LOUISIANA CANCER RESEARCH CENTER OF L.S.U. HEALTH SCIENCES CENTER IN NEW ORLEANS / TULANE HEALTH SCIENCES CENTER

A COMPONENT UNIT OF THE STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDING JUNE 30, 2018
ISSUED OCTOBER 31, 2018

LOUISIANA LEGISLATIVE AUDITOR
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POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

October 25, 2018

Independent Auditor's Report

LOUISIANA CANCER RESEARCH CENTER
OF L.S.U. HEALTH SCIENCES CENTER IN
NEW ORLEANS / TULANE HEALTH SCIENCES CENTER
STATE OF LOUISIANA
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Louisiana Cancer Research Center of L.S.U. Health Sciences Center in New Orleans/Tulane Health Sciences Center (Center), a nonprofit organization and component unit of the state of Louisiana, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits, and Other Payment to Chief Administration Officer on page 21 and the Schedule of Revenues and Expenses by Program on page 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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LCRC 2018

Statement A

LOUISIANA CANCER RESEARCH CENTER OF L.S.U. HEALTH SCIENCES CENTER IN NEW ORLEANS / TULANE HEALTH SCIENCES CENTER
STATE OF LOUISIANA

Statement of Financial Position, June 30, 2018

ASSETS	
Current assets:	
Cash and cash equivalents (note 2)	$16,576,059
Investments (note 3)	12,243,442
Receivables:	
Grants (note 5)	3,460,611
Leases	752,978
Other	3,658
Prepaid Expenses	64,456
Total current assets	33,101,204
Noncurrent assets:	
Security deposits	52,400
Property and equipment, net (note 6)	91,807,920
Total noncurrent assets	91,860,320
Total assets	$124,961,524
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	$3,686,832
Accrued liabilities	968
Current portion of long-term liabilities - accrued compensated absences (note 1-M)	36,007
Total current liabilities	3,723,807
Noncurrent liabilities:	
Accrued compensated absences (note 1-M)	50,384
Total liabilities	3,774,191
Net Assets (note 11)	
Temporarily restricted	117,769,718
Unrestricted	3,417,615
Total net assets	$121,187,333
Total liabilities and net assets	$124,961,524

The accompanying notes are an integral part of this statement.

LOUISIANA CANCER RESEARCH CENTER OF L.S.U. HEALTH SCIENCES CENTER IN NEW ORLEANS / TULANE HEALTH SCIENCES CENTER
STATE OF LOUISIANA

Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Grants (note 5)		$14,231,791	$14,231,791
Lease income (note 1-L)	$3,680,056		3,680,056
Net investment income (note 3)	12,072	220,192	232,264
Fundraising and gifts	202,949		202,949
Other	205,306		205,306
Net assets released from restrictions	16,518,945	(16,518,945)	
Total revenues	20,619,328	(2,066,962)	18,552,366
EXPENSES			
Research grants	4,759,991		4,759,991
Cessation grants	4,693,560		4,693,560
Louisiana Cancer Strategy grants	363,218		363,218
Salaries and related benefits	934,088		934,088
Professional services	565,894		565,894
Operating services	3,034,830		3,034,830
Supplies	53,055		53,055
Travel and meeting	10,219		10,219
Depreciation	3,623,337		3,623,337
Fundraising	96,786		96,786
Other	54,928		54,928
Total expenses	18,189,906	NONE	18,189,906
Net increase (decrease) in net assets	2,429,422	(2,066,962)	362,460
NET ASSETS - BEGINNING OF YEAR, Restated (note 10)	988,193	119,836,680	120,824,873
NET ASSETS - END OF YEAR (note 11)	$3,417,615	$117,769,718	$121,187,333

The accompanying notes are an integral part of this statement.

