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**BIOMEDICAL RESEARCH FOUNDATION OF
NORTHWEST LOUISIANA**

Financial Statements

December 31, 1998 and 1997

(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 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 and, where appropriate, at the office of the parish clerk of court.

APR 14 1999

Release Date _____

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 statements of financial position of the Biomedical Research Foundation of Northwest Louisiana (the "Foundation") as of December 31, 1998 and 1997, and the related statements of financial activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 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 audits provide 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 Biomedical Research Foundation of Northwest Louisiana as of December 31, 1998 and 1997, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 1999, on our consideration of the Biomedical Research Foundation of Northwest Louisiana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

KPMG LLP

March 12, 1999



BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Statements of Financial Position

December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Assets		
Cash and cash equivalents	\$ 1,548,179	2,845,108
Receivables:		
Grants	237,347	223,852
Caddo Parish Commission	207,999	352,573
Pledges	24,250	100,750
Accrued interest	-	29,728
Rent	237,860	-
Positron Emission Tomography (PET), net of allowance of \$156,668 and \$45,888, respectively	188,235	62,535
Other	37,088	26,025
Prepaid expenses and other	1,789	19,098
Investments	3,301,792	4,551,319
Plant assets, net	<u>31,959,766</u>	<u>33,234,051</u>
 Total assets	 <u>\$ 37,744,305</u>	 <u>41,445,039</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 301,399	491,359
Notes payable	1,322,782	972,956
Advanced payments - Positron Emission Tomography (PET)	191,123	225,000
Total liabilities	<u>1,815,304</u>	<u>1,689,315</u>
Net assets:		
Unrestricted	8,634,615	9,256,101
Temporarily restricted	25,585,012	28,153,650
Permanently restricted	1,709,374	2,345,973
Total net assets	<u>35,929,001</u>	<u>39,755,724</u>
 Total liabilities and net assets	 <u>\$ 37,744,305</u>	 <u>41,445,039</u>

See accompanying notes to financial statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Statement of Financial Activities

Year ended December 31, 1998

Support and Revenue	<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
Reclassifications				
Net assets released from restrictions for operations	336,766	(336,766)	-	-
Net assets released from restrictions for depreciation	1,091,653	(1,091,653)	-	-
Total support, revenue and reclassifications	<u>8,649,726</u>	<u>(852,332)</u>	<u>-</u>	<u>7,797,394</u>
Expenses				
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)
Other - 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><u>8,634,615</u></u>	<u><u>25,585,012</u></u>	<u><u>1,709,374</u></u>	<u><u>35,929,001</u></u>

See accompanying notes to financial statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Statement of Financial Activities

Year ended December 31, 1997

Support and Revenue	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support - Philanthropic	\$ 304,005	14,560	50	318,615
Revenue:				
Rental income	3,004,154	-	-	3,004,154
Local government operating grants	1,378,456	-	-	1,378,456
Grants and contracts	2,674,263	467,705	-	3,141,968
Investment income	274,551	155,684	88	430,323
Positron Emission Tomography (PET)	174,689	-	-	174,689
Loan recovery, including interest	310,000	-	-	310,000
Other income	9,781	-	-	9,781
	<u>7,825,894</u>	<u>623,389</u>	<u>88</u>	<u>8,449,371</u>
Total support and revenue	8,129,899	637,949	138	8,767,986
Reclassifications				
Net assets released from restrictions for operations	854,866	(854,866)	-	-
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>10,076,418</u>	<u>(1,308,570)</u>	<u>138</u>	<u>8,767,986</u>
Expenses				
Program services:				
Scientific research initiatives:				
Sponsored research and support for scientific investigators	3,478,664	-	-	3,478,664
Leased research facilities	2,570,735	-	-	2,570,735
Economic development initiatives:				
Research and technology park	694,193	-	-	694,193
Grants, loans and financial incentives	615,119	-	-	615,119
Positron Emission Tomography (PET)	1,771,711	-	-	1,771,711
Support services:				
Management and general	1,159,268	-	-	1,159,268
Fund-raising	121,609	-	-	121,609
Total expenses	<u>10,411,299</u>	<u>-</u>	<u>-</u>	<u>10,411,299</u>
Change in net assets	(334,881)	(1,308,750)	138	(1,643,313)
Net assets, beginning of year	<u>9,590,982</u>	<u>29,462,220</u>	<u>2,345,835</u>	<u>41,399,037</u>
Net assets, end of year	\$ <u>9,256,101</u>	<u>28,153,650</u>	<u>2,345,973</u>	<u>39,755,724</u>

