

**Pennington Medical Foundation  
Baton Rouge, Louisiana  
December 31, 2021**

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**HAWTHORN  
WAYMOUTH  
& CARROLL, L.L.P.**  
Certified Public Accountants

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## **Independent Auditor's Report**

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

### **Opinion**

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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pennington Medical Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pennington Medical Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pennington Medical Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pennington Medical Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

June 22, 2022

**Pennington Medical Foundation  
Statements of Financial Position  
December 31, 2021 and 2020**

<b>Assets</b>		
	<b>2021</b>	<b>2020</b>
<b>Current Assets</b>		
Cash	\$ 45,602	\$ 75,649
Investments, at fair value	583,856	627,903
Accrued royalties	8,253	3,660
Prepaid expenses	497	506
Total assets	<b>\$ 638,208</b>	<b>\$ 707,718</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Due to related parties	\$ 20,528	\$ 24,359
Total liabilities	20,528	24,359
<b>Net Assets</b>		
Without donor restrictions	617,680	683,359
Total liabilities and net assets	<b>\$ 638,208</b>	<b>\$ 707,718</b>

The accompanying notes are an integral part of these financial statements

**Pennington Medical Foundation**  
**Statements of Activities**  
**Years Ended December 31, 2021 and 2020**

	<b>Changes in Net Assets Without Donor Restrictions</b>	
	<b>2021</b>	<b>2020</b>
<b>Revenue and Gains</b>		
Investment income	\$ 84,362	\$ 83,708
Total revenue and gains	<u>84,362</u>	<u>83,708</u>
<b>Expenses</b>		
Program services	119,993	96,569
General and administrative	<u>30,048</u>	<u>20,491</u>
Total expenses	<u>150,041</u>	<u>117,060</u>
<b>Decrease in Net Assets</b>	(65,679)	(33,352)
<b>Net Assets</b>		
Beginning of year	<u>683,359</u>	<u>716,711</u>
End of year	<u>\$ 617,680</u>	<u>\$ 683,359</u>

The accompanying notes are an integral part of these financial statements

**Pennington Medical Foundation**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2021 and 2020**

	<u>2021</u>			<u>2020</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	\$ 51,798	\$ -	\$ 51,798	\$ 1,595	\$ -	\$ 1,595
Projects	68,195	-	68,195	94,974	-	94,974
Professional fees	-	25,351	25,351	-	14,970	14,970
Office expense	-	77	77	-	1,239	1,239
Taxes	-	2,519	2,519	-	1,525	1,525
Insurance	-	2,101	2,101	-	2,757	2,757
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total functional expenses	<u>\$ 119,993</u>	<u>\$ 30,048</u>	<u>\$ 150,041</u>	<u>\$ 96,569</u>	<u>\$ 20,491</u>	<u>\$ 117,060</u>

The accompanying notes are an integral part of these financial statements

**Pennington Medical Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets without donor restrictions	\$ (65,679)	\$ (33,352)
Adjustments to reconcile decrease in net assets without donor restrictions to net cash used in operating activities:		
Unrealized (gains) losses on investments	(55,914)	(46,859)
(Increase) Decrease in assets:		
Accrued royalties	(4,593)	2,776
Prepaid expenses	9	1,744
Increase (Decrease) in liabilities:		
Due to related parties	(3,831)	16,194
Net cash used in operating activities	(130,008)	(59,497)
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(39)	(831)
Proceeds from sale or transfer of investments	100,000	135,052
Net cash provided by investing activities	99,961	134,221
<b>Net Increase (Decrease) in Cash</b>	(30,047)	74,724
<b>Cash, beginning of year</b>	75,649	925
<b>Cash, end of year</b>	\$ 45,602	\$ 75,649

The accompanying notes are an integral part of these financial statements

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2021**

**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 using 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, 2021 and 2020, 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, 2021 and 2020, the Foundation had no cash equivalents.