LOUISIANA CANCER RESEARCH CENTER OF L.S.U. HEALTH SCIENCES CENTER IN NEW ORLEANS / TULANE HEALTH SCIENCES CENTER
STATE OF LOUISIANA

Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services			
	Research	Cessation	Louisiana Cancer Strategy	Total Program Services
Salaries and related benefits	$4,053,410	$1,872,204		$5,925,614
Professional services	209,429	2,489,037	$358,367	3,056,833
Operating services	237,627	268,626		506,253
Supplies	445,853	7,929		453,782
Travel and meeting	96,727	55,764	4,851	157,342
Depreciation	3,464,343			3,464,343
Fundraising				
Other	158,083			158,083
Total expenses	$8,665,472	$4,693,560	$363,218	$13,722,250

	Supporting Services			
	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and related benefits	$788,231		$788,231	$6,713,845
Professional services	371,895	$3,029	374,924	3,431,757
Operating services	2,986,916		2,986,916	3,493,169
Supplies	26,496		26,496	480,278
Travel and meeting	1,132	8,220	9,352	166,694
Depreciation	158,994		158,994	3,623,337
Fundraising		76,975	76,975	76,975
Other	37,206	8,562	45,768	203,851
Total expenses	$4,370,870	$96,786	$4,467,656	$18,189,906

The accompanying notes are an integral part of this statement.

Statement D

LOUISIANA CANCER RESEARCH CENTER OF L.S.U. HEALTH SCIENCES CENTER IN NEW ORLEANS / TULANE HEALTH SCIENCES CENTER
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from grantors	$13,834,608
Receipts from services provided	205,634
Receipts from fundraising and gifts	202,949
Receipts from leases	3,627,016
Interest income received	349,135
Total cash provided by operating activities	18,219,342
Payments to LCRC employees for services	(923,089)
Payments to grantees & suppliers for goods and services	(15,410,863)
Total cash used by operating activities	(16,333,952)
Net cash provided by operating activities	1,885,390
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(735,647)
Purchase of investments	(3,697,088)
Sales and maturities of investments	750,000
Net cash used in investing activities	(3,682,735)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,797,345)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,373,404
CASH AND CASH EQUIVALENTS AT END OF YEAR	$16,576,059
Reconciliation of change in net assets to net cash provided by operating activities:	
Increase in net assets	$362,460
Adjustments to reconcile net asset to net cash provided by operating activities:	
Depreciation	3,623,337
Net unrealized loss	116,871
Decrease (increase) in:	
Leases and other accounts receivable	(52,711)
Grants receivable	(397,184)
Prepaid expenses	4,714
Increase (decrease) in:	
Accounts payable	(1,121,700)
Retainage payable	(661,396)
Accrued liabilities	(76)
Accrued compensated absences	11,075
Net cash provided by operating activities	$1,885,390

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. HISTORY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Louisiana Cancer Research Center of L.S.U. Health Sciences Center in New Orleans/Tulane Health Sciences Center (the "Center") was incorporated as a nonprofit organization on June 7, 2002, under the laws of the state of Louisiana. The Center was organized for charitable, educational, and scientific purposes. The purpose of the Center is to conduct and support research and promote education in the diagnosis, detection and treatment of cancer in the pursuit of obtaining a National Cancer Institute designation for its member institutions, the Louisiana State University Health Sciences Center in New Orleans (LSUHSC), the Tulane University Health Sciences Center (TUHSC), Xavier University of Louisiana (XULA), and Ochsner Health System (OHS). The Center is controlled by a Board of Directors, with a majority of members representing the member institutions.

B. FINANCIAL REPORTING ENTITY

Based upon an assessment by the Louisiana Division of Administration - Office of Statewide Reporting and Accounting Policy (OSRAP), the Center is included as a component unit of the state of Louisiana. The Center is considered a component unit of the state of Louisiana because OSRAP has determined that exclusion of the Center from the financial reporting entity would render the state of Louisiana's financial statements to be misleading or incomplete, and public service is rendered within the state's boundaries.

Annually, the state of Louisiana issues a basic financial statement, which includes the activity contained in the accompanying financial statements. The basic financial statement is issued by OSRAP and audited by the Louisiana Legislative Auditor. The accompanying financial statements present information only as to the transactions of the Center as authorized by Louisiana statutes and administrative regulations.

C. BASIS OF ACCOUNTING

The Center prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes to the financial statements are to the FASB Accounting Standards Codification. The financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

D. CLASSIFICATION OF NET ASSETS

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

- *Unrestricted net assets* include (a) all resources that are not subject to legislation or donor-imposed stipulations and contributions and (b) grants with donor-imposed restrictions that are met during the same year as the contribution is made.

