

**Pennington Medical Foundation
Baton Rouge, Louisiana
December 31, 2020**

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**HAWTHORN
WAYMOUTH
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Certified Public Accountants

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Independent Auditor's Report

The Officers and Board of Trustees
Pennington Medical Foundation
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Pennington Medical Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennington Medical Foundation as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hawthorn, Waymouth & Carroll, L.L.P.

June 21, 2021

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Pennington Medical Foundation
Statements of Financial Position
December 31, 2020 and 2019

Assets		2020	2019
Current Assets		<u> </u>	<u> </u>
Cash		\$ 75,649	\$ 925
Investments, at fair value		627,903	715,265
Accrued royalties		3,660	6,436
Prepaid expenses		<u>506</u>	<u>2,250</u>
Total assets		<u>\$ 707,718</u>	<u>\$ 724,876</u>
Liabilities and Net Assets			
Liabilities			
Due to related parties		<u>\$ 24,359</u>	<u>\$ 8,165</u>
Total liabilities		<u>24,359</u>	<u>8,165</u>
Net Assets			
Without donor restrictions		<u>683,359</u>	<u>716,711</u>
Total liabilities and net assets		<u>\$ 707,718</u>	<u>\$ 724,876</u>

The accompanying notes are an integral part of these financial statements

Pennington Medical Foundation
Statements of Activities
Years Ended December 31, 2020 and 2019

Changes in Net Assets Without Donor Restrictions	2020	2019
Revenue and Gains		
Investment income	\$ <u>83,708</u>	\$ <u>5,664</u>
Total revenue and gains	<u>83,708</u>	<u>5,664</u>
Expenses		
Program services	96,569	106,611
General and administrative	<u>20,491</u>	<u>22,064</u>
Total expenses	<u>117,060</u>	<u>128,675</u>
Decrease in Net Assets	(33,352)	(123,011)
Net Assets		
Beginning of year	<u>716,711</u>	<u>839,722</u>
End of year	<u>\$ 683,359</u>	<u>\$ 716,711</u>

The accompanying notes are an integral part of these financial statements

Pennington Medical Foundation
Statements of Functional Expenses
Years Ended December 31, 2020 and 2019

	<u>2020</u>			<u>2019</u>		
	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Administrative</u>	<u>Total</u> <u>Expenses</u>	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Administrative</u>	<u>Total</u> <u>Expenses</u>
Pennington Biomedical Research Center:						
Executive Director Funds	\$ 1,595	\$ -	\$ 1,595	\$ 7,143	\$ -	\$ 7,143
Projects	94,974	-	94,974	49,468	-	49,468
MD salary supplements	-	-	-	50,000	-	50,000
Professional fees	-	14,970	14,970	-	12,720	12,720
Office expense	-	1,239	1,239	-	1,535	1,535
Taxes	-	1,525	1,525	-	4,273	4,273
Insurance	-	2,757	2,757	-	3,536	3,536
	<u>-</u>	<u>2,757</u>	<u>2,757</u>	<u>-</u>	<u>3,536</u>	<u>3,536</u>
Total functional expenses	<u>\$ 96,569</u>	<u>\$ 20,491</u>	<u>\$ 117,060</u>	<u>\$ 106,611</u>	<u>\$ 22,064</u>	<u>\$ 128,675</u>

The accompanying notes are an integral part of these financial statements

Pennington Medical Foundation
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Decrease in net assets without donor restrictions	\$ (33,352)	\$ (123,011)
Adjustments to reconcile decrease in net assets without donor restrictions to net cash used in operating activities:		
Unrealized (gains) losses on investments	(46,859)	50,428
(Increase) Decrease in assets:		
Accrued royalties	2,776	1,524
Prepaid expenses	1,744	(1,182)
Increase (Decrease) in liabilities:		
Accounts payable	-	(5,454)
Due to related parties	<u>16,194</u>	<u>(344)</u>
Net cash used in operating activities	<u>(59,497)</u>	<u>(78,039)</u>
Cash Flows from Investing Activities		
Purchase of investments	(831)	(16,663)
Proceeds from sale of investments	<u>135,052</u>	<u>85,827</u>
Net cash provided by investing activities	<u>134,221</u>	<u>69,164</u>
Net Increase (Decrease) in Cash	74,724	(8,875)
Cash, beginning of year	<u>925</u>	<u>9,800</u>
Cash, end of year	<u>\$ 75,649</u>	<u>\$ 925</u>

The accompanying notes are an integral part of these financial statements

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2020

Note 1-Nature of Operations

Pennington Medical Foundation (the “Foundation”) is a non-profit trust created in 1980 exclusively for scientific purposes in constructing and equipping Pennington Biomedical Research Center (the “Center”), a campus of the Louisiana State University System. The Foundation provides financial support, in conjunction with Pennington Biomedical Research Foundation (the “Research Foundation”), for medical research conducted at the Center. The primary source of revenue for the Foundation is from investment earnings.

