UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION, INC.

Financial Statements and Schedules

December 31, 2012

With Independent Auditors’ Report Thereon
UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION, INC.

Financial Statements and Schedules

December 31, 2012

With Independent Auditors’ Report Thereon
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INDEPENDENT AUDITORS’ REPORT

The Board of Directors
University of New Orleans
Research and Technology Foundation, Inc.

We have audited the accompanying financial statements of the University of New Orleans Research and Technology Foundation, Inc., (a nonprofit organization) (the Foundation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year 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.

Auditors’ 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 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 University of New Orleans Research and Technology Foundation, Inc. as of December 31, 2012, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Postlethwait & Neiter

Metairie, Louisiana
May 30, 2013
UNIVERSITY OF NEW ORLEANS  
RESEARCH AND TECHNOLOGY FOUNDATION, INC.  
Statement of Financial Position  
As of December 31, 2012  

Assets  

Current assets:  
- Cash and cash equivalents (Note 1 and 17) $8,357,726  
- Receivables (Note 3) 3,860,757  
- Financing lease receivable, current (Note 6 and 15) 340,000  
- Investments, current (Note 2 and 6) 298,547  
- Other current assets 28,327  
  Total current assets 12,885,357  

Non-current assets:  
- Investments (Note 2 and 6) 642,087  
- Financing lease receivable (Note 6 and 15) 34,395,000  
- Property and equipment, net of accumulated depreciation of $26,778,318 (Note 4) 72,796,237  
- Prepaid bond insurance, net of accumulated amortization of $119,264 (Note 1) 477,736  
- Cost of bond issuance, net of accumulated amortization of $103,398 (Note 1) 414,984  
  Restricted non-current assets:  
    Investments - bond funds (Note 2, 6, and 8) 3,123,778  
  Total non-current assets 111,849,822  
  Total assets 124,735,179  

Liabilities and Net Assets  

Current liabilities:  
- Accounts payable and accrued liabilities $1,185,493  
- Due to affiliates (Note 13) 101,750  
- Prepaid rent 71,684  
- Amounts held in custody for others (Note 1) 57,848  
- Amounts held in custody for affiliates (Note 1) 359,564  
- Interest payable 643,941  
- Notes payable, current (Note 6 and 7) 271,438  
- Bonds payable, current (Note 6 and 8) 340,000  
- Other current liabilities 5,184,715  
  Total current liabilities 8,216,433  

Non-current liabilities:  
- Notes payable (Note 6 and 7) 6,082,563  
- Bonds payable (Note 6 and 8) 37,360,000  
- Premium on sale of bonds (Note 8) 1,139,403  
  Total non-current liabilities 44,581,966  
  Total liabilities 52,798,399  

Net assets:  
- Unrestricted 71,936,780  
  Total net assets 71,936,780  
  Total liabilities and net assets 124,735,179  

The accompanying notes are an integral part of this financial statement.
UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION, INC.
Statement of Activities
For the year ended December 31, 2012

Revenues and support:

Federal grants and contracts $ 1,432,673
Non-federal grants and contracts 3,507,388
Property operation 4,953,382
Student housing (Note 13) 1,937,324
Investment earnings 49,157
Contributions:
UNO PHD Foundation (Note 13) 1,632,210
St. Claude Gallery (Note 9) 145,500
Other revenues 84,334
Total unrestricted revenues and other support 13,741,968

Expenses:

Program services:
International programs 741,290
Property operations 6,271,928
NCAM equipment 460,329
Student housing 1,953,539
Grants and contracts 2,076,072
Total program expenses 11,503,158
Supporting services 2,145,204
Total expenses 13,648,362
Increase in unrestricted net assets 93,606

Net assets, at beginning of year 71,843,174

Net assets, at end of year $ 71,936,780

The accompanying notes are an integral part of this financial statement.
UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION, INC.

Statement of Cash Flows
For the year ended December 31, 2012

Cash flows from operating activities:

  Change in net assets  $ 93,606

  Adjustments to reconcile change in net assets
to cash flows from operating activities:
  Amortization of cost of bond issuance  17,286
  Amortization of bond premium  (47,462)
  Bad debt  4,090
  Write off  401,788
  Depreciation expense  3,128,310
  Reduction of receivables from merger  511,008
  Contributions of property and equipment  (2,288,718)

Changes in assets and liabilities:

  Receivables  (97,212)
  Other current assets  (3,673)
  Prepaid bond insurance  19,900
  Payables and accrued liabilities  217,219
  Due to affiliates  (347,560)
  Prepaid rent  (4,897)
  Amounts held in custody for others and affiliates  351,500
  Interest payable  (122,270)
  Other current liabilities  (6,404)

