
LSU HEALTH FOUNDATION, NEW ORLEANS

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

LSU HEALTH FOUNDATION, NEW ORLEANS

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
LSU Health Foundation, New Orleans
New Orleans, Louisiana

We have audited the accompanying financial statements of the LSU Health Foundation, New Orleans (the "Foundation") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in assets, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation adopted Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* in the current year related to the presentation of financial statements. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Foundation's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
October 28, 2019

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 566,168	\$ 66,030
Investments	167,335	2,368,742
Unconditional promises to give, net	296,424	416,233
Accounts receivable	1,227,969	1,045,436
Prepaid and other assets	94,050	86,874
Total current assets	2,351,946	3,983,315
Noncurrent Assets:		
Investments	140,427,647	138,912,691
Property and equipment, net	15,292,337	8,196,028
Unconditional promises to give, net	516,551	666,444
Total noncurrent assets	156,236,535	147,775,163
<u>TOTAL ASSETS</u>	\$ 158,588,481	\$ 151,758,478
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 697,178	\$ 753,734
Line of credit	647,034	436,740
Split-interest agreements	51,375	51,375
Total current liabilities	1,395,587	1,241,849
Noncurrent Liabilities:		
Amounts held in custody for others	29,593,442	29,951,198
Split-interest agreements	149,093	200,468
Total noncurrent liabilities	29,742,535	30,151,666
<u>TOTAL LIABILITIES</u>	31,138,122	31,393,515
<u>NET ASSETS</u>		
Without donor restrictions	16,041,496	9,443,475
Board-designated	515,628	865,331
Total without donor restrictions	16,557,124	10,308,806
With donor restrictions	110,893,235	110,056,157
Total net assets	127,450,359	120,364,963
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 158,588,481	\$ 151,758,478

The accompanying notes are an integral part of these financial statements.

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 7,093,395	\$ 4,855,939	\$ 11,949,334
Management and deposit fee income	2,011,147	-	2,011,147
Investment income, net	541,454	5,068,771	5,610,225
Rental income	281,837	-	281,837
Business venture revenue	736,859	-	736,859
Other revenue	3,180	-	3,180
	<u>10,667,872</u>	<u>9,924,710</u>	<u>20,592,582</u>
Net assets released from restrictions	<u>9,087,632</u>	<u>(9,087,632)</u>	<u>-</u>
Total revenue and other support	<u>19,755,504</u>	<u>837,078</u>	<u>20,592,582</u>
Expenses:			
Program services	10,712,617	-	10,712,617
General and administrative	1,217,206	-	1,217,206
Development	1,577,363	-	1,577,363
Total expenses	<u>13,507,186</u>	<u>-</u>	<u>13,507,186</u>
Change in net assets	6,248,318	837,078	7,085,396
Net assets at beginning of year	<u>10,308,806</u>	<u>110,056,157</u>	<u>120,364,963</u>
Net assets at end of year	<u>\$ 16,557,124</u>	<u>\$ 110,893,235</u>	<u>\$ 127,450,359</u>

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

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 301,669	\$ 5,462,685	\$ 5,764,354
Management and deposit fee income	1,929,557	-	1,929,557
Investment income, net	936,876	6,885,891	7,822,767
Rental income	271,313	-	271,313
Business venture revenue	342,059	-	342,059
Other revenue	2,412	-	2,412
Transfers	7,643	(7,643)	-
	<u>3,791,529</u>	<u>12,340,933</u>	<u>16,132,462</u>
Net assets released from restrictions	<u>8,466,233</u>	<u>(8,466,233)</u>	<u>-</u>
Total revenue and other support	<u>12,257,762</u>	<u>3,874,700</u>	<u>16,132,462</u>
Expenses:			
Program services	9,404,067	-	9,404,067
General and administrative	1,614,418	-	1,614,418
Development	950,089	-	950,089
Total expenses	<u>11,968,574</u>	<u>-</u>	<u>11,968,574</u>
Change in net assets	289,188	3,874,700	4,163,888
Net assets at beginning of year	<u>10,019,618</u>	<u>106,181,457</u>	<u>116,201,075</u>
Net assets at end of year	<u>\$ 10,308,806</u>	<u>\$ 110,056,157</u>	<u>\$ 120,364,963</u>

