

**Pennington Medical Foundation  
Baton Rouge, Louisiana  
December 31, 2022**

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Certified Public Accountants

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## **Independent Auditor's Report**

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

### **Opinion**

We have audited the accompanying financial statements of Pennington Medical Foundation (a nonprofit organization), which comprise the statement of net assets in liquidation as of December 31, 2022, the related statement of changes in net assets in liquidation for the period from June 21, 2022 to December 31, 2022, and the related statements of activities and cash flows for the period from January 1, 2022 to June 21, 2022, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets in liquidation of Pennington Medical Foundation as of December 31, 2022, and the changes in net assets in liquidation for the period from June 21, 2022 to December 31, 2022, and its results of operations and its cash flows for the period from January 1, 2022 to June 21, 2022, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pennington Medical Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of Matter**

As discussed in Note 2B to the financial statements, the board of directors of Pennington Medical Foundation approved a plan of liquidation on June 21, 2022, and the Foundation determined liquidation was imminent. As a result, the Foundation changed its basis of accounting on June 21, 2022 from the going concern basis to the liquidation basis. Our opinion is not modified with respect to that matter.

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

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

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

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

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

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

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

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

July 24, 2023

**Pennington Medical Foundation**  
**Statement of Net Assets in Liquidation**  
**December 31, 2022**

<b>Current Assets</b>	
Cash	\$ 275,545
Accrued royalties	<u>6,442</u>
Total assets in liquidation	<u>281,987</u>
<b>Liabilities</b>	
Accounts payable	8,141
Due to related parties	<u>273,846</u>
Total liabilities in liquidation	<u>281,987</u>
<b>Net Assets in Liquidation</b>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements

**Pennington Medical Foundation**  
**Statement of Changes in Net Assets in Liquidation**  
**From June 21, 2022 to December 31, 2022**

<b>Net Assets in Liquidation as of June 21, 2022</b>	\$ 514,824
<b>Changes in Net Assets</b>	
Investment loss	(10,458)
Program and administrative expenses	(127,732)
Mineral interest transferred	(113,536)
Assets to be donated	<u>(263,098)</u>
<b>Net Assets in Liquidation as of December 31, 2022</b>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements

**Pennington Medical Foundation**  
**Statement of Activities**  
**From January 1, 2022 to June 21, 2022**

	<b>January 1, 2022 to June 21, 2022 (date of liquidation)</b>
<b>Revenue and Gains</b>	
Investment loss	\$ (13,444)
Total revenue and gains	<u>(13,444)</u>
<b>Expenses</b>	
Program services	49,992
General and administrative	<u>39,420</u>
Total expenses	<u>89,412</u>
<b>Decrease in Net Assets</b>	(102,856)
<b>Net Assets, without donor restrictions</b>	
Beginning of period	<u>617,680</u>
End of period	<u><u>\$ 514,824</u></u>

The accompanying notes are an integral part of these financial statements

**Pennington Medical Foundation**  
**Statement of Cash Flows**  
**From January 1, 2022 to June 21, 2022**

	<b>January 1, 2022 to June 21, 2022 (date of liquidation)</b>
<b>Cash Flows from Operating Activities</b>	
Decrease in net assets without donor restrictions	\$ (102,856)
Adjustments to reconcile decrease in net assets without donor restrictions to net cash used in operating activities:	
Unrealized losses on investments	21,055
Realized losses on investments	10,225
(Increase) Decrease in assets:	
Accrued royalties	(1,956)
Increase (Decrease) in liabilities:	
Accounts payable	<u>(11,265)</u>
Net cash used in operating activities	<u>(84,797)</u>
<b>Cash Flows from Investing Activities</b>	
Transfer of investments to operating account	<u>80,000</u>
Net cash provided by investing activities	<u>80,000</u>
<b>Net Decrease in Cash</b>	(4,797)
<b>Cash, beginning of period</b>	<u>45,602</u>
<b>Cash, end of period</b>	<u><u>\$ 40,805</u></u>

The accompanying notes are an integral part of these financial statements



**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1-Nature of Operations**

Pennington Medical Foundation (the “Foundation”) is a non-profit trust created in 1980 exclusively for scientific purposes in constructing and equipping Pennington Biomedical Research Center (the “Center”), a campus of the Louisiana State University System. The Foundation provides financial support, in conjunction with Pennington Biomedical Research Foundation (the “Research Foundation”), for medical research conducted at the Center. The primary source of revenue for the Foundation is from investment earnings.

**Note 2-Summary of Significant Accounting Policies**

A. Basis of Presentation

The basis of the accompanying financial statements has changed from the going concern basis to the liquidation basis of accounting in accordance with accounting principles generally accepted in the United States of America.

B. Plan of Liquidation

The Board of Trustees approved a plan of liquidation on June 21, 2022. During the liquidation period from June 21, 2022 to December 31, 2022, Pennington Medical Foundation transferred its interest in substantially all of its assets to the Pennington Biomedical Research Foundation. All remaining assets were liquidated and converted to cash in order to be transferred to the Research Foundation.

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.

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. As of December 31, 2022, the Foundation had no cash equivalents.

