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BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Consolidated Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

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KPMG LLP
Suite 1900
333 Texas Street
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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, 2003 and 2002, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes 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, 2003 and 2002, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2004, 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. 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 audits.

KPMG LLP

March 19, 2004

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Consolidated Statements of Financial Position

December 31, 2003 and 2002

Assets		2003	2002
Cash and cash equivalents	$	1,493,543	3,050,663
Restricted cash		288,514	281,571
Receivables:			
Grants and contracts		156,217	95,000
Pledges		383,446	165,382
Rental		90,951	101,511
Positron Emission Tomography (PET), net of allowance of $141,610 and $242,476, respectively		514,831	347,172
Enterprise zone tax refund		124,892	466,112
Fluorodeoxyglucose (FDG)		225,550	306,976
Insurance claims		—	358,323
Other		139,571	145,688
Prepaid expenses and other		459,082	491,399
Bond issuance costs		493,596	572,519
Investments		5,320,090	4,383,928
Property and equipment, net		49,689,495	51,495,780
Total assets	$	59,379,778	62,262,024
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	918,058	1,006,328
Deferred revenue		238,000	238,000
Notes payable		4,788,013	5,845,471
Revenue bonds payable, net of discount		18,579,603	19,519,312
Annuities payable		22,845	30,345
Asset retirement liability		89,056	—
Total liabilities		24,635,575	26,639,456
Net assets:			
Unrestricted		14,661,515	14,260,715
Temporarily restricted		18,363,157	19,642,322
Permanently restricted		1,719,531	1,719,531
Total net assets		34,744,203	35,622,568
Total liabilities and net assets	$	59,379,778	62,262,024

See accompanying notes to consolidated financial statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Consolidated Statement of Activities

Year ended December 31, 2003

Support and Revenue		**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Support – Philanthropic	$	327,078	266,117	—	593,195
Revenue:					
Rental income		3,611,782	—	—	3,611,782
Local government operating grants		1,699,948	—	—	1,699,948
Federal and state grants and contracts		560,920	—	—	560,920
Other grants		—	300,000	—	300,000
Investment income		1,047,516	—	—	1,047,516
Positron Emission Tomography (PET)		3,081,537	—	—	3,081,537
Fluorodeoxyglucose (FDG) sales		2,208,870	—	—	2,208,870
Other income (loss)		(77,150)	—	—	(77,150)
		12,133,423	300,000	—	12,433,423
Total support and revenue		12,460,501	566,117	—	13,026,618
Reclassifications					
Net assets released from restrictions for operations		199,902	(199,902)	—	—
Net assets released from restrictions for depreciation		1,645,380	(1,645,380)	—	—
Total support, revenue, and reclassifications		14,305,783	(1,279,165)	—	13,026,618
Expenses					
Program services:					
Scientific research initiatives:					
Sponsored research and support for scientific investigators		300,987	—	—	300,987
Leased research facilities		2,633,157	—	—	2,633,157
Economic development initiatives:					
Research and technology park		3,109,880	—	—	3,109,880
Grants, loans, and financial incentives		910,020	—	—	910,020
Positron Emission Tomography (PET) and FDG		5,135,277	—	—	5,135,277
Support services:					
Management and general		1,586,804	—	—	1,586,804
Fund-raising		211,611	—	—	211,611
Total expenses		13,887,736	—	—	13,887,736
Cumulative effect of change in accounting principle		(17,247)	—	—	(17,247)
Change in net assets		400,800	(1,279,165)	—	(878,365)
Net assets, beginning of year		14,260,715	19,642,322	1,719,531	35,622,568
Net assets, end of year	$	14,661,515	18,363,157	1,719,531	34,744,203

See accompanying notes to consolidated financial statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Consolidated Statement of Activities

