
**BIOMEDICAL RESEARCH FOUNDATION OF
NORTHWEST LOUISIANA**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

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

Release Date MAY 09 2012



A Professional Accounting Corporation

www.pncpa.com

**BIOMEDICAL RESEARCH FOUNDATION OF
NORTHWEST LOUISIANA**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Financial Statements</u>	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3 - 4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 19
<u>Governmental Audit Reports</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	20 - 21
Schedule of Findings and Questioned Costs	22
Summary Schedule of Prior Year Findings and Questioned Costs	23

INDEPENDENT AUDITORS' REPORT

Board of Directors
Biomedical Research Foundation of Northwest Louisiana
Shreveport, Louisiana

We have audited the accompanying consolidated statements of financial position of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries (the Foundation) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations 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 April 26, 2012, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Postlethwaite : Netterville

Baton Rouge, Louisiana
April 26, 2012

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,160,057	\$ 3,060,576
Restricted cash and cash equivalents	437,440	420,010
Unconditional promises to give, net	86,093	197,093
Accounts receivable, net of allowances for doubtful accounts of \$255,718 and \$227,371, respectively	1,348,985	1,506,821
Prepaid expenses and other	256,862	158,147
Investments, including \$1,771,780 and \$1,788,780 restricted for endowment purposes	6,766,137	6,676,548
Property and equipment, net	52,825,257	53,694,261
Total assets	<u>\$ 64,880,831</u>	<u>\$ 65,713,456</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 920,928	\$ 2,101,687
Notes payable	11,469,119	12,000,000
Grants payable	1,000,000	-
Derivative liability	918,964	-
Deferred revenue	54,761	-
Annuities payable	41,119	23,526
Asset retirement liability	147,156	138,204
Total liabilities	<u>14,552,047</u>	<u>14,263,417</u>

NET ASSETS

Unrestricted	48,253,156	49,374,841
Temporarily restricted	303,848	286,418
Permanently restricted	1,771,780	1,788,780
Total net assets	<u>50,328,784</u>	<u>51,450,039</u>
Total liabilities and net assets	<u>\$ 64,880,831</u>	<u>\$ 65,713,456</u>

The accompanying notes are an integral part of these statements

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA**

**CONSOLIDATED STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND SUPPORT:				
Support - philanthropic	\$ 13,190	\$ 115,290	\$ -	\$ 128,480
Rental revenues	5,131,758	-	-	5,131,758
Local government operating grants	2,500,000	-	-	2,500,000
Federal and state grants and contracts	1,245,225	-	-	1,245,225
Investment revenues (losses)	56,343	-	-	56,343
Positron Emission Tomography (PET)	1,726,691	-	-	1,726,691
Radiopharmaceutical sales	1,797,045	-	-	1,797,045
Other revenues	16,810	-	-	16,810
	<u>12,487,062</u>	<u>115,290</u>	<u>-</u>	<u>12,602,352</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	97,860	(97,860)	-	-
Withdrawal of donor restrictions	17,000	-	(17,000)	-
Total revenues and support	<u>12,601,922</u>	<u>17,430</u>	<u>(17,000)</u>	<u>12,602,352</u>
EXPENSES				
Program services:				
Scientific research initiatives:				
Grants and support for scientific investigators	647,280	-	-	647,280
Leased research facilities	2,618,823	-	-	2,618,823
Science park development initiatives:				
Land, infrastructure, and program development and marketing	2,792,839	-	-	2,792,839
Grants, loans, and financial activities	1,109,612	-	-	1,109,612
Positron Emission Tomography (PET) and Radiopharmaceutical Distribution	3,869,067	-	-	3,869,067
Total program services	<u>11,037,621</u>	<u>-</u>	<u>-</u>	<u>11,037,621</u>
Support services				
Management and general	1,535,742	-	-	1,535,742
Fund-raising	231,280	-	-	231,280
Total expenses	<u>12,804,643</u>	<u>-</u>	<u>-</u>	<u>12,804,643</u>
Excess of Revenues and Support Over Expenses	(202,721)	17,430	(17,000)	(202,291)
Change in value of derivative	(918,964)	-	-	(918,964)
CHANGE IN NET ASSETS	<u>(1,121,685)</u>	<u>17,430</u>	<u>(17,000)</u>	<u>(1,121,255)</u>
Net assets - beginning of year	<u>49,374,841</u>	<u>286,418</u>	<u>1,788,780</u>	<u>51,450,039</u>
Net assets - end of year	<u>\$ 48,253,156</u>	<u>\$ 303,848</u>	<u>\$ 1,771,780</u>	<u>\$ 50,328,784</u>