E. Investments

Investments in securities with readily determinable fair values are recorded at a value based on quoted market prices. For those investments where quoted prices are not available, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. Dividend, interest, and other investment income are recorded as an increase in net assets with or without restrictions depending on donor stipulations.

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2022**

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

F. Fixed Assets

Fixed assets are capitalized at cost or, if donated, at fair value at the date of donation. Expenditures for major repairs and improvements that extend the useful lives of fixed assets are capitalized. Expenditures for maintenance and minor repairs are expensed as incurred.

G. Income Taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. As of December 31, 2022 the Foundation had no such income. The Foundation has been classified as an organization other than a private foundation.

Management has determined that there are no uncertain tax positions that would require recognition in the financial statements. If the Foundation were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax would be reported as income taxes. Management's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based on ongoing analysis of tax laws, regulations, and interpretations thereof as well as other factors.

H. Functional Expenses

Expenses included in program services 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.

The following table represents costs of providing programs and other activities for the Foundation's operational period:

	<b>January 1, 2022 to June 21, 2022</b>		
	<b>Program Services</b>	<b>General and Administrative</b>	<b>Total Expenses</b>
Pennington Biomedical Research Center:			
Executive Director Funds	\$ 20,833	\$ -	\$ 20,833
Projects	29,158	-	29,158
Professional fees	-	36,702	36,702
Office expense	-	233	233
Taxes	-	1,575	1,575
Insurance	-	910	910
Total functional expenses	\$ 49,992	\$ 39,420	\$ 89,412

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 3-Investments**

Investment income (loss) for each period is comprised of the following:

	<b>January 1, 2022 to June 21, 2022</b>	<b>June 21, 2022 to December 31, 2022</b>
Realized and unrealized losses on investments	\$ (31,280)	\$ (31,279)
Investment income	17,836	20,821
Investment income (loss)	\$ (13,444)	\$ (10,458)

**Note 4-Fixed Assets**

The following schedule shows fixed assets for the year ended December 31, 2022:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers in Liquidation</b>	<b>Ending Balance</b>
Equipment	\$ 366,250	\$ -	\$ (366,250)	\$ -
Less accumulated depreciation	(366,250)	-	366,250	-
Property and equipment, net	\$ -	\$ -	\$ -	\$ -

**Note 5-Fair Value Measurements**

In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC 820, disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position, is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments; therefore, the aggregate fair value amounts presented do not represent the underlying value of the Foundation.

The fair value guidance provides a consistent definition of fair value, which focuses on exit pricing in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2022**

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

*Fair Value Hierarchy*

The Fair Value Measurements and Disclosures topic of the FASB ASC provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the framework are described as follows:

- Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation's investments in securities with readily determinable fair values are recorded at a value based on quoted market prices. For those investments where quoted prices are unavailable, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. The Foundation utilizes several externally managed fund(s) of funds for private equity, venture capital, and hedge funds, and with these types of investments, quoted prices are often unavailable, and pricing inputs are generally unobservable. The Foundation relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities.

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, 2022.

	<b>Level 3 Balance at Beginning of Year</b>	<b>Purchases</b>	<b>Sales</b>	<b>Realized &amp; Unrealized Gains</b>	<b>Transfers Out</b>	<b>Level 3 Balance at End of Year</b>
Hedge fund of funds	\$ 43,560	\$ -	\$ (23,110)	\$ (20,450)	\$ -	\$ -
Mineral interest	155,645	-	-	(42,109)	(113,536)	-
	<u>\$ 199,205</u>	<u>\$ -</u>	<u>\$ (23,110)</u>	<u>\$ (62,559)</u>	<u>\$ (113,536)</u>	<u>\$ -</u>

**Pennington Medical Foundation**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 6-Related Party Transactions**

The Foundation had the following related party transactions for the year ended December 31, 2022:

Pennington Biomedical Research Center

The Foundation is a Type III supporting organization of the Center, as defined by the Internal Revenue Service. As such, the Foundation provides annual financial support directly to or for the benefit of the Center for capital support and its medical research needs. Total program support of \$119,980 was provided by the Foundation to or for the benefit of the Center for the year ended December 31, 2022. The amount owed to the Center at December 31, 2022 for this support and additional miscellaneous reimbursements was \$9,998.

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 \$9,025 for the year ended December 31, 2022, which is included in professional fees. The Foundation donated \$376,634 in assets to the Research Foundation as part of its liquidation. The amount owed to the Research Foundation at December 31, 2022 was \$263,848.

At December 31, 2022, the summarized amounts due to related parties are as follows:

	<b>2022</b>
Pennington Biomedical Research Center	
Program services support	\$ 9,998
Pennington Biomedical Research Foundation	
Accounting and administrative support	750
Assets to be donated	263,098
Total due to related parties	\$ 273,846

**Note 7-Subsequent Events**

Pennington Medical Foundation has evaluated all subsequent events through July 24, 2023, the date the financial statements were available to be issued. The Foundation transferred all remaining funds to the Pennington Biomedical Research Foundation in February 2023, and closed all investments and bank accounts in its name.