

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS
MODIFIED CASH BASIS

DECEMBER 31, 1998 AND 1997

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

Release Date **OCT 13 1999**



TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Consolidated Financial Statements - Modified Cash Basis</u>	
Statements of Assets, Liabilities, and Net Assets	2
Statements of Activities	3 - 4
Schedules of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 13





Postlethwaite & Netterville
A Professional Accounting Corporation

8550 United Plaza Blvd., Suite 1001 • Baton Rouge, Louisiana 70809
Telephone (225) 922-4600 • FAX (225) 922-4611
www.pncpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pennington Biomedical Research Foundation
Baton Rouge, Louisiana

We have audited the accompanying consolidated statements of assets, liabilities, and net assets (modified cash basis) of the Pennington Biomedical Research Foundation as of December 31, 1998 and 1997, and the related modified cash basis consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these consolidated financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Pennington Biomedical Research Foundation as of December 31, 1998 and 1997, and its activities, functional expenses, and cash flows for the years then ended, in conformity with the basis of accounting described in Note 1.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 9, 1999



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS
(MODIFIED CASH BASIS)
DECEMBER 31, 1998 AND 1997

ASSETS

	1998	1997
<u>CURRENT ASSETS</u>		
Cash in banks	\$ 70,213	\$ 48,748
Investments (short-term)	646,587	485,526
Inventory	13,580	16,076
	730,380	550,350
<u>OTHER ASSETS</u>		
Property and equipment - net	413	1,055
Organization costs - net	3,214	3,928
Investments (long-term)	6,302,668	4,853,215
	6,306,295	4,858,198
Total assets	\$ 7,036,675	\$ 5,408,548

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Payroll taxes withheld	\$ 914	\$ 2,256
Sales taxes payable	17	568
Notes payable	-	101,568
	931	104,392
<u>LONG-TERM LIABILITIES</u>		
Funds held-in-custody	1,339,090	1,339,090
	1,339,090	1,339,090
<u>NET ASSETS</u>		
Unrestricted	674,744	546,104
Temporarily restricted	1,586,910	1,358,962
Permanently restricted	3,435,000	2,060,000
	5,696,654	3,965,066
Total liabilities and net assets	\$ 7,036,675	\$ 5,408,548

The accompanying notes are an integral part of these statements.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES (MODIFIED CASH BASIS)
YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
<u>SUPPORT AND REVENUES</u>				
Donations	\$ 183,441	\$ 148,930	\$ 1,375,000	\$ 1,707,371
Investment income	30,159	422,032	-	452,191
Management fees	750,000	-	-	750,000
Conference center rental income	163,262	-	-	163,262
Other	21,229	351,099	-	372,328
	<u>1,148,091</u>	<u>922,061</u>	<u>1,375,000</u>	<u>3,445,152</u>
Satisfaction of program restrictions	694,113	(694,113)	-	-
	<u>1,842,204</u>	<u>227,948</u>	<u>1,375,000</u>	<u>3,445,152</u>
<u>EXPENSES</u>				
Program services	707,278	-	-	707,278
Management & general	1,006,286	-	-	1,006,286
	<u>1,713,564</u>	<u>-</u>	<u>-</u>	<u>1,713,564</u>
<u>CHANGE IN NET ASSETS</u>	128,640	227,948	1,375,000	1,731,588
<u>NET ASSETS, BEGINNING OF YEAR</u>	<u>546,104</u>	<u>1,358,962</u>	<u>2,060,000</u>	<u>3,965,066</u>
<u>NET ASSETS, END OF YEAR</u>	<u>\$ 674,744</u>	<u>\$ 1,586,910</u>	<u>\$ 3,435,000</u>	<u>\$ 5,696,654</u>

The accompanying notes are an integral part of these statements.



