PENNINGTON BIOMEDICAL RESEARCH FOUNDATION

LSU

Financial Statements
June 30, 2018

P&N

Postlethwaite & Netterville

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2018

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Postlethwaite & Netterville

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pennington Biomedical Research Foundation
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennington Biomedical Research Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities and changes in net assets, 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.

Auditors' 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 audits 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 auditors' 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.

Postlethwaite & Netterville

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the Pennington Biomedical Research Foundation as of June 30, 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
November 8, 2018

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

A S S E T S

	2018	2017
ASSETS		
Cash and cash equivalents	$ 336,120	$ 488,466
Accounts receivable	11,096	273
Unconditional promises to give, net	1,088,772	1,730,011
Prepaid expenses	55,598	52,401
Office equipment (net of accumulated depreciation of $6,674 and $6,382, respectively)	1,035	239
Investments - unrestricted	1,578,781	1,374,180
Investments - temporarily restricted, permanently restricted, and funds held-in-custody	21,737,077	21,150,755
Annuity held by rabbi trust	632,263	662,955
Beneficial interest in split-interest agreements	456,171	482,719
Total assets	$ 25,896,913	$ 25,941,999

L I A B I L I T I E S   A N D   N E T   A S S E T S

	2018	2017
LIABILITIES		
Accounts payable	$ 163,285	$ 149,204
Accrued expenses and other liabilities	51,472	46,999
Retirement obligation	632,263	662,955
Funds held-in-custody	6,851,639	6,872,041
Total liabilities	7,698,659	7,731,199
NET ASSETS		
Unrestricted	1,727,687	1,642,897
Unrestricted - board designated	146,161	294,430
Temporarily restricted	7,618,512	7,578,243
Permanently restricted	8,705,894	8,695,230
Total net assets	18,198,254	18,210,800
Total liabilities and net assets	$ 25,896,913	$ 25,941,999

The accompanying notes are an integral part of these statements.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Contributions	$ 1,088,817	$ 1,598,248	$ -	$ 2,687,065
Investment income allocation	52,391	681,048	-	733,439
Management fee income	277,392	-	-	277,392
Other revenues	21,513	110,500	-	132,013
Change in value of split interest agreements	-	-	10,664	10,664
	1,440,113	2,389,796	10,664	3,840,573
Net assets released by satisfaction of program restrictions	2,349,527	(2,349,527)	-	-
	3,789,640	40,269	10,664	3,840,573
EXPENSES				
Program services	2,445,264	-	-	2,445,264
Management and general	671,158	-	-	671,158
Development	736,697	-	-	736,697
	3,853,119	-	-	3,853,119
CHANGE IN NET ASSETS	(63,479)	40,269	10,664	(12,546)
Net assets, beginning of period	1,937,327	7,578,243	8,695,230	18,210,800
NET ASSETS, END OF PERIOD	$ 1,873,848	$ 7,618,512	$ 8,705,894	$ 18,198,254

The accompanying notes are an integral part of these statements.

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 976,268	$ 735,462	$ -	$ 1,711,730
73,634	1,180,175	-	1,253,809
235,183	-	-	235,183
283,911	50,000	-	333,911
-	-	19,419	19,419
1,568,996	1,965,637	19,419	3,554,052
2,550,011	(2,550,011)	-	-
4,119,007	(584,374)	19,419	3,554,052
2,713,483	-	-	2,713,483
696,682	-	-	696,682
806,265	-	-	806,265
4,216,430	-	-	4,216,430
(97,423)	(584,374)	19,419	(662,378)
2,034,750	8,162,617	8,675,811	18,873,178
$ 1,937,327	$ 7,578,243	$ 8,695,230	$ 18,210,800

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Program Services	Management and General	Development	Total
Bank charges	$ -	$ 8,307	$ -	$ 8,307
Business development	61,404	10,274	173,624	245,302
Depreciation	-	293	-	293
Dues and subscriptions	24,249	14,648	6,017	44,914
Insurance	-	53,568	-	53,568
Investment expense	252,761	57,054	-	309,815
Government relations	-	12,998	-	12,998
Meetings and symposiums	50,608	2,793	1,411	54,812
Miscellaneous	32,693	6,481	-	39,174
Payroll taxes and benefits	285,546	54,351	71,524	411,421
Postage	673	5,043	760	6,476
Printing	16,161	8,190	-	24,351
Professional fees	272,221	36,295	42	308,558
Operations and maintenance	240,614	33,044	25,442	299,100
Research supplies and equipment	282,233	-	-	282,233
Salaries	1,250,255	343,800	437,837	2,031,892
Supplies	2,483	15,977	412	18,872
Taxes and licenses	-	55	-	55
Telephone	2,828	18	750	3,596
Training	28	2,384	5,384	7,796
Travel	64,055	5,585	13,494	83,134
Total disbursements	2,838,812	671,158	736,697	4,246,667
Less: disbursements related to state portion of chairs and professorships	(393,548)	-	-	(393,548)
Total expenses	$ 2,445,264	$ 671,158	$ 736,697	$ 3,853,119