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

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

Program Services

	Program Services - Scientific, Research and Educational Enhancement of The LSU Health Sciences Center		Supporting Services			Total Expenses
	Other Program Services	Total Program Services	General and Administrative	Development		
Salary and related cost	\$ 2,084,180	\$ 650,358	\$ 2,734,538	\$ 742,289	\$ 1,006,902	\$ 4,483,729
Travel, conferences and meetings	2,188,573	8,931	2,197,504	4,967	43,258	2,245,729
Deposit and management fees	2,011,147	-	2,011,147	-	-	2,011,147
Professional services	624,577	194,134	818,711	141,397	158,204	1,118,312
Office supplies and equipment	1,018,239	62,422	1,080,661	13,599	27,811	1,122,071
Community and campus support	961,895	462	962,357	1,218	67,120	1,030,695
Dues, subscriptions and databases	168,363	3,301	171,664	14,854	148,507	335,025
Utilities and property maintenance	59,572	124,234	183,806	79,205	19,304	282,315
Depreciation	-	8,694	8,694	165,194	34,778	208,666
Repairs and maintenance	65,551	54,734	120,285	42,661	10,214	173,160
Professional education	111,672	2,924	114,596	310	-	114,906
Printing and postage	63,747	1,732	65,479	2,523	43,555	111,557
Marketing and website	63,866	11,834	75,700	119	16,334	92,153
Provision for uncollectible accounts	88,130	-	88,130	-	-	88,130
Banking and credit card fees	23,285	22,111	45,396	6,974	-	52,370
Taxes and licenses	32,900	1,049	33,949	1,896	1,376	37,221
Totals	\$ 9,565,697	\$ 1,146,920	\$ 10,712,617	\$ 1,217,206	\$ 1,577,363	\$ 13,507,186

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

Program Services

	Program Services - Scientific, Research and Educational Enhancement of The LSU Health Sciences Center			Supporting Services		Total Expenses
	Other Program Services	Total Program Services	General and Administrative	Development		
Salary and related costs	\$ 2,207,862	\$ 264,382	\$ 2,472,244	\$ 891,168	\$ 695,072	\$ 4,058,484
Travel, conferences and meetings	2,094,044	413	2,094,457	14,015	19,723	2,128,195
Deposit and management fees	1,929,557	-	1,929,557	-	-	1,929,557
Community and campus support	1,063,455	658	1,064,113	224	38,110	1,102,447
Professional services	619,873	73,416	693,289	195,478	59,406	948,173
Office supplies and equipment	733,557	38,808	772,365	73,902	3,409	849,676
Utilities and property maintenance	56,634	68,784	125,418	126,769	1,642	253,829
Dues, subscriptions and databases	137,636	1,066	138,702	3,372	110,298	252,372
Depreciation	-	-	-	250,024	-	250,024
Professional education	89,193	-	89,193	3,435	57	92,685
Repairs and maintenance	40,668	15,321	55,989	31,923	-	87,912
Printing and postage	54,375	556	54,931	7,161	15,712	77,804
Taxes and licenses	30,153	11,525	41,678	66	-	41,744
Banking and credit card fees	18,536	3,886	22,422	16,518	-	38,940
Marketing and website	21,384	5,907	27,291	363	6,660	34,314
Provision for uncollectible accounts	(177,582)	-	(177,582)	-	-	(177,582)
Totals	\$ 8,919,345	\$ 484,722	\$ 9,404,067	\$ 1,614,418	\$ 950,089	\$ 11,968,574