1997

<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 156,348	\$ 514,000	\$ 50,000	\$ 720,348
29,098	302,125	-	331,223
750,000	-	-	750,000
97,596	-	-	97,596
17,167	86,282	-	103,449
<u>1,050,209</u>	<u>902,407</u>	<u>50,000</u>	<u>2,002,616</u>
1,069,242	(1,069,242)	-	-
<u>2,119,451</u>	<u>(166,835)</u>	<u>50,000</u>	<u>2,002,616</u>
999,135	-	-	999,135
923,083	-	-	923,083
<u>1,922,218</u>	<u>-</u>	<u>-</u>	<u>1,922,218</u>
197,233	(166,835)	50,000	80,398
<u>348,871</u>	<u>1,525,797</u>	<u>2,010,000</u>	<u>3,884,668</u>
<u>\$ 546,104</u>	<u>\$ 1,358,962</u>	<u>\$ 2,060,000</u>	<u>\$ 3,965,066</u>



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

SCHEDULES OF FUNCTIONAL EXPENSES
(MODIFIED CASH BASIS)
YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998		Total
	Program Expenses	Management & General Expenses	
<u>EXPENSES</u>			
Benefits	\$ 22,726	\$ 6,436	\$ 29,162
Business development	-	5,495	5,495
Contract services	-	150	150
Contributions	-	-	-
Copies	21,147	2,666	23,813
Cost of sales	-	2,145	2,145
Depreciation & amortization	-	100	100
Employee loans	-	-	-
Fundraising	-	4,608	4,608
Honorariums and awards	47,495	4,452	51,947
Insurance	2,500	114,830	117,330
Interest	46	176	222
Investment losses	1,448	15	1,463
Legal fees	24,760	459	25,219
Meetings and symposiums	88,920	39,400	128,320
Miscellaneous	6,675	32,467	39,142
Payroll taxes	-	33,476	33,476
Postage	2,963	977	3,940
Printing	38,934	3,391	42,325
Professional fees	25,848	9,520	35,368
Recruiting	-	3,855	3,855
Repairs & maintenance	-	248,718	248,718
Research	3,213	10,797	14,010
Retirement expense	-	-	-
Salaries	401,212	228,654	629,866
Sales tax	-	1,052	1,052
Supplies	13,287	61,462	74,749
Telephone	1,412	185,496	186,908
Travel & entertainment	4,692	5,489	10,181
	<u>\$ 707,278</u>	<u>\$ 1,006,286</u>	<u>\$ 1,713,564</u>

The accompanying notes are an integral part of these statements.



1997		
Program Expenses	Management & General Expenses	Total
\$ 14,217	\$ 13,922	\$ 28,139
81	6,128	6,209
1,583	2,023	3,606
-	20,400	20,400
118	1,631	1,749
-	6,937	6,937
-	892	892
-	1,200	1,200
-	-	-
100	2,572	2,672
-	121,002	121,002
-	-	-
2,618	-	2,618
-	14,080	14,080
13,443	15,072	28,515
4,749	17,732	22,481
-	7,829	7,829
2,044	2,927	4,971
3,517	8,170	11,687
-	21,614	21,614
-	712	712
-	441,329	441,329
6,533	4,743	11,276
802,719	-	802,719
135,487	178,077	313,564
-	566	566
688	20,591	21,279
-	9,276	9,276
11,238	3,658	14,896
<u>\$ 999,135</u>	<u>\$ 923,083</u>	<u>\$ 1,922,218</u>



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
(MODIFIED CASH BASIS)
YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,731,588	\$ 80,398
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Write-down of notes receivable	-	18,800
Depreciation and amortization	1,357	3,590
Changes in operating assets and liabilities:		
Inventory	2,496	(7,609)
Payroll taxes and sales taxes payable	(1,893)	154
Other assets	-	(5,000)
Net cash provided by operating activities	<u>1,733,548</u>	<u>90,333</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of investment securities	<u>(1,610,515)</u>	<u>(112,145)</u>
Net cash used in investing activities	<u>(1,610,515)</u>	<u>(112,145)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net increase in funds held-in-custody	-	24,107
Repayment of long-term debt	<u>(101,568)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(101,568)</u>	<u>24,107</u>
Net increase in cash	21,465	2,295
Cash at beginning of year	<u>48,748</u>	<u>46,453</u>
Cash at end of year	<u>\$ 70,213</u>	<u>\$ 48,748</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
Cash paid during the year for:		
Interest	<u>\$ 221</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