The accompanying notes are an integral part of this statement

2010

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 62,135	\$ 164,920	\$ 8,794	\$ 235,849
4,503,307	-	-	4,503,307
2,500,000	-	-	2,500,000
4,686,185	-	-	4,686,185
1,317,220	-	-	1,317,220
3,257,743	-	-	3,257,743
1,895,550	-	-	1,895,550
218,570	-	-	218,570
<u>18,440,710</u>	<u>164,920</u>	<u>8,794</u>	<u>18,614,424</u>
168,174	(168,174)	-	-
28,795	-	(28,795)	-
<u>18,637,679</u>	<u>(3,254)</u>	<u>(20,001)</u>	<u>18,614,424</u>
679,639	-	-	679,639
2,593,022	-	-	2,593,022
2,875,551	-	-	2,875,551
170,954	-	-	170,954
<u>5,540,089</u>	<u>-</u>	<u>-</u>	<u>5,540,089</u>
11,859,255	-	-	11,859,255
2,086,089	-	-	2,086,089
215,905	-	-	215,905
<u>14,161,249</u>	<u>-</u>	<u>-</u>	<u>14,161,249</u>
4,476,430	(3,254)	(20,001)	4,453,175
-	-	-	-
4,476,430	(3,254)	(20,001)	4,453,175
<u>44,898,411</u>	<u>289,672</u>	<u>1,808,781</u>	<u>46,996,864</u>
<u>\$ 49,374,841</u>	<u>\$ 286,418</u>	<u>\$ 1,788,780</u>	<u>\$ 51,450,039</u>

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (1,121,255)	\$ 4,453,175
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	2,247,797	2,242,233
Loss (gain) on sales of investments	-	12,555
Net decrease (increase) in unrealized gain on investments	46,863	(750,631)
(Increase) decrease in accounts receivable	268,836	(46,857)
Decrease in prepaid expenses and other assets	(98,715)	(50,260)
Change in value of derivative liability	918,964	-
Increase (decrease) in accounts payable and other liabilities	(99,453)	1,297,698
Net cash provided by operating activities	2,163,037	7,157,913
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(1,378,793)	(5,427,770)
Purchase of investments	(253,532)	(3,453,852)
Proceeds from sales of investments	117,080	3,056,561
Net cash used in investment activities	(1,515,245)	(5,825,061)
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payments on notes payables	(530,881)	(471,717)
Proceeds from notes payable	-	12,000,000
Payments on revenue bonds	-	(11,370,000)
Net cash provided by (used in) financing activities	(530,881)	158,283
 Net increase in cash and cash equivalents	116,911	1,491,135
 Cash and cash equivalents - beginning of year	3,480,586	1,989,451
 Cash and cash equivalents - end of year	\$ 3,597,497	\$ 3,480,586
 <u>Supplemental disclosure of cash flow information:</u>		
Cash paid during the year for interest	\$ 640,165	\$ 928,187

The accompanying notes are an integral part of these statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 **Summary of activities and accounting policies**

The accounting and reporting policies of the Biomedical Research Foundation of Northwest Louisiana (the Foundation) conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the non-profit industry. A summary of significant accounting policies is as follows:

Organization

The Foundation is a publicly supported not-for-profit organization which was created to pioneer a knowledge-based regional economy by cultivating and attracting life science enterprises and related technologies. The Foundation promotes and develops (1) private and public support and collaboration for a knowledge-based economic development strategy, (2) InterTech Park as a suitable physical environment for life science enterprises and related technologies, (3) capacities and accomplishments, in collaboration with and support of, LSU Health Sciences Center in Shreveport (LSUHSC-S), (4) human resources and regional knowledge base via K-12, higher education, and technical / professional training programs, and (5) support and resources for technology and business innovation, with people, research, facilities, and funding.

InterTech Science Park

In connection with its efforts to create and expand an environment for economic development in Northwest Louisiana, the Foundation is developing a science and technology business park (InterTech Science Park) in an identified area 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 science and technology businesses. This may include renovation of existing facilities or construction of new facilities for sale or lease to prospective companies.

Consolidation

The consolidated financial statements include the accounts of the Biomedical Research Foundation of Northwest Louisiana and its 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 or the Partnership) 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 operates 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.

