

PENNINGTON BIOMEDICAL RESEARCH
FOUNDATION



PENNINGTON
BIOMEDICAL
RESEARCH
FOUNDATION

2004 CONSOLIDATED FINANCIAL STATEMENTS

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 1-12-05

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004



TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Consolidated Financial Statements</u>	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 11





Postlethwaite & Netterville

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of the Pennington Biomedical Research Foundation as of June 30, 2004, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 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 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 statement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Pennington Biomedical Research Foundation as of June 30, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Postlethwaite & Netterville

Baton Rouge, Louisiana
October 16, 2004

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

ASSETS

Cash and cash equivalents	\$ 14,060
Accounts receivable	74,454
Prepaid expenses	15,681
Investments - unrestricted	790,908
Investments - temporarily restricted, permanently restricted, and funds held-in-custody	14,594,421
Investment in subsidiary	25,917
Annuity held by rabbi trust	871,964
Total assets	<u>\$ 16,387,405</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Note payable - Medical Foundation	\$ 260,000
Payroll and sales taxes payable	84
Accounts payable	294,784
Accrued expenses and other liabilities	15,571
Deferred revenues and deposits	29,873
Retirement obligation	871,964
Funds held-in-custody	3,454,128
Total liabilities	<u>4,926,404</u>

NET ASSETS

Unrestricted	413,492
Temporarily restricted	4,403,603
Permanently restricted	6,643,906
Total net assets	<u>11,461,001</u>

Total liabilities and net assets **\$ 16,387,405**

The accompanying notes are an integral part of this statement.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUES</u>				
Donations	\$ 124,516	\$ 741,727	\$ 991,212	\$ 1,857,455
Investment income	64,430	952,333	-	1,016,763
Management fees	850,000	-	-	850,000
Conference center rental income	313,772	-	-	313,772
Income (loss) from subsidiary	(159,917)	-	-	(159,917)
Other	46,602	630,474	-	677,076
	<u>1,239,403</u>	<u>2,324,534</u>	<u>991,212</u>	<u>4,555,149</u>
Net assets released by satisfaction of program restrictions	<u>1,394,670</u>	<u>(1,394,670)</u>	<u>-</u>	<u>-</u>
	<u>2,634,073</u>	<u>929,864</u>	<u>991,212</u>	<u>4,555,149</u>
<u>EXPENSES</u>				
Program services	1,322,311	-	-	1,322,311
Management and general	211,936	-	-	211,936
Development	215,061	-	-	215,061
Conference center	1,181,636	-	-	1,181,636
	<u>2,930,944</u>	<u>-</u>	<u>-</u>	<u>2,930,944</u>
<u>CHANGE IN NET ASSETS</u>	(296,871)	929,864	991,212	1,624,205
Net assets, beginning of period	460,363	3,473,739	5,902,694	9,836,796
Reclassification of previous donation	<u>250,000</u>	<u>-</u>	<u>(250,000)</u>	<u>-</u>
<u>NET ASSETS, END OF PERIOD</u>	<u>\$ 413,492</u>	<u>\$ 4,403,603</u>	<u>\$ 6,643,906</u>	<u>\$ 11,461,001</u>

The accompanying notes are an integral part of this statement.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

	Program Expenses	Management and General Expenses	Development	Conference Center Expenses	Total
Bank charges	\$ 5,008	\$ 4,950	\$ -	\$ -	\$ 9,958
Benefits	73,603	7,927	7,897	38,850	128,277
Business development	37,612	9,810	27,114	-	74,536
Dues and subscriptions	3,863	8,412	2,350	-	14,625
Insurance	-	1,229	-	95,910	97,139
Interest expense	-	13,009	-	-	13,009
Investment expense	83,758	-	-	-	83,758
Meetings and symposiums	120,159	2,736	2,418	170	125,483
Miscellaneous	6,782	12,329	4,036	4,503	27,650
Payroll taxes	18	5,638	7,023	13,892	26,571
Postage	542	3,815	2,114	87	6,558
Printing	6,618	3,924	1,724	139	12,405
Professional fees	125,810	53,901	47,968	21,779	249,458
Repairs and maintenance	164,008	-	-	226,962	390,970
Research	118,125	-	-	-	118,125
Salaries	514,347	76,633	100,478	303,263	994,721
Sponsorships	4,400	-	7,200	-	11,600
Supplies	880	3,890	1,322	43,857	49,949
Telephone	311	2,289	393	23,890	26,883
Travel	56,467	1,444	3,024	53	60,988
Utilities	-	-	-	408,281	408,281
	<u>\$ 1,322,311</u>	<u>\$ 211,936</u>	<u>\$ 215,061</u>	<u>\$ 1,181,636</u>	<u>\$ 2,930,944</u>

