo Parish Commission	318,563	207,999
Pledges	482,994	24,250
Rental and leases	173,648	237,860
Positron Emission Tomography (PET), net of allowance of \$173,526 and \$156,668, respectively	241,639	188,235
Other	15,922	37,088
Prepaid expenses and other	13,949	1,789
Investments	2,519,607	2,852,054
Plant assets, net	<u>30,128,072</u>	<u>31,877,053</u>
 Total assets	 \$ <u>36,531,567</u>	 <u>37,744,305</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 212,768	301,399
Notes payable	1,156,194	1,322,782
Annuities payable	8,791	-
Advanced payments - Positron Emission Tomography (PET)	58,212	191,123
Total liabilities	<u>1,435,965</u>	<u>1,815,304</u>
Net assets:		
Unrestricted	9,513,751	8,634,615
Temporarily restricted	23,862,320	25,585,012
Permanently restricted	1,719,531	1,709,374
Total net assets	<u>35,095,602</u>	<u>35,929,001</u>
 Total liabilities and net assets	 \$ <u>36,531,567</u>	 <u>37,744,305</u>

See accompanying notes to consolidated financial statements.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Consolidated Statement of Activities

Year ended December 31, 1999

<b>Support and Revenue</b>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support - Philanthropic	\$ 91,614	760,277	10,157	862,048
Revenue:				
Rental income	3,110,875	-	-	3,110,875
Local government operating grants	1,823,300	-	-	1,823,300
Grants and contracts	1,109,483	10,000	-	1,119,483
Investment income	366,773	45,030	-	411,803
Positron Emission Tomography (PET)	1,185,922	-	-	1,185,922
Other income	73,774	-	-	73,774
	<u>7,670,127</u>	<u>55,030</u>	<u>-</u>	<u>7,725,157</u>
Total support and revenue	7,761,741	815,307	10,157	8,587,205
<b>Reclassifications</b>				
Net assets released from restrictions for operations	1,465,710	(1,465,710)	-	-
Net assets released from restrictions for depreciation	<u>1,072,289</u>	<u>(1,072,289)</u>	<u>-</u>	<u>-</u>
Total support, revenue and reclassifications	<u>10,299,740</u>	<u>(1,722,692)</u>	<u>10,157</u>	<u>8,587,205</u>
<b>Expenses</b>				
Program services:				
Scientific research initiatives:				
Sponsored research and support for scientific investigators	873,721	-	-	873,721
Leased research facilities	2,487,049	-	-	2,487,049
Economic development initiatives:				
Research and technology park	811,365	-	-	811,365
Grants, loans and financial incentives	1,507,183	-	-	1,507,183
Positron Emission Tomography (PET)	2,148,840	-	-	2,148,840
Support services:				
Management and general	1,426,466	-	-	1,426,466
Fund-raising	165,980	-	-	165,980
Total expenses	<u>9,420,604</u>	<u>-</u>	<u>-</u>	<u>9,420,604</u>
Change in net assets	879,136	(1,722,692)	10,157	(833,399)
Net assets, beginning of year	<u>8,634,615</u>	<u>25,585,012</u>	<u>1,709,374</u>	<u>35,929,001</u>
Net assets, end of year	\$ <u>9,513,751</u>	<u>23,862,320</u>	<u>1,719,531</u>	<u>35,095,602</u>

See accompanying notes to consolidated financial statements.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Statement of Activities