- *Temporarily restricted net assets* include support that is restricted by legal or donor stipulations that may be met either by actions of the Center and/or passage of time. Donor restricted support that will be met either by action of the Center and/or the passage of time, are classified as an increase in temporarily restricted net assets. When restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction on the Statement of Activities and Changes in Net Assets.

- *Permanently restricted net assets* include support that is subject to legislation or donor-imposed stipulations that they be maintained permanently by the Center. Generally, the donor of these assets permits the Center to use all or part of the income earned on related investments for general or specific purposes. The Center had no permanently restricted net assets as of June 30, 2018.

E. 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 disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses reported during the period. Actual results could differ from these estimates.

F. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis on the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

G. CASH AND CASH EQUIVALENTS

For financial statement purposes, cash includes demand deposits and cash equivalents include amounts in money market mutual funds and sweep accounts managed by an investment company. All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

H. PROPERTY AND EQUIPMENT

Capital assets with a cost of $5,000 or more are reported at cost, net of accumulated depreciation, on the Statement of Financial Position. The reported amount also includes equipment with a cost of $5,000 or more that is purchased by the Center's partner institutions with research grants provided by the Center, as the Center retains title to such assets in accordance with operating agreements. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Description	Years
Building and improvements	40
Research equipment	7
Office furniture and equipment	5-7

Estimated useful life is management's estimate of how long the asset is estimated to meet service demands.

I. INVESTMENTS

The Center invests in U.S. Government bonds which are carried at fair value. The purchases and sales of bonds are recorded on trade dates, and realized gains and losses are determined at maturity or sale of the bond. Net investment income reported on the Statement of Activities and Changes in Net Assets includes interest and realized and unrealized gains and losses. Expenses for investment management and advisory services are included in management and general expenses on the Statement of Functional Expenses.

J. GRANTS AND CONTRIBUTIONS

Grants and contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restrictions. When the restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

K. RECEIVABLES

The Center considers its receivables to be fully collectible, since the balance consists principally of payments due under governmental contracts. If amounts due become uncollectible, they will be charged to operations when that determination is made.

L. LEASE REVENUE

The Center entered into an agreement with TUHSC to sublease certain laboratory and office space of the building, which includes the use of common areas that are part of the building or otherwise located on the land together with all building equipment. The agreement commenced on July 1, 2012, and continues for a term of one year which is automatically renewed each year for an additional one-year term unless TUHSC gives written notice to the Center 60 days prior to the end of any one-year term. Under no case shall the cumulative term and renewals exceed the term of the Center’s ground lease. For the year ended June 30, 2018, TUHSC was billed a total of $1,568,174, which is included in lease income on the Statement of Activities and Changes in Net Assets.

In fiscal year 2013, the Center also entered into an agreement with the LSUHSC under substantially the same terms as the agreement with TUHSC described above. For the year ended June 30, 2018, LSUHSC was billed a total of $2,111,882 for use of its allocated space in the Center, which is included in lease income on the Statement of Activities and Changes in Net Assets.

M. COMPENSATED ABSENCES

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service. Annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused vacation leave at the employee's hourly rate of pay at the time of termination. The compensated absences liability is reported as a long-term liability with the portion expected to be paid within one year reported as a current liability. At June 30, 2018, the Center had accrued compensated absences of $86,391.

N. INCOME TAXES

The Center is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code and is exempt from Louisiana income tax under the authority of Louisiana Revised Statute (R.S.) 47:121(5). Accordingly, no provision for income taxes has been reported. The Center follows the provisions of the *Accounting for Uncertainty in Income Taxes* topic of the FASB Codification, which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Center’s information tax returns. Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Under this guidance, the Center may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. There were no unrecognized tax benefits or obligations identified or recorded for the year ended June 30, 2018.