Net cash provided by operating activities  1,826,511

Cash flows from investing activities:

  Maturities of investments  443,307
  Purchases of fixed assets  (1,545,736)

Net cash used in investing activities  (1,102,429)

Cash flows from financing activities:

  Payments on notes payable  (136,368)
  Receipts on capital leases  275,000
  Payments on bonds payable  (275,000)

Net cash used in financing activities  (136,368)

Change in cash  587,714

Cash and cash equivalents at beginning of year  7,770,012

Cash and cash equivalents at end of year  $ 8,357,726

SUPPLEMENTAL NON-CASH FLOW DISCLOSURE:

Cash paid during the year for interest  $ 2,203,868
Contributions of property and equipment  $ 2,288,718

The accompanying notes are an integral part of this financial statement.

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(1) Summary of Significant Accounting Policies

(a) History and Organization

The University of New Orleans Research and Technology Foundation, Inc. (the Foundation), a registered non-profit corporation in Louisiana, was established on March 3, 1997 to accomplish the following purposes:

1) As its principal purpose, to support any and all appropriate programs, facilities and research and educational opportunities offered by the University of New Orleans (the University) and the University of Louisiana System (the UL System);

2) To promote and support the well-being and advancement of the University and all the colleges, schools, departments, and divisions comprising it, and to develop, expand, and improve the University's curricula, programs, and facilities so as to provide greater educational advantages and opportunities; encourage teaching, research, scholarship, and service, and increase the University's benefits to the citizens of the State of Louisiana, the United States of America and the world; be fulfilled and removed by actions of the Foundation pursuant to those stipulations;

3) To engage in scientific research carried on for the purpose of aiding a community or geographical area by attracting new industry to the community or area or by encouraging the development of or retention of, an industry in the community or area;

4) To promote the development of high technology industries and research in Louisiana;

5) To create, develop, construct, operate, manage and finance one or more research and technology parks, technology enterprise centers and other facilities and operations which promote development of research, development and high technology in Louisiana;

6) To increase employment opportunities in Louisiana;

7) To promote research and development in Louisiana;

8) To promote cooperation between the public and private sector with respect to research and development;

9) To attract nationally prominent scientists and researchers to the University;

10) To maximize research capabilities in Louisiana;

11) To solicit and accept, whether by way of outright, limited or conditional gifts, grants and bequests, in trust or otherwise, donations of all kinds, including property, both real and personal, whether principal or income, tangible or intangible, vested or contingent, for the purpose of providing funds or property for the general purposes of the corporation and for research, instructional activities, scholarships, public service activities, and such other designated benefits for the University and its faculty, staff and students as may be prescribed by donors or testators to the corporation;
(1) Summary of Significant Accounting Policies (continued)

(a) History and Organization (continued)

12) To exercise all such powers and authority as may be necessary for the accomplishment of the objectives and purposes herein set forth and to do any and all other things related to or connected therewith which are not forbidden by law.

Significant sources of revenue to the Foundation include grants, contracts, tenant rents, and property operations revenues and support to carry out these objectives.

The financial statements of the Foundation have been prepared on the accrual basis. The significant accounting policies followed in the preparation of the accompanying financial statements are described below.

(b) Financial Statement Presentation

The Foundation follows the provisions for not-for-profit organizations and includes three basic financial statements and the classifications of resources into three separate classes of net assets as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of the Foundation are included in this category. The Foundation has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the Foundation, and therefore, the Foundation's policy is to record these net assets as unrestricted. Also, the Foundation considers the revenues received from the Cooperative Endeavor Agreements (the Agreements) to be exchange transactions, since each party to the Agreements receives and sacrifices something of approximately equal value.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. The Foundation has no temporarily restricted net assets as of December 31, 2012.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. The Foundation has no permanently restricted net assets as of December 31, 2012.

(c) Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

(d) Amounts Held In Custody For Others and Affiliates

Amounts held in custody for others consist of security deposits from building tenants. The tenants are required to pay a security deposit at the beginning of their lease. At December 31, 2012, security deposits total $57,848.