The Pennington Biomedical Research Foundation (Foundation) is a non-profit corporation organized to provide financial support for the Pennington Biomedical Research Center (Center), a division of the Louisiana State University System (University) operating in Baton Rouge, Louisiana. The major programs of the Foundation include nutrition research related to obesity, diabetes, cancer, heart disease, food science, behavior, and various educational programs. During the year ended December 31, 1996, Pennington Discoveries, Inc. was organized as a separate for-profit organization to produce, market, and sell products developed by the Pennington Biomedical Research Center.

Consolidation

The Foundation owns 100% of the outstanding capital stock of Pennington Discoveries, Inc. Consequently, the Foundation's consolidated financial statements include the accounts of Pennington Discoveries, Inc. All significant intercompany accounts and transactions have been eliminated.

Modified Cash Basis

The Foundation's policy is to prepare its financial statements on the modified cash basis of accounting. Consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. The Foundation has elected to record inventory, depreciation, and notes payable, which is a departure from the pure cash basis of accounting.

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.

Pennington Discoveries, Inc. is a for-profit organization and is required to pay income taxes as determined by the guidelines established by the Internal Revenue Service.

Advertising

Pennington Discoveries, Inc. expenses the cost of advertising as incurred. Total advertising expense for the years ended December 31, 1998 and 1997 was \$3,945 and \$17,281, respectively.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements using the modified cash basis of accounting 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.

Investments

Investments consist of United States Government Agency obligations, mortgage and asset-backed securities, equities, money market funds, and cash maintained in trust accounts. All investments purchased by the Foundation are stated at cost. Realized gains and losses on dispositions are based on the net proceeds and the book value of the securities sold, using the specific identification method. These realized gains and losses flow through the Foundation's yearly activities.

Cash Flow Statement

For purposes of the cash flow statement, cash includes operating funds on deposit at the various financial institutions.

Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at historical cost. Additions, renewals, and betterments that extend the life of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Provisions for depreciation are computed using accelerated methods over the estimated useful lives.

The Foundation leases office space from the University and utilizes furniture and other office equipment owned by the University. These assets are not reflected on the accompanying financial statements.

Software and organization costs are recorded at cost with amortization recorded using the straight-line method over the estimated useful life of the asset.

Revenue Recognition

The Foundation records revenue in the following manner:

1. Unrestricted funds represent the portion of funds available for support of Foundation supporting services and amounts which have been expended for property acquisitions.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

2. Temporarily restricted funds represent expendable funds with donor stipulations that limit the use of the donated assets or specifies a time restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted funds and related expenses are shown as unrestricted. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.
3. Permanently restricted funds represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be used. Expendable income derived from the endowment funds is accounted for as revenue in the current funds.

The Foundation reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

2. Retirement Contributions and Expense

The Foundation makes an annual contribution to the retirement plan of eligible employees. The amount of the contribution is equal to 7.5% of annual compensation. Eligibility requirements are attainment of age 21 and full-time employment for three of the past five years. Total contributions for the years ended December 31, 1998 and 1997 totaled \$2,164 and \$2,463, respectively.

During the year ended December 31, 1997, the Foundation purchased an annuity to fund the retirement obligation of the Center's Director. The cost of the annuity was \$802,719 and is recorded as retirement expense in the accompanying financial statements. Additionally, the Foundation received \$400,000 from the Medical Foundation to help fund the cost of the annuity.

3. Related Parties

The Foundation entered into a lease agreement with Louisiana State University to lease 600 square feet of office space at an annual rate of \$8 per square foot, or \$4,800 per year. The lease expires June 30, 2001.

4. Investments

Investments are maintained and managed in brokerage accounts which are in compliance with the Board of Regent's investment policy for the Endowed Professorship Programs and the Endowed Chairs for Eminent Scholars Program.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

4. Investments – (continued)

As of December 31, 1998 and 1997, the market values, which are based on quoted market prices, were \$6,977,037 and \$5,322,533, respectively.

