



Financial Statements
June 30, 2023

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2023

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pennington Biomedical Research Foundation
Baton Rouge, Louisiana

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Pennington Biomedical Research Foundation ("the Foundation"), which comprise the consolidated statement of financial position as of June 30, 2023, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Prior Period Financial Statements

The consolidated financial statements of the Pennington Biomedical Research Foundation as of and for the year ended June 30, 2022, were audited by other auditors whose report dated October 31, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

EisnerAmper LLP

EISNERAMPER LLP
Baton Rouge, Louisiana
October 30, 2023



PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	<u>A S S E T S</u>	
	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 449,779	\$ 473,975
Accounts receivable	125,209	41,712
Unconditional promises to give, net	1,081,461	944,473
Prepaid expenses	39,138	36,404
Office equipment (net of accumulated depreciation of \$13,573 and \$11,498, respectively)	4,363	6,438
Construction in progress	17,711	5,000
Investments	22,866,223	22,168,292
Other assets	794,371	-
Annuity held by rabbi trust	603,832	617,507
Beneficial interest in split-interest agreements	338,645	336,677
Total assets	<u>\$ 26,320,732</u>	<u>\$ 24,630,478</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 252,854	\$ 251,668
Accrued expenses and other liabilities	770,545	118,999
Retirement obligation	603,832	617,507
Funds held-in-custody	6,097,866	6,241,292
Total liabilities	<u>7,725,097</u>	<u>7,229,466</u>
 <u>NET ASSETS</u>		
Without donor restrictions	2,087,561	1,836,227
With donor restrictions	16,508,074	15,564,785
Total net assets	<u>18,595,635</u>	<u>17,401,012</u>
 Total liabilities and net assets	 <u>\$ 26,320,732</u>	 <u>\$ 24,630,478</u>

The accompanying notes are an integral part of these statements.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>SUPPORT AND REVENUES</u>			
Contributions	\$ 815,604	\$ 1,858,340	\$ 2,673,944
Investment income (loss) allocation	27,306	1,009,102	1,036,408
Management fee income	252,036	-	252,036
Contributed services	-	3,130,957	3,130,957
Other revenues	1,093,702	59,502	1,153,204
Change in value of split interest agreements	-	40,151	40,151
	2,188,648	6,098,052	8,286,700
Net assets released by satisfaction of program restrictions	5,154,763	(5,154,763)	-
	7,343,411	943,289	8,286,700
<u>EXPENSES</u>			
Program services	5,519,197	-	5,519,197
Management and general	639,392	-	639,392
Development	933,488	-	933,488
	7,092,077	-	7,092,077
<u>CHANGE IN NET ASSETS</u>	251,334	943,289	1,194,623
Net assets, beginning of period	1,836,227	15,564,785	17,401,012
<u>NET ASSETS, END OF PERIOD</u>	<u>\$ 2,087,561</u>	<u>\$ 16,508,074</u>	<u>\$ 18,595,635</u>

The accompanying notes are an integral part of these statements.

2022		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,017,759	\$ 1,473,717	\$ 2,491,476
(232,264)	(1,288,974)	(1,521,238)
250,302	-	250,302
-	14,028,377	14,028,377
600,204	1,036,783	1,636,987
-	(71,047)	(71,047)
1,636,001	15,178,856	16,814,857
18,525,871	(18,525,871)	-
20,161,872	(3,347,015)	16,814,857
18,703,634	-	18,703,634
959,168	-	959,168
757,640	-	757,640
20,420,442	-	20,420,442
(258,570)	(3,347,015)	(3,605,585)
2,094,797	18,911,800	21,006,597
\$ 1,836,227	\$ 15,564,785	\$ 17,401,012