O. RETIREMENT BENEFITS

All full-time Center employees are eligible to participate in a 403(b) retirement plan. The existing 403(b) plan is a tax-sheltered annuity plan, currently administered by TIAA-CREF. Although eligible employees are not required to participate in the Plan, contributions are made by the Center as part of the established benefits package. The Plan also allows for employee contributions with a matching of up to 6% of the employee's annual compensation. The Center contributed $49,518 to the Plan for the year ended June 30, 2018.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS

At June 30, 2018, the Center's cash deposits and cash sweep accounts totaled $17,584,909 (bank balance). Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At June 30, 2018, the Center's deposits and cash sweep accounts above those amounts covered by federal deposit insurance are collateralized by pledged securities held by the Federal Reserve Bank in the name of the Center.

During this fiscal year the Center entered into a collaborative partnership with the Louisiana Department of Health (LDH) to develop agreements across payers and healthcare providers to participate in a statewide cancer quality improvement initiative. The United Health Foundation awarded a two-year, $500,000 grant, with an effective date of December 22, 2017, for this initiative. The Center acts in the capacity of administrative steward and sponsor of the project, while LDH administers the program. The grantor stipulates that all monies received by the Center be maintained in a separate fund dedicated to the purpose of the grant. A Louisiana Cancer Strategy checking account was established for this purpose. The total amount received by the Center during the fiscal year was $375,000, and $363,218 was spent and released from restriction. At year-end, a balance of $11,860, which includes $78 in interest earnings, remains in the account and is included in temporarily restricted net assets.

3. INVESTMENTS

Investments are carried at fair value and are comprised of the following at June 30, 2018:

	Cost	Fair Value
U.S. Government bonds		
Cancer research account	$2,024,413	$2,000,914
Cessation account	3,049,529	3,004,175
Maintenance reserve account	7,347,900	7,238,353
Total investments	$12,421,842	$12,243,442

The following schedule summarizes the components of net investment income on the Statement of Activities and Changes in Net Position for the year ended June 30, 2018:

Interest income	$349,135
Decrease in fair value	(116,871)
Net investment income	$232,264

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a national recognized statistical rating organization. The Center limits these risks by holding all investments in U.S. agency obligations. At year-end, the Center's investments, all consisting of U.S. agency obligations, have a credit quality rating of AAA (Moody's Investors Services).

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Center's investment in a single issuer. The investment policy of the Center contains no limitations on the amount that can be invested in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, investments with longer maturities have greater sensitivity to changes in fair value due to changes in market interest rates. Information about the sensitivity of the fair values of the Center's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Center's investments by maturity:

	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
U.S. Government bonds	$3,235,342	$2,256,419	$6,751,681	None	$12,243,442

4. FAIR VALUE MEASUREMENT

The fair value measurement accounting literature provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs to the valuation methodology are based on unadjusted quoted prices for identical assets in active markets that the Center has the ability to access. Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets and/or based on inputs that are derived principally from or corroborated by observable market data. Level 3 inputs are unobservable and are based on assumptions market participants would utilize in pricing the assets.

The Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. The asset's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. When available, valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The Center's investments at fair market value totaling $12,243,442 as of June 30, 2018, are classified as level 2.

Fixed income securities are priced by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value.

5. GRANT REVENUES AND RECEIVABLES

Grant revenues during the fiscal year 2018 and grant receivables as of June 30, 2018, include the following:

	Revenue	Receivable
State of Louisiana - tobacco tax proceeds dedicated to research	$7,103,193	$1,650,782
State of Louisiana - tobacco tax proceeds dedicated to cessation	4,846,105	1,120,534
State of Louisiana - capital outlay program	1,907,493	689,295
United Health Foundation - Louisiana Cancer Strategy	375,000	
Total	$14,231,791	$3,460,611

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	$671,808			$671,808
Capital assets, being depreciated				
Building and improvements	100,163,680			100,163,680
Research equipment	10,573,896	$735,647	($338,806)	10,970,737
Office furniture and equipment	1,748,106			1,748,106
Total capital assets being depreciated	112,485,682	735,647	(338,806)	112,882,523
Total capital assets, gross	113,157,490	735,647	(338,806)	113,554,331
Less acccumulated depreciation	(18,461,880)	(3,623,337)	338,806	(21,746,411)
Total capital assets, net	$94,695,610	($2,887,690)	$0	$91,807,920

