BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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Postlethwaite & Netterville
A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries (the Foundation) which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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 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 Controller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Foundation'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 Foundation'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 opinions.

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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

8550 United Plaza Blvd, Suite 1001 • Baton Rouge, LA 70809 • Tel: 225.922.4600 • Fax: 225.922.4611

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 17, 2013, 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* in considering the Foundation's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 17, 2013

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Cash and cash equivalents	$ 3,398,176	$ 3,160,057
Restricted cash and cash equivalents	630,433	437,440
Unconditional promises to give, net	38,600	86,093
Accounts receivable, net of allowances for doubtful accounts of $171,356 and $255,718, respectively	1,421,950	1,348,985
Prepaid expenses and other	236,692	256,862
Investments, including $1,731,623 and $1,771,780 restricted for endowment purposes	7,698,293	6,766,137
Property and equipment, net	51,013,715	52,825,257
Total assets	$ 64,437,859	$ 64,880,831

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Accounts payable and accrued expenses	$ 951,669	$ 920,928
Notes payable	10,908,432	11,469,119
Grants payable	-	1,000,000
Derivative liability	1,069,631	918,964
Deferred revenue	29,649	54,761
Annuities payable	-	41,119
Asset retirement liability	156,692	147,156
Total liabilities	13,116,073	14,552,047
NET ASSETS		
Unrestricted	49,093,322	48,253,156
Temporarily restricted	496,841	303,848
Permanently restricted	1,731,623	1,771,780
Total net assets	51,321,786	50,328,784
Total liabilities and net assets	$ 64,437,859	$ 64,880,831

The accompanying notes are an integral part of these statements.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT:				
Support - philanthropic	$ 150,665	$ 124,075	$ -	$ 274,740
Rental revenues	5,351,939	-	-	5,351,939
Local government operating grants	2,500,000	-	-	2,500,000
Federal and state grants and contracts	511,694	316,070	-	827,764
Investment revenues (losses)	854,592	-	-	854,592
Positron Emission Tomography (PET)	1,936,349	-	-	1,936,349
Radiopharmaceutical sales	1,881,084	-	-	1,881,084
Other revenues	82,611	-	-	82,611
	13,268,934	440,145	-	13,709,079
Net assets released from restrictions:				
Restrictions satisfied by payments	247,152	(247,152)	-	-
Withdrawal of donor restrictions	40,157	-	(40,157)	-
Total revenues and support	13,556,243	192,993	(40,157)	13,709,079
EXPENSES:				
Program services:				
Scientific research initiatives:				
Grants and support for scientific investigators	665,511	-	-	665,511
Leased research facilities	2,617,672	-	-	2,617,672
Science park development initiatives:				
Land, infrastructure, and program development and marketing	2,748,312	-	-	2,748,312
Grants, loans, and financial activities	396,015	-	-	396,015
Positron Emission Tomography (PET) and Radiopharmaceutical Distribution	4,305,326	-	-	4,305,326
Total program services	10,732,836	-	-	10,732,836
Support services:				
Management and general	1,597,768	-	-	1,597,768
Fund-raising	234,806	-	-	234,806
Total expenses	12,565,410	-	-	12,565,410
Excess of Revenues and Support Over Expenses	990,833	192,993	(40,157)	1,143,669
Change in value of derivative	(150,667)	-	-	(150,667)
CHANGE IN NET ASSETS	840,166	192,993	(40,157)	993,002
Net assets - beginning of year	48,253,156	303,848	1,771,780	50,328,784
Net assets - end of year	$ 49,093,322	$ 496,841	$ 1,731,623	$ 51,321,786

The accompanying notes are an integral part of this statement.

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 13,190	$ 115,290	$ -	$ 128,480
5,131,758	-	-	5,131,758
2,500,000	-	-	2,500,000
1,245,225	-	-	1,245,225
56,343	-	-	56,343
1,726,691	-	-	1,726,691
1,797,045	-	-	1,797,045
16,810	-	-	16,810
12,487,062	115,290	-	12,602,352
97,860	(97,860)	-	-
17,000	-	(17,000)	-
12,601,922	17,430	(17,000)	12,602,352
647,280	-	-	647,280
2,618,823	-	-	2,618,823
2,792,839	-	-	2,792,839
1,109,612	-	-	1,109,612
3,869,067	-	-	3,869,067
11,037,621	-	-	11,037,621
1,535,742	-	-	1,535,742
231,280	-	-	231,280
12,804,643	-	-	12,804,643
(202,721)	17,430	(17,000)	(202,291)
(918,964)	-	-	(918,964)
(1,121,685)	17,430	(17,000)	(1,121,255)
49,374,841	286,418	1,788,780	51,450,039
$ 48,253,156	$ 303,848	$ 1,771,780	$ 50,328,784