Amounts held in custody for affiliates consist of amounts held for use of the University.
(1) **Summary of Significant Accounting Policies (continued)**

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(e) **Receivables**

Accounts receivable and financing receivables are considered delinquent after a period of nonpayment of 90 days. Although credit risks associated with tenants for accounts receivable or lessees for financing receivables are considered minimal, a review is routinely made of accounts receivable balances, and provisions for doubtful accounts are made. In circumstances where management is aware of a specific inability to meet its financial obligations (e.g., bankruptcy filings), a specific reserve is recorded to reduce the receivable to the amount expected to be collected. For all others, an allowance for bad debts is established by management based on historical trends. Receivables are written off when management deems collectability is doubtful. Bad debt expense and any related recoveries are included in the Statement of Activities.

(f) **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Income or loss on investments, including realized and unrealized gains and losses on investments, interest and dividends, is recorded in the Statement of Activities.

Realized gains and losses, and declines in value judged to be other than temporary, are included in net appreciation (depreciation) of investments. Realized gains and losses on the sales of securities are determined using the specific-identification method. A decline in the fair value of investments below cost that is deemed to be other than temporary results in a charge to change in net assets and the establishment of a new cost basis for the investment.

(g) **Property and Equipment**

Assets acquired are stated at cost, net of accumulated depreciation. Assets donated are carried at fair market value on the date of donation, net of accumulated depreciation. Plant, property, and equipment with a unit cost of greater than $5,000 and a useful life of greater than 1 year is capitalized and depreciated. Depreciation of buildings, furnishings, and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis ranging from 3 to 10 years for vehicles and equipment to 10 to 40 years for building improvements and 30 to 40 years for buildings and associated structures.

Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is included in income.

(h) **Bond Issuance Costs and Prepaid Bond Insurance**

Bond issuance costs and prepaid bond insurance incurred in the relationship to the bond indebtedness have been capitalized and are amortized over the life of the bond liability which is thirty years.
(1) Summary of Significant Accounting Policies (continued)

(i) Impairment of Long-Lived Assets

Impairment of long-lived assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. The Foundation recorded no impairment during the year ended December 31, 2012.

(j) Income Taxes

Income taxes have not been provided for in the financial statements as the Foundation was organized as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and is, therefore, of tax exempt status.

The Foundation applies a “more-likely-than-not” recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. As a result of implementing this approach, the Foundation has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities. Therefore, the implementation of this standard has not had a material effect on the Foundation. The Foundation’s tax returns for the year ended December 31, 2012, the period ended December 31, 2011, and the years ended June 30, 2011 and 2010 remain open and subject to examination by taxing authorities. The Foundation’s tax return for the year ended December 31, 2012 has not yet been filed.

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, the valuation of fixed assets, and investments.

(l) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
(2) Investments

Investment income for the year ended December 31, 2012 consists of $49,157 in interest and dividends. There are no realized gains or losses and investment expenses incurred during the year ended December 31, 2012.

Investments consist of the following at December 31, 2012:

Current:
- Short-term investments $ 68,547
- Certificates of deposit 230,000

Total $ 298,547

Non-current:
- Certificates of deposit, non-current 642,087
- Bond reserves 3,123,778

Total $ 3,765,865

Total $ 4,064,412

Bond reserves represent those amounts that are maintained by the bond trustee for debt service reserves. These amounts are classified as restricted noncurrent assets in the Statement of Financial Position.

(3) Receivables

Receivables consist of the following at December 31, 2012:

Accounts receivable $ 811,556
Grants receivable 421,705
Due from affiliates 252,979
Tenants receivables 275,380
Insurance proceeds receivable 2,099,137

Total $ 3,860,757

Due from affiliates represents amounts due from the University of New Orleans and the University of New Orleans Foundation.

There is no allowance recorded on the receivables above as of December 31, 2012.
UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION, INC.

Notes to Financial Statements

December 31, 2012

(4) Property and Equipment

Property and equipment consist of the following at December 31, 2012:

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land improvements</td>
<td>$258,573</td>
</tr>
<tr>
<td>Building - Avondale</td>
<td>12,754,737</td>
</tr>
<tr>
<td>ITC Buildings and parking garage</td>
<td>57,109,257</td>
</tr>
<tr>
<td>Building - ATC</td>
<td>8,741,151</td>
</tr>
<tr>
<td>Building - Shea Penland</td>
<td>894,842</td>
</tr>
<tr>
<td>Building – NCAM</td>
<td>13,529,453</td>
</tr>
<tr>
<td>St. Claude Gallery</td>
<td>145,500</td>
</tr>
<tr>
<td>Homer Hitt Alumni Center</td>
<td>2,143,218</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>3,473,554</td>
</tr>
<tr>
<td>Office furniture and equipment</td>
<td>78,741</td>
</tr>
<tr>
<td>Tenant improvements</td>
<td>445,529</td>
</tr>
</tbody>
</table>

Total fixed assets 99,574,555
Accumulated depreciation (26,778,318)

Net fixed assets $72,796,237

Depreciation expense for the year ended December 31, 2012 totals $3,128,310.