During the year ended December 31, 2001, the Foundation formed Southern Isotopes, LLC, a wholly owned subsidiary, to operate a cyclotron in South Louisiana.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of activities and accounting policies (continued)

Use of estimates

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

Restricted cash and cash equivalents

Restricted cash and cash equivalents, which consist primarily of money market funds and short-term certificates of deposit, represent donor-restricted assets and assets pledged for future decommissioning expenses at its two cyclotron sites. These items are considered cash and cash equivalents for purposes of the statements of cash flows

Accounts receivable

The Foundation maintains an allowance for doubtful accounts based on management's assessment of collectibility, current economic conditions, and prior experience. The Foundation uses historical collection percentages for each type of payor to determine the allowance, these amounts are reviewed on an annual basis

The Foundation determines if receivables are past-due based on the contractual terms of the sales agreement and accrues interest on past-due accounts. The Foundation charges off receivables if management considers the collection of the outstanding balance to be doubtful.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Unrealized gains and losses are recorded in current year operations as increases or decreases in unrestricted net assets. Dividend, interest, and other investment income is recorded as an increase in unrestricted net assets unless the use is restricted by the donor. Realized gains and losses on dispositions are based on the net proceeds and the amortized cost basis of the securities sold, using the specific identification method, and are classified as temporarily restricted or unrestricted based on donor intent. These realized gains and losses flow through the Foundation's yearly activities.

Property and equipment

Property and equipment are stated at cost. Additions, renewals, and betterments that increase the value or extend the lives of assets are capitalized. Replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized as income for that period.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 **Summary of activities and accounting policies (continued)**

Asset retirement obligations

The Foundation records liabilities equal to the fair value of the estimated cost to retire assets. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed in service. The Foundation has recorded a liability for the abandonment of the cyclotron assets

Impairment of long-lived assets and long-lived assets to be disposed of

The Foundation reviews long-lived assets 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. No impairments have been recognized as of December 31, 2011.

Costs of borrowing

Financing costs are amortized over the period that the related obligation is outstanding, if material.

Derivative financial instruments

The Foundation uses interest rate swap agreements to modify interest rate characteristics of its outstanding indebtedness. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and generally convert a portion of the Foundation's variable-rate debt to a fixed rate (cash flow hedge)

Professional liability claims

The Foundation maintains insurance for protection from losses resulting from professional liability claims. The policy is of the claims-made type. The Foundation has not experienced material losses from professional liability claims in the past. No accrual for losses has been established

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give are recognized as revenue in the period received. Promises to give are recorded at realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Summary of activities and accounting policies** (continued)

Local government operating grants

In October of 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 of Northwest Louisiana. In October of 2001, the voters of Caddo Parish approved the CPC's plan to rededicate a portion of the millage to public works and extended it through 2017. The accompanying consolidated financial statements include revenues of \$2,500,000 for both the year ended December 31, 2011 and the year ended December 31, 2010, for amounts the Foundation has applied for and the CPC has approved.

Positron Emission Tomography (PET)

The Foundation has agreements with third-party payors that provide for payments to the Foundation at amounts different from its established rates. PET revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Income taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

The Foundation adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Foundation has evaluated its position regarding the accounting for uncertain income tax positions and determined that it had no uncertain tax positions at December 31, 2011.

With few exceptions, the statute of limitations for the examination of the Foundation's income tax returns is generally 3 years from the due date of the tax return including extensions. The tax years open for assessment are the years ending on or after December 31, 2008.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of activities and accounting policies (continued)

Statements of cash flows

For purposes of the statements of cash flows, cash and cash equivalents includes operating and restricted funds on deposit at various financial institutions.

Environmental obligations

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.

Concentrations of credit risk

The Foundation maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the current year presentation.