Year ended December 31, 1998

<b>Support and Revenue</b>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support - Philanthropic	\$ 235,245	142,131	-	377,376
Revenue:				
Rental income	3,071,742	-	-	3,071,742
Local government operating grants	792,210	-	-	792,210
Grants and contracts	1,889,034	302,090	-	2,191,124
Investment income	408,623	131,866	-	540,489
Positron Emission Tomography (PET)	508,231	-	-	508,231
Loan recovery, including interest	212,211	-	-	212,211
Other income	104,011	-	-	104,011
	<u>6,986,062</u>	<u>433,956</u>	<u>-</u>	<u>7,420,018</u>
Total support and revenue	7,221,307	576,087	-	7,797,394
<b>Reclassifications</b>				
Net assets released from restrictions for operations	336,766	(336,766)	-	-
Net assets released from restrictions for depreciation	<u>1,091,653</u>	<u>(1,091,653)</u>	<u>-</u>	<u>-</u>
Total support, revenue and reclassifications	<u>8,649,726</u>	<u>(852,332)</u>	<u>-</u>	<u>7,797,394</u>
<b>Expenses</b>				
Program services:				
Scientific research initiatives:				
Sponsored research and support for scientific investigators	1,662,298	-	-	1,662,298
Leased research facilities	2,525,491	-	-	2,525,491
Economic development initiatives:				
Research and technology park	1,081,594	-	-	1,081,594
Grants, loans and financial incentives	496,364	-	-	496,364
Positron Emission Tomography (PET)	1,825,180	-	-	1,825,180
Support services:				
Management and general	1,561,727	-	-	1,561,727
Fund-raising	83,479	-	-	83,479
Total expenses	<u>9,236,133</u>	<u>-</u>	<u>-</u>	<u>9,236,133</u>
Change in net assets before transfers	(586,407)	(852,332)	-	(1,438,739)
Transfer of assets to LSUMC - Shreveport Foundation	<u>(35,079)</u>	<u>(1,716,306)</u>	<u>(636,599)</u>	<u>(2,387,984)</u>
Change in net assets	(621,486)	(2,568,638)	(636,599)	(3,826,723)
Net assets, beginning of year	<u>9,256,101</u>	<u>28,153,650</u>	<u>2,345,973</u>	<u>39,755,724</u>
Net assets, end of year	<u>\$ 8,634,615</u>	<u>25,585,012</u>	<u>1,709,374</u>	<u>35,929,001</u>

See accompanying notes to consolidated financial statements.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Consolidated Statements of Cash Flows

Years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Change in net assets	\$ (833,399)	(3,826,723)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	2,162,171	2,170,406
Equipment received in lieu of payment on note receivable	-	(212,211)
Net realized and unrealized gain on investments	(136,594)	(182,265)
Increase in receivables	(150,182)	(137,316)
Decrease in prepaid expenses and other	(12,160)	17,309
Decrease in accounts payable and accrued expenses	(88,631)	(189,960)
Decrease in advance payments	(132,911)	(33,877)
Contribution of land	-	(81,500)
Net book value of assets transferred to LSUMC	-	35,079
Contributions restricted for long-term investment	(10,157)	-
Net cash provided by (used in) operating activities	<u>798,137</u>	<u>(2,441,058)</u>
Cash flows from investing activities:		
Purchases of investments	(781,892)	(2,650,000)
Proceeds from sale of investments	1,250,933	4,614,243
Purchase of plant assets	(625,401)	(637,489)
Net cash (used in) provided by investing activities	<u>(156,360)</u>	<u>1,326,754</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investments - investment in endowment	10,157	-
Proceeds from contributions restricted for investment subject to annuity agreements	9,843	-
Payments of annuity obligations	(1,052)	-
Issuance of notes payable	-	449,457
Payments on notes payable	(166,588)	(99,631)
Net cash (used in) provided by financing activities	<u>(147,640)</u>	<u>349,826</u>
Net increase (decrease) in cash and cash equivalents	494,137	(764,478)
Cash and cash equivalents, beginning of year	<u>2,080,630</u>	<u>2,845,108</u>
Cash and cash equivalents, end of year	\$ <u><u>2,574,767</u></u>	\$ <u><u>2,080,630</u></u>
Noncash activities:		
Sale of equipment under capital lease	\$ <u><u>212,211</u></u>	<u><u>-</u></u>
Equipment received in lieu of payment on note receivable	\$ <u><u>-</u></u>	<u><u>212,211</u></u>
Net book value of assets transferred to LSUMC-Shreveport Foundation	\$ <u><u>-</u></u>	<u><u>35,079</u></u>
Donation of land	\$ <u><u>-</u></u>	<u><u>81,500</u></u>

See accompanying notes to consolidated financial statements.

# BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

## Notes to Consolidated Financial Statements

December 31, 1999 and 1998

### (1) Summary of Activities and Accounting Policies

The Biomedical Research Foundation of Northwest Louisiana (the "Foundation") is a publicly supported not-for-profit organization engaged in the creation, expansion and support of enterprises that advance health care delivery, medical research and technology and the economic development of Northwest Louisiana. The significant accounting policies followed are described below:

#### *Principles of Consolidation*

The consolidated financial statements include the financial statements of Biomedical Research Foundation of Northwest Louisiana and its two wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

During 1999, the Foundation formed InterTech Venture Fund, LP (the "Fund") of which it owns 100% through its two wholly owned subsidiaries, InterTech Venture Management, LLC ("VC Management") and BRF Capital, LLC ("Capital"). VC Management will function as the general partner in the Fund and Capital as the limited partner. The Fund was formed to provide venture capital to new businesses desiring to locate in Northwest Louisiana. The Fund will terminate on December 31, 2009, unless terminated earlier or extended by agreement of the partners. The Fund was capitalized with \$800,000. VC Management, Capital and the Fund are for profit entities. The operations of the Fund, which consisted only of organizational expenses in 1999, are included in these consolidated financial statements.

#### *Basis of Consolidated Financial Statements*

The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for not-for-profit organizations and include the operations of the Foundation's wholly owned subsidiaries.

Net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

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.

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.

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.



# BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

## Notes to Consolidated Financial Statements

December 31, 1999 and 1998

Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as reclassifications between the applicable classes of net assets.

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, when appropriate, based upon management's judgment including such factors as *prior collection history, type of contribution and nature of fund-raising activity*.

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

- as increases 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 increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

During 1998, the Foundation transferred \$2,387,984 in unrestricted, temporarily restricted and permanently restricted net assets, representing funds donated for support of scientific investigators, to the LSUMC - Shreveport Foundation. This transaction has been reflected as a transfer in the accompanying statement of activities.

### *Indirect Costs*

Recovery of indirect costs relating to government-sponsored grants is recognized by the Foundation as revenue in grants and contracts. Indirect costs are recovered through authorized rates in effect during the reporting period.

### *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). Accordingly, no provision for income taxes has been made; however, should the Foundation engage in activities unrelated to its exempt purpose, taxable income could result. The Foundation had no material unrelated business net income for the years ended December 31, 1999 and December 31, 1998.

The Foundation's subsidiaries are flow-through entities for tax purposes and as a result, the taxable income of the subsidiaries is the responsibility of the Foundation and will be treated as unrelated business net income. Deferred tax assets or liabilities are the effects of future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. The Foundation had no such differences for the years ended December 31, 1999 and December 31, 1998.

# BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

## Notes to Consolidated Financial Statements

December 31, 1999 and 1998

### *Cash and Cash Equivalents*

For purposes of financial presentation, the Foundation considers all highly liquid equity or debt instruments with an original maturity of three months or less to be cash equivalents.

### *Long-Term Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities as a component of investment income. Long-term investments consist of investments in common stocks and mutual funds.

### *Local Government Operating Grants*

On April 3, 1993, an election was held by the Caddo Parish Commission (CPC) to levy a special tax of two mills on all property subject to taxation for five years beginning with the year 1993 and ending with the year 1997 for the purpose of economic development through the Biomedical Research Foundation. In October 1997, the voters of Caddo Parish renewed this millage for a ten-year period. Receipt of funds by the Foundation is subject to the CPC's approval of budgets submitted by the Foundation. The accompanying consolidated financial statements reflect revenue of \$1,823,300 and \$792,210 for 1999 and 1998, respectively, for amounts the Foundation has applied for and the CPC has approved.