7. LAND LEASE

The Center's building is on land leased from the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU). The lease was executed on February 18, 2008, and has a lease term of 50 years. At the end of the lease term or upon termination for any reason, to the extent allowed by applicable law, title to the building and improvements shall transfer to LSU. The annual rental amount is $129,174, payable in quarterly installments of $32,293. The land lease expense for fiscal year 2018 was $129,174. The following is a schedule, by year, of future minimum lease payment required under the land lease:

Fiscal year	Amount
2019	$129,174
2020	129,174
2021	129,174
2022	129,174
2023	129,174
Thereafter	4,473,638
Total	$5,119,508

The land lease agreement requires the Center to fund and maintain a maintenance reserve account to fund major maintenance, repairs, and replacements by annual deposits of 1.5% of the original construction cost for the building. The total annual payments shall not exceed 10% of the building construction cost, which may be adjusted with the consent of the Center, LSU, and Board of Regents. The Center shall be the custodian of the maintenance reserve account and shall have the right to expend the funds for major maintenance, repairs, and replacements. Following termination of the land lease for any reason and, if title to the building and all other improvements transfers to LSU, one hundred percent (100%) of all maintenance reserves will transfer to LSU. The amount deposited into the maintenance reserve account during the fiscal year was $678,909 and the balance in the account at year-end was $7,260,954.

8. ECONOMIC DEPENDENCY

The Center received 75% of its revenue from the state of Louisiana for the year ended June 30, 2018. The operations of the Center are primarily funded by statutorily-dedicated tobacco tax proceeds and any significant reduction in the sales of tobacco products will adversely affect the operations of the Center.

9. RELATED PARTY TRANSACTIONS

There are four partner institutions that comprise the Center, which include LSUHSC, TUHSC, XULA, and OHS.

Occupancy Agreements

In the fiscal year ended June 30, 2012, the Center completed the construction of the Louisiana Cancer Research Center ("Cancer Center"). The Cancer Center was constructed to house cancer researchers from the member institutions in order to foster integration of the cancer research programs which supplement the Center's primary function of conducting research and promoting education in the diagnosis, detection, and treatment of cancer, in its pursuit of obtaining National Cancer Institute designation. As a provision of the occupancy agreements between the Center and its partner institutions, each institution ("User") will occupy certain space in the Cancer Center, whereas User space will be allocated costs based on a sharing of the total operating costs ("User Share"). The Center provides such space to each User without the requirement that each User remit funds so long as the User occupy the space as permitted within the agreements and pursuant to R.S. 17:1921 *et seq.*; however, under certain conditions, the User shall make cash payments for all or a portion of its User Share.

On June 27, 2018, the Center's Board resolved to cancel the occupancy agreement with LSUHSC, effective June 30, 2018, and to replace the occupancy agreement with a lease agreement, effective July 1, 2018. The occupancy agreements for TUHSC and XULA will also be replaced with lease agreements. Each lessee will be assessed a prorata share of the Center's operating costs based on the amount of square feet occupied.

LSU Health Sciences Center in New Orleans

As management, two members of the LSUHSC are on the governing board of the Center. The Chancellor for LSUHSC served as the Center's Chairman of the Board for the year ended June 30, 2018. The Chairman position rotates between LSUHSC and TUHSC leaders as required by statute. As of June 30, 2018, the Dean of LSUHSC School of Medicine was also a voting member of the Center's Board.

As grantee, the LSUHSC is allocated Center funding support for program development (part of the mission of the Center). Transfer of funds to LSUHSC for the program is governed by a fully executed operating agreement and/or grant agreement which includes an annual budget submitted by LSUHSC and approved by the Center's Board. The total amount billed to the

Center for services rendered during the fiscal year totaled $1,479,545, and the amount due to LSUHSC at year-end was $264,585, which is included in accounts payable.

LSUHSC, through its auxiliary stores and contract services, conveniently and economically provides goods and services (including research equipment, office and computer supplies, and information technology-related services) to the Center, which supports the mission of the Center. LSUHSC's auxiliary stores also act as the Center's agent for the procurement of certain research equipment on behalf of the Center. The total amount billed by LSUHSC for goods and services provided to the Center totaled $746,812 during the fiscal year and the amount due to LSUHSC at year-end was $16,157, which is included in accounts payable.