2. Unconditional promises to give

Unconditional promises to give at December 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Unconditional contributions expected to be collected in:		
Less than one year	\$ 71,250	\$ 151,250
Two to five years	<u>26,000</u>	<u>57,000</u>
	97,250	208,250
Less: allowances for doubtful accounts	<u>(11,157)</u>	<u>(11,157)</u>
Net unconditional promises to give	<u>\$ 86,093</u>	<u>\$ 197,093</u>

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Accounts receivable

Accounts receivable consisted of the following at December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Due from the State of Louisiana and EDA	\$ 48,307	\$ 573,094
Rent receivables	446,154	191,930
Positron Emission Tomography (PET), net	231,885	220,004
Radiopharmaceutical Distribution, net	131,397	266,171
Loans receivable (see below)	100,000	220,000
Other	391,242	35,622
	<u>\$ 1,348,985</u>	<u>\$ 1,506,821</u>

In December of 2004, the Partnership loaned \$100,000 to VC Experts.com, Inc. (VC Experts). The convertible promissory note bore interest at a rate of 8.00% and matured on December 15, 2011. In accordance with the terms of the promissory note, the Partnership has the right to convert the note receivable into cash or common stock of VC Experts. The loan is still outstanding as of the date of this report.

In June of 2009, the Partnership loaned \$120,000 to Embera Neuro Therapeutics, Inc. (ENT). The convertible promissory note bore interest at a variable rate (5.50% at December 31, 2010) and was scheduled to mature on June 9, 2014. As allowed in the promissory note, the Partnership converted the note receivable of \$120,000 and related accrued interest receivable of \$13,532 into preferred stock of ENT on August 4, 2011.

4. Investments

Investments at December 31, 2011 and 2010 consisted of the following

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 6,416,926	\$ 6,442,519
Common stock	10	120,000
Limited partnership interests	349,201	114,029
	<u>\$ 6,766,137</u>	<u>\$ 6,676,548</u>

Following is the composition of investment revenues (losses) for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Dividends, interest, and realized gains (losses)	(\$ 7,794)	\$ 195,589
Unrealized gain (loss) on investments	(46,863)	750,631
	(54,657)	946,220
Other investment revenues	111,000	371,000
	<u>\$ 56,343</u>	<u>\$ 1,317,220</u>

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. **Property and equipment**

The composition of property and equipment at December 31, 2011 and 2010 was as follows:

<u>Assets</u>	<u>Estimated useful lives</u>	<u>2011</u>	<u>2010</u>
Land	---	\$ 6,740,454	\$ 6,630,142
Building and improvements	4 - 40 years	61,481,558	60,718,960
Furniture and fixtures / equip	5 - 20 years	<u>20,183,608</u>	<u>19,677,725</u>
		88,405,620	87,026,827
Less accumulated depreciation		<u>(35,580,363)</u>	<u>(33,332,566)</u>
Property and equipment, net		<u>\$ 52,825,257</u>	<u>\$ 53,694,261</u>

Included in these amounts is property that is being held for lease or future development. These assets are comprised of land and buildings. The total carrying values of these assets were approximately \$48,000,000 at both December 31, 2011 and 2010.

Depreciation expense totaled \$2,247,797 and \$2,242,233 for the years ended December 31, 2011 and 2010, respectively.

6. **Long-term debt**

During the year ended December 31, 2010, the Foundation refinanced all of its outstanding revenue bonds and notes payable with a regional financial institution. The current note payable was issued in the amount of \$12,000,000, bears interest at a variable rate equal to the LIBOR rate plus 250 basis points (2.78% and 2.76% at December 31, 2011 and 2010, respectively), and is secured by an assignment of leases, real estate, and investments. The note is due in monthly installments of principal and interest through March 30, 2015, at which time the final payment of approximately \$9,500,000 is due. The outstanding balance on the note payable was \$11,469,119 and \$12,000,000 at December 31, 2011 and 2010, respectively.

The long-term debt is scheduled to mature during the years ended December 31st as follows:

<u>Year ending December 31st</u>	<u>Amount</u>
2012	\$ 560,687
2013	592,167
2014	625,414
2015	<u>9,690,851</u>
	<u>\$ 11,469,119</u>

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Long-term debt (continued)

The Foundation incurred interest expenses of approximately \$640,000 and \$948,000 for the years ended December 31, 2011 and 2010, respectively.

The Foundation maintains a \$4,000,000 line-of-credit with a national financial institution. This line-of-credit is secured by investments of the Foundation and bears interest at the 30 day LIBOR rate plus 2.25% (2.53% and 2.51% at December 31, 2011 and 2010, respectively). The Foundation had no outstanding balance on this line of credit at either December 31, 2011 or 2010.

As part of the loan agreement, the Foundation has agreed to comply with certain covenants. These consist, primarily, of reporting requirements, financial covenants, restrictions on additional debt and security interests, maintenance of its tax-exempt status, maintenance of its facilities, and other administrative requirements.