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net income	\$ 7,085,396	\$ 4,163,888
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	208,666	250,024
Change in allowance for uncollectible accounts	151,682	(161,502)
Net change in discount on unconditional promises to give	(63,551)	(16,080)
Realized and unrealized gain on investments	(1,922,439)	(4,096,359)
Non-cash donation of property	(7,035,000)	-
Contributions with donor restrictions in perpetuity	(1,802,405)	(1,725,207)
Changes in operating assets and liabilities:		
Decrease in unconditional promises to give	181,571	461,426
Increase in accounts receivable	(182,533)	(910,333)
Increase in other assets	(7,176)	(43,548)
Decrease in accounts payable and accrued expenses	(56,556)	(333,424)
(Decrease) increase in funds held in custody	(357,756)	833,521
	<u>(3,800,101)</u>	<u>(1,577,594)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from sales and maturities of investments	24,509,097	26,218,707
Purchases of investments	(21,900,207)	(27,291,878)
Purchases of property	(269,975)	(677,677)
Net cash provided (used in) by investing activities	<u>2,338,915</u>	<u>(1,750,848)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from line of credit	210,294	436,740
Contributions with donor restrictions in perpetuity	1,802,405	1,725,207
Payments to beneficiaries of split interest agreements	(51,375)	(51,375)
Net cash provided by financing activities	<u>1,961,324</u>	<u>2,110,572</u>
Net change in cash and cash equivalents	<u>500,138</u>	<u>(1,217,870)</u>
Cash and cash equivalents at beginning of year	<u>66,030</u>	<u>1,283,900</u>
Cash and cash equivalents at end of year	<u>\$ 566,168</u>	<u>\$ 66,030</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Noncash contributions	<u>\$ -</u>	<u>\$ 240,000</u>

The accompanying notes are an integral part of these financial statements.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities

The LSU Health Foundation, New Orleans (the “Foundation”) supports the activities of the LSU Health Sciences Center. The Foundation’s activities and purpose include scientific research, educational, solicitation and management of funds, including endowments, and other functions for the benefit of the LSU Health Sciences Center. The Foundation is supported primarily through donor contributions.

In December 2017, the Foundation, through a cooperative endeavor agreement with the Algiers Development District, assumed management operations for the Riverside Fitness Center in Algiers, Louisiana and rebranded the facility as LSU Health Fitness.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (US GAAP), which require the Foundation to report financial information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of Foundation’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Risks and Uncertainties

The Foundation holds various investments in any combination of stocks, bonds, fixed income securities, mutual funds, hedge funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Given the level of risk associated with certain investment securities and the level of uncertainty related to the changes in the value of investment securities it is at least reasonably possible that changes in values in the near term could materially affect investment balances and the amounts reported in the statements of financial position and the statements of activities.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Certain investments in hedge and private equity funds are through limited partnership interests and valued by management using net asset value (NAV) as a practical expedient. Net investment income/loss is reported in the statements of activities and consists of unrealized gains and losses, interest income, and dividends, less investment management and custodial fees.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Unconditional Promises to Give

Contributions are recognized when a donor makes a promise to give to the Foundation that is, in substance, unconditional. The promises to give are recognized as assets and revenues, net of an allowance for uncollectible amounts. The allowance is based on historical experience and management's analysis of specific promises made. Pledges due in subsequent years are recorded at net present value of estimated future cash flows using an appropriate discount rate. Unconditional promises to give that are due to be received within one year are classified as current assets on the statements of financial position.

Management's estimate for the allowance of uncollectible promises to give at June 30, 2019 and 2018 was \$537,169 and \$600,720, respectively.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

The Foundation capitalizes acquisitions of property, furniture, equipment, and accounting software purchased with unrestricted funds in excess of \$5,000. Costs of property, furniture, equipment, and accounting software purchased with unrestricted funds that are less than \$5,000 are charged to an expense. Capitalized assets are carried at cost or, if donated, at the approximate fair value at the date of donation. The Foundation finished construction on a new building in July of 2013 and is using the straight-line method to depreciate it over an estimated useful life of 40 years. Furniture is being depreciated over estimated useful lives of five years using the straight-line method. Construction-in-progress represents costs incurred on the construction of assets that have not been completed or placed in service as of the end of the year.