Year ended December 31, 2002

Support and Revenue		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support – Philanthropic	$	72,260	142,751	—	215,011
Revenue:					
Rental income		4,364,232	—	—	4,364,232
Local government operating grants		1,890,714	—	—	1,890,714
Federal and state grants and contracts		468,014	15,000	—	483,014
Investment income (loss)		(364,206)	—	—	(364,206)
Positron Emission Tomography (PET)		2,472,279	—	—	2,472,279
Fluorodeoxyglucose (FDG) sales		2,326,097	—	—	2,326,097
Other income		297,597	—	—	297,597
		11,454,727	15,000	—	11,469,727
Total support and revenue		11,526,987	157,751	—	11,684,738
Reclassifications					
Net assets released from restrictions for operations		387,597	(387,597)	—	—
Net assets released from restrictions for depreciation		1,675,671	(1,675,671)	—	—
Total support, revenue, and reclassifications		13,590,255	(1,905,517)	—	11,684,738
Expenses					
Program services:					
Scientific research initiatives:					
Sponsored research and support for scientific investigators		44,229	—	—	44,229
Leased research facilities		2,648,689	—	—	2,648,689
Economic development initiatives:					
Research and technology park		3,328,920	—	—	3,328,920
Grants, loans, and financial incentives		844,221	—	—	844,221
Positron Emission Tomography (PET) and FDG		4,906,089	—	—	4,906,089
Support services:					
Management and general		1,644,942	—	—	1,644,942
Fund-raising		212,907	—	—	212,907
Total expenses		13,629,997	—	—	13,629,997
Change in net assets		(39,742)	(1,905,517)	—	(1,945,259)
Net assets, beginning of year		14,300,457	21,547,839	1,719,531	37,567,827
Net assets, end of year	$	14,260,715	19,642,322	1,719,531	35,622,568

See accompanying notes to consolidated financial statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

		2003	2002
Cash flows from operating activities:			
Change in net assets	$	(878,365)	(1,945,259)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		2,628,788	2,643,891
Loss on sale of asset		—	28,651
Net unrealized (gain) loss on investments		(886,162)	587,980
Cumulative effect of change in accounting principle		17,247	—
Decrease in receivables		350,706	1,726,737
Decrease (increase) in prepaid expenses and other		32,317	(240,599)
Decrease in accounts payable and accrued expenses		(88,270)	(1,467,434)
Net cash provided by operating activities		1,176,261	1,333,967
Cash flows from investing activities:			
Purchases of investments		(50,000)	(2,173,000)
Proceeds from sale of investments		—	1,968,283
Proceeds from sale of assets		—	38,600
Purchases of property and equipment		(641,480)	(1,243,990)
Net cash used in investing activities		(691,480)	(1,410,107)
Cash flows from financing activities:			
Payments on bonds		(970,000)	(910,000)
Issuance of notes payable		—	1,580,991
Payments on notes payable		(1,057,458)	(791,324)
Payments of annuity obligations		(7,500)	(7,500)
Net cash used in financing activities		(2,034,958)	(127,833)
Net decrease in cash and cash equivalents		(1,550,177)	(203,973)
Cash and cash equivalents, beginning of year		3,332,234	3,536,207
Cash and cash equivalents, end of year	$	1,782,057	3,332,234
Noncash activities:			
Issuance of notes payable for property acquisitions	$	—	2,325,390

See accompanying notes to consolidated financial statements.

(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 healthcare delivery, medical research and technology, and the economic development of Northwest Louisiana. The significant accounting policies followed are described below:

(a) Principles of Consolidation

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

The Foundation owns 100% of InterTech Venture Fund, LP (the Fund) through its two wholly owned subsidiaries, InterTech Venture Management, LLC (VC Management) and BRF Capital, LLC (Capital). VC Management functions as the general partner in the Fund and Capital as the limited partner. The operations of the subsidiaries and the Fund are included in these consolidated financial statements. The Fund was formed to provide venture capital to new businesses desiring to locate in Northwest Louisiana and was done in a manner that generates state tax credits that are available to VC Management and Capital, the investor companies. The Fund will terminate on December 31, 2009, unless terminated earlier or extended by agreement of the partners. The Fund was initially capitalized with $800,000. In 2000, VC Management and Capital sold their available state tax credits to an unrelated party for $238,000. Certain conditions must be met by the Fund over a five-year period or it will be decertified and the proceeds from the sale of the tax credits will be refunded to the purchaser. As such, the revenue from the sale of these tax credits has been deferred until all conditions are met at the end of the five-year period.

