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**Pennington Medical Foundation
Baton Rouge, Louisiana
December 31, 2016**

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.

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Pennington Medical Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennington Medical Foundation as of December 31, 2016 and 2015, 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.

October 18, 2017

**Pennington Medical Foundation
Statements of Financial Position
December 31, 2016 and 2015**

A s s e t s	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 1,903	\$ 27,166
Investments, at fair value	1,301,096	10,118,717
Accrued royalties	11,273	8,907
Prepaid expenses	8,237	60,336
Total current assets	1,322,509	10,215,126
Assets Held in Trust	-	18,327,744
Property and Equipment, Net	-	31,048,912
Other Assets		
Bond issuance costs, net	-	199,579
Total assets	\$ 1,322,509	\$59,791,361
L i a b i l i t i e s a n d N e t A s s e t s		
Current Liabilities		
Accounts payable	\$ 16,825	\$ 94,798
Due to related parties	10,400	27,591
Bonds payable, current maturities	-	17,505,000
Unamortized bond premium, current maturities	-	335,374
Accrued interest payable	-	437,105
Total current liabilities	27,225	18,399,868
Net Assets		
Unrestricted	1,295,284	35,912,473
Unrestricted - designated	-	5,479,020
Total net assets	1,295,284	41,391,493
Total liabilities and net assets	\$ 1,322,509	\$59,791,361

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

Pennington Medical Foundation
Statements of Activities
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenue		
Investment loss	\$ (558,291)	\$ (1,656,652)
Rent	49,413	98,660
Miscellaneous	<u>43,477</u>	<u>5,000</u>
Total revenue (deficit)	<u>(465,401)</u>	<u>(1,552,992)</u>
Expenses		
Program services	39,482,720	2,636,357
General and administrative	<u>148,088</u>	<u>337,851</u>
Total expenses	<u>39,630,808</u>	<u>2,974,208</u>
Change in Net Assets	(40,096,209)	(4,527,200)
Net Assets, Unrestricted		
Beginning of year	<u>41,391,493</u>	<u>45,918,693</u>
End of year	<u>\$ 1,295,284</u>	<u>\$41,391,493</u>

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

Pennington Medial Foundation
Statements of Functional Expenses
Years Ended December 31, 2016 and 2015

	<u>December 31, 2016</u>			<u>December 31, 2015</u>		
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Pennington Biomedical Research Center						
Executive Director Fund	\$ 23,331	\$ –	\$ 23,331	\$ 29,136	\$ –	\$ 29,136
Projects	147,769	–	147,769	146,334	–	146,334
Executive Director Deferred Comp	–	–	–	15,000	–	15,000
MD Salary Supplements	115,000	–	115,000	115,538	–	115,538
Maintenance Reserve Accounts	167,339	–	167,339	–	–	–
Contracts and supplements	36,515	17,985	54,500	118,083	58,161	176,244
Investment fees	–	9,148	9,148	–	102,754	102,754
Professional fees	25,747	98,220	123,967	60,413	132,966	193,379
Office expense	–	270	270	–	535	535
Severance tax	–	4,951	4,951	–	5,836	5,836
Taxes	–	1,468	1,468	–	4,273	4,273
Depreciation/amortization	439,965	–	439,965	1,144,779	–	1,144,779
General development	–	177	177	–	5,311	5,311
Equipment maintenance	–	2,348	2,348	–	7,486	7,486
Insurance	57,989	12,928	70,917	111,724	20,091	131,815
Bond related costs	–	–	–	6,916	–	6,916
Professional dues/subscriptions	–	583	583	–	200	200
Donations	38,031,960	–	38,031,960	5,000	–	5,000
Interest	437,105	–	437,105	883,434	–	883,434
Other	–	10	10	–	238	238
	<u>–</u>	<u>10</u>	<u>10</u>	<u>–</u>	<u>238</u>	<u>238</u>
Total functional expenses	<u>\$39,482,720</u>	<u>\$148,088</u>	<u>\$39,630,808</u>	<u>\$2,636,357</u>	<u>\$337,851</u>	<u>\$2,974,208</u>