Note 2-Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been presented on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

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

Net assets without donor restrictions: net assets not subject to donor stipulations.

Net assets with donor restrictions: net assets subject to donor stipulations that a) restrict their use to a specific purpose, which will be satisfied by actions of the Foundation or the passage of time; or b) require that they be maintained in perpetuity by the Foundation; generally, the donor of these assets permit the Foundation to use all or part of the income earned.

At December 31, 2020 and 2019, the Foundation had no net assets with donor restrictions.

B. 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 revenue and expenses during the reporting periods. Actual results could differ from those estimates. The Foundation utilizes various investment instruments which, by nature, are exposed to a variety of risk levels and risk types, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the Statements of Financial Position.

C. Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered. As of December 31, 2020 and 2019, the Foundation had no cash equivalents.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2020

Note 2-Summary of Significant Accounting Policies (Continued)

D. Investments

Investments in securities with readily determinable fair values are recorded at a value based on quoted market prices. For those investments where quoted prices are not available, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. Dividend, interest, and other investment income are recorded as an increase in net assets with or without restrictions depending on donor stipulations.

E. Fixed Assets

Fixed assets are capitalized at cost or, if donated, at fair value at the date of donation. Expenditures for major repairs and improvements that extend the useful lives of fixed assets are capitalized. Expenditures for maintenance and minor repairs are expensed as incurred.

F. 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. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. As of December 31, 2020 the Foundation had no such income. The Foundation has been classified as an organization other than a private foundation.

Management has determined that there are no uncertain tax positions that would require recognition in the financial statements. If the Foundation were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax would be reported as income taxes. Management's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based on ongoing analysis of tax laws, regulations, and interpretations thereof as well as other factors.

G. Functional Expenses

Expenses included in program services on the statements of functional expenses are those expenses that are directly identifiable with a specific program. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but rather provide for the overall support and direction of the Foundation.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2020

Note 2-Summary of Significant Accounting Policies (Continued)

H. Liquidity Management

As of December 31, 2020, the following financial assets could be made readily available within one year of the statement of financial position date to meet general expenditures:

Cash	\$	75,649
Investments		627,903
Accrued royalties		<u>3,660</u>
Total financial assets, period end		707,212
Less, those unavailable for general expenditures within one year, due to:		
Mineral interest		104,347
Hedge fund of funds		<u>38,943</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$ 563,922</u>

As part of its liquidity management, the Foundation has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due.

Note 3-Investments

Investments at fair value are comprised of the following for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Short-term investments	\$ 484,613	\$ 618,834
Hedge fund of funds	38,943	36,853
Mineral interest	<u>104,347</u>	<u>59,578</u>
Total investments, at fair value	<u>\$ 627,903</u>	<u>\$ 715,265</u>

Net investment income is comprised of the following for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividends	831	10,885
Realized and unrealized gains (losses) on investments	46,859	(50,428)
Madoff Victim Fund recovery	22,562	17,436
Royalty income	13,889	28,757
Investment fees	<u>(433)</u>	<u>(986)</u>
Investment income, net	<u>\$ 83,708</u>	<u>\$ 5,664</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2020

Note 4-Fixed Assets

The following schedule shows fixed assets for the years ended December 31, 2020 and 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
December 31, 2020				
Equipment	\$ 366,250	\$ -	\$ -	\$ 366,250
Less accumulated depreciation	<u>(366,250)</u>	<u>-</u>	<u>-</u>	<u>(366,250)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2019				
Equipment	\$ 366,250	\$ -	\$ -	\$ 366,250
Less accumulated depreciation	<u>(366,250)</u>	<u>-</u>	<u>-</u>	<u>(366,250)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 5-Fair Value Measurements

In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC 820, 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 pricing 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.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2020

Note 5-Fair Value Measurements (Continued)

Fair Value Hierarchy

The Fair Value Measurements and Disclosures topic of the FASB ASC 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.
- 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'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 Foundation's investments in securities with readily determinable fair values are recorded at a value based on quoted market prices. For those investments where quoted prices are unavailable, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. The Foundation utilizes several externally managed fund(s) of funds for private equity, venture capital, and hedge funds, and with these types of investments, quoted prices are often unavailable, and pricing inputs are generally unobservable. The Foundation relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2020