(5) Cooperative Endeavor Agreements

University of New Orleans/Avondale Maritime Technology Center of Excellence

General

On May 16, 1997, the State of Louisiana (the State), the Board of Supervisors for the University of Louisiana System (the University), the Foundation, and Huntington Ingalls Industries (Huntingtor) (a successor of Avondale Industries, Inc.) entered into a Cooperative Endeavor Agreement (the Agreement) for an initial term of fifteen years, and from one-to-seven additional five year period extensions.

The Agreement and related amendment provided for the use of annually appropriated State funds and the corporate guarantee by Avondale of certain financial obligations incurred by the Foundation for the purpose of enhancing or maintaining the economic well-being of the State of Louisiana. As a material inducement to the State to enter into the Agreement, Avondale represented that it was awarded a contract for the construction of certain U.S. Department of Navy vessels which will provide a substantial economic benefit to the State. As of May 16, 2012, this agreement has expired.
UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION, INC.

Notes to Financial Statements

December 31, 2012

(5) Cooperative Endeavor Agreements (continued)

University of New Orleans/ Avondale Maritime Technology Center of Excellence (continued)

Obligations

Huntington donated certain property to the University which is leased to the Foundation pursuant to the terms of a Ground Lease. A ship design facility (Facility), including a laboratory and support area for the UNO School of Naval Architecture and Marine Engineering, has been built on such property by the Foundation and is sub-leased to Huntington. Also, the Foundation has equipped the Facility and leased such equipment to Huntington. Huntington agreed that it will utilize the Facility for the design and construction of vessels pursuant to the Navy LPD-17 Contract and other contracts. Furthermore, Avondale agrees that it will provide support to the University of New Orleans School of Naval Architecture and Marine Engineering by providing to the University a Right of Use of space constituting 21,000 square feet in the Facility subleased by Avondale from the Foundation.

On May 16, 1997, the Foundation and Huntington entered into a sub-lease agreement which provides for Huntington to lease from the Foundation the land located in Jefferson Parish together with the facilities to be constructed on the land, the facility equipment and the right of uninterrupted access to and from all streets and roads adjoining the land.

The terms of the sub-lease agreement provide that Huntington will pay as rental sum the amount of $100,000 by September 1st of each year for a term of 50 years which expires in 2047 without regard to the State Appropriation, which is included in property operation revenue in the Statement of Activities. This property is subject to the ground lease in Note 10.

National Center for Advanced Manufacturing/NASA Facilities Modifications and Equipment Acquisition

General

Effective July 15, 2007, the State, the University, the Foundation, and the National Aeronautics and Space Administration's George C. Marshall Space Flight Center (NASA) entered into a Cooperative Endeavor Agreement (the Agreement) for an initial term of ten years with options for four additional five year periods.

The Agreement provides for the use of a State appropriation to fund an approximately $20 million expansion of the National Center for Advanced Manufacturing (NCAM), of which the University is part of the consortium, located in NASA's Michoud Assembly Facility in New Orleans (MAF), to include the purchase of new equipment by the State and the completion of facilities modifications made by the Foundation to MAF to accommodate installation and operation of the new equipment.

Obligations

The Foundation arranged for the design and construction of the MAF facilities modifications to support the installation of the new equipment. As of October 2011, NASA assumed management and leasing responsibilities for the use of the NCAM equipment.
(5) Cooperative Endeavor Agreements (continued)

National Center for Advanced Manufacturing/NASA Facilities Modifications and Equipment Acquisition (continued)

Obligations (continued)


The Foundation is the fiscal agent for the University related to transactions with NASA, and as such, the Foundation receives an administrative fee related to this function which is included in federal grants and contracts in the Statement of Activities.

National Center for Advanced Manufacturing/MAF Research Administration Building

General

On December 18, 2007, the State, the Foundation, and NASA entered into another Cooperative Endeavor Agreement (the CEA) for a period of thirty (30) years.

The CEA provides for the use of State funds to pay approximately $40 million of project costs associated with the planning, design, construction and equipping of a new NASA Research Administration Building (the Building) to be built at MAF. The Building will be used collaboratively by the Foundation and NASA for research and development administration, production work on the Orion Project, education, training and related matters for NASA, its contractors, the University, other Federal and State agencies, other higher educational institutions and private industry.