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

Pennington Medial Foundation
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$(40,096,209)	\$ (4,527,200)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	575,761	1,151,569
Donation of property and equipment	30,473,152	-
Donation of investments	7,558,808	-
Realized losses on investments	498,441	1,110,991
Unrealized depreciation on investments	72,726	1,123,694
Bond premium amortization	(335,374)	(16,769)
Bond issuance cost amortization	199,579	9,979
(Increase) Decrease in assets:		
Accrued royalties	(2,366)	905
Interest receivable	-	9,634
Prepaid expenses	52,099	844
Increase (Decrease) in liabilities:		
Accounts payable	(77,973)	80,832
Due to related parties	(17,191)	(182,792)
Accrued interest payable	(437,105)	(7,526)
Deferred compensation liability	-	(60,000)
Net cash used in operating activities	<u>(1,535,652)</u>	<u>(1,305,839)</u>
Cash Flows from Investing Activities		
Transfer of investments	650,000	-
Purchase of investments	-	(18,776,903)
Proceeds from sale of investments	37,645	36,661,387
Net cash provided by investing activities	<u>687,645</u>	<u>17,884,484</u>
Cash Flows from Financing Activities		
Principal payments on bonds payable	(17,505,000)	(335,000)
(Increase) Decrease in assets held in trust	18,327,744	(16,241,012)
Net cash provided by (used in) financing activities	<u>822,744</u>	<u>(16,576,012)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(25,263)	2,633
Cash and Cash Equivalents, beginning of year	<u>27,166</u>	<u>24,533</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,903</u>	<u>\$ 27,166</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 437,105</u>	<u>\$ 890,960</u>

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

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2016

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 Accounting

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

B. Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include those net assets whose use by the Foundation is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those net assets whose use by the Foundation has been limited by donors (a) to later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions permanently limiting the Foundation's use of the assets. At December 31, 2016 and 2015, the Foundation had no temporarily or permanently restricted net assets.

C. 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 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.

D. 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.

E. Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance, charge-offs, and delinquency are estimated from historical experience and management's evaluation of outstanding accounts receivable. There were no accounts receivable and therefore no allowance was recorded as of December 31, 2016 and 2015.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2016

Note 2-Summary of Significant Accounting Policies (Continued)

F. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value based on quoted market prices. For those investments where quoted market prices are unavailable, management estimates fair value based on information provided by the fund managers or the general partners. Dividend, interest, and other investment income are recorded as an increase in unrestricted, temporarily restricted, or permanently restricted net assets depending on donor stipulations.

Donated investments are recorded at their fair value at the date of receipt, which is then treated as cost. Realized gains and losses on dispositions are based on the net proceeds and the adjusted cost basis of the securities sold, using the specific identification method. Realized gains and losses are recognized in the Foundation's current operations.

G. Property and Equipment

Property and equipment are capitalized at cost. Expenditures for major repairs and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and minor repairs are expensed as incurred. Depreciation is computed using straight line and accelerated methods over the estimated useful lives as follows:

Infrastructure	7 - 15 years
Buildings	39 years
Equipment	5 - 7 years

H. Bond Issuance Costs

Bond issuance costs were being amortized over the term of the bond agreement using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize bond issuance costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. The bond was fully redeemed on July 1, 2016, and the entire remaining bond issuance cost of \$199,579 was expensed in 2016.

I. Bond Premium

Unamortized bond premium was being amortized over the life of the bond. The bond was fully redeemed on July 1, 2016, and the entire remaining bond premium of \$335,374 was expensed in 2016.

J. 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. The Foundation has been classified as an organization other than a private foundation.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2016

Note 2-Summary of Significant Accounting Policies (Continued)

J. Income Taxes (Continued)

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.

K. Capitalized Interest

The Foundation follows the policy of capitalizing interest as a component of the cost of property and equipment constructed for its own use. No interest was capitalized in 2016 or 2015.

L. Functional Expenses

Functional expenses are allocated between program services and general and administrative expenses. 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.

M. Reclassifications

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the change in net assets or total net assets for the prior year.

Note 3-Investments

Investments at fair value are comprised of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Short-term investments	\$ 983,327	\$ 6,888,313
Hedge fund of funds	59,434	67,001
Venture capital	-	2,895,989
Mineral interest	258,335	267,414
	<u>-----</u>	<u>-----</u>
Total investments, at fair value	<u>\$ 1,301,096</u>	<u>\$10,118,717</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2016

Note 3-Investments (Continued)

Investment losses are comprised of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ (29,527)	\$ 528,092
Realized losses on sales of investments	(498,441)	(1,110,991)
Unrealized losses on investments	(72,726)	(1,123,694)
Royalty income	<u>42,403</u>	<u>49,941</u>
Total investment losses	<u>\$ (558,291)</u>	<u>\$(1,656,652)</u>

Note 4-Assets Held in Trust

Assets held in trust totaled \$18,327,744 at December 31, 2015. These funds were pledged to pay off the Series 2006 Bonds, which were fully redeemed on July 1, 2016.