See accompanying notes to financial statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Statement of Cash Flows

Years ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,826,723)	(1,643,313)
Adjustments to reconcile change in net assets to net cash (used in) provided by operations:		
Depreciation	2,170,406	2,062,028
Equipment received in lieu of payment on note receivable	(212,211)	-
Net realized and unrealized loss (gain) on investments	(182,265)	(49,436)
(Increase) decrease in receivables	(137,316)	168,327
Decrease in prepaid expenses and other	17,309	3,319
Decrease in accounts payable and accrued expenses	(189,960)	(47,168)
Decrease in advance payments	(33,877)	-
Contribution of land	(81,500)	-
Net book value of assets transferred to LSUMC	35,079	-
Contributions restricted for long-term investment	-	(50)
Net cash (used in) provided by operating activities	<u>(2,441,058)</u>	<u>493,707</u>
Cash flows from investing activities:		
Purchases of investments	(3,182,451)	(410,001)
Maturities of investments	-	400,000
Proceeds from sale of investments	4,614,243	-
Purchase of plant assets	(637,489)	(783,530)
Disposal of plant assets	-	6,358
Net cash provided by investing activities	<u>794,303</u>	<u>(787,173)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investments - investment in endowment	-	50
Issuance of notes payable	449,457	330,300
Payments on notes payable	(99,631)	(107,344)
Net cash provided by financing activities	<u>349,826</u>	<u>223,006</u>
Net decrease in cash and cash equivalents	(1,296,929)	(70,460)
Cash and cash equivalents, beginning of year	<u>2,845,108</u>	<u>2,915,568</u>
Cash and cash equivalents, end of year	\$ <u><u>1,548,179</u></u>	\$ <u><u>2,845,108</u></u>
Noncash activities:		
Equipment received in lieu of payment on note receivable	\$ <u><u>212,211</u></u>	<u><u>-</u></u>
Net book value of assets transferred to LSUMC-Shreveport Foundation	\$ <u><u>35,079</u></u>	<u><u>-</u></u>
Donation of land	\$ <u><u>81,500</u></u>	<u><u>-</u></u>

See accompanying notes to financial statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

(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:

Basis of Financial Statements

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for not-for-profit organizations.

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. 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. A policy footnote follows on the Foundation's method of reporting temporarily restricted 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 based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

Income and realized 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 transfer has been reflected as an other item in the accompanying statement of financial 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 at authorized rates in effect.

Tax Status

The Foundation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

For purposes of financial presentation, the Foundation considers all highly liquid 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 U.S. government securities, common stocks and mutual funds.

Receivable from Caddo Parish Commission (CPC)

On April 3, 1993, an election was held by the 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 financial statements reflect revenue of \$792,210 and \$1,378,456 for 1998 and 1997, respectively, for amounts the Foundation has applied for and the CPC has approved.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

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 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.

Reclassifications

Certain amounts relating to 1997 have been reclassified in the accompanying financial statements to conform with the 1998 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 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. To the extent such loans are made to ventures in the developmental stage, and as such the ability to repay is uncertain, the loans are expensed as funds are advanced.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

(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. Sheehee 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.

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, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Unconditional contributions expected to be collected in:		
Less than one year	\$ 23,250	100,750
One year to five years	1,000	-
	<u>\$ 24,250</u>	<u>100,750</u>

Most contributions receivable are due within less than one year, for which their stated amount is a reasonable estimate of their fair value.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

(4) Investments

Investments at December 31, 1998 and 1997, are as follows:

	<u>1998</u>	<u>1997</u>
U.S. Government securities	\$ -	1,217,986
Mutual funds	3,238,911	3,333,333
Stock	<u>62,881</u>	<u>-</u>
	\$ <u>3,301,792</u>	<u>4,551,319</u>

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

Following is the composition of investment income at December 31, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Dividends and interest	\$ 358,224	380,887
Realized and unrealized gain on investments	<u>182,265</u>	<u>49,436</u>
	\$ <u>540,489</u>	<u>430,323</u>

(5) Plant Assets

The composition of plant assets is as follows at December 31, 1998 and 1997:

<u>Asset</u>	<u>Estimated Useful Lives</u>	<u>1998</u>	<u>1997</u>
Land	—	\$ 462,963	380,250
Building and improvements	60 years	28,431,040	28,293,686
Furniture and fixtures	5-20 years	<u>12,095,562</u>	<u>11,440,238</u>
		40,989,565	40,114,174
Less accumulated depreciation		<u>9,029,799</u>	<u>6,880,123</u>
Plant assets, net		\$ <u>31,959,766</u>	<u>33,234,051</u>