Obligations

As of December 31, 2012, the activities related to this project are placed on hold by the State of Louisiana. The Foundation has incurred $705,986 in construction in progress as of December 31, 2012 related to this CEA. Management will reassess this project annually to determine if such costs are impaired. As of December 31, 2012, no impairment has been recognized by the Foundation.

Memorandum of Understanding related to National Center for Advanced Manufacturing

General

In a memorandum of understanding dated October 25, 2012, the Foundation agreed to receive a portion of the State of Louisiana’s recovery costs associated with the NCAM consortium subject to an annual cap of $30,000 for administrative costs associated with serving as fiscal agent for the University of New Orleans.
Cooperative Endeavor Agreements (continued)

Memorandum of Understanding related to National Center for Advanced Manufacturing (continued)

Obligations

The Foundation shall seek support for NCAM activities from appropriate public and private sources, and work with NASA to develop a long-term agreement for the NCAM/Michoud Assembly Facility to accommodate University of New Orleans access for NCAM education and outreach activities.

(6) Fair Value of Financial Instruments

The Financial Accounting Standard Board ("FASB") authoritative guidance for fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The asset’s 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 three levels of the fair value hierarchy under the guidance are described below:

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.

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.

Following is a description of the valuation methodologies used for assets measured at fair value.

Federated treasury obligations: Valued at the closing price reported on the active market on which the individual securities are traded.

Certificates of deposit: Valued at cost plus accrued interest, which approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.
(6) **Fair Value of Financial Instruments (continued)**

Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of December 31, 2012. There have been no changes in the methodologies used at December 31, 2012.

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federated treasury obligations</td>
<td>$ 3,192,325</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 3,192,325</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>-</td>
<td>872,087</td>
<td>-</td>
<td>872,087</td>
</tr>
<tr>
<td>Total assets at fair value</td>
<td>$ 3,192,325</td>
<td>$ 872,087</td>
<td>$ -</td>
<td>$ 4,064,412</td>
</tr>
</tbody>
</table>

The following table summarizes the valuation of the Foundation's financial instruments measured at fair value as of December 31, 2012.

<table>
<thead>
<tr>
<th></th>
<th>Carrying Value</th>
<th>Fair Value</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing lease payable</td>
<td>$ 34,735,000</td>
<td>$ 37,032,137</td>
<td>Level 3</td>
</tr>
<tr>
<td>Investments</td>
<td>4,064,412</td>
<td>4,064,412</td>
<td>Level 1 and 2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds payable</td>
<td>37,700,000</td>
<td>40,193,222</td>
<td>Level 3</td>
</tr>
<tr>
<td>Notes payable</td>
<td>6,354,001</td>
<td>6,565,057</td>
<td>Level 3</td>
</tr>
</tbody>
</table>

(7) **Notes Payable**

**Louisiana Public Facilities Authority Note Payable**

On October 19, 1999, the Foundation entered into a Construction Loan Agreement in the amount of $1,500,000 with the Louisiana Public Facilities Authority. The loan bears no interest. The first annual payment was due October 1, 2001 and continues through October 1, 2014. The payments are conditioned upon the establishment of a $500,000 operating reserve. At December 31, 2012, the balance of the operating reserve was $342,347. Each annual payment shall be equal to 87.35% of the net cash flow relative to the Advanced Technology Center for the immediate preceding fiscal year. As of December 31, 2012, the Foundation has made payments totaling $112,016 in principal on the note. The carrying amount of the note is $1,387,984 as of December 31, 2012. Depending on future net cash flow, an anticipated final payment of the full amount will be due on October 1, 2014.

This note has debt covenants which are required to be met by the Foundation, including submission of audited financial statements within 180 days of year end. The Foundation is in compliance with the debt covenants as described.
(7) Notes Payable (continued)

**Louisiana Public Facilities Authority Note Payable**

The note is collateralized by a collateral note signed by the Foundation in the amount of $2,000,000, which is secured by a first lien and security interest in all of the Foundation’s accounts receivable, inventory, and fixtures as well as an assignment of leases and rents, and the ATC building, which is included in property and equipment in the Statement of Financial Position and has a net book value of $6,243,536 at December 31, 2012.