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2023 AND 2022

	2023			
	Program Services	Management and General	Development	Total
Bank charges	\$ -	\$ 5,815	\$ -	\$ 5,815
Business development	83,105	3,821	179,098	266,024
Depreciation	-	2,075	-	2,075
Sponsorships and donations	42,612	-	6,000	48,612
Dues and subscriptions	10,844	3,060	2,724	16,628
Insurance	-	64,461	-	64,461
Management fees	227,403	-	-	227,403
Government relations	-	20,000	-	20,000
Meetings and symposiums	50,496	2,174	1,173	53,843
Miscellaneous	199,312	7,433	-	206,745
Payroll taxes and benefits	30,702	69,752	63,283	163,737
Postage	9,663	5,202	312	15,177
Printing	9,415	9,518	3,704	22,637
Professional fees	3,312,306	108,108	271,681	3,692,095
Operations and maintenance	130,923	13,264	24,759	168,946
Research supplies and equipment	1,065,222	-	-	1,065,222
Salaries	615,986	309,945	377,453	1,303,384
Supplies	44,868	3,234	1,841	49,943
Telephone	1,479	-	-	1,479
Training	6,140	11,530	238	17,908
Travel	44,620	-	1,222	45,842
Total disbursements	5,885,096	639,392	933,488	7,457,976
Less: disbursements related to state portion of chairs and professorships	(365,899)	-	-	(365,899)
Total expenses	<u>\$ 5,519,197</u>	<u>639,392</u>	<u>\$ 933,488</u>	<u>\$ 7,092,077</u>

The accompanying notes are an integral part of these statements.

2022

Program Services	Management and General	Development	Total
\$ -	\$ 5,437	\$ -	\$ 5,437
46,391	500	278,771	325,662
-	2,162	-	2,162
2,342,554	-	-	2,342,554
13,065	1,969	1,449	16,483
-	65,368	-	65,368
228,564	-	-	228,564
-	20,000	-	20,000
55,997	1,716	237	57,950
31,554	798	-	32,352
86,890	60,192	53,593	200,675
373	3,789	-	4,162
12,280	6,564	7,572	26,416
14,732,301	449,917	10,654	15,192,872
157,411	13,512	35,963	206,886
410,739	1,995	-	412,734
931,403	320,404	359,519	1,611,326
4,188	4,140	965	9,293
1,571	-	-	1,571
1,720	705	3,250	5,675
12,216	-	5,667	17,883
19,069,217	959,168	757,640	20,786,025
(365,583)	-	-	(365,583)
<u>\$ 18,703,634</u>	<u>\$ 959,168</u>	<u>\$ 757,640</u>	<u>\$ 20,420,442</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,194,623	\$ (3,605,585)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,075	2,162
Discount on unconditional promises to give	(308,620)	(251,021)
Non-cash donation to (from) others	-	1,417,034
Realized loss (gain) on sales of investment securities	(24,022)	(614,625)
Unrealized loss (gain) on investment securities	(517,359)	2,588,607
Unrealized gain on beneficial interest in split-interest agreements	(47,232)	64,875
Distributions received from beneficial interest in split-interest agreements	45,264	48,289
Changes in operating assets and liabilities:		
Accounts receivable	(83,497)	(37,831)
Unconditional promises to give	171,632	(200,985)
Prepaid expenses	(2,734)	(184)
Accounts payable	1,186	(5,238)
Other assets and non-cash donations	(794,371)	-
Accrued expenses and other liabilities	651,546	(496,790)
Net cash provided by (used in) operating activities	<u>288,491</u>	<u>(1,091,292)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(12,711)	(3,092)
Proceeds from sales of investments	5,557,866	6,890,940
Purchases of investments	(5,714,416)	(4,733,416)
Net cash provided by (used in) investing activities	<u>(169,261)</u>	<u>2,154,432</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Change in funds held-in-custody	(143,426)	(992,854)
Net cash provided by (used in) financing activities	<u>(143,426)</u>	<u>(992,854)</u>
Net increase (decrease) in cash and cash equivalents	(24,196)	70,286
Cash and cash equivalents at beginning of period	473,975	403,689
Cash and cash equivalents at end of period	<u>\$ 449,779</u>	<u>\$ 473,975</u>

The accompanying notes are an integral part of these statements.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Summary of significant accounting policies

The accounting and reporting policies of the Pennington Biomedical Research Foundation (the Foundation) conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the not-for-profit industry. The significant accounting policies used by the Foundation in preparing and presenting its financial statements are summarized as follows:

Organization

The Pennington Biomedical Research Foundation (the Foundation) is a non-profit charitable organization dedicated to providing the Pennington Biomedical Research Center (the Center) with financial support derived from individual, foundation, and corporate philanthropy. The Center's mission is to discover the triggers of chronic diseases through innovative research that improves human health across the lifespan. As such, the Center has made many significant contributions to disease prevention, health, and longevity with a particular focus on diabetes, cardiovascular disease, obesity, and dementia.