During 2001, the Foundation formed Southern Isotopes, LLC, a wholly owned subsidiary, to operate a cyclotron in South Louisiana.

(b) Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America 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:

<u>Unrestricted net assets</u> – Net assets that are not subject to donor-imposed stipulations.

<u>Temporarily restricted net assets</u> – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time.

(Continued)

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, 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.

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.

Revenue received in the form of common stock or other securities is recognized at such time as the security becomes marketable and is readily convertible to cash.

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.

FDG is a radioactive isotope produced for use in the PET scanning process. Revenue from FDG sales are recognized upon delivery and revenue from PET operations are recognized when the scan is performed.

(c) 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.

(Continued)

(d) *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. The Foundation's subsidiaries are flow-through entities for tax purposes and as a result, the taxable income of the subsidiaries is reportable by the Foundation. Should the Foundation engage, directly or through its flow-through entities, 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, 2003 and 2002.

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, 2003 and 2002.

(e) *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.

(f) *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. Those investments that are not readily marketable are carried at cost unless there is an indication of a permanent decline in value.

(g) *Local Government Operating Grants*

In October 1997, the voters of Caddo Parish renewed, for a ten-year period, a special tax levy by the Caddo Parish Commission (CPC) of two mills on all property subject to taxation for the purpose of economic development through the Biomedical Research Foundation. In October 2001, the voters of Caddo Parish approved the CPC's plan to rededicate a portion of the millage to public works and extend it for an additional ten years beyond the current expiration date. 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 $1,699,948 and $1,890,714 for 2003 and 2002, respectively, for amounts the Foundation has applied for and the CPC has approved.

(h) *Bond Issuance Costs*

Costs of $759,626 incurred to issue the 2000 revenue bonds are being amortized over the life of the bonds. Amortization for 2003 and 2002 was $78,923 and $83,137, respectively.

(i) *Property and Equipment*

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. The Foundation's assets are primarily available for lease or sale in support of its economic development mission, however, certain of these assets are utilized by the Foundation for its PET operations and office space. As described in note 3, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 143 on January 1, 2002. Under SFAS No. 143, estimated asset costs are generally recognized when the asset is placed in service and are depreciated on a straight-line basis.

In connection with its efforts to create and expand an environment for economic development in Northwest Louisiana, the Foundation is developing a research and technology business park (InterTech Science Park) in an area identified within the City of Shreveport that is in proximity to three healthcare organizations. The activities consist of business incubation, programmatic support, financial incentives, and the purchase of land and buildings and redevelopment of the area into a business park that is attractive to existing and start-up research and technology businesses. This may include renovation of existing facilities or construction of new facilities for sale or lease to prospective companies.

The Foundation records the costs and activities associated with the development in accordance with SFAS No. 67, *Accounting for the Costs and Initial Rental Operation of Real Estate Projects*. As such, direct costs are capitalized as part of the cost of the project. Net income from incidental operations of the land and buildings purchased reduce the carrying value of the property until such time as it is converted to its ultimate use within the planned development.

(j) *Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of*

The Foundation accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(k) *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 Virginia K. Shehee Biomedical Research Institute building with a net book value of $16,598,242 at December 31, 2003. These restrictions expire over the ten-year period ending January 18, 2004. Amounts required for depreciation expense have been released from restriction each year with the remaining undepreciated balance being released at the end of the ten-year period.

(l) PET Receivables

PET receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Foundation's best estimate of the amount of probable credit loss in the Foundation's existing PET receivables. The Foundation uses historical collection percentages for each type of patient to determine the allowance. These amounts are reviewed at least annually.

(m) 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 accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates.

(n) 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.

(o) Environmental

A provision for environmental obligations is charged to expense when the Foundation's liability for an environmental assessment and/or cleanup is probable and the cost can be reasonably estimated. Related expenditures are charged against the accrued liability.