### *Plant Assets*

Land, building, furniture, and equipment are stated at cost. Costs of maintenance and repairs are charged to expense when incurred; costs of renewals and betterments are capitalized. Depreciation of building, furniture and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

### *Advanced Positron Emission Tomography Payments*

The Foundation entered into an agreement with Willis-Knighton Medical Center and Schumpert Medical Center whereby the Foundation would use funding that was received from each hospital for the Positron Emission Tomography Center (PET). The revenue is recognized as services are provided by the Foundation to patients referred by the hospitals.

### *Temporarily Restricted Net Assets*

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

Certain restrictions exist relating to the use of the building for a stated time period. These restrictions expire over a ten year period ending January 18, 2004. Amounts required for depreciation expense will be released from restriction each year with the remaining amount being released at the end of the ten year period.

# BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

## Notes to Consolidated Financial Statements

December 31, 1999 and 1998

### *Reclassifications*

Certain amounts relating to 1998 have been reclassified in the accompanying consolidated financial statements to conform with the 1999 presentation.

### *Use of Estimates*

Management of the Foundation has made a number of estimates and assumptions relating to the assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

### *Program Services - Economic Development Initiatives*

Financial incentives to encourage the establishment, recruitment and growth of businesses and private development for the area may sometimes be structured as loans or equity investments. To the extent such loans are made in ventures in the developmental stage, and as such their ability to repay is uncertain, the loans are expensed as funds are advanced. Also, due to the entities being in the development stage, the equity investments do not have a readily determinable fair value, and therefore no value has been assigned to these investments. As a result, such investments are expensed in economic development initiatives when made.

## **(2) Description of Organization**

The Foundation carries out its mission through the following programs:

### *Scientific Research Initiatives:*

Sponsored Research – resources expended in support of research projects. These expenditures support research projects conducted by the Foundation's own personnel, other scientists, or in collaboration with other organizations/universities.

Support for Scientific Investigators -- donations and residual grant funds designated by the donor/grantor for the support of specific scientific research or educational programs and expended as directed by an individual scientific investigator or department.

Leased Research Facilities -- eight floors in the ten story Virginia K. Shehee Biomedical Research Institute building leased to the Louisiana State University Medical School. Related operating expenses include utilities, equipment and maintenance.

*Economic Development Initiatives* – activities and projects, which in addition to the above are planned to encourage the growth of the scientific and technological communities. These include the development of a technology and research park, an incubator facility, and financial incentives to encourage the establishment, recruitment and growth of businesses and private development for the area.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

*Positron Emission Tomography Imaging Center* – diagnostic imaging services and radiopharmaceutical production facility.

*Management and General* – functions necessary to maintain an equitable employment program, ensure adequate working environment, provide coordination and articulation of the Foundation’s program strategy, provide administrative support to the Board of Directors and program services, maintain legal services, and manage the financial and budgetary responsibilities of the Foundation and agency funds.

*Fund-raising* – activities directed toward encouraging and securing philanthropic support, as opposed to program services revenues, from individuals, foundations and businesses.

**(3) Pledges Receivable**

Contributions receivable are summarized as follows at December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Unconditional contributions expected to be collected in:		
Less than one year	\$ 250,750	23,250
One year to five years	<u>251,250</u>	<u>1,000</u>
	502,000	24,250
Discount on future contributions	<u>(19,006)</u>	-
Net pledges receivable	\$ <u>482,994</u>	<u>24,250</u>

The interest rate used to calculate the discount on pledges receivable was 8.16%.