Note 5-Property and Equipment

The following schedule shows the changes in property and equipment for the years ended December 31:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Ending Balance</u>
December 31, 2016				
Infrastructure	\$ 304,410	\$ -	\$ (304,410)	\$ -
Buildings	44,393,468	-	(44,393,468)	-
Equipment	<u>3,373,473</u>	<u>-</u>	<u>(3,007,223)</u>	<u>366,250</u>
	48,071,351	-	(47,705,101)	366,250
Less accumulated depreciation	<u>(17,022,439)</u>	<u>(575,761)</u>	<u>17,231,950</u>	<u>(366,250)</u>
Property and equipment, net	<u>\$ 31,048,912</u>	<u>\$ (575,761)</u>	<u>\$(30,473,151)</u>	<u>\$ -</u>
December 31, 2015				
Infrastructure	\$ 304,410	\$ -	\$ -	\$ 304,410
Buildings	44,393,468	-	-	44,393,468
Equipment	<u>3,373,473</u>	<u>-</u>	<u>-</u>	<u>3,373,473</u>
	48,071,351	-	-	48,071,351
Less accumulated depreciation	<u>(15,870,870)</u>	<u>(1,151,569)</u>	<u>-</u>	<u>(17,022,439)</u>
Property and equipment, net	<u>\$ 32,200,481</u>	<u>\$(1,151,569)</u>	<u>\$ -</u>	<u>\$ 31,048,912</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2016

Note 6-Bonds Payable

In 2006, the Foundation repaid various outstanding bond issues in full with the proceeds from a Series 2006 bond issue, in the amount of \$45,175,000, along with an additional line of credit. The Series 2006 Bonds were issued with a premium of \$1,257,183 and a fixed interest rate of 4.8%. The bonds were secured by a security interest in the Foundation's assets. The bonds were classified as interest in 2015 and were fully redeemed on July 1, 2016.

Note 7-Deferred Compensation Liability

In April 2011, the Foundation entered into an agreement to provide deferred compensation payments for the Executive Director of the Pennington Biomedical Research Center on behalf of the Center. The Foundation made annual commitments of \$15,000 for this purpose through 2015. The deferred compensation was fully disbursed in 2015.

Note 8-Net Assets Unrestricted - Designated

Unrestricted net assets designated by the Board of Trustees as of December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Maintenance Reserve Accounts	<u>\$ --</u>	<u>\$ 5,479,020</u>

Note 9-Fair Value Measurements

In accordance with the Fair Value Measurements and Disclosure 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, 2016

Note 9-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.

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

	<u>2016</u>	<u>2015</u>
Investments	\$ 1,301,096	\$10,118,717
Assets Held in Trust	—	<u>18,327,744</u>
	<u>\$ 1,301,096</u>	<u>\$28,446,461</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2016

Note 9-Fair Value Measurements (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2016				
Short-term investments	\$ 983,327	\$ -	\$ -	\$ 983,327
Hedge fund of funds	-	-	59,434	59,434
Venture capital	-	-	-	-
Mineral interest	-	-	258,335	258,335
	<u>\$ 983,327</u>	<u>\$ -</u>	<u>\$ 317,769</u>	<u>\$ 1,301,096</u>
December 31, 2015				
Short-term investments	\$ 25,216,057	\$ -	\$ -	\$25,216,057
Hedge fund of funds	-	-	67,001	67,001
Venture capital	-	-	2,895,989	2,895,989
Mineral interest	-	-	267,414	267,414
	<u>\$ 25,216,057</u>	<u>\$ -</u>	<u>\$ 3,230,404</u>	<u>\$ 28,446,461</u>

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, 2016.

	<u>Level 3</u> <u>Balance at</u> <u>Beginning</u> <u>of Year</u>	<u>Purchases</u>	<u>Sales</u>	<u>Realized &</u> <u>Unrealized</u> <u>Gains</u> <u>(Losses) in</u> <u>Changes in</u> <u>Net Assets</u>	<u>Level 3</u> <u>Balance</u> <u>at End</u> <u>of Year</u>	<u>Change in</u> <u>Unrealized</u> <u>Gains (Losses)</u> <u>for Investments</u> <u>Still Held at</u> <u>Year End</u>
Hedge fund of funds	\$ 67,001	\$ -	\$ -	\$ (7,567)	\$ 59,434	\$ (7,567)
Venture capital	2,895,989	-	(2,247,068)	(648,921)	-	-
Mineral interest	267,414	-	-	(9,079)	258,335	(9,079)
	<u>\$ 3,230,404</u>	<u>\$ -</u>	<u>\$(2,247,068)</u>	<u>\$ (665,567)</u>	<u>\$ 317,769</u>	<u>\$ (16,646)</u>

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, 2015.