During 2001, the Foundation pledged two certificates of deposit totaling $181,300 for future decommissioning expenses at its two cyclotron (equipment used in the manufacture of FDG) sites in Louisiana as required by the State. As mentioned in note 3, the Foundation adopted SFAS No. 143 during the current year which recorded a liability for the abandonment of the cyclotrons. The balance of these certificates of deposit as of December 31, 2003 is $188,514.

(Continued)

(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 and operation of a technology and research park, incubator facilities, grants, loans 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) New Accounting Pronouncements

Effective January 1, 2003, the Foundation adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires the Foundation to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability must be recorded in the periods in which the obligation meets the definition of a liability, which is generally when the asset is placed in service. In accordance with the transition provisions of SFAS No. 143, the Foundation recorded liabilities for the abandonment of the cyclotron assets. To recognize the cumulative effect of this change in accounting principle, the Foundation recorded a charge to net assets as of January 1, 2003 in the amount of $17,247 and an initial liability of $83,637. In the year ended December 31, 2003, the Foundation increased the liability by the accretion expense of $5,419.

(4) Pledges Receivable

Contributions receivable are summarized as follows at December 31, 2003 and 2002:

		2003	2002
Unconditional contributions expected to be collected in:			
Less than one year	$	131,603	59,356
Two years to five years		263,000	110,500
		394,603	169,856
Discount on future contributions		(11,157)	(4,474)
Net pledges receivable	$	383,446	165,382

The interest rate used to calculate the discount on pledges receivable for 2003 was between 1.82% and 2.76%.

(5) Investments

Investments at December 31, 2003 and 2002 are as follows:

		2003	2002
Mutual funds	$	4,765,313	3,896,590
Common stock		262,782	245,343
Real estate		89,606	89,606
Limited partnership interests		202,388	152,388
Other		1	1
	$	5,320,090	4,383,928

At December 31, 2003 and 2002, the Foundation had investments in nine mutual funds. The Foundation owns 1,500,000 shares of BioTech Imaging, Inc. (BTI), a Maryland corporation. The value of such shares is not readily determinable and as such they have not been recognized in the accompanying consolidated financial statements.

Following is the composition of investment income (loss) at December 31, 2003 and 2002:

		2003	2002
Dividends and interest	$	161,354	223,774
Unrealized gain (loss) on investments		886,162	(587,980)
	$	1,047,516	(364,206)

(Continued)

(6) Property and Equipment

The composition of property and equipment is as follows at December 31, 2003 and 2002:

Asset	Estimated useful lives		2003	2002
Land	—	$	5,030,036	4,683,586
Building and improvements	4-60 years		46,051,252	46,232,078
Furniture and fixtures	5-20 years		17,464,795	17,364,253
Construction in progress			449,080	—
			68,995,163	68,279,917
Less accumulated depreciation			(19,305,668)	(16,784,137)
Property and equipment, net		$	49,689,495	51,495,780

Included in these amounts is property purchased and constructed in the InterTech area that is being held for lease or future development. These assets are comprised of land and buildings with a total carrying value of $22,441,925 and $21,840,922 at December 31, 2003 and 2002, respectively. The most significant of these land and buildings is a clean room manufacturing facility. No depreciation is recorded on these assets until they are placed in service.

The Foundation entered into a build-to-suit lease agreement with BTI for manufacturing, laboratory, and office space to be located in a newly constructed facility in the InterTech Science Park. The construction was financed by the issuance of revenue bonds secured by the lease payments on the Virginia K. Shehee Biomedical Research Institute building. Construction began in 2000 and was essentially completed by September 2001. The minimum annual lease payments to be received from 2002-2006 was to be $2,108,616 per year. BTI occupied the building in September 2001, but defaulted on their lease payments to the Foundation. The Foundation and BTI reached a settlement in December 2003 whereby BTI agreed to reimburse certain costs to the Foundation and issued a subordinated debenture to the Foundation for $1,000,000, with zero interest and due December 31, 2004. Consistent with the Foundation's policy with respect to economic development activities, this debenture has not been recorded due to the uncertainty as to its eventual collection by the Foundation. The facility is currently being remarketed to other potential tenants.