5. Notes Payable

The Foundation borrowed \$101,568 from two unrelated parties prior to January 1, 1995. These notes are non-interest bearing and contain no specified repayment terms. These notes were repaid during the year ended December 31, 1998.

6. Endowment Enhancement

In order to comply with Act Numbers 909 and 910 of the 1992 Louisiana Legislative Session regarding depositories for University Endowment Trust Funds, a portion of the endowment income is added to the endowment principal. The enhancement is calculated as the lesser of 5% of the market value of program assets or 75% of endowment earnings, which is calculated annually. Funds available for expenditure that were not spent in the current year may be carried forward to subsequent years with the approval of the Board of Regents, provided the Foundation has documented the reason that the funds were not expended in the year allocated and has developed a plan showing the proposed uses of the funds in future years. The enhancement calculated, as of the State's fiscal year ended June 30, 1997, was \$99,090. For the year ended June 30, 1998, the Foundation has elected to carryforward the enhancement to subsequent years; therefore, no income will be added to the principal.

7. Funds Held in Escrow

Included in investments at December 31, 1998 and 1997, were funds held in escrow at local banks, which represent funds contributed to the Foundation by private donors and matching funds received from the State of Louisiana. The Endowed Chairs for Eminent Scholars Program requires a \$600,000 private donation and a matching \$400,000 gift from the State of Louisiana, making a total endowment of \$1,000,000 per program. The Eminent Scholars Program requires a \$60,000 private donation and a \$40,000 matching gift from the State of Louisiana, making a total endowment of \$100,000. Total funds held in escrow are as follows:

	<u>1998</u>	<u>1997</u>
Private donations (permanently restricted)	\$ 3,435,000	\$ 2,060,000
Matching funds	<u>1,339,090</u>	<u>1,339,090</u>
	<u>\$ 4,774,090</u>	<u>\$ 3,399,090</u>



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

8. **Management Agreement**

The Foundation is party to a memorandum of understanding with the Pennington Medical Foundation (Medical Foundation) for an unspecified period of time.

In accordance with the terms of the agreement, the Foundation is responsible for the maintenance and operation of the Claude B. Pennington Conference and Education Center and the conference center meeting program; and provides the Medical Foundation with professional and administrative services. The Medical Foundation reimburses the Foundation for the above mentioned services and allows the Foundation to retain the revenues generated from the conference management operations. A set management fee of \$750,000 per year is paid to the Foundation in quarterly installments.

9. **Concentrations of Credit Risk**

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents. The Foundation maintains several money market accounts. The total cash balances are insured by the F.D.I.C. up to \$100,000 per bank. The Foundation had cash balances on deposit with one bank in Baton Rouge, Louisiana at December 31, 1998 that exceeded the balance insured by the F.D.I.C. by \$231,563.

The Foundation is also secured by SIPC (Securities Investor Protection Corporation) for up to \$60 million through insurance purchased by the investment company. However, the \$60 million of protection and SIPC does not insure the quality of investments or protect against losses from fluctuating market values.

Donations totaling \$1.2 million were made from one contributor during the year ended December 31, 1998.

10. **Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 1998 were available for specific nutritional research programs and other nutritional research programs being conducted at the Pennington Biomedical Research Center.

	<u>1998</u>	<u>1997</u>
Director's Supplement & Development Fund	\$ 301,775	\$ 326,401
Benefits Trust	2,241	-
Women's Health Research Fund	95,790	90,866
Pryor Research Fund	86,327	80,076
NAASO Fund	66,358	52,267
Research Development Fund	232,423	283,964
PMF Office Budget	8,749	-
Other Nutritional Research Programs	<u>793,247</u>	<u>525,388</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,586,910</u>	<u>\$ 1,358,962</u>



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

11. Subsequent Events

As of February 1999, Pennington Discoveries, Inc. entered into a license and royalty agreement with Cajun Injectors, Inc. The agreement will expire on July 1, 2003, unless terminated earlier by either party.