**(4) Investments**

Investments at December 31, 1999 and 1998 are as follows:

	<u>1999</u>	<u>1998</u>
Mutual funds	\$ 2,378,012	2,706,460
Stock	58,882	62,881
Real Estate	<u>82,713</u>	<u>82,713</u>
	\$ <u>2,519,607</u>	<u>2,852,054</u>

At December 31, 1999 and 1998, the Foundation had investments in eight mutual funds.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

Following is the composition of investment income at December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Dividends and interest	\$ 229,843	358,224
Realized and unrealized gain on investments	136,594	182,265
Timber sales	<u>45,366</u>	<u>-</u>
	\$ <u>411,803</u>	<u>540,489</u>

**(5) Plant Assets**

The composition of plant assets is as follows at December 31, 1999 and 1998:

<u>Asset</u>	<u>Estimated Useful Lives</u>	<u>1999</u>	<u>1998</u>
Land	-	\$ 633,346	380,250
Building and improvements	60 years	28,705,943	28,431,040
Furniture and fixtures	5-20 years	11,943,624	12,095,562
Construction in progress		<u>37,129</u>	<u>-</u>
		41,320,042	40,906,852
Less accumulated depreciation		<u>11,191,970</u>	<u>9,029,799</u>
Plant assets, net		\$ <u>30,128,072</u>	<u>31,877,053</u>

**(6) Notes Payable**

Notes payable consists of the following at December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Note payable to bank at 8.5%, secured by property, due August 1, 2000	\$ 506,250	581,250
Note payable to an individual at 7.0%, secured by property, due June 5, 2007	267,936	292,075
Note payable to bank at 8.5%, secured by property leased to a development stage company, due May 13, 2003	<u>382,008</u>	<u>449,457</u>
	\$ <u>1,156,194</u>	<u>1,322,782</u>

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

Maturities of long-term debt, by year, at December 31, 1999 are as follows:

2000	\$	638,628
2001		143,626
2002		155,834
2003		78,448
2004		37,224
Thereafter		<u>102,434</u>
Total	\$	<u>1,156,194</u>

Interest paid for the year ended December 31, 1999 and 1998 was \$101,565 and \$90,202, respectively.

**(7) Retirement Benefit Plan**

Retirement benefits are provided for substantially all employees through a defined contribution plan which is sponsored by the American Chamber of Commerce Executives. The retirement benefits are based on the actual value of the employees' account balances at the time of retirement. Employees must be twenty-one years of age and must have completed one year of service before they become eligible to participate. Employees attain a 20% vested interest in the plan after two years of employment increasing to 40%, 60%, 80%, and 100% over the following four years of employment. Contributions to the plan are based on the participants' salaries. The employer's contribution was \$172,400 and \$136,427 for 1999 and 1998, respectively.

The Foundation also has a 403(b) annuity plan. No employer contributions are required for this plan.

**(8) Federal and State Grants**

In 1996, the Foundation was awarded a \$6,640,000 grant by the Department of Energy for the establishment of the Center for Biomedical Technology Innovation (CBTI). CBTI will serve as a focal point for the ongoing biomedical research and development at LSUMC-Shreveport, other area universities and at many of the national laboratories and for the clinical testing of products as a result of such research.

The federal government funds are received on a cost reimbursement basis. Revenue with respect to the awards is recognized to the extent of expenses incurred under the award terms.

At December 31, 1999, the Foundation had incurred expenses in the amount of \$5,270,397 in connection with the establishment of CBTI of which \$62,406 and \$237,347 had not been reimbursed by the Department of Energy at December 31, 1999 and 1998, respectively.

# BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

## Notes to Consolidated Financial Statements

December 31, 1999 and 1998

### (9) Related Party

During 1997, the Foundation together with three other for profit entities formed the Louisiana Center for Manufacturing Sciences (Center), a non-profit organization formed to conduct research in the manufacturing sciences and encourage economic development for Northwest Louisiana. Its initial project was in support of a Department of Energy research and development contract for the U.S. Army's Totally Integrated Munitions Enterprise project. The Foundation is one of five board members which have an equal vote in decisions regarding the Center. The Center is a separate organization and is not included in the consolidated financial statements of the Foundation. The Foundation has entered into an agreement with the Center to provide certain administrative and accounting functions until such time as the Center has staff to provide such services. During 1999 and 1998, the Center paid the Foundation \$68,027 and \$81,686, respectively, for providing these administrative and accounting services. The Foundation also leases property and equipment to the Center. See note 10.

