

6090

14

LEGISLATIVE AUDITOR
2019 APR 8 AM 11:08

**Pennington Medical Foundation
Baton Rouge, Louisiana
December 31, 2018**

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

Release Date APR 17 2019

Table of Contents

Independent Auditor's Report	Page	3
Financial Statements		
Statements of Financial Position	Page	4
Statements of Activities	Page	5
Statements of Functional Expenses	Page	6
Statements of Cash Flows	Page	7
Notes to Financial Statements	Page	8



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

Louis C. McKnight, III, CPA
Charles R. Pevey, Jr., CPA
David J. Broussard, CPA
Neal D. King, CPA
Brittany B. Thames, CPA
Kevin M. Rodriguez, CPA
Blaine M. Crochet, CPA

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, 2018 and 2017, 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, 2018 and 2017, 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.

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

March 3, 2019

**Pennington Medical Foundation
Statements of Financial Position
December 31, 2018 and 2017**

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 9,800	\$ 4,700
Investments, at fair value	834,856	1,017,966
Accrued royalties	7,960	6,273
Prepaid expenses	1,068	3,032
	<hr/>	<hr/>
Total assets	<u>\$ 853,684</u>	<u>\$ 1,031,971</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 5,453	\$ 16,585
Due to related parties	8,509	8,421
	<hr/>	<hr/>
Total current liabilities	13,962	25,006
Net Assets		
Without donor restrictions	839,722	1,006,965
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 853,684</u>	<u>\$ 1,031,971</u>

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

**Pennington Medical Foundation
Statements of Activities
Years Ended December 31, 2018 and 2017**

Changes in Net Assets Without Donor Restrictions	2018	2017
Revenues and Gains		
Investment income (loss)	\$ 10,357	\$ (49,822)
Miscellaneous	53,383	-
Total revenues and gains (deficit)	<u>63,740</u>	<u>(49,822)</u>
Expenses		
Program services	199,340	189,320
General and administrative	31,643	49,177
Total expenses	<u>230,983</u>	<u>238,497</u>
Decrease in Net Assets Without Donor Restrictions	(167,243)	(288,319)
Net Assets Without Donor Restrictions		
Beginning of year	<u>1,006,965</u>	<u>1,295,284</u>
End of year	<u><u>\$ 839,722</u></u>	<u><u>\$ 1,006,965</u></u>

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

Pennington Medical Foundation
Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	December 31, 2018			December 31, 2017		
	Program Services	General and Administrative	Total Expenses	Program Services	General and Administrative	Total Expenses
Pennington Biomedical Research Center						
Executive Director Fund	\$ 38,297	\$ -	\$ 38,297	\$ 17,860	\$ -	\$ 17,860
PBRC Projects	66,068	-	66,068	76,514	-	76,514
MD salary supplements	50,000	-	50,000	58,938	-	58,938
Contracts and supplements	44,975	-	44,975	2,680	1,320	4,000
Investment fees	-	1,234	1,234	-	1,780	1,780
Professional fees	-	20,722	20,722	33,328	31,104	64,432
Office expense	-	184	184	-	227	227
Severance tax	-	5,293	5,293	-	4,779	4,779
Taxes	-	110	110	-	20	20
Equipment maintenance	-	-	-	-	169	169
Insurance	-	4,100	4,100	-	9,278	9,278
Professional dues/subscriptions	-	-	-	-	500	500
	<u>\$ 199,340</u>	<u>\$ 31,643</u>	<u>\$ 230,983</u>	<u>\$ 189,320</u>	<u>\$ 49,177</u>	<u>\$ 238,497</u>

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

Pennington Medical Foundation
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Decrease in net assets without donor restrictions	\$ (167,243)	\$ (288,319)
Adjustments to reconcile decrease in net assets without donor restrictions to net cash used in operating activities:		
Realized and unrealized loss on investments	39,652	93,601
(Increase) Decrease in assets:		
Accrued royalties	(1,687)	5,000
Prepaid expenses	1,964	5,205
Increase (Decrease) in liabilities:		
Accounts payable	(11,132)	(239)
Due to related parties	88	(1,979)
Net cash used in operating activities	<u>(138,358)</u>	<u>(186,731)</u>
Cash Flows from Investing Activities		
Purchase of investments	(30,435)	(18,570)
Proceeds from sale of investments	173,893	208,098
Net cash provided by investing activities	<u>143,458</u>	<u>189,528</u>
Net Increase in Cash and Cash Equivalents	5,100	2,797
Cash and Cash Equivalents, beginning of year	<u>4,700</u>	<u>1,903</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 9,800</u></u>	<u><u>\$ 4,700</u></u>

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

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2018

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions 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. Net assets with donor restrictions are those net assets received with donor-imposed restrictions limiting the Foundation's use of the assets. At December 31, 2018 and 2017, the Foundation had no net assets with donor restrictions.

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 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.

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 and charge-offs are estimated from historical experience and management's evaluation of outstanding accounts receivable. As of December 31, 2018 and 2017, there were no accounts receivable and therefore no allowance was recorded.

**Pennington Medical Foundation
Notes to Financial Statements
December 31, 2018**

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 net assets with or without restrictions 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 or, if donated, at fair value at the date of donation. 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. 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.