The accompanying notes are an integral part of these statements.

2017			
Program Services	Management and General	Development	Total
$ -	$ 10,474	$ -	$ 10,474
127	4,741	149,268	154,136
-	722	-	722
21,832	10,288	1,538	33,658
-	57,863	-	57,863
229,683	64,160	-	293,843
-	-	-	-
37,749	2,124	770	40,643
6,720	5,352	18,747	30,819
646,228	50,429	74,674	771,331
433	5,930	395	6,758
7,493	7,577	5	15,075
149,477	84,462	199	234,138
96,087	-	-	96,087
170,971	35,111	39,076	245,158
1,686,894	342,404	512,867	2,542,165
5,603	11,312	2,982	19,897
-	70	1,186	1,256
2,728	-	225	2,953
-	2,944	1,372	4,316
54,178	719	2,961	57,858
3,116,203	696,682	806,265	4,619,150
(402,720)	-	-	(402,720)
$ 2,713,483	$ 696,682	$ 806,265	$ 4,216,430

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (12,546)	$ (662,378)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	293	722
Discount on unconditional promises to give	17,729	(10,157)
Realized gains on sales of investment securities	(518,545)	(643,822)
Unrealized loss (gain) on investment securities	262,453	(236,984)
Unrealized gain on beneficial interest in split-interest agreements	(18,093)	(17,740)
Distributions received from beneficial interest in split-interest agreements	44,641	43,157
Changes in operating assets and liabilities:		
Accounts receivable	(10,823)	808
Unconditional promises to give	623,510	743,770
Prepaid expenses	(3,197)	(9,709)
Accounts payable	14,081	(151,695)
Accrued expenses and other liabilities	4,473	(20,297)
Net cash provided by (used in) operating activities	403,976	(964,325)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,089)	-
Proceeds from sales of investments	2,030,237	6,367,912
Purchases of investments	(2,565,068)	(5,199,574)
Net cash provided by (used in) investing activities	(535,920)	1,168,338
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in funds held-in-custody	(20,402)	55,694
Net cash provided by (used in) financing activities	(20,402)	55,694
Net increase (decrease) in cash and cash equivalents	(152,346)	259,707
Cash and cash equivalents at beginning of period	488,466	228,759
Cash and cash equivalents at end of period	$ 336,120	$ 488,466

The accompanying notes are an integral part of these statements.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO 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.

Basis of accounting

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

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.

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 necessary at either June 30, 2018 or 2017.

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 accelerated methods over the estimated useful lives of the assets, which range from 5 to 7 years.

1) Summary of significant accounting policies (continued)

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 increases in unrestricted, temporarily restricted, or permanently restricted net assets depending on donor stipulations.

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

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 unrestricted, temporarily restricted or permanently restricted depending on the classification used when the contribution was originally recorded.

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 received are recorded as unrestricted, temporarily restricted, or permanently 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), temporarily 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.

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.

1) Summary of significant accounting policies (continued)

Income taxes (continued)

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, 2018.

Cash and cash equivalents

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

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. Accordingly, certain costs have been allocated among the programs and supporting benefits based on management's estimates.

Concentrations of credit risk

The Foundation's investments are secured by the Securities Investor Protection Corporation (SPIC). 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.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

Accounting pronouncements issued but not yet adopted

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, the number of net asset classes is reduced from three to two; enhanced disclosure of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how the organization manages its liquid available resources and liquidity risk is required. This ASU is effective for fiscal years beginning after December 15, 2017.

1) Summary of significant accounting policies (continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or exchange transaction. The updated guidance is effective for annual periods beginning after December 15, 2017.