Tulane University Health Sciences Center

As management, two members of TUHSC are on the governing board of the Center. TUHSC's Senior Vice President and Dean for the School of Medicine served as the Center's Vice Chairman of the Board for the fiscal year ended June 30, 2018. The other TUHSC position was held by the Medical Director and Assistant Dean for Oncology for the Tulane Cancer/Medical Center.

As grantee, TUHSC is allocated Center funding support for program development (part of the mission of the Center). Transfer of funds to TUHSC for the program is governed by a fully executed operating agreement which includes an annual budget submitted by TUHSC and approved by the Center's Board. The total amount billed to the Center for services rendered during the fiscal year totaled $2,868,184, and the amount due to TUHSC at year-end was $750,636, which is included in accounts payable.

Xavier University of Louisiana

As management, one member of XULA is on the governing board of the Center. XULA's Special Assistant to the President served as a member of the Center's Board for the fiscal year ended June 30, 2018.

As grantee, XULA is allocated Center funding support for program development (part of the mission of the Center). Transfer of funds to XULA for the program is governed by a fully executed operating agreement, which includes an annual budget submitted by XULA and approved by the Center's Board. The total amount billed to the Center for services rendered during the fiscal year was $641,878, and the amount due to XULA at year-end was $304,572, which is included in accounts payable.

Ochsner Health System

As management, one member of OHS is on the governing board of the Center. OHS's Executive Vice President and Chief Academic Officer served as members of the Center's Board for the fiscal year ended June 30, 2018. There were no services rendered to the Center from OHS during the fiscal year, and no amounts were due to OHS at year-end.

10. RESTATEMENT OF BEGINNING NET ASSETS

	Unrestricted	Temporarily Restricted	Total
Net assets at June 30, 2017, as previously reported	$5,838,422	$114,986,451	$120,824,873
Correction of classification error	(4,850,229)	4,850,229	
Net assets at July 1, 2017, as restated	$988,193	$119,836,680	$120,824,873

The net assets released from restrictions totaling $22,314,818 on the Statement of Activities and Changes in Net Assets for the year ended June 30, 2017, was overstated by $4,850,229, resulting in misclassification of unrestricted and temporarily restricted net assets as of June 30, 2017.

11. ENDING NET ASSETS

Net assets as of June 30, 2018, consist of the following:

	Unrestricted	Temporarily Restricted
Capital assets, net of depreciation (no related debt)		$91,807,920
Maintenance reserve account (note 7)		7,260,954
Reserves for research activities and costs associated with facilities, administation, and other shared resources	$2,567,648	12,220,836
Reserves for cessation activities		6,468,148
Louisiana Cancer Strategy		11,860
Fundraising and gift account - available for use as authorized by the Board	849,967	
Total net assets at June 30, 2018	$3,417,615	$117,769,718

The temporarily-restricted portion of net assets reserved for research and cessation activities, and costs associated with facilities, administration, and other shared resources, contain purpose restrictions in accordance with grant agreements with the state.

12. SUBSEQUENT EVENTS

The Center evaluated subsequent events through October 25, 2018, which is the date the financial statements were available to be issued. The Center is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

Schedule of Compensation, Benefits, and Other Payments to Chief Administration Officer

Schedule 1 presents the Schedule of Compensation, Benefits, and Other Payments to Chief Administration Officer.

Schedule of Revenues and Expenses by Program

Schedule 2 presents revenues and expenses by program.