Consolidation

The consolidated financial statements include the accounts of the Pennington Biomedical Research Foundation and other entities whose sole member is the Pennington Biomedical Research Foundation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting and presentation

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America which requires 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 the 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.

Use of estimates

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

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Summary of significant accounting policies (continued)

Cash and cash equivalents

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

Accounts receivable

The Foundation maintains an allowance for doubtful accounts based on management's assessment of collectability considering current economic conditions and prior experience.

The Foundation determines if receivables are past-due based on the contractual terms of the agreement and typically does not accrue interest on past-due accounts. The Foundation charges off receivables if management considers the collection of the outstanding balance to be doubtful. Management considers all receivables to be collectible as of June 30, 2023 and 2022; therefore, no allowances for doubtful accounts were established.

Promises to give

Unconditional promises to give are recognized as revenue in the period the promise is received. Promises to give are recorded at their realizable value if they are expected to be collected in one year or at fair value if they are expected to be collected in more than one year. Based on management's assessment of collectability, an allowance for doubtful accounts was not deemed necessary at either June 30, 2023 or 2022.

Office equipment

Office equipment is stated at historical cost. Additions, renewals, and betterments that extend the lives or increase the values of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Provisions for depreciation are computed using straight-line and accelerated methods over the estimated useful lives of the assets, which range from 5 to 7 years.

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 (loss) are recorded as increases (decreases) in net assets with or without donor 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 bases of the securities sold, using the specific identification method. Realized gains and losses are recognized in the Foundation's current operations.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Summary of significant accounting policies (continued)

Split-interest agreements

Irrevocable split-interest agreements are recorded as revenue when the trust agreements are executed. Revenue from the split-interest agreements is based on the present value of the expected cash flows to be received by the Foundation over the term of the agreements. Changes in the values of the split interest agreements are recorded in the statements of activities and changes in net assets and classified as with or without donor restrictions depending on the classification used when the contribution was originally recorded.

Refundable advances

The Foundation has received grant proceeds that are deemed revocable until spent. The Foundation has outstanding refundable advances of \$716,592 and \$58,948, at June 30, 2023 and 2022, respectively. These amounts are classified as accrued expenses and other liabilities in the statements of financial position.

Funds held in custody

The Foundation considers all state matching funds and unexpended income from these funds to be funds held in custody. All funds held in custody are recorded in the statements of financial position at their fair values.

Revenue recognition

Contributions and grants received are recorded as with or without donor restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), donor restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Contributed services

The Foundation may receive services, equipment and material without payment or compensation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. During the years ended June 30, 2023 and 2022, the Foundation recorded contribution revenues of \$3,130,957 and \$14,028,377, respectively for advertising services (public service announcement distribution) donated to the Foundation.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Summary of significant accounting policies (continued)

Income taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code.

The Foundation accounts for income taxes in accordance with the guidance included in the Accounting Standards Codification (ASC). The Foundation recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Foundation has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions at June 30, 2023.

Statements of functional expenses

The costs of providing for the various programs and other activities of the Foundation have been summarized on a functional basis in the statements of activities and changes in net assets and the statements of functional expenses. Expenses have been allocated between functions on several bases and estimates, including time and effort, square footage, and specific identification. Although the methods of allocation are considered appropriate, other methods could be used that would produce different amounts.