**Local Bank Note Payable 1**

On April 19, 2001, the Foundation entered into a Loan Agreement with a local bank. The balance of the loan at December 31, 2012 is $4,400,848. The loan bore an interest rate of 7.25% with an annual payments beginning in 2001 and continuing through January 19, 2011; however, in 2011 the loan was amended with an interest rate of 6.5% to mature on April 12, 2016, at which time the remaining unpaid balance of principal and interest will be due. Monthly payments of principal and interest total $41,416. Although the amendment to the loan covers a five year period, the loan payments are based on a fifteen year amortization schedule resulting in a payment in the amount of $3,673,403, representing all outstanding principal and interest, which is due on April 12, 2016.

This note has debt covenants which are required to be met by the Foundation, including submission of audited financial statements within 90 days of year end which was waived by the bank for fiscal year 2012, a debt service coverage ratio of 1.1 to 1, the outstanding principal to exceed 75% of the fair market value, as appraised of the related property, as well as other negative covenants. The Foundation is in compliance with the debt covenants as described.

The note is collateralized by a collateral note signed by the Foundation in the amount of $12 million, which is secured by a first lien and security interest in all of the Foundation’s accounts receivable, inventory, and fixtures as well as an assignment of leases and rents, and the ATC building, which is included in property and equipment in the Statement of Financial Position and has a net book value of $6,243,536 at December 31, 2012.

**Local Bank Note Payable 2**

On December 23, 2009, the Foundation entered into a loan agreement in the amount of $1,162,521 with a local bank. The loan bears an interest rate of 3.75%. Monthly payments of $6,548 will continue through the maturity date of December 23, 2014, which requires a final payment of $453,285. The balance of the loan at December 31, 2012 is $565,169. This note has debt covenants which are required to be met by the Foundation, including a certificate of deposit with the lender in the amount of $500,000 for the life of the loan, which bears fixed interest at 3% per annum. If the balance of the certificate of deposit should fall below the stipulated amount, the interest rate on the note payable will increase to 7%. The certificate of deposit was recorded in non-current investments on the Statement of Financial Position, as of December 31, 2012.

This note has other debt covenants, including submission of audited financial statements within 180 days of year end, and other negative covenants. The Foundation is in compliance with the debt covenants as described.
UNIVERSITY OF NEW ORLEANS
RESEARCH AND TECHNOLOGY FOUNDATION, INC.

Notes to Financial Statements

December 31, 2012

(7) Notes Payable (continued)

Local Bank Note Payable 2 (continued)

The note is collateralized by the Homer Hitt Alumni Center, which is included in property and equipment in the Statement of Financial Position and has a net book value of $2,143,218 at December 31, 2012.

Future Payments

The following is a summary of all notes payable at December 31, 2012:

| Louisiana Public Facilities Authority | $ 1,387,984 |
| Local banks                             | 4,966,017 |
| **Total**                               | **$ 6,354,001** |

The notes are required to be repaid as follows for the next five years and thereafter:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$ 271,438</td>
</tr>
<tr>
<td>2014</td>
<td>2,122,898</td>
</tr>
<tr>
<td>2015</td>
<td>243,313</td>
</tr>
<tr>
<td>2016</td>
<td>3,716,352</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 6,354,001</strong></td>
</tr>
</tbody>
</table>

(8) Bonds Payable

On August 8, 2006, the Louisiana Public Facilities Authority issued $38,500,000 of Louisiana Public Facilities Authority Revenue Bonds (Series 2006) to the public on behalf of the Foundation. The proceeds of the bonds were used for the financing, planning, design, construction, furnishing and equipping of resident facilities for use by the University, including all equipment, furnishings, fixtures and facilities incidental or necessary in connection therewith. The proceeds were also used to pay the costs associated with the issuance of the bonds.

The bond agreement provides for interest on the outstanding bonds at rates ranging from 3.75% to 5.25% per annum. Interest is paid semi-annually, and principal is paid annually.

This bond has debt covenants which are required to be met by the Foundation, including the maintenance of bond reserves for debt service reserves (see Note 2), as well as other negative covenants. Additionally, the bond is collateralized by the resident facilities which are recorded as a financing lease receivable from the University (see Note 15). The Foundation is in compliance with the debt covenants as described.
(8) Bonds Payable (continued)

The outstanding bonds, which were purchased at a premium and accrued interest, are required to be repaid as follows for the next five years and thereafter.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$340,000</td>
</tr>
<tr>
<td>2014</td>
<td>405,000</td>
</tr>
<tr>
<td>2015</td>
<td>480,000</td>
</tr>
<tr>
<td>2016</td>
<td>550,000</td>
</tr>
<tr>
<td>2017</td>
<td>625,000</td>
</tr>
<tr>
<td>2018-2022</td>
<td>4,405,000</td>
</tr>
<tr>
<td>2023-2027</td>
<td>7,105,000</td>
</tr>
<tr>
<td>2028-2032</td>
<td>10,375,000</td>
</tr>
<tr>
<td>2033-2037</td>
<td>13,415,000</td>
</tr>
</tbody>
</table>

$37,700,000

Bond funds totaling $3,123,778 have been deposited with the bond trustee at December 31, 2012. The bonds were issued at a premium, which totaled $1,400,442 at the bond issuance date. The premium will be amortized over the life of the bonds. The total amount of premium amortized during year ended December 31, 2012 was $47,462, and the unamortized premium at December 31, 2012 was $1,139,403.