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 993,002	$ (1,121,255)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,283,051	2,247,797
Change in value of derivative liability	150,667	918,964
Gain on sales of investments	(502,561)	-
Net decrease (increase) in unrealized gain on investments	(97,510)	46,863
(Increase) decrease in accounts receivable	(25,472)	268,836
Increase (decrease) in prepaid expenses and other assets	20,170	(98,715)
Decrease in accounts payable and other liabilities	(1,025,954)	(99,453)
Net cash provided by operating activities	1,795,393	2,163,037
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(471,509)	(1,378,793)
Purchase of investments	(5,149,820)	(253,532)
Proceeds from sales of investments	4,817,735	117,080
Net cash used in investment activities	(803,594)	(1,515,245)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payables	(560,687)	(530,881)
Net cash used in financing activities	(560,687)	(530,881)
Net increase in cash and cash equivalents	431,112	116,911
Cash and cash equivalents - beginning of year	3,597,497	3,480,586
Cash and cash equivalents - end of year	$ 4,028,609	$ 3,597,497
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 614,454	$ 640,165

The accompanying notes are an integral part of these statements.

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.

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 radiopharmaceutical manufacturing and distribution facilities in Louisiana.

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.

1. Summary of activities and accounting policies (continued)

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.

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, 2012.

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 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.

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, 2012 and the year ended December 31, 2011, 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-than-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, 2012.

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, 2009.

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 2011 financial statements have been reclassified to conform to the current year presentation.

2. Unconditional promises to give

Unconditional promises to give at December 31, 2012 and 2011, are summarized as follows:

	2012	2011
Unconditional contributions expected to be collected in:		
Less than one year	$ 68,600	$ 71,250
Two to five years	-	26,000
	68,600	97,250
Less: allowances for doubtful accounts	(30,000)	(11,157)
Net unconditional promises to give	$ 38,600	$ 86,093

3. Accounts receivable

Accounts receivable consisted of the following at December 31, 2012 and 2011:

	2012	2011
Due from the State of Louisiana and EDA	$ 85,279	$ 48,307
Rent receivables	726,585	446,154
Positron Emission Tomography (PET), net	293,678	231,885
Radiopharmaceutical Distribution, net	149,557	131,397
Loans receivable (see below)	100,000	100,000
Other	66,851	391,242
	$ 1,421,950	$ 1,348,985

In December of 2004, the Partnership loaned $100,000 to VC Experts.com, Inc. (VC Experts). The convertible promissory note bears interest at a rate of 8.00% and matured on June 15, 2014. 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, 2012 and 2011 consisted of the following:

	2012	2011
Mutual funds	$ 7,389,082	$ 6,416,926
Common stock	10	10
Limited partnership interests	309,201	349,201
	$ 7,698,293	$ 6,766,137

Following is the composition of investment revenues (losses) for the years ended December 31, 2012 and 2011:

	2012	2011
Dividends, interest, and realized gains (losses)	$ 721,207	($ 7,794)
Unrealized gain (loss) on investments	97,510	(46,863)
	818,717	(54,657)
Other investment revenues	35,875	111,000
	$ 854,592	$ 56,343

5. Property and equipment

The composition of property and equipment at December 31, 2012 and 2011 was as follows:

Assets	Estimated useful lives	2012	2011
Land	-----	$ 6,770,793	$ 6,740,454
Building and improvements	4 - 40 years	61,595,995	61,481,558
Furniture and fixtures / equip	5 - 20 years	20,475,765	20,183,608
		88,842,553	88,405,620
Less accumulated depreciation		(37,828,838)	(35,580,363)
Property and equipment, net		$ 51,013,715	$ 52,825,257

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, 2012 and 2011.

Depreciation expense totaled $2,283,051 and $2,247,797 for the years ended December 31, 2012 and 2011, 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 (2.86% at both December 31, 2012 and 2011, 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 $10,908,432 and $11,469,119 at December 31, 2012 and 2011, respectively.

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

Year ending December 31st	Amount
2013	$ 592,167
2014	625,414
2015	9,690,851
	$ 10,908,432

6. Long-term debt (continued)

The Foundation incurred interest expenses of approximately $610,000 and $640,000 for the years ended December 31, 2012 and 2011, 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% (2.46% and 2.53% at December 31, 2012 and 2011, respectively). The Foundation had no outstanding balance on this line of credit at either December 31, 2012 or 2011.