Concentrations of credit risk

The Foundation's investments are secured by the Securities Investor Protection Corporation (SIPC). Any investment balances over the SIPC coverage are insured by private insurance of the investment custodian. SIPC and private insurance do not insure the quality of investments or protect against losses from fluctuating market values.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2) Liquidity and availability

The Foundation regularly monitors and manages liquidity required to meet its operating needs and commitments to the Pennington Biomedical Research Center. Nearly all of the Foundations non-endowed investments are invested in money market funds and marketable securities with immediate liquidity. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing mission, as well as the conduct of services undertaken to support those activities, to be general expenditures. As of June 30, 2023 and 2022, the Foundation's financial assets available to meet cash needs for general expenditures within one year totaled \$1,982,201 and \$1,746,275, respectively. The Foundation's budgeted operating expenditures for fiscal year ending June 30, 2024, totals approximately \$2.7 million.

The Board of Directors has the ultimate authority and responsibility to designate the use of net assets without donor restrictions to, or for the support of, the Pennington Biomedical Research Center. Such uses include support for projects, programs, activities, and initiatives that enable the Foundation to fulfill its mission. Prior to making these designations, the Board considers the short-term and long-term operating needs of the Foundation. Likewise, the Board has the authority to un-designate prior net asset designations for the operating needs of the Foundation. Designated net assets without donor restrictions are invested in cash and cash equivalents and marketable debt securities.

As of June 30, 2023 and 2022, the following financial assets could readily be made available within one year of the statements of financial position to meet the general expenditures of the Foundation:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 449,779	\$ 473,975
Pledges and accounts receivable	1,206,670	986,185
Investments	<u>22,866,223</u>	<u>22,168,292</u>
	24,522,672	23,628,452
Less assets unavailable for general expenditures:		
Assets restricted by donors with time or purpose restrictions	(3,656,825)	(3,287,266)
Assets subject to appropriation and satisfaction of donor restrictions	(18,766,208)	(18,428,307)
Board designated amounts	<u>(117,438)</u>	<u>(166,604)</u>
Financial assets available to meet needs for general expenditures within one year	<u>\$ 1,982,201</u>	<u>\$ 1,746,275</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3) Unconditional promises to give

Unconditional promises to give at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Promises to give expected to be collected in:		
Less than one year	\$ 203,081	\$ 206,389
One to five years	200,000	-
Six to ten years	<u>987,000</u>	<u>990,000</u>
	1,390,081	1,196,389
Less: discount on promises to give	(308,620)	(251,916)
Net unconditional promises to give	<u>\$ 1,081,461</u>	<u>\$ 944,473</u>

The rates used in discounting unconditional promises to give were 3.81% and 2.98% as of June 30, 2023 and 2022, respectively.

4) Split-Interest agreements

The Foundation is the irrevocable beneficiary of two split-interest agreements, related to a charitable lead trust and a charitable remainder trust, under various terms and conditions. The funds are held and administered by unrelated third party trustees. The Foundation's interests in the funds held by the trustees are recorded at fair value in the statements of financial position as beneficial interests in split-interest agreements.

For the charitable lead trust, the discount rate used in the present value calculation for future payments is the prevailing rate of interest for similar types of high quality, fixed income investments. The discount rates used for 2023 and 2022 were 4.95% and 4.05%, respectively and the remaining term of the agreement was approximately 6 years at June 30, 2023.

For the charitable remainder trust, the donor is the sole income beneficiary for life, with the Foundation receiving the principal amount of the trust upon the donor's death. The discount rates used in the present value calculations for the future payment were the ten-year treasury-bond rates at June 30, 2023 and 2022. The discount rates used for 2023 and 2022 were 3.81% and 2.98%, respectively, and the estimated remaining term of the agreement was approximately 6 years at June 30, 2023.

Income statement adjustments recognized for these split-interest agreements were a positive \$40,151 for the year ended June 30, 2023, and a negative \$71,047 for the year ended June 30, 2022. As of June 30, 2023 and 2022, the fair value of the beneficial interests was \$338,645 and \$336,677, respectively. The Foundation received distributions from the charitable lead trust of \$45,264 and \$48,289 for the years ended June 30, 2023 and 2022, respectively.