Amounts Held in Custody for Others

The Foundation considers all state matching funds and unexpended income from these funds to be reported as Amounts Held in Custody for Others. Amounts Held in Custody for Others are recorded at fair market value.

Contributions

Contributions are recorded as support without donor restriction or support with donor restriction, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in net assets with donor restriction, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), donor restricted net assets are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. Contributed goods are recorded at fair value at the date of donation.

Program Service Fees

The Foundation recognizes revenues related to the management and deposit fee income when earned according to the contractually obligated terms. Fees related to business venture income are recognized when the services are performed.

Required Transfers

The Foundation has received various matching grants from the State of Louisiana under the Endowed Chairs for Eminent Scholars, Endowed Professorships and Endowed Superior Graduate Student Scholarships, which are only approved after certain levels of private funding have been raised. The Foundation must comply with certain policies, procedures, and regulations regarding the administration of these programs. One of the requirements of the Board of Regents for Higher Education's investment policy relates to increasing each program's endowment balance each year and some transfers to endowed net assets were made to comply with this policy.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Accounting Change

As of July 1, 2018 the Organization adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Under the ASU, the number of net asset classes is decreased from three to two; enhanced disclosures of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how it manages its liquid available resources and liquidity risks is required. This adoption of ASU 2016-14 had no impact on the Organization's total net assets.

Accounting Pronouncements Issued But Not Yet Adopted

In June 2018, the FASB issued ASU No. 2018-08 Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU will be effective for the Foundation for annual periods beginning after December 15, 2018.

The FASB has issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard may be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. This standard will be effective for the Foundation for annual periods beginning after December 15, 2018.

The Foundation is in the process of assessing the effect of new accounting pronouncements on total net assets.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Salary and related cost	Time and effort
Professional services	Full time equivalent
Travel, conferences and meetings	Time and effort
Community and campus support	Full time equivalent
Printing and postage	Full time equivalent
Dues, subscriptions and databases	Full time equivalent
Professional education	Time and effort
Office supplies and equipment	Time and effort and square footage by full time equivalent
Taxes and licenses	Full time equivalent
Repairs and maintenance	Time and effort and square footage by full time equivalent
Utilities and property maintenance	Time and effort and square footage by full time equivalent
Depreciation	Square footage by full time equivalent

Income Taxes

The Foundation is a not-for-profit foundation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and various positions related to the potential sources of unrelated business taxable income (UBTI). The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to current year presentation.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources

The following represents the Foundation's financial assets at June 30, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 566,168
Investments	140,594,982
Unconditional promises to give, net	456,041
Accounts receivable	<u>1,227,969</u>
Total financial assets available within one year	<u>142,845,160</u>
Less amounts unavailable to be used for general expenditures within one year, due to:	
Amounts held in custody for others	29,593,442
Designated by Board of Directors	515,628
Restricted by donors with purpose restrictions	<u>110,893,235</u>
	<u>141,002,305</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 1,842,855</u>

The Foundation maintains a practice of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of weekly requirements in a variety of short-term investments. To help manage unanticipated needs, the Foundation has a committed line of credit of \$5,250,000, of which \$4,602,966 is available which it could draw upon.

Additionally, the Foundation has Board-designated net assets without donor restriction that, while the Foundation does not intend to spend these for purposes other than those identified, the amounts could be made available for current operations, if necessary.