7. Derivative instruments and hedging activities

The Foundation has stand alone derivative financial instruments in the form of interest rate swap agreements, which derive their value from underlying interest rates. The transactions involve both credit and market risk. The notional amounts are the amounts on which calculations, payments, and the value of the derivatives are based. The notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, was \$918,964 at December 31, 2011.

The Foundation uses long-term variable rate debt as a source of long-term financing. These debt obligations expose the Foundation to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit variability of a portion of its interest payments and, therefore, hedged a portion of its variable-rate debt. To meet this objective, management entered into an interest rate swap agreement with a financial institution whereby the Foundation makes fixed interest rate payments and receives variable rate interest rate payments during the contract period.

The total notional amounts of the swap agreements totaled \$11,469,119 at December 31, 2011. The pay rate of this agreement is 2.86%, and the receive rate is the 30 Day LIBOR plus 250 basis points (2.78% at December 31, 2011). The agreement matures on November 30, 2020.

8. 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. The Foundation did not receive any such donations during the two year period ended December 31, 2011. The balances of all annuities payable were \$41,119 and \$23,526 at December 31, 2011 and 2010, respectively. The liabilities were calculated using discount rates between 5.25% and 7.00%, and were adjusted for changes in life expectancies during the year ended December 31, 2011.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Net assets

Temporarily restricted net assets were restricted for the following specific operating purposes at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
SMART program	\$ 21,087	\$ 37,920
Cancer research	126,762	126,447
Biostart	29,338	35,340
Other	<u>126,661</u>	<u>86,711</u>
	<u>\$ 303,848</u>	<u>\$ 286,418</u>

Net assets which were released from restrictions during the years ended December 31, 2011 and 2010, due to the Foundation making payments were as follows

	<u>2011</u>	<u>2010</u>
SMART program	\$ 23,834	\$ 12,613
Biostart	6,002	21,106
Other	<u>68,024</u>	<u>134,455</u>
	<u>\$ 97,860</u>	<u>\$ 168,174</u>

Permanently restricted net assets at December 31, 2011 and 2010 consisted of endowment funds the principal of which is permanently restricted and the income of which is unrestricted except for amounts restricted for repair, maintenance, and upgrades of scientific equipment donated by the Foundation to LSUHSC-S

The Foundation has established prudent investments and spending policies with the objective of maintaining the purchasing power of its endowed net assets in perpetuity and to provide a stable level of support. In an effort to achieve this objective, the Foundation's asset allocation strategy is periodically reviewed and adjusted to maximize return while limiting risk.

A summary of endowed net assets as of December 31, 2011 and 2010 as well as changes in endowed net assets for the years ended December 31, 2011 and 2010, are as follows.

	<u>2011</u>	<u>2010</u>
Balance - beginning of the year	\$ 1,788,780	\$ 1,808,781
Contributions	-	8,794
Withdrawal of donor restrictions	<u>(17,000)</u>	<u>(28,795)</u>
Balance - end of the year	<u>\$ 1,771,780</u>	<u>\$ 1,788,780</u>

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Rental revenues

During the year ended December 31, 1994, the Foundation entered into a cooperative endeavor agreement with the Board of Supervisors of Louisiana State University and Agricultural 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. During March of 2000, a new lease was entered into that requires the payment of a base rent of \$2,445,000 per year plus the first \$585,000 of certain operating expenses, until June 30, 2015, the base rent will be adjusted every 3 years for changes in the consumer price index.

In addition to the lease with LSU, the Foundation has entered into approximately twenty additional agreements for the leasing of its properties. The leases have terms ranging from month-to-month to twenty years and require payments ranging from \$170 / month to \$225,000 / quarter. In accordance with the terms of these agreements, the Foundation recorded rental revenues of approximately \$5,100,000 and 4,500,000 during the years ended December 31, 2011 and 2010, respectively.

The future minimum lease payments expected to be received from the lease with LSU as well as additional operating leases for office and laboratory facilities and real property, during the next five years is as follows

<u>Year ending December 31st</u>	<u>Amount</u>
2012	\$ 4,761,358
2013	4,666,357
2014	4,635,926
2015	2,746,444
2016	<u>561,087</u>
	<u>\$ 17,371,172</u>

11. Cooperative endeavor agreements

The Foundation entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development (LDED) in connection with the construction and operation of a wet-lab business incubator facility. The Foundation recognized revenues relating to this agreement of approximately \$1,110,000 and \$4,400,000 during the years ended December 31, 2011 and 2010, respectively.