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

(6) Notes Payable

Notes payable consists of the following at December 31, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Note payable to bank at 8.5%, secured by property, due August 1, 1999	\$ 581,250	656,250
Note payable to an individual at 7.0%, secured by property, due June 5, 2007	292,075	316,706
Note payable to bank at 8.5%, secured by property leased to a development stage company, due May 13, 2003	<u>449,457</u>	<u>-</u>
	<u>\$ 1,322,782</u>	<u>972,956</u>

Maturities of long-term debt, by year, at December 31, 1998 are as follows:

1999	\$ 664,110
2000	131,822
2001	143,017
2002	155,170
2003	89,169
Thereafter	<u>139,494</u>
Total	<u>\$ 1,322,782</u>

Interest paid for the year ended December 31, 1998 and 1997 was \$90,202 and \$72,394, 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 \$136,427 and \$94,555 for 1998 and 1997, respectively.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

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, 1998, the Foundation had incurred expenses in the amount of \$4,160,915 in connection with the establishment of CBTI of which \$237,347 had not been reimbursed by the Department of Energy at December 31, 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 four board members which have an equal vote in decisions regarding the Center. 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 1998, the Center paid the Foundation \$81,686 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. The balance of the line of credit was \$175,796 at December 31, 1998.

(10) Rental Income

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. Sheehee 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 1998 and 1997.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

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, 1999 and \$9,000 per month from May 1, 1999 ending April 30, 2000. Prior to the signing of the sublease agreement, the Foundation received approximately \$20,500 in rental income from the Center for the months of February through May, which is offset against rent expense in support services - management and general. 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 year ended December 31, 1998, the Foundation received \$59,500 in rental income under this agreement.

In January 1999, the Foundation entered into a lease agreement with the Center for the lease of movable personal property. Under the agreement, the Foundation will receive \$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.

(11) Program Services

From 1994 through 1997, the Foundation loaned ICON Industrial Controls Corporation ("ICON") approximately \$4,000,000 for the purpose of establishing a research facility in Northwest Louisiana. Because ICON was considered a developmental stage company, these loans were expensed as advanced. During 1997, ICON repaid \$266,205 of principal and \$43,795 of interest on the loans. The balance of the loans to ICON totaled \$4,540,815 at December 31, 1997, which was composed of \$3,748,866 of outstanding principal and \$791,949 of accrued interest. Subsequent to December 31, 1997, ICON was placed into involuntary bankruptcy under Chapter 7. A settlement agreement was approved by the U.S. Bankruptcy Court for the Western District of Louisiana in October 1998. The settlement agreement provided, in part, that the Foundation acquire title to various tangible assets whose aggregate fair value was determined to be approximately \$212,000.

(12) 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.

At December 31, 1998, the Foundation had agreed to fund research and equipment purchases totaling \$2,000,000, contingent upon certain criteria being met.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

(13) Net Assets

Unrestricted net assets consist of the following at December 31, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
For current operations	\$ 2,179,710	2,268,737
Investment in plant and equipment	<u>6,454,905</u>	<u>6,987,364</u>
	<u>\$ 8,634,615</u>	<u>9,256,101</u>

Temporarily restricted net assets at December 31, 1998 and 1997, consist of the following:

	<u>1998</u>	<u>1997</u>
Designated for specific operating purposes	\$ 326,875	1,803,860
Time restricted funds	1,076,058	1,076,058
Investment in plant and equipment	<u>24,182,079</u>	<u>25,273,732</u>
	<u>\$ 25,585,012</u>	<u>28,153,650</u>

In October 1999, the time restricted funds will be released and can be spent at the discretion of the Board.

Permanently restricted net assets at December 31, 1998 and 1997 consist of endowment funds comprised of the following:

	<u>1998</u>	<u>1997</u>
Designated purpose funds	\$ -	636,599
Undesignated purpose funds	<u>1,709,374</u>	<u>1,709,374</u>
	<u>\$ 1,709,374</u>	<u>2,345,973</u>

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Financial Statements

December 31, 1998 and 1997

(14) Year 2000 (Unaudited)

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Foundation's computer programs and hardware have been certified Year 2000 compliant by its vendors. Management believes that with modifications to existing software, conversions to new software and new hardware, the Year 2000 issue will not pose significant operational problems for its computer systems. Failure to correct a material Year 2000 problem could result in interruption in, or a failure of, certain normal business activities or operations. Such failures could adversely affect the Foundation's operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third parties, the Foundation is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Foundation's operations, liquidity or financial condition.