The accompanying notes are an integral part of this statement.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,624,205
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Earnings of subsidiary	159,917
Realized gain on sales of investment securities	(368,879)
Unrealized gain on investment securities	(398,208)
Permanently restricted contributions	(991,212)
Changes in operating assets and liabilities:	
Accounts receivable	25,914
Prepaid expenses	(8,021)
Payroll and sales taxes payable	(5,168)
Accounts payable	53,387
Accrued expenses and other liabilities	8,381
Deferred revenues and deposits	17,220
Net cash provided by operating activities	<u>117,536</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net purchases of investments	(1,708,077)
Investment in subsidiary	(150,000)
Net cash used in investing activities	<u>(1,858,077)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	60,000
Permanently restricted contributions	991,212
Change in funds held-in-custody	599,429
Net cash provided by financing activities	<u>1,650,641</u>

Net decrease in cash	(89,900)
Cash at beginning of period	<u>103,960</u>
Cash at end of period	<u>\$ 14,060</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest	<u>\$ -</u>
Cash paid during the year for income taxes	<u>\$ -</u>

The accompanying notes are an integral part of this statement.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

The Pennington Biomedical Research Foundation (the Foundation) is a non-profit corporation which was organized to provide financial support for the Pennington Biomedical Research Center (the Center), a division of the Louisiana State University System (the University) operating in Baton Rouge, Louisiana. The major programs of the Center 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. (PDI) was organized as a separate for-profit organization to commercialize and further develop technologies and other intellectual property originating from the Pennington Biomedical Research Center. In 2002, PDI entered into a partnership with NMCT USA, Inc. to form Pennington Management of Clinical Trials, LLC (PMCT). PDI is a 20% owner of PMCT.

Consolidation

The Foundation's consolidated financial statements include the accounts of Pennington Discoveries, Inc, a wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The financial statement has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Deferred Revenues and Deposits

Deferred revenues and deposits include conference center rentals and sponsorship revenues that have been received in advance of the events.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Investments

Investments consist of United States Government Agency obligations, mortgage and asset-backed securities, equities, money market funds, hedge funds, and cash maintained in trust accounts. All investments purchased by the Foundation are stated at fair value. 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, and are classified as temporarily restricted or unrestricted based on donor intent. These realized gains and losses flow through the Foundation's yearly activities.

Cash Flow Statement

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

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.

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

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

Promises to Give

Unconditional promises to give are recognized as revenue in the period received. Promises to give are recorded at realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk

The Foundation maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. At June 30, 2004, the Foundation did not exceed the insured limit.

The Foundation's investments are 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.

2. Retirement Contributions and Expense

The Foundation makes an annual contribution to the SEP IRA retirement plan for eligible employees. The amount of the contribution is equal to 5% of annual compensation. Eligibility requirements are attainment of age 21 and full-time employment for one year. Contributions for the year ended June 30, 2004, totaled approximately \$15,000.

3. Investments

The investments of the Endowed Professorship Programs and the Endowed Chairs for Eminent Scholars Program are maintained and managed in brokerage accounts which are in compliance with the Board of Regent's investment policy. Investments in debt securities and equity securities are stated at fair value. Investments received as gifts are initially recorded at fair value at the date of donation. Realized gains and losses on sales of investments are determined using the specific identification method.