(9) St. Claude Gallery

During the year ended December 31, 2012, the Foundation received a private donation of the property to house an urban art gallery. The Foundation is required to make the property available to the University. To the extent the University and Foundation no longer desire to use the property as an urban art gallery, the property shall be sold and the proceeds used to support the University’s programs in Fine Arts. The fair value of the gallery of $145,500 is included in contributions on the Statement of Activities.

(10) Ground Leases

University of New Orleans Ground Lease 1

On May 16, 1997, the University of New Orleans (the University) entered into a non-transferable ground lease agreement with the Foundation. The terms of the lease agreement provides that the University will lease a tract of approximately 4.57 acres of land that is located in Jefferson Parish to the Foundation who will in turn develop construct, maintain, operate, manage, and lease improvements on such land for the purpose set forth in the Cooperative Endeavor Agreement. The lease agreement is for a term of fifty years with annual rent totaling $100.

At the expiration of the lease, the facilities and all furniture, fixtures, equipment, and furnishings permanently affixed to the facilities shall become the property of the University which is recorded in property and equipment in the Statement of Financial Position, with a remaining net book value of $8,037,354 as of December 31, 2012.
(10) **Ground Leases (continued)**

**University of New Orleans Ground Lease 2**

On December 1, 1997, the University entered into a non-transferable ground lease agreement with the Foundation. Such agreement was amended on October 1, 1999. The terms of the lease agreement and related amendment provide that the University will lease a tract of approximately 30 acres of certain lakefront property and three acres of land on the University of New Orleans East Campus that are located in Orleans Parish to the Foundation who will develop, construct, maintain, operate, manage, and/or lease improvements on such land. The lease agreement is for a term of ninety-nine years with annual rent totaling $10,000 provided, however, that the rent payments will be offset dollar-for-dollar by property operating expenses paid for by the Foundation. An amendment to the lease was signed that irrespective of the money expended in satisfaction of the obligations, a cash rental of $1,300 will be paid each year as rent due.

At the expiration of the lease, the facilities and all furniture, fixtures, equipment, and furnishings permanently affixed to the facilities shall become the property of the University. The facilities and related fixtures, equipment, and furnishings are recorded in property and equipment in the Statement of Financial Position, with a remaining net book value of $46,201,893 as of December 31, 2012.

(11) **Other Lease Agreements**

On January 15, 1998, the Foundation entered into a sub-lease agreement with the United States of America (the Government) to lease space at the Information Technology Center from the Foundation, approximately 300,000 square feet of administrative space, 1,050 hard surface parking spaces, and 11.82 acres of land located at the University of New Orleans Research and Technology Park. The terms of the facility lease agreement provide that the Government will have and hold the noted facility for the term beginning on the date of completion of the facility for an initial ten year term with fifteen individual one year renewal terms. The lease is renewed annually. The annual rent for the premises and maintenance services is $2,462,634 for the year ended December 31, 2012.

(12) **Future Lease Rent**

Future rent from all lease agreements is as follows. The schedule below does not include the future rent to be received from the Huntington arrangement described in Note 5 of $100,000 per year through 2047.

<table>
<thead>
<tr>
<th>Year</th>
<th>Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$ 757,499</td>
</tr>
<tr>
<td>2014</td>
<td>297,304</td>
</tr>
<tr>
<td>2015</td>
<td>254,417</td>
</tr>
<tr>
<td>2016</td>
<td>254,417</td>
</tr>
<tr>
<td>2017</td>
<td>36,062</td>
</tr>
</tbody>
</table>

$ 1,599,699
(13) Due To/From Affiliates/Related Party Transactions

University of New Orleans Foundation

University of New Orleans Foundation (UNOF) provides certain payroll management functions to the Foundation for a monthly fee, and also pays certain administrative expenses on the Foundation's behalf. During the year ended December 31, 2012, the Foundation incurred $1,144,116 for the aforementioned services and expenses, as well as support for the Official Residence of the President of the University, and reported a balance due to UNOF of $90,306 at December 31, 2012. The Foundation includes revenues from UNOF of $373,997 for support and administration and $44,645 for the Nims Center in non-federal grants and contracts in the Statement of Activities for 2012, as well as $168,540 in subsidies from UNOF which were passed through from the University during 2012.