As of June 30, 2023, trust distributions are expected to be received as follows:

Less than one year	\$ 40,804
Two to five years	299,664
Six to ten years	<u>43,011</u>
	383,479
Less: discount to net present value	(44,834)
Beneficial interest in split-interest agreements	<u>\$ 338,645</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5) Investments

Investments in debt and equity securities with readily determinable fair values are stated at their estimated fair value. Fair value 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. See Note 6 for further discussion of fair value measurements.

The asset allocation of the Foundation's portfolio involves exposure to a diverse set of markets. The investments within these markets involve various risks such as interest rate risk, market risk, and credit risk. The Foundation understands that the value of its investments may, from time to time, fluctuate substantially as a result of these risks. Volatility in the financial markets may significantly impact the subsequent valuation of the Foundation's investments. Accordingly, the valuation of investments at June 30, 2023, may not necessarily be indicative of amounts that could be realized in a current market exchange.

The investments of the Endowed Professorship Programs and the Endowed Chairs for Eminent Scholars Programs are maintained and managed in brokerage accounts in compliance with the Board of Regent's investment policy.

Investments are stated at fair value and consisted of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Equities	\$ 10,653,011	\$ 10,068,927
Domestic fixed income securities	8,058,912	8,215,342
Hedge fund of funds and private equity	1,845,377	2,201,208
Hard assets	190,066	270,538
Money market funds	<u>2,118,857</u>	<u>1,412,277</u>
	<u>\$ 22,866,223</u>	<u>\$ 22,168,292</u>

Investment earnings are classified as with or without donor restrictions based on donor restrictions for certain permanently endowed funds and policies approved by the Board of Directors for certain non-endowed funds. The Foundation allocates investment activity to the pooled endowed investments based on the average daily balance of each endowed project. A spending allocation approved by the Board of Directors is made each year to the funds.

Investment earnings, net were comprised of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Dividends and interest, net	\$ 586,685	\$ 556,317
Realized gains (losses) on sales of investments	24,022	614,625
Unrealized gains (losses) on investments	<u>517,359</u>	<u>(2,588,607)</u>
	1,128,066	(1,417,665)
Less: external investment fees	<u>(91,660)</u>	<u>(103,573)</u>
	<u>\$ 1,036,406</u>	<u>(\$ 1,521,238)</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6) Fair value of financial instruments

In accordance with the *Fair Value Measurements and Disclosure* topic of the FASB ASC, disclosure of fair value information about financial instruments 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 necessarily represent the underlying value of the Foundation.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price 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 the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to the 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 at the measurement date.
- 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; and 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 which is determined using model-based techniques such as option pricing models, discounted cash flow models, and similar techniques.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6) Fair value of financial instruments (continued)

The asset 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 fair 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 externally managed fund 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. The application of those valuation procedures and methodologies are borne out in each manager's compliant annual audited financial statements and were monitored through the Foundation's reporting period ended June 30, 2023.

Level 3 Valuation Techniques

Although direct valuation techniques and methodologies for Level 3 assets are not completed internally, Foundation staff and the Foundation's investment advisor conduct ongoing monitoring and review of managers to ensure that reporting and valuation techniques are in accordance with industry standards and best practices. The investment advisor seeks to identify managers with experienced personnel and sound investment philosophy. Managers must demonstrate strength in key tenets such as conviction, consistency, pragmatism, investment culture, risk control, and active return. Capital statements, audit reports, current and past performance, and pertinent news regarding changes in management are scrutinized as an internal part of the due diligence process prior to hiring a manager. In addition, Service Organization Control Reports for fund administrator internal controls are obtained and reviewed. These reports are prepared by external independent firms and provide assurance concerning the suitability of the design and operating effectiveness of the administrators' controls and control objectives. These same elements are monitored on an on-going basis, as a matter of regular business practice, following the hiring of a manager. Level 3 asset types for which this due diligence process and focused monitoring are applied internally consist of investments in hedge fund of funds and private equity.