In December 2001, the building was partially damaged by flooding. As a result, the Foundation filed an insurance claim for loss of rent due to the flood and recorded $1,158,246 during 2002 from the insurance company as rent income ($991,956 of rent and $166,290 for operating expense reimbursements). At December 31, 2002, the Foundation had a receivable of $358,323 to be received from the insurance company in connection with the claim. All remaining amounts were received during 2003.

Construction in progress at December 31, 2003 consisted primarily of planning and preparation for construction of a wet laboratory incubator facility in the Intertech area.

Depreciation expense totaled $2,510,467 and $2,528,845 for 2003 and 2002, respectively.

(7) Indebtedness

A summary of indebtedness at December 31, 2003 and 2002 is as follows:

		2003	2002
Note payable to equipment vendor at 6.23%, secured by equipment, due January 27, 2007	$	1,341,018	1,686,375
Note payable to bank at 7.6%, secured by property, due June 27, 2006		403,829	422,126
Note payable to an individual at 7.0%, secured by property, due June 5, 2007		142,499	177,214
Note payable to equipment vendor at 5.86%, secured by equipment, due August 2007		289,176	359,640
Note payable to equipment vendor at 5.86%, secured by equipment, due August 2007		1,173,176	1,459,042
Note payable to equipment vendor at 6.97%, secured by equipment, due April 2007		1,124,587	1,414,216
Note payable to land owner at 7%, secured by property, due September 2018		156,864	163,429
Note payable to land owner at 7%, secured by property, due September 2018		156,864	163,429
Total notes payable	$	4,788,013	5,845,471
Revenue bonds payable, net of discount of $190,397 and $220,688, respectively, an interest rate of 6.75%, due in installments through June 15, 2015	$	18,579,603	19,519,312

The revenue bonds were to finance the cost of land acquisition, construction, equipping of facilities, and other capital expenditures in support of the InterTech Science Park. The bonds are limited and special revenue obligations of the Louisiana Local Government Environmental Facilities and Community Development Authority. The bonds are secured by an assignment of the revenue generated by the lease of the Virginia K. Shehee Biomedical Research Institute building to the Board of Supervisors of the Louisiana State University and Agricultural and Mechanical College. Cash of $100,000 at December 31, 2003 and 2002 is restricted for payment of the Foundation's share of operating and maintenance expenses for the building.

Bond discount is being amortized over the life of the bonds. Amortization of bond discount was $30,291 and $31,909 for 2003 and 2002, respectively.

Maturities of long-term debt, by year, at December 31, 2003 are as follows:

2004	$	2,100,726
2005		2,307,803
2006		2,808,183
2007		1,910,293
2008		1,373,612
Thereafter		12,866,999
Total	$	23,367,616

Interest paid for the years ended December 31, 2003 and 2002 was $1,796,072 and $1,733,546, respectively.

During 2003, the Foundation obtained a $1,500,000 line of credit with a regional bank. This line of credit is secured by investments of the Foundation and will expire on June 12, 2004. As of December 31, 2003 and 2002, the Foundation had no amounts outstanding under this line.

(8) 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 contributions were $215,723 and $231,125 for 2003 and 2002, respectively.

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

(9) Federal and State Grants

During 2002, the Foundation was awarded a Community Development Block Grant – Economic Development Initiatives Grant from the Department of Housing and Urban Development. The federal grant was awarded to acquire land for the InterTech Science Park. At December 31, 2002, the Foundation had expended or committed $391,414 and been reimbursed for $296,414 of the total award of $449,010. A receivable for $95,000 of grant revenue was outstanding as of December 31, 2002 and was collected in 2003. The remaining $57,596 was also expended and received during 2003.