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.

I. Functional Expenses

Expenses included in the program services column on the statement 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, 2018

Note 2-Summary of Significant Accounting Policies (Continued)

J. Liquidity Management

As of December 31, 2018, the following financial assets could be made readily available within one year of the statement of financial position date to meet general expenditures:

Cash and cash equivalents	\$	9,800
Royalties receivable		7,960
Prepaid expenses		1,068
Investments		<u>834,856</u>
Total financial assets, period end		853,684
Less, those unavailable for general expenditures within one year, due to:		
Mineral interest		109,389
Illiquid investments		<u>37,470</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$ 706,825</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:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 682,221	\$ 806,786
Hedge fund of funds	43,246	65,880
Mineral interest	<u>109,389</u>	<u>145,300</u>
Total investments, at fair value	<u>\$ 834,856</u>	<u>\$ 1,017,966</u>

Investment income (loss) is comprised of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 11,633	\$ 5,581
Realized and unrealized losses on investments	(39,652)	(93,601)
Royalty income	<u>38,376</u>	<u>38,198</u>
Total investment income (loss)	<u>\$ 10,357</u>	<u>\$ (49,822)</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2018

Note 4-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, 2018				
Equipment	\$ 366,250	\$ -	\$ -	\$ 366,250
Less accumulated depreciation	<u>(366,250)</u>	<u>-</u>	<u>-</u>	<u>(366,250)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2017				
Equipment	\$ 366,250	\$ -	\$ -	\$ 366,250
Less accumulated depreciation	<u>(366,250)</u>	<u>-</u>	<u>-</u>	<u>(366,250)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

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:

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2018

Note 5-Fair Value Measurements (Continued)

- 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>2018</u>	<u>2017</u>		
Investments	<u>\$ 834,856</u>	<u>\$ 1,017,966</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2018				
Short-term investments	\$ 682,221	\$ -	\$ -	\$ 682,221
Hedge fund of funds	-	-	43,246	43,246
Mineral interest	-	-	109,389	109,389
	<u>\$ 682,221</u>	<u>\$ -</u>	<u>\$ 152,635</u>	<u>\$ 834,856</u>
December 31, 2017				
Short-term investments	\$ 806,786	\$ -	\$ -	\$ 806,786
Hedge fund of funds	-	-	65,880	65,880
Mineral interest	-	-	145,300	145,300
	<u>\$ 806,786</u>	<u>\$ -</u>	<u>\$ 211,180</u>	<u>\$ 1,017,966</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2018

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, 2018.

	<u>Level 3 Balance at Beginning of Year</u>	<u>Purchases</u>	<u>Sales</u>	<u>Realized & Unrealized Gains (Losses) in Changes in Net Assets</u>	<u>Level 3 Balance at End of Year</u>	<u>Change in Unrealized Gains (Losses) for Investments Still Held at Year End</u>
Hedge fund of funds	\$ 65,880	\$ -	\$ (18,893)	\$ (3,741)	\$ 43,246	\$ (3,741)
Mineral interest	145,300	-	-	(35,911)	109,389	(35,911)
	<u>\$ 211,180</u>	<u>\$ -</u>	<u>\$ (18,893)</u>	<u>\$ (39,652)</u>	<u>\$ 152,635</u>	<u>\$ (39,652)</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, 2017.

	<u>Level 3 Balance at Beginning of Year</u>	<u>Purchases</u>	<u>Sales</u>	<u>Realized & Unrealized Gains (Losses) in Changes in Net Assets</u>	<u>Level 3 Balance at End of Year</u>	<u>Change in Unrealized Gains (Losses) for Investments Still Held at Year End</u>
Hedge fund of funds	\$ 59,434	\$ -	\$ (12,988)	\$ 19,434	\$ 65,880	\$ 19,434
Mineral interest	258,335	-	-	(113,035)	145,300	(113,035)
	<u>\$ 317,769</u>	<u>\$ -</u>	<u>\$ (12,988)</u>	<u>\$ (93,601)</u>	<u>\$ 211,180</u>	<u>\$ (93,601)</u>

Note 6-Related Party Transactions

The Foundation had the following related party transactions for the years ended December 31, 2018 and 2017:

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 \$199,340 and \$189,320 was provided by the Foundation to or for the benefit of the Center for the years ended December 31, 2018 and 2017, respectively. The amount owed to the Center at December 31, 2018 and 2017 for this support and additional miscellaneous reimbursements was \$7,955 and \$4,320, 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 for the years ended December 31, 2018 and 2017. The amount owed to the Research Foundation for these services and additional miscellaneous reimbursements at December 31, 2018 and 2017 was \$554 and \$4,101, respectively.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2018

Note 6-Related Party Transactions (Continued)

At December 31, 2018 and 2017, the summarized amounts due to related parties are as follows:

	<u>2018</u>	<u>2017</u>
Pennington Biomedical Research Center		
Program services support	\$ 7,955	\$ 4,320
Pennington Biomedical Research Foundation		
Accounting and administrative support	<u>554</u>	<u>4,101</u>
Totals Due to Related Parties	<u>\$ 8,509</u>	<u>\$ 8,421</u>

Note 7-Subsequent Events

The Foundation evaluated all subsequent events through March 3, 2019, 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.