The valuation process conducted internally for Level 3 assets categorized as Beneficial Interests in Split-Interest Agreements primarily entails a calculation of the present value of proceeds expected to be received in accordance with the terms of the agreement. Each agreement is reviewed by management to determine the amount of any contractual and/or estimated payments to income beneficiaries using available actuarial data. The Foundation uses the Moody's Aa Index for corporate bonds to calculate net present value. This rate is commonly used when determining actuarial liabilities for other types of plans and investments.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6) Fair value of financial instruments (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Hedge fund of funds and private equity	\$ 653,553	\$ -	\$ 1,191,824
Money market	2,118,857	-	-
Mutual funds:			
Large cap equity - growth	1,106,656	-	-
Large cap equity - blend	4,636,506	-	-
Mid cap equity - growth	358,885	-	-
Mid cap equity - blend	817,409	-	-
Mid cap equity - value	32,417	-	-
Small cap equity - growth	16,848	-	-
Small cap equity - blend	30,812	-	-
Emerging markets equity - growth	17,359	-	-
Emerging markets equity - blend	3,010,207	-	-
Emerging markets equity - value	222,111	-	-
Real estate	403,801	-	-
Fixed income by credit quality rating:			
AAA	1,057,771	-	-
AA	4,595,842	-	-
A	962,040	-	-
BBB	907,078	-	-
BB	76,597	-	-
B	459,584	-	-
Hard assets	<u>190,066</u>	<u>-</u>	<u>-</u>
Total investments	21,674,399	-	1,191,824
Beneficial interest in split interest agreements	<u>-</u>	<u>-</u>	<u>338,645</u>
Total	<u>\$ 21,674,399</u>	<u>\$ -</u>	<u>\$ 1,530,469</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6) Fair value of financial instruments (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Hedge fund of funds and private equity	\$ 723,438	\$ -	\$ 1,477,770
Money market	1,412,277	-	-
Mutual funds:			
Large cap equity - growth	710,821	-	-
Large cap equity - blend	3,640,958	-	-
Large cap equity - value	735,868	-	-
Mid cap equity - growth	24,714	-	-
Mid cap equity - blend	1,111,768	-	-
Mid cap equity - value	44,022	-	-
Small cap equity - growth	13,020	-	-
Small cap equity - blend	29,243	-	-
Emerging markets equity - growth	124,164	-	-
Emerging markets equity - blend	2,902,983	-	-
Emerging markets equity - value	266,302	-	-
Real Estate	465,064	-	-
Fixed income by credit quality rating:			
AAA	4,588,245	-	-
AA	391,376	-	-
A	1,683,520	-	-
BBB	847,724	-	-
BB	78,275	-	-
B	626,202	-	-
Hard assets	<u>270,538</u>	<u>-</u>	<u>-</u>
Total investments	20,690,522	-	1,477,770
Beneficial interest in split interest agreements	<u>-</u>	<u>-</u>	<u>336,677</u>
Total	<u>\$ 20,690,522</u>	<u>\$ -</u>	<u>\$ 1,814,447</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6) Fair value of financial instruments (continued)

The following table presents the changes in fair value of Level 3 instruments that are measured at fair value on a recurring basis for the years ended June 30, 2023 and 2022:

	<u>Hedge Funds of Funds and Private Equity</u>	<u>Split-interest Agreements</u>	<u>Total</u>
Balance - June 30, 2021	\$ 1,364,734	\$ 449,841	\$ 1,814,575
Purchases	-	-	-
Sales	(291,500)	(49,141)	(340,641)
Unrealized gains (losses)	417,822	(64,023)	353,799
Realized gains (losses)	(13,286)	-	(13,286)
Balance - June 30, 2022	1,477,770	336,677	1,814,447
Purchases	-	-	-
Sales	(142,501)	(45,264)	(187,765)
Unrealized gains (losses)	(137,195)	47,232	(89,963)
Realized gains (losses)	(6,250)	-	(6,250)
Balance - June 30, 2023	<u>\$ 1,191,824</u>	<u>\$ 338,645</u>	<u>\$ 1,530,469</u>

Realized and unrealized earnings and/or losses are included in the investment earnings allocations in the statements of activities and changes in net assets.