During 2002, the Foundation was awarded a $10,000,000 grant through the Louisiana Department of Economic Development for the construction of a wet laboratory incubator facility. During 2003, the Foundation had incurred cost of $413,265 for work done in connection with that project, $257,048 of which was reimbursed in 2003. A receivable for the remaining $156,217 was outstanding at December 31, 2003 and was collected in 2004.

(10) Related Party

During 1997, the Foundation together with three unrelated for-profit entities formed the Louisiana Center for Manufacturing Sciences (Center), a nonprofit 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's president 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 leases property and equipment to the Center. See note 11.

(11) 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. 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. As of December 31, 2003, this lease has been extended to April 2004. For the fiscal years ended December 31, 2003 and 2002, the Foundation received $120,000 for each year in rental income under this agreement.

The Center was also obligated to the Foundation under a capital lease for movable personal property. Under the agreement, the Center paid the Foundation $5,000 per month for a period of fifty-four months that was scheduled to end June 30, 2003. This lease was paid off early in 2002. At payoff of the lease, the Center purchased the equipment for one dollar.

In 1994, the Foundation entered into a cooperative endeavor agreement with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU). 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 LSU. In March 2000, a new lease was entered into that requires base rent of $2,445,000 per year plus the first $585,000 of certain operating expenses, until June 30, 2015. Under this agreement, LSU paid the Foundation $3,234,964 and $3,131,511 for 2003 and 2002, respectively.

(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 2003 and 2002, the Foundation received no donations under such arrangements. The balance of all annuities payable at December 31, 2003 and 2002 is $22,845 and $30,345, respectively. The liability was calculated using discount rates between 6.2% and 8.0%.

(Continued)

(13) Concentration of FDG Revenue

The Foundation has limited number of customers for the FDG that it produces to sell to third parties. Three customers comprise 46% of the sales for 2003 and 47% for 2002. Should one or more of the customers discontinue the purchase of FDG from the Foundation, this could have a material effect on FDG revenues in future periods.

(14) Net Assets

Unrestricted net assets consist of the following at December 31, 2003 and 2002:

		2003	2002
For current operations	$	1,828,126	3,187,821
Investment in plant and equipment		11,397,022	9,777,996
Board designated		1,436,367	1,294,898
	$	14,661,515	14,260,715

The board designated funds are to be used for the benefit of PET development.

Temporarily restricted net assets at December 31, 2003 and 2002 consist of the following:

		2003	2002
Restricted for specific operating purposes	$	636,942	270,727
Investment in plant and equipment		17,726,215	19,371,595
	$	18,363,157	19,642,322

Permanently restricted net assets at December 31, 2003 and 2002 consist of endowment funds the principal of which is permanently restricted and the income of which is temporarily restricted or unrestricted.

(15) Contingencies

The Foundation receives a 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 portion of its revenues from 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.

(Continued)

The Foundation has pledged to support research at LSU in the amount of $500,000 each year. The pledge is contingent upon LSU's fulfillment of certain obligations including having made all required lease payments as described in note 11 as well as providing an annual five-year plan for expenditure of the funds which is acceptable to the Foundation. Therefore, the portion of the pledge relating to future years has not been recorded in the accompanying consolidated financial statements.

The Foundation has been notified by the Louisiana Department of Environmental Quality (LDEQ) that one property owned by the Foundation is located on the site of a former creosoting company and that environmental contamination has been confirmed. Based on information from LDEQ, all former business entities of the company responsible for the contamination are bankrupt or otherwise defunct. The Foundation and other affected landowners have been asked by the LDEQ to perform a "Site Investigation" to determine the extent of contamination. In management's opinion, this environmental issue will not have a material impact on the net assets of the Foundation. No accrual has been made in these consolidated financial statements due to the Foundation being unable to estimate an amount for future investigation or remediation or the amount of grants that may be available to cover such costs.

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

The Board of Directors
Biomedical Research Foundation of Northwest Louisiana:

We have audited the consolidated financial statements of the Biomedical Research Foundation of Northwest Louisiana and subsidiaries (the Foundation) as of and for the year ended December 31, 2003, and have issued our report thereon dated March 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 consolidated 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 consolidated 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 consolidated 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 Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 19, 2004