The Foundation does not expect to incur any significant costs to prepare the systems for the year 2000. However, there can be no assurance that the systems of other entities, on which the Foundation's systems rely, will be timely converted or that any such failure to convert by another entity would not have an adverse effect on the Foundation's systems.



1900 Deposit Guaranty Tower
333 Texas Street
Shreveport, LA 71101-3692

March 12, 1999

The Board of Directors
Biomedical Research Foundation
of Northwest Louisiana

Dear Members:

We have audited the financial statements of the Biomedical Research Foundation of Northwest Louisiana (the "Foundation") for the years ended December 31, 1998 and 1997, and have issued our report thereon dated March 12, 1999. Under generally accepted auditing standards, we are providing you with the following information related to the conduct of our audit.

Our Responsibility Under Generally Accepted Auditing Standards

We have a responsibility to conduct our audit in accordance with generally accepted auditing standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Furthermore, our audit, was not designed to, and does not, provide any assurance that a Year 2000 issue which may exist will be identified, on the adequacy of the Foundation's remediation plans related to Year 2000 financial or operational issues, or on whether the Foundation is or will become Year 2000 compliant. Year 2000 compliance is the responsibility of management.

Significant Accounting Policies

The significant accounting policies used by the Foundation are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 1998.

We noted no transactions entered into by the Foundation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



The Board of Directors
Biomedical Research Foundation
of Northwest Louisiana
March 12, 1999
Page 2

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Based on historical collection experience, management establishes an allowance for uncollectible Positron Emission Tomography (PET) receivables. This allowance totaled \$156,668 at December 31, 1998 which is 45% of total PET receivables. During 1998, loans to Innova International and Dolphin Medical Technologies were expensed when advanced due to the uncertainty as to collectibility.

There also is the possibility that, upon audit, the Department of Energy, could request a refund of previously funded amounts. The Foundation is not aware of any amounts that would have to be refunded and no amounts have been recorded as refundable at December 31, 1998.

Significant Audit Adjustments

We proposed no corrections of the financial statements that were not recorded and that could, in our judgment, either individually or in the aggregate, have a significant effect on the Foundation's financial reporting process.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our report on the Foundation's financial statements.

Consultation With Other Accountants

To the best of our knowledge management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.

Major Issues Discussed With Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no serious difficulties in dealing with management in performing our audit.

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The Board of Directors
Biomedical Research Foundation
of Northwest Louisiana
March 12, 1999
Page 3

This information is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP



**BIOMEDICAL RESEARCH FOUNDATION
OF NORTHWEST LOUISIANA**

Schedule of Expenditures of
Federal Awards

December 31, 1998

(With Independent Auditors' Report Thereon)

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Schedule of Expenditures of Federal Awards

Year ended December 31, 1998

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1900 Deposit Guaranty Tower
333 Texas Street
Shreveport, LA 71101-3692

**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, 1998, and have issued our report thereon dated March 12, 1999. 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 and the United States Department of Energy and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 12, 1999



1900 Deposit Guaranty Tower
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**Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

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 each of its major federal programs for the year ended December 31, 1998. 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, 1998.

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 financial statements of the Foundation as of and for the year ended December 31, 1998, and have issued our report thereon dated March 12, 1999. Our audit was performed for the purpose of forming an opinion on the 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 financial statements. 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.

This report is intended solely for the information and use of the Board of Directors, management of the Foundation and the United States Department of Energy and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 12, 1999

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Schedule of Expenditures of Federal Awards

For the year ended December 31, 1998

<u>Federal Grantor/Pass-Through 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>1,580,244</u>

See accompanying notes to schedule of expenditures of federal awards.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 1998

(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, 1998

- (1) Summary of Auditor's Results
 - (a) The type of report issued on the financial statements: unqualified opinion
 - (b) Reportable conditions in internal control were disclosed by the audit of the Financial Statements: none reported Material weaknesses: no
 - (c) Noncompliance which is material to the general-purpose financial statements: no
 - (d) Reportable conditions in internal control over major programs: none reported Material weaknesses: no
 - (e) The type of report issued on compliance for major programs: unqualified opinion
 - (f) Any audit findings which are required to be reported under section 510(a) of OMB Circular A-133: no
 - (g) Major program:
United States Department of Energy:
Grant for Establishment of Center for Biomedical Technology Innovation
 - (h) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
 - (i) Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: yes
- (2) Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None
- (3) Findings and Questioned Costs relating to Federal Awards: None