Note 5-Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis are comprised of the following:

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Short-term investments	\$ 484,613	\$ -	\$ -	\$ 484,613
Hedge fund of funds	-	-	38,943	38,943
Mineral interest	-	-	104,347	104,347
	\$ 484,613	\$ -	\$ 143,290	\$ 627,903
	Level 1	Level 2	Level 3	Total
December 31, 2019				
Short-term investments	\$ 618,834	\$ -	\$ -	\$ 618,834
Hedge fund of funds	-	-	36,853	36,853
Mineral interest	-	-	59,578	59,578
	\$ 618,834	\$ -	\$ 96,431	\$ 715,265

The following table presents the changes in fair value of Level 3 instruments that are measured at fair value on a recurring basis as of December 31, 2020.

	Level 3 Balance at Beginning of Year	Purchases	Sales	Realized & Unrealized Gains (Losses) in Changes in Net Assets	Level 3 Balance at End of Year	Change in Unrealized Gains (Losses) for Investments Still Held at Year End
Hedge fund of funds	\$ 36,853	\$ -	\$ -	\$ 2,090	\$ 38,943	\$ 2,090
Mineral interest	59,577	-	-	44,769	104,347	44,769
	\$ 96,430	\$ -	\$ -	\$ 46,859	\$ 143,290	\$ 46,859

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2020

Note 5-Fair Value Measurements (Continued)

The following table presents the changes in fair value of Level 3 instruments that are measured at fair value on a recurring basis as of December 31, 2019.

	Level 3 Balance at Beginning of Year	Purchases	Sales	Realized & Unrealized Gains (Losses) in Changes in Net Assets	Level 3 Balance at End of Year	Change in Unrealized Gains (Losses) for Investments Still Held at Year End
Hedge fund of funds	\$ 43,246	\$ -	\$ (5,776)	\$ (617)	\$ 36,853	\$ (617)
Mineral interest	<u>109,389</u>	<u>-</u>	<u>-</u>	<u>(49,811)</u>	<u>59,578</u>	<u>(49,811)</u>
	<u>\$ 152,635</u>	<u>\$ -</u>	<u>\$ (5,776)</u>	<u>\$ (50,428)</u>	<u>\$ 96,431</u>	<u>\$ (50,428)</u>

Note 6-Related Party Transactions

The Foundation had the following related party transactions for the years ended December 31, 2020 and 2019:

Pennington Biomedical Research Center

The Foundation is a Type III supporting organization of the Center, as defined by the Internal Revenue Service. As such, the Foundation provides annual financial support directly to or for the benefit of the Center for capital support and its medical research needs. Total program support of \$96,569 and \$106,611 was provided by the Foundation to or for the benefit of the Center for the years ended December 31, 2020 and 2019, respectively. The amount owed to the Center at December 31, 2020 and 2019 for this support and additional miscellaneous reimbursements was \$15,829 and \$7,915 respectively.

Pennington Biomedical Research Foundation

The Foundation maintains a memorandum of understanding with the Research Foundation, an organization related by common management, for providing accounting services and administrative support to the Foundation. The total amount paid by the Foundation for these services was \$3,000 and \$2,895 for the years ended December 31, 2020 and 2019, respectively, which is included in professional fees. The amount owed to the Research Foundation for these services and additional miscellaneous reimbursements at December 31, 2020 and 2019 was \$8,530 and \$250, respectively.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2020

Note 6-Related Party Transactions (Continued)

At December 31, 2020 and 2019, the summarized amounts due to related parties are as follows:

	<u>2020</u>	<u>2019</u>
Pennington Biomedical Research Center		
Program services support	\$ 15,829	\$ 7,915
Pennington Biomedical Research Foundation		
Accounting and administrative support	<u>8,530</u>	<u>250</u>
Total due to related parties	<u>\$ 24,359</u>	<u>\$ 8,165</u>

Note 7-Risks and Uncertainties

The COVID-19 pandemic has caused extensive disruptions to the global, national and regional economy. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. While the scope, duration, and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and related efforts to contain it have disrupted economic activity and economic activity. If these implications continue for a prolonged period or result in sustained economic stress or recession, there could be a material adverse effect on the Foundation related to profitability, operations, and liquidity.

Note 8-Subsequent Events

Pennington Medical Foundation has evaluated all subsequent events through June 21, 2021, the date the financial statements were available to be issued. As a result, the Foundation noted no subsequent events that required adjustment to, or disclosure in, these financial statements.