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Pennington Medical Foundation
Baton Rouge, Louisiana
December 31, 1999

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Release Date 11-01-00

HAWTHORN, WATMOUTH & CARROLL, L.L.P.



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HANBORN, WYMCOUTH & CARROLL, L.L.P.



CERTIFIED PUBLIC ACCOUNTANTS

5000 BARRIS FLOOR
SUITE 1000 - TAMMING, MISS
3700200000 - FAX 3700 200000

May 3, 2000

Independent Auditor's Report

The Officers and Board of Trustees
Fremington Medical Foundation
Hahn Range, Louisiana

Gentlemen:

We have audited the accompanying statements of assets, liabilities and net assets - modified cash basis of the

**Fremington Medical Foundation
Hahn Range, Louisiana**

as of December 31, 1999 and December 31, 1998, and the related statements of revenue and expenditures - modified cash basis, and changes in net assets - modified cash basis, for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to report an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of modified cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of the Fremington Medical Foundation as of December 31, 1999 and December 31, 1998, and its revenue collected, expenditures made, and changes in net assets for the years then ended, on the basis of accounting described in Note 1.

Very truly,

Hanborn, Wymcouth & Carroll, L.L.P.

Pennington Medical Foundation
Statements of Assets, Liabilities and Net Assets - Modified Cash Basis
December 31, 1999 and December 31, 1998

	A s s e t s	
	1999	1998
Current Assets		
Cash	\$ 587,584	\$ 313,434
Investments		
Investments, at cost	45,451,951	41,208,650
Debtware bond	38,800,000	30,000,000
Total investments	75,451,951	71,208,650
Property and Equipment		
Buildings	19,571,982	19,418,675
Machinery and equipment	2,321,685	2,233,653
Land improvements	4,299,418	4,299,418
Construction in progress	1,382,195	1,031,569
Accumulated depreciation	(5,708,954)	(5,688,964)
Total property and equipment	32,666,372	31,274,359
Total assets	98,699,812	92,635,434
Liabilities and Net Assets		
Liabilities	\$ -	\$ -
Net Assets		
Unrestricted	98,699,812	92,635,434
Total liabilities and net assets	98,699,812	92,635,434

The accompanying notes are an integral part of these statements.

Fremington Medical Foundation
Statements of Revenue and Expenditures - Modified Cash Basis
Years Ended December 31, 1999 and December 31, 1998

	<u>Unrestricted</u>	
	<u>1999</u>	<u>1998</u>
Revenue		
Donations	\$400,000	\$507,000
Investment income	6,557,179	6,214,916
Royalty income	717,320	609,687
Other	(26,020)	(28,712)
Total revenue	8,880,510	13,582,325
Expenditures		
Program services	2,294,180	2,515,991
General and administrative	1,314,385	1,170,053
Depreciation	1,809,580	1,883,435
Total expenditures	4,418,145	5,569,480
Revenue Over Expenditures Before Income Taxes	4,462,365	8,012,845
Income Taxes	(136,527)	—
Revenue Over Expenditures	4,325,838	8,012,845

The accompanying notes are an integral part of these statements.

Fremington Medical Foundation
Statements of Changes in Net Assets - Modified Cash Basis
Years Ended December 31, 1999 and December 31, 1998

	<u>Unrestricted</u>
Net Assets, January 1, 1998	\$90,849,679
Revenue Over Expenditures, 1998	..1,785,725
Net Assets, December 31, 1998	92,635,404
Revenue Over Expenditures, 1999	..1,525,578
Net Assets, December 31, 1999	<u>94,160,982</u>

The accompanying notes are an integral part of these statements.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 1999

Note 3 - Summary of Accounting Policies

A. Nature of Operations

The Pennington Medical Foundation (the Foundation) is a non-profit organization created in 1980 exclusively for scientific purposes in constructing and equipping the Pennington Biomedical Research Center (the Center), a division of the Louisiana State University and Agricultural and Mechanical College. The Foundation provides financial support, in conjunction with the Pennington Biomedical Research Foundation (the Research Foundation), for medical research conducted at the Center.

B. Basis of Accounting

The Foundation maintains its records using a modified cash basis of accounting; consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred, except for fixed assets which are recorded as described in Note 1(D).

C. 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 Organization's tax-exempt purpose is subject to taxation as unrelated business income. Also, the Foundation has been classified as an organization other than a private foundation.

D. Property and equipment

Property and equipment are capitalized at cost. Maintenance and repair expenditures are expensed as paid. Depreciation is computed using straight line and accelerated methods over the estimated useful lives of the assets.

E. Use of Estimates

The preparation of financial statements 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 period. Actual results could differ from these estimates.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 1999

Note 1-Summary of Accounting Policies (Continued)

F. Investments

Investments consist of United States Government Agency obligations, bonds, equities, money market funds and cash maintained in trust accounts. All investments are stated at cost. Realized gains and losses on dispositions are based on rat. proceeds and the book value of the securities sold, using the specific identification method. These investments are maintained and managed in trust and brokerage accounts.

G. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The Pennington Medical Foundation does not have any temporarily or permanently restricted net assets.

Note 2-Related Party Transactions

The Foundation owns a non-voting minority interest in Pennington Oil Company (the Company). The Foundation also has a \$30,000,000 debenture bond from the Company which matures in August, 2008 and pays 12% interest annually. The Foundation received \$3,600,000 in interest income from this bond in 1999 and 1998.

In 1999 and 1998, the C. B. and Irene Pennington Foundation made annual contributions of \$90,000 and \$400,000 to the Foundation.

Note 3-Management Agreement

On October 10, 1995, the Foundation entered into an agreement with the Pennington Biomedical Research Foundation. This agreement provided that the Research Foundation would undertake the responsibility for the operation and maintenance of the Claude B. Pennington Conference and Education Center at a cost of \$750,000 per year to the Foundation. In 1998, the agreement also stated that the Foundation would reimburse their portion of the professional and administrative services provided by the Research Foundation. In 1998, those services were \$96,000. In 1999, the Foundation paid for its own professional and administrative expenses.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 1999

Note 4-Concentrations of credit and Market Risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Foundation has not experienced any losses on its cash equivalents. The Foundation's investments do not represent significant concentrations of market risk inasmuch as the Foundation's investment portfolio is adequately diversified among issuers.

Note 5-Construction in Progress

The Foundation is in the process of fulfilling construction and upgrade projects. The total estimated cost to complete these projects as of December 31, 1999 and 1998, was \$2,214,800 and \$3,519,800, respectively.

Note 6-Investments

Investments at December 31, 1999 and 1998 are comprised of the following:

	December 31, 1999		December 31, 1998	
	Cost	Market Value	Cost	Market Value
U. S. Government Obligations	\$3,215,157	\$3,309,339	\$3,215,157	\$3,285,734
Bonds	99,828	98,962	99,828	891,599
Equities	17,671,645	18,824,608	16,821,908	16,896,213
Money Market Funds	6,538,261	6,538,261	6,651,748	6,651,748
Long-Term Bond Caps Fund	6,161,779	6,603,548	5,516,780	5,387,580
Mutual Horizon Fund	11,743,321	13,730,583	18,800,222	12,878,333
	45,431,951	52,807,482	48,303,635	43,181,247

Pennington Medical Foundation
Notes to Financial Statements
December 31, 1999

Note 2-3-Related Business Income Tax

As discussed in Note 2(2) to the financial statements, the Foundation records certain expenses, such as income taxes, when paid rather than when incurred.

The following summarizes the expenditures paid and the applicable tax year:

Tax Year	Payment Year	
	1999	1998
1998	\$68,237	\$ -
1999	\$82,882	-
	<u>\$151,119</u>	<u>-</u>

The Foundation reported unrelated income of \$218,967 from certain investments in 1998 and expects to report approximately \$460,000 in 1999.

Supplementary Information

RAMTHORN, WAYMOUTH & CARROLL, L.L.P.

A LIMITED LIABILITY PARTNERSHIP
MEMBER FIRM OF THE FIDELITY & BOND COMPANY
MEMBER FIRM OF THE INDEPENDENT ACCOUNTANTS
MEMBER FIRM OF THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



CERTIFIED PUBLIC ACCOUNTANTS

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May 2, 2000

**Independent Auditor's Report
on Supplementary Information**

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

The report on our audit of the basic modified cash basis financial statements of the Pennington Medical Foundation for December 31, 1999 and December 31, 1998, appears on page 3. Those audits were performed for the purpose of forming an opinion on the basic modified cash basis financial statements taken as a whole. The accompanying schedule is presented for purposes of additional analysis and is not a required part of the basic modified cash basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic modified cash basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic modified cash basis financial statements taken as a whole.

Yours truly,

Ramthorn, Weymouth & Carroll, L.L.P.

Fremington Medical Foundation
Schedule of Functional Expenses - Modified Cash Basis
Years Ended December 31, 1999 and December 31, 1998

	Program Expenses	General and Admin- istrative	Depreciation	1999 Total	1998 Total
Salaries, benefits, contracts	\$194,404	\$29,543		\$223,947	\$145,684
Fremington Nutrition Clinic					1,200,000
Fremington Biomedical Research Center projects	2,899,686			2,899,686	1,621,798
Charitable contributions					169,680
Operations and maintenance		750,080		750,080	750,080
Professional fees		82,027		82,027	264,172
Office expense		20,883		20,883	108,582
Severance tax		48,026		48,026	37,482
Postage and interest					1,680
Symposiums and Club expense					172,120
Service charges		124,111		124,111	117,289
Foreign taxes		21,096		21,096	20,242
Depreciation expense			\$1,806,890	1,806,890	1,822,476
Miscellaneous		12,724		12,724	79,848
Entertainment		18,866		18,866	
Travel		5,489		5,489	
Insurance		2,720		2,720	
	<u>2,724,020</u>	<u>1,114,222</u>	<u>1,806,890</u>	<u>5,418,222</u>	<u>3,768,482</u>