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2021**

**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, 2021 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, 2021**

**Note 2-Summary of Significant Accounting Policies (Continued)**

H. Liquidity Management

As of December 31, 2021, the following financial assets could be made readily available within one year of the statement of financial position date to meet general expenditures:

Cash	\$	45,602
Investments		583,856
Accrued royalties		<u>8,253</u>
Total financial assets, period end		637,711
Less, those unavailable for general expenditures within one year, due to:		
Mineral interest		155,645
Hedge fund of funds		<u>43,559</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$ 438,507</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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Short-term investments	\$ 384,750	\$ 484,613
Hedge fund of funds	43,461	38,943
Mineral interest	<u>155,645</u>	<u>104,347</u>
Total investments, at fair value	<u>\$ 583,856</u>	<u>\$ 627,903</u>

Net investment income is comprised of the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest and dividends	59	831
Realized and unrealized gains on investments	55,914	46,859
Madoff Victim Fund recovery	2,222	22,562
Royalty income	26,365	13,889
Investment fees	<u>(198)</u>	<u>(433)</u>
Investment income, net	<u>\$ 84,362</u>	<u>\$ 83,708</u>

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2021**

**Note 4-Fixed Assets**

The following schedule shows fixed assets for the years ended December 31, 2021 and 2020:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>December 31, 2021</b>				
Equipment	\$ 366,250	\$ -	\$ -	\$ 366,250
Less accumulated depreciation	(366,250)	-	-	(366,250)
Property and equipment, net	\$ -	\$ -	\$ -	\$ -
<b>December 31, 2020</b>				
Equipment	\$ 366,250	\$ -	\$ -	\$ 366,250
Less accumulated depreciation	(366,250)	-	-	(366,250)
Property and equipment, net	\$ -	\$ -	\$ -	\$ -

**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, 2021**

**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, 2021**

**Note 5-Fair Value Measurements (Continued)**

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>December 31, 2021</b>				
Short-term investments	\$ 384,652	\$ -	\$ -	\$ 384,652
Hedge fund of funds	-	-	43,559	43,559
Mineral interest	-	-	155,645	155,645
	\$ 384,652	\$ -	\$ 199,204	\$ 583,856
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>December 31, 2020</b>				
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

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, 2021.

	<b>Level 3 Balance at Beginning of Year</b>	<b>Purchases</b>	<b>Sales</b>	<b>Realized &amp; Unrealized Gains in Changes in Net Assets</b>	<b>Level 3 Balance at End of Year</b>	<b>Change in Unrealized Gains for Investments Held at Year End</b>
Hedge fund of funds	\$ 38,943	\$ -	\$ -	\$ 4,616	\$ 43,560	\$ 4,616
Mineral interest	104,347	-	-	51,298	155,645	51,298
	\$ 143,290	\$ -	\$ -	\$ 55,914	\$ 199,205	\$ 55,914

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2021**

**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, 2020.

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

**Note 6-Related Party Transactions**

The Foundation had the following related party transactions for the years ended December 31, 2021 and 2020:

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 \$119,993 and \$96,569 was provided by the Foundation to or for the benefit of the Center for the years ended December 31, 2021 and 2020, respectively. The amount owed to the Center at December 31, 2021 and 2020 for this support and additional miscellaneous reimbursements was \$20,028 and \$15,829 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 \$3,000 for the years ended December 31, 2021 and 2020, respectively, which is included in professional fees. The amount owed to the Research Foundation for these services and additional miscellaneous reimbursements at December 31, 2021 and 2020 was \$500 and \$8,530, respectively.

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2021**

**Note 6-Related Party Transactions (Continued)**

At December 31, 2021 and 2020, the summarized amounts due to related parties are as follows:

	<u>2021</u>	<u>2020</u>
Pennington Biomedical Research Center		
Program services support	\$ 20,028	\$ 15,829
Pennington Biomedical Research Foundation		
Accounting and administrative support	<u>500</u>	<u>8,530</u>
Total due to related parties	<u>\$ 20,528</u>	<u>\$ 24,359</u>

**Note 7-Subsequent Events**

Pennington Medical Foundation has evaluated all subsequent events through June 22, 2022, 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.