In addition, the Foundation is the guarantor on a line of credit for the Center and receives an annual fee of 3% on the balance for providing such financing. The balance of the line of credit was \$194,000 and \$175,796 at December 31, 1999 and 1998, respectively.

### (10) Rental Income

During May of 1998, the Foundation entered into a sublease agreement with the Center for the lease of approximately 15,000 square feet of office and warehouse space in Shreveport, Louisiana. Under the agreement, the Foundation will receive \$8,500 per month through April 30, 2000. The sublease agreement has three consecutive twelve month renewal periods at a rate of \$10,000 per month, and shall be renewed at the discretion of the Center. For the fiscal years ended December 31, 1999 and 1998, the Foundation received \$102,000 and \$59,500, respectively, in rental income under this agreement.

The Center is also obligated to the Foundation under a capital lease for movable personal property. Under the agreement, the Center pays the Foundation \$5,000 per month for a period of fifty-four months ending June 30, 2003. At the expiration of the lease, the Center has the option to purchase the equipment for one dollar.

# BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

## Notes to Consolidated Financial Statements

December 31, 1999 and 1998

Future minimum lease payments to be received under the capital lease as of December 31, 1999 are:

<u>Year ending December 31</u>	<u>Capital lease</u>
2000	\$ 60,000
2001	60,000
2002	60,000
2003	<u>30,000</u>
Total minimum lease payments	210,000
Less amount representing interest (at a rate of 11.0%)	<u>36,352</u>
Present value of net minimum capital lease payments	173,648
Less current installments due under capital leases	<u>43,025</u>
Installments under capital leases, excluding current installments	<u>\$ 130,623</u>

In 1994, the Foundation entered into a cooperative endeavor agreement with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College. This agreement sets forth, in part, the terms of the lease of eight of the ten floors of the Virginia K. Shehee Biomedical Research Institute to the University. The agreement has four renewals of three years each and was renewed in 1997. The University paid the Foundation \$2,854,320 in each of 1999 and 1998. This agreement was not renewed in 1999 and as of February 1, 2000, is being paid on a month-to-month basis. A new agreement is expected to be completed in the first quarter of 2000.

### (11) Contingencies

The Foundation receives a substantial portion of its revenues from government grants and contracts, all of which are subject to audit by the federal government. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and subject to audit by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Foundation receives, directly or indirectly, a substantial portion of its revenues from the Department of Energy and local government agencies' grants and property tax millages. Although the Foundation does not anticipate a material change in these revenues, there is a possibility that the continued funding of these revenues at current levels could be altered in the future.



# BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

## Notes to Consolidated Financial Statements

December 31, 1999 and 1998

At December 31, 1999, the Foundation has agreed to fund research with LSUS totaling \$1,000,000, contingent upon certain criteria being met.

The Foundation has entered into a build-to-suit lease agreement with BioTech Imaging, Inc., a Maryland corporation, for laboratory and office space to be located in a newly constructed facility in the Foundation's research park area. The Foundation has committed under the lease agreement to secure financing for the project. If the Foundation is unsuccessful, the lease will terminate. Should the Foundation secure financing, it would then be committed to construct the facility. The current estimated cost of construction is \$15,000,000. In connection with this agreement, the Foundation will be issued various amounts of common stock of Bio Tech Imaging, Inc. as milestones in the project are achieved. 300,000 shares were due the Foundation upon signing the lease agreement. The value of such shares is not readily determinable and as such they have not been assigned a value for purposes of these consolidated financial statements.