Investments at June 30, 2004, were comprised of the following:

U.S. Government obligations	\$ 4,204,562
Corporate stock	5,301,943
Corporate bonds	2,372,771
Fixed income	1,465,537
Hedge funds	834,666
Money market funds	<u>1,205,850</u>
	<u>\$ 15,385,329</u>

Investment earnings were comprised of the following for the year ended June 30, 2004:

Interest income	\$ 62,890
Dividends	186,786
Realized gains on sales of investments	368,879
Unrealized gains on investments	<u>398,208</u>
	<u>\$ 1,016,763</u>



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. 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 65% 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. For the State's fiscal year ended June 30, 2004, the Foundation had no funds to carryforward to subsequent years.

5. Funds Held in Escrow and Permanently Restricted Net Assets

Included in investments at June 30, 2004, 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:

Private donations (permanently restricted)	\$ 6,643,906
State Matching Funds	<u>3,454,128</u>
	<u>\$ 10,098,034</u>

During the year ended June 30, 2004, the Foundation had received a \$250,000 endowment from Entergy Services, Inc. In a letter dated February 12, 2004, the director of corporate contributions for Entergy Services, Inc. approved the Foundation's request to reclassify the previously received donation from a permanently restricted endowment to an unrestricted donation.

6. 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 memorandum, the Foundation is responsible for the maintenance and operation of the Claude B. Pennington Conference and Education Center, the Pennington Residence Center, the Pennington Health and Fitness Center, 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 center management operations. A management fee of \$850,000 per year is paid to the Foundation in quarterly installments.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2004 were available for specific nutritional research programs and other nutritional research programs being conducted at the Pennington Biomedical Research Center.

Research Development	\$ 3,639,880
Grant Programs	542,749
Executive Development	<u>220,974</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,403,603</u>

8. Net Assets Released From Restrictions

Net assets released from donor restrictions for incurring program related expenses satisfying the restricted purposes for the year ended June 30, 2004 were as follows:

Research Development	\$ 781,287
Grant Programs	584,357
Executive Development	<u>29,026</u>
Total Restrictions Released	<u>\$ 1,394,670</u>

9. Investment in Joint Venture and Note Payable

Effective April 5, 2002, the Foundation became a member of Pennington Management of Clinical Trials, L.L.C. (Joint Venture). This limited liability company was formed for the purpose of conducting, managing and administering clinical trials in nutrition studies, studies pertaining to weight characteristics, and studies in the field of obesity and its associated diseases. The Foundation has a 20% interest in the Joint Venture and the other partner has an 80% interest. The Foundation has committed to the Joint Venture that it will continue to fund the partnership through December 31, 2004.

The Foundation borrowed \$200,000 from the Medical Foundation during the year ended June 30, 2002, in order to make its initial capital contributions to the Joint Venture, and borrowed an additional \$60,000 during the year ended June 30, 2004, to make additional capital contributions. The advances bear interest at 5%, and are due on June 30, 2008. The first interest payment was scheduled to be due in June of 2004; however, the Foundation did not make this payment as scheduled, and in August of 2004, the Medical Foundation forgave the balance due on the note payable.



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Investment in Joint Venture and Note Payable (continued)

Pertinent financial information for the Joint Venture as of June 30, 2004 is as follows (unaudited):

Balance sheet

Assets:

Cash	\$ 30,512
Accounts receivable	4,985
Other current assets	17,250
Property and equipment	<u>112,297</u>
Total assets	<u>\$ 165,044</u>

Liabilities:

Accounts payable and other liabilities	\$ 35,459
Members' capital	<u>129,585</u>
Total liabilities and members' capital	<u>\$ 165,044</u>

Income statement

Cost and expenses	<u>\$ 799,590</u>
Net income (loss)	<u>\$ (799,590)</u>

10. Commitments

The Foundation purchased an annuity to fund the retirement obligation of the former director of the Center. The annuity's value and corresponding retirement obligation is approximately \$872,000 at June 30, 2004.

11. Related Party Transactions

The Pennington Medical Foundation provides property and equipment to the Foundation for its use at no explicit charge to the Foundation. Also, Pennington Medical Foundation uses the employees of Pennington Biomedical Research Foundation at a monthly fee of \$2,500.

12. Subsequent events

Subsequent to June 30, 2004, the Foundation decided to close the conference center effective June 30, 2005. The Foundation is going to host all events that were previously scheduled and will not have to refund any of the deposits received.