University of New Orleans

The Foundation enters into certain contracts, and makes the related contract payments, on behalf of the University. The University reimburses the Foundation for contract payments made on its behalf. The University also makes payments to the Foundation for property management.

During the year, the University incurred $3,003,070 related to the aforementioned contract payments and property management services which includes $1,937,324 in student housing revenue, $304,077 in property operation revenue, and $761,669 in non-federal grants and contracts in the Statement of Activities. The balance due from the University related to these payments and services total $252,979 at December 31, 2012. Expenses to the University total $143,245, and payables to the University are $11,444 as of December 31, 2012, as recorded in the Statement of Financial Position.

University of New Orleans Property, Housing and Development Foundation

During the year ended December 31, 2012, the University of New Orleans Property, Housing and Development Foundation (PHD) merged with the Foundation. All assets and liabilities belonging to PHD were acquired by the Foundation, with the excess of assets over liabilities recorded as a contribution of $1,532,210 which is shown in contributions on the Statement of Activities.

(14) National Collegiate Athletic Association

The Foundation has an affiliation agreement with the University which requires the presentation of a supplemental schedule illustrating revenue, support, expenses, and capitalized expenditures made to or on behalf of the University’s Intercollegiate Athletics Program for the National Collegiate Athletic Association. During the year ended December 31, 2012, the Foundation incurred no such amounts.

(15) Financing Lease Receivable

The Foundation entered into a ground lease dated August 8, 2006, with the University for the purpose of financing, planning, constructing, and equipping a student residence facility. Pursuant to a facility lease, the Foundation leased the completed facility to the University. Rent payments from the University are sufficient to pay debt services on the Series 2006 Bonds and other related costs, which is collateralized by the student residence facility.

The lease was determined to meet the requirements of a financing lease and as such, the asset was then transferred from construction in progress to a financing lease receivable.
(15) Financing Lease Receivable (continued)

The total financing lease receivable is required to be repaid as follows for the next five years and thereafter:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$340,000</td>
</tr>
<tr>
<td>2014</td>
<td>405,000</td>
</tr>
<tr>
<td>2015</td>
<td>480,000</td>
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<td>2016</td>
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</tr>
<tr>
<td>2018-2022</td>
<td>4,405,000</td>
</tr>
<tr>
<td>2023-2027</td>
<td>7,105,000</td>
</tr>
<tr>
<td>2028-2032</td>
<td>10,375,000</td>
</tr>
<tr>
<td>2033-2037</td>
<td>10,450,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$34,735,000</strong></td>
</tr>
</tbody>
</table>

(16) Expenses

Expenses by natural classification have been incurred for the following:

<table>
<thead>
<tr>
<th>Function</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization</td>
<td>$17,286</td>
</tr>
<tr>
<td>Bad debt</td>
<td>4,090</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,128,310</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2,203,868</td>
</tr>
<tr>
<td>Rentals and leases</td>
<td>530,344</td>
</tr>
<tr>
<td>Equipment</td>
<td>457,333</td>
</tr>
<tr>
<td>Consulting and legal fees</td>
<td>405,267</td>
</tr>
<tr>
<td>Contract services</td>
<td>3,153,445</td>
</tr>
<tr>
<td>Building related operations</td>
<td>2,532,935</td>
</tr>
<tr>
<td>University/affiliates</td>
<td>377,575</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>837,909</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13,648,362</strong></td>
</tr>
</tbody>
</table>

(17) Concentrations of Risk and Contingencies

Funds on deposits in financial institutions exceed FDIC insurance limits by $7,884,036 at December 31, 2012. The Federal Deposit Insurance Corporation (FDIC) provided unlimited insurance coverage for non-interest bearing accounts as of December 31, 2012. At January 1, 2013, this insurance coverage was reduced to $250,000 for non-interest bearing accounts; in the event of a failure of the institution, the FDIC is not obligated to pay uninsured deposits.
(17) Concentrations of Risk and Contingencies (continued)

The Foundation is involved in certain claims and legal actions arising in the normal course of activities. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Foundation’s financial position.

(18) Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 30, 2013, and determined that there were no subsequent events requiring disclosure.