### (12) Annuities Payable

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 designees. The difference between the contribution and the liability under the annuity is recognized as revenue in the year received. Upon death, the remaining liability, if any, is recognized as revenue. During 1999, the Foundation received donations under such arrangements that resulted in annuities payable totaling \$8,791 at December 31, 1999. The liability was calculated using discount rates between 6.2% and 7.2%.

### (13) Net Assets

Unrestricted net assets consist of the following at December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
For current operations	\$ 2,185,506	2,179,710
Investment in plant and equipment	5,944,801	6,454,905
Board designated	<u>1,383,444</u>	<u>-</u>
	<u>\$ 9,513,751</u>	<u>8,634,615</u>

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

Temporarily restricted net assets at December 31, 1999 and 1998, consist of the following:

	<u>1999</u>	<u>1998</u>
Designated for specific operating purposes	\$ 752,530	326,875
Time restricted funds	-	1,076,058
Investment in plant and equipment	<u>23,109,790</u>	<u>24,182,079</u>
	<u>\$ 23,862,320</u>	<u>25,585,012</u>

In August 1999, the time restricted funds were released and can be spent at the discretion of the Board. In 1999, the Board designated these funds, which are now reflected as unrestricted to be used for the benefit of PET development.

Permanently restricted net assets at December 31, 1999 and 1998 consist of endowment funds that are not designated for a specific purpose.



**BIOMEDICAL RESEARCH FOUNDATION  
OF NORTHWEST LOUISIANA**

OMB Circular A-133 Reports

For the Year Ended December 31, 1999

(With Independent Auditors' Reports Thereon)

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

OMB Circular A-133 Reports

For the Year Ended December 31, 1999

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333 Texas Street  
Shreveport, LA 71101-3692

**Independent Auditors' Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of Directors  
Biomedical Research Foundation of Northwest Louisiana:

We have audited the financial statements of the Biomedical Research Foundation of Northwest Louisiana (the "Foundation") as of and for the year ended December 31, 1999, and have issued our report thereon dated February 11, 2000. 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*.

**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 financial statements and not to provide assurance on the internal control over financial reporting. 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.



This report is intended solely for the information and use of the Board of Directors, management of the Foundation, Louisiana Legislative Auditor, federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 11, 2000



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**Independent Auditors' Report on Compliance with Requirements  
Applicable to its Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133  
and on the Schedule of Expenditures of Federal Awards**

The Board of Directors  
Biomedical Research Foundation of Northwest Louisiana:

**Compliance**

We have audited the compliance of the Biomedical Research Foundation of Northwest Louisiana (the "Foundation") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 1999. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1999.

**Internal Control Over Compliance**

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

**Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the Foundation as of and for the year ended December 31, 1999, and have issued our report thereon dated February 11, 2000. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management of the Foundation, Louisiana Legislative Auditor, federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 11, 2000



**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Schedule of Expenditures of Federal Awards

For the year ended December 31, 1999

<u>Federal Grantor/Program or Cluster</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Energy:</u> Grant for establishment of Center for Biomedical Technology Innovation	N/A	\$ <u>1,109,483</u>

See accompanying note to schedule of expenditures of federal awards.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Note to Schedule of Expenditures of Federal Awards

Year ended December 31, 1999

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Biomedical Research Foundation of Northwest Louisiana and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**

Schedule of Findings and Questioned Costs

Year ended December 31, 1999

**Section 1 – Summary of Auditors’ Results**

*Financial Statements*

Type of report issued: unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? None reported

Noncompliance material to financial statements noted? No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? None reported

Type of auditor’s report issued on compliance for major program: unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

N/A

United States Department of Energy – Grant for  
Establishment of Center for Biomedical Technology  
Innovation

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? Yes

**Section 2 – Financial Statement Findings** None

**Section 3 – Federal Award Findings and Questioned Costs** None