4. Restrictions on Net Assets

Net assets with donor restrictions are restricted by donors for specific programs, purposes, or to assist specific departments of the LSU Health Sciences Center. The Foundation conducts numerous program services, including assistance with research, scientific endeavors, educational assistance through faculty salary supplemental compensation and student scholarships, equipment purchases for specific departments, etc. These restrictions are considered to expire when payments for restricted purposes are made or when time has elapsed. Transfers can be made between net assets with and without donor restrictions to reflect a change in donor intent for specific gifts made or deposits held with the Foundation.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5. Unconditional Promises to Give

Unconditional promises to give consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Gross unconditional promises to give	\$ 1,534,781	\$ 1,716,352
Less: unamortized discount	(184,637)	(32,955)
Less: allowance for uncollectible amounts	(537,169)	(600,720)
Net unconditional promises to give	<u>\$ 812,975</u>	<u>\$ 1,082,677</u>
Amount due in:		
Less than one year	\$ 456,041	\$ 640,358
One to five years	849,005	844,251
Over five years	229,735	231,743
Total	<u>\$ 1,534,781</u>	<u>\$ 1,716,352</u>

6. Investments

As of June 30, 2019, investments consisted of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Corporate bonds and notes	\$ 44,445,014	\$ 44,767,567	\$ 322,553
Mutual funds and other equities	59,584,963	68,000,930	8,415,967
REITS	6,388,322	7,436,550	1,048,228
Hedge funds	14,693,134	18,441,319	3,748,185
Money market	167,335	167,335	-
Private equity	1,630,776	1,781,281	150,505
Total	<u>\$126,909,544</u>	<u>\$140,594,982</u>	<u>\$ 13,685,438</u>
Interest and dividend income	\$ 3,687,786		
Net realized and unrealized gains	<u>1,922,439</u>		
Total investment income	<u>\$ 5,610,225</u>		

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

6. Investments (continued)

As of June 30, 2018 investments consisted of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Corporate bonds and notes	\$ 42,194,232	\$ 41,205,645	\$ (988,587)
Mutual funds and other equities	58,657,327	68,956,790	10,299,463
REITS	6,569,821	6,790,335	220,514
Hedge funds	16,436,302	20,171,415	3,735,113
Money market	3,329,756	3,329,756	-
Private equity	993,897	827,492	(166,405)
Total	<u>\$128,181,335</u>	<u>\$141,281,433</u>	<u>\$ 13,100,098</u>
Interest and dividend income	\$ 3,726,408		
Net realized and unrealized gains	<u>4,096,359</u>		
Total investment income	<u>\$ 7,822,767</u>		

The Board of Directors has been advised by legal counsel that under Louisiana state law, the gains from sales of securities and increases in market value are to be treated as principal and must be retained in endowment fund accounts. However, under the Uniform Prudent Management of Institutional Funds Act adopted in Louisiana, such gains and appreciation in value may be expended for the purposes designated by the donors if it is prudent in the judgment of the Board of Directors after considering the long and short term needs of the LSU Health Sciences Center, its present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions.

If any donor stipulates that realized and unrealized investment gains should not be spent on the restricted purpose for which a fund was originated, then such gains will be added to investment principal and will not be expendable in the future. No such stipulations were present at June 30, 2019.

Investment income from interest, dividends and realized gains and losses are allocated to various activities and programs under the Foundation's investment policy. The portion that is without donor restriction and pertains to short term donor-restricted activities is reported as support without donor restriction, and the portion that pertains to endowment activities is reported as revenue with donor restriction, because it could be expended on the restricted purposes of the endowments in subsequent periods.

LSU HEALTH FOUNDATION, NEW ORLEANS
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NOTES TO FINANCIAL STATEMENTS

6. Investments (continued)

The Foundation invests in hedge funds through its investment manager. The investments are part of a sophisticated, multi-strategy, multi-manager program designed to achieve an optimal balance of upside return potential and downside protection. The investments offer a diversified strategy protecting and preserving the Foundation's capital and a hedged equity strategy providing long-term capital growth. Both strategies also work to deliver risk-adjusted returns by capturing the market's return potential but with much less volatility. The portfolios are constructed using a time-tested, disciplined methodology focused first on risk management. The managers then work to identify strategies within a framework and to develop relationships with investment managers. The funds have a demonstrated track record of superior performance in maintaining a highly disciplined and effective investment allocation decision process. The Foundation's objective is to maximize its returns related to these investments. The Foundation does not invest in individual hedge funds, but instead, monitors the activity and returns of the manager. The Foundation's investment committee continuously examines the returns of the manager to ensure the Foundation's investment objectives are reached. The result is a portfolio with a demonstrated ability to protect capital from loss in adverse market conditions and to produce superior risk-adjusted returns. The returns from hedge funds are reported and posted quarterly reflecting the fair market value as of the reporting date. The earnings on the hedge funds are included in investment income, net, in the statements of activities.

7. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Building	\$ 8,346,657	\$ 8,346,657
Furniture	206,788	206,788
Construction in progress	947,652	677,676
Land	7,250,026	215,027
Less accumulated depreciation	<u>(1,458,786)</u>	<u>(1,250,120)</u>
Property and equipment, net	<u>\$ 15,292,337</u>	<u>\$ 8,196,028</u>

8. Concentration of Credits Risks

The Foundation maintains its cash accounts in several financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 and collateralized for greater amounts by agreement with some financial institutions. At June 30, 2019, the Foundation's balances are fully insured or collateralized.

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NOTES TO FINANCIAL STATEMENTS

9. Amounts Held in Custody for Others

Under agreements with Louisiana State University Agricultural and Mechanical College (the "University"), the Foundation holds and manages funds received by the University as state matching funds for various accounts of the Endowed Chairs for Eminent Scholars, Endowed Professorships and Endowed Superior Graduate Student Scholarships Programs. Funds held in custody were \$29,593,442 and \$29,951,198 on June 30, 2019 and 2018, respectively. The amount of state matching funds received was \$840,000 and \$840,000 for the fiscal years ended June 30, 2019 and 2018, respectively.

10. Retirement Plan

Effective July 1, 2002, the Foundation established a Tax Deferred Annuity or 403(b) Plan. The Foundation's total contributions expense was \$60,386 and \$29,164 as of June 30, 2019 and 2018, respectively, which is allocated to both general and administrative and development expenses on the statements of activities.

11. Split-Interest Agreements

The Foundation has entered into three (3) charitable gift annuity agreements. A charitable gift annuity provides for the payment of distributions to the grantor or designated beneficiaries over the trust's term. In consideration of the contribution, the Foundation shall pay an annual annuity of \$51,375 paid in quarterly or monthly installments to the donor so long as they are living. The Foundation's obligation will terminate upon the donor's death. The present value of the estimated future payments (\$200,468 and \$251,843 at June 30, 2019 and 2018) is calculated using a discount rate of 2.8% and the applicable mortality rates. The Foundation made payments to the donor in the amount of \$51,375 and \$51,375 for the fiscal years ended June 30, 2019 and 2018, respectively.

12. Line of Credit

The Foundation maintains a \$1,250,000 open ended margin loan account with an investment brokerage firm. The line bears an interest rate at the federal rate plus .75% (3.25% as of June 30, 2019) and is secured by the Foundation's investments held by the brokerage firm. As of June 30, 2019, the balance of the margin loan account was \$647,034.

The Foundation also maintains a \$4,000,000 line of credit at a financial institution to mature on February 27, 2020 with options to renew. The line bears an interest rate at the 30 day LIBOR rate plus 2.75% (5.15% as of June 30, 2019) and is unsecured, and is subject to certain specific covenants in its agreement. As of June 30, 2019, there was no balance outstanding for the line of credit account.

LSU HEALTH FOUNDATION, NEW ORLEANS
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NOTES TO FINANCIAL STATEMENTS

13. Endowments

The Foundation manages endowments for the benefit of the LSU Health Sciences Center. These endowments consist of funds raised for memorials, scholarships and awards along with Chairs and Professorships as defined by the Louisiana Board of Regents. The State of Louisiana enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) effective August 15, 2010, the provisions of which apply to endowment funds existing on or established after that date. The Board of Regents also has a policy statement that applies to the management of the endowments that received matching funds through their program.