7) Funds held in custody and net assets to be maintained in perpetuity

Included in investments at June 30, 2023 and 2022, were funds held-in-custody with the Foundation's investment custodian, which represent the fair value of the matching funds received from the State of Louisiana and earnings allocations available for expenditure. Investments also include private donations which are restricted by donors to be held in perpetuity.

The Endowed Chairs for Eminent Scholars Program requires a \$600,000 private donation and a matching \$400,000 gift from the State of Louisiana, making a total endowment of \$1,000,000 per program. The Eminent Scholars Program requires a \$60,000 private donation and a \$40,000 matching gift from the State of Louisiana, making a total endowment of \$100,000. Total funds held in custody were as follows:

	<u>2023</u>	<u>2022</u>
State Matching Funds	\$ 6,076,410	\$ 6,218,557
Other	21,446	22,735
	<u>\$ 6,097,856</u>	<u>\$ 6,241,292</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8) Net assets

Net assets with purpose and / or time restrictions consisted of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Endowed Chairs & Professorships	\$ 3,275,004	\$ 2,984,406
Specific Research Projects	2,545,679	2,105,829
Faculty Research Support	<u>1,040,432</u>	<u>990,233</u>
	<u>\$ 6,861,115</u>	<u>\$ 6,080,468</u>

Net assets restricted in perpetuity were as follows at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Private donations	\$ 8,600,427	\$ 8,477,904
Beneficial interest in split interest agreements	<u>1,046,532</u>	<u>1,006,413</u>
	<u>\$ 9,646,959</u>	<u>\$ 9,484,317</u>

Net assets released from donor restrictions for incurring program related expenses satisfying the restricted purposes for the years ended June 30, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Endowed Chairs & Professorships	\$ 630,884	\$ 635,836
Specific Research Projects	4,459,272	17,725,311
Faculty Research Support	<u>64,607</u>	<u>164,724</u>
Total Restrictions Released	<u>\$ 5,154,763</u>	<u>\$ 18,525,871</u>

The Foundation's net assets without donor restrictions included Board designated amounts of \$117,438 and \$166,604 as of June 30, 2023 and 2022, for use in future Center projects.

9) Endowed net assets

The primary objective of the Foundation's investment and spending policies for its endowed assets is to be a source of capital for the current and future support of the Center. Implicit in this objective is the financial goal of preserving and enhancing the inflation-adjusted earning and purchasing power of assets. The long-term investment objective of the endowed portfolio is to attain an average annual real total return at or above the level of spending and fees. Real total return is investment return minus inflation. It is also the intent of the policy to earn the highest rate of return over the long term, consistent with prudent funds management, and to provide adequate distribution of income to the Center, within policy and budget guidelines.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9) Endowed net assets (continued)

Certain endowed funds are provided by the State as a match to qualifying private endowed contributions and are managed under agreement with the Louisiana State University System for its benefit. These endowed assets are further subject to the investment and spending policies established by the Louisiana Board of Regents, which has statutory authority to administer the matching funds program.

The net asset composition by type of fund as of June 30, 2023 and 2022, and the changes in endowment net assets for the years ended June 30, 2023 and 2022, were as follows:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		
		<u>Temporary</u>	<u>Permanent</u>	<u>Total</u>
Endowment net assets, June 30, 2021	\$ 229,368	\$ 5,007,020	\$ 8,807,279	\$ 14,043,667
Investment return:				
Investment income	-	1,006,539	-	1,006,539
Net appreciation (depreciation)	-	(2,297,743)	(71,047)	(2,368,790)
Contributions	115,000	-	748,085	863,085
Appropriation of endowment assets for expenditure	(177,764)	(675,226)	-	(852,990)
Endowment net assets, June 30, 2022	166,604	3,040,590	9,484,317	12,691,511
Investment return:				
Investment income	-	378,832	-	378,832
Net appreciation (depreciation)	-	609,483	40,151	649,634
Contributions	215,000	251	122,491	337,742
Appropriation of endowment assets for expenditure	(264,166)	(667,964)	-	(932,130)
Endowment net assets, June 30, 2023	<u>\$ 117,438</u>	<u>\$ 3,361,192</u>	<u>\$ 9,646,959</u>	<u>\$ 13,125,589</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9) Endowed net assets (continued)