12. Radiopharmaceutical revenues

The Foundation has a limited number of customers for the radiopharmaceuticals that it produces to sell to third parties. The four largest customers comprised approximately 83% and 73% of the sales during the years ended December 31, 2011 and 2010, respectively. Should one or more of the customers discontinue the purchase of radiopharmaceuticals from the Foundation, this could have a material effect on radiopharmaceuticals revenues in future periods.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. **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 in the plan. 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 approximately \$238,500 and \$340,000 for the years ended December 31, 2011 and 2010, respectively.

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

14. **Fair value of financial instruments**

In accordance with the Fair Value Measurements and Disclosure topic of FASB ASC, disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position, is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments; therefore, the aggregate fair value amounts presented do not represent the underlying value of the Foundation.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

The Fair Value Measurements and Disclosures topic of the FASB ASC provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the framework are described as follows:

- Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. **Fair value of financial instruments** (continued)

Fair Value Hierarchy

- Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, accounts receivable, other receivables, accounts payable, and other accrued expenses - the carrying amounts approximate fair values because of the short maturity of these instruments.

Investments - where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. If quoted market prices are not available, fair values are estimated using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads.

Long-term debt - due to the variable interest rate, the carrying amount of the Foundation's long-term debt approximates its fair value.

Derivative financial instruments - fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

Limitations - fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Fair Value of financial instruments (continued)

Fair Value of Assets Measured on a Recurring Basis

The Foundation's investments are measured on a recurring basis through estimates and assumptions made by management. Our level three assets within investments include investments in common stocks which are not actively traded and limited partnership interests. We value level 3 investments using inputs which include discounted cash flow models. Unobservable inputs used in these models are significant to the fair value of the investments.

The following table presents the fair-value hierarchy level of the Foundation's financial assets and liabilities that are measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>December 31, 2011</i>			
Mutual funds - bonds	\$ 1,340,841	\$ -	\$ -
Mutual funds - equities	3,290,278	-	-
Mutual funds - index funds	1,785,807	-	-
Limited partnerships	-	-	349,201
Emerging companies - SteriFx	-	-	10
Derivative liability	-	918,964	-
	<u>\$ 6,416,926</u>	<u>\$ 918,964</u>	<u>\$ 349,211</u>
<i>December 31, 2010</i>			
Mutual funds - bonds	\$ 1,177,423	\$ -	\$ -
Mutual funds - equities	3,796,841	-	-
Mutual funds - index funds	1,468,255	-	-
Limited partnerships	-	-	114,029
Emerging companies - SteriFx	-	-	120,000
	<u>\$ 6,442,519</u>	<u>\$ -</u>	<u>\$ 234,029</u>

The majority of the Level 3 instruments consist of limited partnerships and common stocks. The following table presents the changes in fair value for the years ended December 31, 2011 and 2010, in Level 3 instruments that are measured at fair value on a recurring basis:

	<u>2011</u>	<u>2010</u>
Balance - beginning of the year	\$ 234,029	\$ 366,394
Purchases	253,532	-
Sales	(18,360)	-
Unrealized losses related to investments in limited partnerships	(119,990)	(132,365)
Balance - end of the year	<u>\$ 349,211</u>	<u>\$ 234,029</u>

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. **Commitments and contingencies**

The Foundation receives a portion of its revenues from government grants and contracts which are subject to audit. 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 government grants and 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.

In management's opinion, environmental issues will not have a material impact on the net assets of the Foundation. No accrual has been made in these consolidated financial statements for environmental liabilities due to the Foundation being unable to estimate an amount for future investigation or remediation or the amount of any grants that may be available to cover such costs.

16. **Subsequent events**

Management has evaluated subsequent events through April 26, 2012, the date that the financial statements were available to be issued, and determined that no additional disclosures are necessary. No events occurring after this date have been considered for inclusion in these financial statements.

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

Board of Directors
Biomedical Research Foundation of Northwest Louisiana
Shreveport, Louisiana

We have audited the consolidated financial statements of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries (the Foundation) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 26, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Biomedical Research Foundation of Northwest Louisiana and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24.513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite: Wetmoreville

Baton Rouge, Louisiana
April 26, 2012



BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

A. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal Control over Financial Reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are
not considered to be material weaknesses? yes none reported

B. Findings - Financial Statement Audit

None

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

A. Findings - Financial Statement Audit:

(1) None