The Foundation's endowment includes donor-restricted funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation further adheres to the policies adopted by the Louisiana Board of Regents and applies their Statement of Investment Policy and Objectives to the Foundation's management of Chairs and Professorships. The Chairs program allows for eligible public matching funds totaling 40% of established thresholds to be received after successfully raising 60% of the goal in private contributions. The Professorships program allows for eligible public matching funds totaling 20% of established thresholds to be received after successfully raising 80% of the goal in private contributions. The public matching funds are shown as amounts held in custody for others in the statements of financial position. Increases (decreases) in the endowment values below are due to changes in contributions received, investment earnings, matching funds received, and spending allocations.

The Foundation's investment portfolio is actively managed by an independent management consultant under the specific direction of the Foundation's Investment Committee. The Foundation's internal investment policy allows for the growth of each endowment while also achieving a 5% maximum annual spending allocation. The goal is for each endowment to maintain an adequate purchasing power while also actively benefitting the needs of the program supported by a particular endowment.

At June 30, 2019 and 2018, the Foundation had the following endowment net asset composition:

	<u>2019</u>	<u>2018</u>
Without donor restriction	\$ 515,628	\$ 865,331
With donor restriction	<u>96,098,382</u>	<u>94,779,344</u>
Total endowment funds	<u><u>\$ 96,614,010</u></u>	<u><u>\$ 95,644,675</u></u>

LSU HEALTH FOUNDATION, NEW ORLEANS
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NOTES TO FINANCIAL STATEMENTS

13. Endowments (continued)

A summary of the changes in the Foundation's Endowment net assets for the year ended June 30, 2019 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, July 1, 2018	\$ 865,331	\$ 94,779,344	\$ 95,644,675
Investment return, net	-	3,871,015	3,871,015
Contributions	69,784	3,000,662	3,070,446
Appropriated for expenditure	<u>(419,487)</u>	<u>(5,552,639)</u>	<u>(5,972,126)</u>
Endowment net assets, June 30, 2019	<u>\$ 515,628</u>	<u>\$ 96,098,382</u>	<u>\$ 96,614,010</u>

A summary of the changes in the Foundation's Endowment net assets for the year ended June 30, 2018 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 1,139,106	\$ 91,318,803	\$ 92,457,909
Investment return, net	-	6,883,108	6,883,108
Contributions	-	2,274,752	2,274,752
Appropriated for expenditure	<u>(273,775)</u>	<u>(5,697,319)</u>	<u>(5,971,094)</u>
Endowment net assets, June 30, 2018	<u>\$ 865,331</u>	<u>\$ 94,779,344</u>	<u>\$ 95,644,675</u>

14. Fair Value of Financial Instruments

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820") and FASB ASC 825, Financial Instruments ("ASC 825") requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position. The 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. However, in some instances, there are no quoted market prices for the Foundation's various financial instruments. 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. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. ASC 825 excludes certain financial instruments from its disclosure requirements.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

14. Fair Value of Financial Instruments (continued)

Level 1 Quoted prices in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs..

Level 3 Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

Investment in corporate bonds, mutual funds, equities, and REITS – The fair value of investment securities including corporate bonds and notes, hedge funds and mutual funds and other equities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quoted prices are not available, fair value is based on externally developed models that use unobservable inputs due to the limited market activity of the investment.

Hedge funds, private equity and debt – This category includes investments in buyouts, build-ups, and growth equity investments in limited partnerships. The unfunded commitment related to the private equity investment is \$2,404,275 as of June 30, 2019. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the limited partnerships. The fair value of certain investments hedge and private equity funds is calculated from the net asset value of the Foundation's ownership interest in these limited partnerships. The private equity fund has a life of 10 years with two potential one-year extensions. Their investment in the fund is available for drawdown five years from initial inception with a potential one-year extension.