	<u>Level 3</u> <u>Balance at</u> <u>Beginning</u> <u>of Year</u>	<u>Purchases</u>	<u>Sales</u>	<u>Realized &</u> <u>Unrealized</u> <u>Gains</u> <u>(Losses) in</u> <u>Changes in</u> <u>Net Assets</u>	<u>Level 3</u> <u>Balance</u> <u>at End</u> <u>of Year</u>	<u>Change in</u> <u>Unrealized</u> <u>Gains (Losses)</u> <u>for Investments</u> <u>Still Held at</u> <u>Year End</u>
Hedge fund of funds	\$ 184,166	\$ -	\$ (58,091)	\$ (59,074)	\$ 67,001	\$ (59,074)
Venture capital	3,034,198	20,000	-	(158,209)	2,895,989	(111,498)
Mineral interest	368,715	-	-	(101,301)	267,414	(101,301)
	<u>\$ 3,587,079</u>	<u>\$ 20,000</u>	<u>\$ (58,091)</u>	<u>\$ (318,584)</u>	<u>\$ 3,230,404</u>	<u>\$ (271,873)</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2016

Note 10-Rental Revenue-Related Party

Basic Science Building

The Foundation leased the Basic Science Building to the Center under an operating lease in the amount of \$98,660 per year which expires in 2036 or when the related Series 2006 Bonds for the building are paid in full, whichever occurred first. The Series 2006 Bonds were fully redeemed on July 1, 2016, and the building was donated on December 31, 2016. Revenue from this lease was \$49,413 and \$98,660 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the carrying value of the Basic Science Building was as follows:

	<u>2016</u>	<u>2015</u>
Cost	\$ -	\$ 39,715,282
Accumulated depreciation	-	(12,261,602)
	<u>\$ -</u>	<u>\$ 27,453,680</u>

Note 11-Related Party Transactions

The Foundation had the following related party transactions for the years ending December 31, 2016 and 2015:

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 \$39,482,720 and \$2,636,357 was provided by the Foundation to or for the benefit of the Center for the years ended December 31, 2016 and 2015, respectively. The amount owed to the Center at December 31, 2016 and 2015 for this support and additional miscellaneous reimbursements was \$624 and \$22,755, 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 \$10,000 for each of the years ended December 31, 2016 and 2015. The amount owed to the Research Foundation for these services and additional miscellaneous reimbursements at December 31, 2016 and 2015 was \$9,776 and \$4,836, respectively.

At December 31, 2016 and 2015, the summarized amounts due to related parties are as follows:

	<u>2016</u>	<u>2015</u>
Pennington Biomedical Research Center		
Program Services support	\$ 624	\$ 22,755
Pennington Biomedical Research Foundation		
Accounting and Administrative support	<u>9,776</u>	<u>4,836</u>
Totals Due to Related Parties	<u>\$10,400</u>	<u>\$ 27,591</u>

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Note 12-Concentrations

At various times during the year, accounts on deposit with one banking institution exceeded the amount insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the financial institution on a regular basis, along with the Foundation's balances in cash and cash equivalents, to minimize this potential risk.

Note 13-Donation of Assets

In accordance with its charitable mission and exempt purpose, in June 2016 the Foundation donated its title and interest in the Basic Science Building, Clinical Research Building, their furniture and equipment contents, and the associated Maintenance Reserve Accounts to the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, for the benefit of the Pennington Biomedical Research Center. The book value of the donated fixed assets and maintenance reserve accounts was approximately \$30.4 million and \$5.3 million, respectively. The maintenance reserve accounts will be utilized by the Pennington Biomedical Research Center for future maintenance needs of the donated facilities. Effective December 2016, the Foundation also donated its venture capital interests to the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, for the benefit of the Pennington Biomedical Research Center, totaling \$2.2 million. At the request of the Foundation, as donor, the funds will be placed in a permanent endowment to benefit the Pennington Biomedical Research Center.

Note 14-Subsequent Events

The Foundation evaluated all subsequent events through October 18, 2017, 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.