Schedule 1

LOUISIANA CANCER RESEARCH CENTER OF L.S.U. HEALTH SCIENCES CENTER IN NEW ORLEANS / TULANE HEALTH SCIENCES CENTER
STATE OF LOUISIANA

Schedule of Compensation, Benefits, and Other Payments to Chief Administration Officer
For the Year Ended June 30, 2018

Agency Head: Sven Davisson
Position: Chief Administrative Officer

Salary	$217,665
Insurance benefits: health, life, dental, disability	9,664
Retirement benefits	19,590
Reimbursements: conferences, meetings, mileage	369
Total	$247,288

LOUISIANA CANCER RESEARCH CENTER OF L.S.U. HEALTH SCIENCES CENTER IN NEW ORLEANS / TULANE HEALTH SCIENCES CENTER
STATE OF LOUISIANA
Schedule of Revenues and Expenses by Program
For the Year Ended June 30, 2018

	Cancer Research	Cessation	Louisiana Cancer Strategy
Revenues			
Grants	$9,010,686	$4,846,105	$375,000
Lease income	3,680,056		
Net investment income	171,829	48,285	78
Fundraising and gifts			
Other	205,306		
Total revenues	13,067,877	4,894,390	375,078
Expenses			
Salaries and related benefits	4,053,410	1,872,204	
Professional services	209,429	2,489,037	358,367
Operating services	237,627	268,626	
Supplies	445,853	7,929	
Travel and meeting	96,727	55,764	4,851
Depreciation (note A)			
Fundraising			
Other	158,083		
Allocation or assignment of management and general	3,880,077	325,799	
Capitalized property and equipment (note A)	735,647		
Total expenses	9,816,853	5,019,359	363,218
Net increase (decrease) in net assets	3,251,024	(124,969)	11,860
Net assets, beginning of year			
Net assets at June 30, 2017, as previously stated	17,146,333	6,593,117	
Restatement, correction of classification error	1,652,081		
Net assets, beginning of year, restated	18,798,414	6,593,117	NONE
Net assets, end of year			
Temporarily restricted:			
Capital assets (no related debt)			
Purpose restrictions only (note B) -			
grant agreements	12,220,836	6,468,148	11,860
maintenance reserve account	7,260,954		
Unrestricted	2,567,648		
Total net assets, end of year	$22,049,438	$6,468,148	$11,860

Notes to the Schedule of Revenues and Expenses by Program

A. Depreciation expense as reported on the Statement of Functional Expenses is identified above in Property and Equipment regardless of the program that benefits from the capitalized asset. Also, capitalized property and equipment purchased during the fiscal year with cancer research funds is presented above as a expense because it reduces the net assets available for the cancer research program, but increases the net assets consisting of property and equipment.

B. Grants received from the State from tobacco tax proceeds are restricted for cancer research and cessation, including management and general, in accordance with grant agreements and approved grant budgets. As disclosed in note 7 to the financial statements, the maintenance reserve account is restricted to fund major maintenance, repairs, and replacements of the Center's building in accordance with the land lease agreement with the Louisiana State University.

Schedule 2

Management and General	Fundraising	Property and Equipment	Total
			$14,231,791
			3,680,056
	$12,072		232,264
	202,949		202,949
			205,306
NONE	215,021	NONE	18,552,366
$788,231			6,713,845
371,895	3,029		3,431,757
2,986,916			3,493,169
26,496			480,278
1,132	8,220		166,694
		$3,623,337	3,623,337
	76,975		76,975
37,206	8,562		203,851
(4,211,876)	6,000		
		(735,647)	
0	102,786	2,887,690	18,189,906
NONE	112,235	(2,887,690)	362,460
	2,389,813	94,695,610	120,824,873
	(1,652,081)		
NONE	737,732	94,695,610	120,824,873
		91,807,920	91,807,920
			18,700,844
			7,260,954
	849,967		3,417,615
NONE	$849,967	$91,807,920	$121,187,333

OTHER REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Exhibit A

The following pages contain a report on internal control and on compliance with laws and regulations and other matters as required by *Government Auditing Standards* issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

October 25, 2018

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*

Independent Auditor's Report

LOUISIANA CANCER RESEARCH CENTER OF
L.S.U. HEALTH SCIENCES CENTER IN NEW ORLEANS/
TULANE HEALTH SCIENCES CENTER
STATE OF LOUISIANA
New Orleans, Louisiana

We have audited, in accordance with the 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, the financial statements of the Louisiana Cancer Research Center of L.S.U. Health Sciences Center in New Orleans/Tulane Health Sciences Center (Center), a nonprofit corporation and component unit of the state of Louisiana, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated October 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CH:BF:BQD:EFS:ch

LCRC 2018