The Foundation also holds a note receivable which is convertible into equity securities to investors on or before the date of repayment in full of the note in an equity financing resulting in gross proceeds to the issuer of at least \$6,000,000. At which time the outstanding principal balance of the note shall automatically convert in whole without any further action by the Foundation into such equity securities at a conversion price equal to 80% of the per unit or share price paid by the investors and otherwise on the same terms and conditions as given to investors.

LSU HEALTH FOUNDATION, NEW ORLEANS
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NOTES TO FINANCIAL STATEMENTS

14. Fair Value of Financial Instruments (continued)

The valuation of the Foundation's assets measured at fair value on a recurring basis at June 30, 2019 and 2018 are as follows:

Fair value measurement at reporting date using above description as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ 44,517,567	\$ -	\$ 250,000	\$ 44,767,567
Mutual funds and other equities	68,000,930	-	-	68,000,930
REITS	7,436,550	-	-	7,436,550
Hedge funds	-	3,591,919	-	3,591,919
Money market	-	167,335	-	167,335
	<u>\$ 119,955,047</u>	<u>\$ 3,759,254</u>	<u>\$ 250,000</u>	<u>\$ 123,964,301</u>
Hedge and private equity funds valued at NAV (a)				16,630,681
				<u>\$ 140,594,982</u>

Fair value measurement at reporting date using above description as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ 41,205,645	\$ -	\$ 250,000	\$ 41,455,645
Mutual funds and other equities	68,956,790	-	-	68,956,790
REITS	6,790,335	-	-	6,790,335
Hedge funds	-	5,013,021	-	5,013,021
Money market	-	3,079,756	-	3,079,756
	<u>\$ 116,952,770</u>	<u>\$ 8,092,777</u>	<u>\$ 250,000</u>	<u>\$ 125,295,547</u>
Hedge and private equity funds valued at NAV (a)				15,985,886
				<u>\$ 141,281,433</u>

(a) The hedge and private funds are measured using NAV as a practical expedient. These investments have not been classified in the fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

15. Restricted Net Assets

Net assets without donor restrictions may be designated by the Board of Directors for certain purposes. These funds are not considered donor-restricted, carry no legal restrictions on spending by the Foundation, and may be undesignated by the Board at any time. The Board has designated net assets without donor restrictions as follows:

	<u>2019</u>	<u>2018</u>
Chancellor and deans' discretionary support funds	\$ 515,628	\$ 865,331

Net assets subject to expenditure for specified purpose are at June 30 as follows:

	<u>2019</u>	<u>2018</u>
Awards	\$ 241,017	\$ 203,883
Chairs and superchairs	56,509,647	62,962,347
Gift annuities	290,339	296,303
Lectureships	875,973	796,746
Memorials	267,727	269,836
Professorships	27,980,284	21,556,421
Scholarships	11,617,624	10,125,437
Other donor restrictions	13,110,624	13,845,184
Total subject to expenditure for specified purpose or period	<u>\$ 110,893,235</u>	<u>\$ 110,056,157</u>

16. Related Party Transactions

In the normal course of business, the Foundation reimburses the LSU Health Sciences Center for certain expenses and makes distributions to or on behalf of the Health Sciences Center. The Foundation also provides certain services for the Health Sciences Center. Included in expenses for the years ended June 30, 2019 and 2018 are \$7,466,412 and \$7,167,370, respectively, which represent payments on behalf of the Health Sciences Center. At June 30, 2019 and 2018, there were no funds due to or from the Health Sciences Center.

Members of the Foundation's board of directors and parties related to them made contributions of \$7,205,428 and \$375,345 for the years ended June 30, 2019 and 2018, respectively. The 2019 contributions include a contribution of land, recorded at fair value of \$7,035,000.

17. Subsequent Events

Subsequent events have been evaluated through October 28, 2019, the date the financial statements were available to be issued, and no events material to the financial statements occurred which require disclosure.

**INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
LSU Health Foundation, New Orleans
New Orleans, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the LSU Health Foundation, New Orleans (the “Foundation”) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Metairie, Louisiana
October 28, 2019