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 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 Foundation has a stand alone derivative financial instrument in the form of an interest rate swap agreement, which derives its value from underlying interest rates. The transaction involves both credit and market risk. The notional amount is the amount on which calculations, payments, and the value of the derivatives are based. The notional amount does 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 $1,069,631 and $918,964 at December 31, 2012 and 2011, respectively.

The total notional amounts of the swap agreements totaled $10,908,432 and $11,469,119 at December 31, 2012 and at December 31, 2011, respectively. The pay rate of this agreement is 2.86%, and the receive rate is the 30 Day LIBOR plus 250 basis points (2.71% and 2.78% at December 31, 2012 and 2011, respectively). 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 recognized revenues of $41,119 during the year ended December 31, 2012, upon the death of the designee. The liabilities, which totaled $41,119 at December 31, 2011, 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.

9. Net assets

Temporarily restricted net assets were restricted for the following purposes at December 31, 2012 and 2011:

	2012	2011
SMART program	$ 3,116	$ 21,087
Cancer research	34,358	126,762
Biostart	26,870	29,338
Other	432,497	126,661
	$ 496,841	$ 303,848

Net assets which were released from restrictions during the years ended December 31, 2012 and 2011, due to the Foundation making payments were as follows:

	2012	2011
SMART program	$ 18,470	$ 23,834
Cancer research	100,000	-
Biostart	26,867	6,002
Other	101,815	68,024
	$ 247,152	$ 97,860

Permanently restricted net assets at December 31, 2012 and 2011 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, 2012 and 2011, as well as changes in endowed net assets for the years ended December 31, 2012 and 2011, are as follows:

	2012	2011
Balance - beginning of the year	$ 1,771,780	$ 1,788,780
Contributions	-	-
Withdrawal of donor restrictions	(40,157)	(17,000)
Balance - end of the year	$ 1,731,623	$ 1,771,780

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 $5,300,000 and $5,100,000 during the years ended December 31, 2012 and 2011, 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:

Year ending December 31st	Amount
2013	$ 4,784,391
2014	4,705,310
2015	2,807,260
2016	717,559
2017	585,816
	$ 13,600,336

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 $531,500 and $1,110,000 during the years ended December 31, 2012 and 2011, 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 81% and 83% of the sales during the years ended December 31, 2012 and 2011, 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.

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 $260,600 and $238,500 for the years ended December 31, 2012 and 2011, 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.

14. Fair value of financial instruments (continued)

- 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.

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:

	Level 1	Level 2	Level 3
December 31, 2012:			
Mutual funds - bonds	$ 1,735,472	$ -	$ -
Mutual funds - equities	3,922,183	-	-
Mutual funds - index funds	1,731,427	-	-
Limited partnerships	-	-	309,201
Emerging companies - SteriFx	-	-	10
Derivative liability	-	1,069,631	-
	$ 7,389,082	$ 1,069,631	$ 309,211
December 31, 2011:			
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	-
	$ 6,416,926	$ 918,964	$ 349,211

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, 2012 and 2011, in Level 3 instruments that are measured at fair value on a recurring basis:

	2012	2011
Balance - beginning of the year	$ 349,211	$ 234,029
Purchases	-	253,532
Sales	-	(18,360)
Unrealized losses related to investments in limited partnerships	(40,000)	(119,990)
Balance - end of the year	$ 309,211	$ 349,211

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

The Board has approved the creation of the Louisiana Molecular Imaging Center, an independent, non-academic research center, and has committed up to $11.500,000 in support of the Center during its first three years of operation. During March of 2013, the Foundation entered into employment contracts with two eminent scientists to lead the Center.

Subsequent to December 31, 2012, the Foundation executed a Memorandum of Understanding (MOU) with the LSU Board of Supervisors and the State of Louisiana to seek to negotiate agreements to implement a Cooperative Endeavor Agreement (CEA) for a private/public collaboration whereby the Foundation would assume the responsibility, on terms and conditions agreed by the parties, for the management and operation of certain hospital facilities and associated outpatient clinics in North Louisiana. The MOU can be terminated by either party with a 5 day notice. The negotiations are expected to be completed by June 30, 2013.

Management has evaluated subsequent events through April 17, 2013, 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.

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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, 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 consolidated financial statements of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion of the effectiveness of the Foundation'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation'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 charges with governance.

Our consideration of the internal control 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 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.

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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*.

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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 & Netterville

Baton Rouge, Louisiana
April 17, 2013

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

A. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: *Unqualified / unmodified*

Internal Control over Financial Reporting:

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

B. Findings - Financial Statement Audit

None

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISISNA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

A. Findings - Financial Statement Audit:

(1) None