A spending rate is determined by the Foundation's Board of Directors on an annual basis, with consideration given to the market conditions, the spending levels of peer foundations and the level of real return after spending measured over a rolling five-year time period. The spending rate approved by the Board is applied to the five-year average market value of the investment pool of endowed assets. The objective is to provide relatively stable spending allocations. The net spending rate approved by the Board of Directors for the years ended June 30, 2023 and 2022 was 4.50%. In accordance with the Board's policies, no portion of the corpus (original amount of donation) of the endowed assets shall be allocated for program spending.

Guided by the philosophy that asset allocation is the most significant determinant of long-term investment return, the Foundation's Board of Directors establishes asset allocation targets for its pool of endowed assets in order to achieve the total return objectives of its investment policy within acceptable risk levels. Target ranges are established within asset classes, and investments are diversified in order to minimize the risk of large losses.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level the donor or the Board of Regents policy requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of either June 30, 2023 or 2022.

10) Cooperative endeavor agreement

The Foundation entered into a Cooperative Endeavor Agreement with the Louisiana Department of Economic Development and Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU) effective March 9, 2020. Under the terms of the agreement, the Foundation will renovate and partially equip the Imaging Center and the Animal Surgery Suite owned by LSU and located on Pennington Biomedical Research Center's Baton Rouge Campus. The Foundation recognized revenues of \$59,502 and \$1,036,783 related to this grant during the years ended June 30, 2023 and 2022 respectively.

11) Other revenues

The Pennington Medical Foundation (the Medical Foundation) ceased operations and was dissolved effective December 31, 2022. The Medical Foundation's remaining assets, which totaled \$371,743 as of this date, were contributed to the Foundation. The Foundation recorded this inherent contribution during the year ended June 30, 2023, and the contributed amount is included in other revenues.

12) Retirement contributions

The Foundation makes an annual contribution to a 403(b) retirement plan for eligible employees, and effective, January 1, 2010, the Plan adopted safe harbor provisions. Contributions for the years ended June 30, 2023 and 2022 totaled approximately \$27,000 and \$17,000, respectively.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13) Related party transactions

The Pennington Biomedical Research Foundation provides accounting services and administrative support to the Pennington Medical Foundation (PMF). For the years ended June 30, 2023 and 2022, PMF paid the Foundation \$4,500 and \$6,000 for these services, respectively.

As part of its mission, the Foundation also has certain transactions in the normal course of operations with the Pennington Biomedical Research Center. The transactions consist of research support for salaries, equipment, and supplies, which are processed by the Center. In addition, the Foundation reimburses the Center for certain costs pertaining to Foundation operations. For the years ended June 30, 2023 and 2022, these costs totaled \$1,715,281 and \$1,667,166, respectively. The amount owed to the Center at June 30, 2023 and 2022 for these types of expenses was \$198,594 and \$146,684, respectively.

14) Commitments

In 1999, the Foundation purchased an annuity to fund the retirement obligation of a former Executive Director of the Center. The annuity's value and corresponding retirement obligation were approximately \$604,000 and \$618,000 at June 30, 2023 and 2022, respectively.

In 2006 the Foundation committed up to \$100,000 per year to the Pennington Biomedical Research Center for faculty support for a former Executive Director of the Center. The commitment is currently funded through an endowed chair and unrestricted funds.

In connection with the cooperative endeavor agreement discussed in note 10, the Foundation has entered into an agreement for building renovations for the Bariatric Metabolic Initiative on the campus of the Pennington Biomedical Research Center. As of June 30, 2023, the remaining commitments on signed contracts relating to this project totaled approximately \$379,000.

15) Subsequent events

Management has evaluated events through the date that the financial statements were available to be issued, October 30, 2023, and determined that no events occurred that require additional disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.