ASU 2014-09, *Revenue from Contracts with Customers*, was issued to update the revenue recognition standard in order to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This standard will be effective for periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements in excess of 12 months on the statements of financial position and to provide additional disclosures. This ASU is effective for annual periods beginning after December 15, 2019.

The Foundation is currently assessing the impact of these pronouncements on its financial statements.

2) Unconditional promises to give

Unconditional promises to give at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Promises to give expected to be collected in:		
Less than one year	$ 680,810	$ 1,489,620
One to five years	430,700	245,400
	1,111,510	1,735,020
Less: discount on promises to give	(22,738)	(5,009)
Net unconditional promises to give	$ 1,088,772	$ 1,730,011

The rates used in discounting unconditional promises to give were 2.73% and 1.89% as of June 30, 2018 and 2017, respectively.

3) 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 2018 and 2017 were 4.11% and 3.81%, respectively and the remaining term of the agreement was approximately 11 years at June 30, 2018.

3) Split-Interest agreements (continued)

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 rate at June 30, 2018 and 2017. The discount rates used for 2018 and 2017 were 2.86% and 2.31%, respectively, and the estimated remaining term of the agreement was approximately 8 years at June 30, 2018.

Income statement adjustments recognized for these split-interest agreements were positive adjustments of $10,664 and $19,419 for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the fair value of the beneficial interests was $456,171 and $482,719, respectively. The Foundation received distributions from the charitable lead trust of $44,641 and $43,157 for the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, trust distributions are expected to be received as follows:

Less than one year	$	45,542
Two to five years		172,656
Six to ten years		294,062
More than ten years		37,597
		549,857
Less: Discount to net present value	(	93,686)
Beneficial interest in split-interest agreements	$	456,171

4) 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 5 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.

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.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

4) Investments (continued)

Investments are stated at fair value and consisted of the following at June 30, 2018 and 2017:

	2018	2017
Equities	$ 8,209,444	$ 8,087,937
Domestic fixed income securities	7,894,374	7,622,510
International fixed income securities	596,052	-
Hedge fund of funds and private equity	3,301,406	3,070,039
Real estate investment trust	688,817	683,448
Master limited partnerships	1,044,483	1,038,885
Money market funds	1,581,282	2,022,116
	$ 23,315,858	$ 22,524,935

Investment earnings are allocated to unrestricted, temporarily restricted, and permanently restricted net assets 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 were comprised of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Dividends and interest	$ 477,347	$ 373,003
Realized gains on sales of investments	518,545	643,822
Unrealized gains (losses) on investments	(262,453)	236,984
	$ 733,439	$ 1,253,809

5) 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 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 which is determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

5) 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 several 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, 2018.

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 integral 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 and private equity funds.

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 agreements. Each agreement is reviewed by management to determine the amount of any contractual and/or estimated payments to income beneficiaries using available actuarial data.

5) 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, 2018:

	Level 1	Level 2	Level 3
Hedge fund of funds and private equity by geographic concentration:			
United States	$ -	$ -	$ 1,613,254
Europe	-	-	336,275
Asia	-	-	232,805
Emerging markets	-	-	284,540
Other	-	-	129,336
Private equity	-	-	705,196
Money market	1,581,282	-	-
Mutual funds:			
Large cap equity - growth	315,877	-	-
Large cap equity - blend	2,323,345	-	-
Mid cap equity - growth	3,937	-	-
Mid cap equity - blend	688,928	-	-
Small cap equity - growth	442,903	-	-
Small cap equity - blend	27,543	-	-
Small cap equity - value	340,174	-	-
Developing international large cap equity - blend	1,177,940	-	-
Developing international large cap equity - value	31,361	-	-
Developing international small cap equity - blend	650,243	-	-
Emerging markets equity - blend	2,207,193	-	-
Real estate investment trust - global	688,817		
Fixed income by credit quality rating:			
AAA	4,341,906	-	-
AA	315,775	-	-
A	789,437	-	-
BBB	1,026,269	-	-
BB	394,719	-	-
B	157,887	-	-
CCC	157,887	-	-
CC	710,494	-	-
Fixed income international	596,052	-	-
Master limited partnerships	1,044,483	-	-
Total investments	20,014,452	-	3,301,406
Beneficial interest in split interest agreements	-	-	456,171
Total	$ 20,014,452	$ -	$ 3,757,577

5) 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, 2017:

	Level 1	Level 2	Level 3
Hedge fund of funds and private equity by geographic concentration:			
United States	$ -	$ -	$ 2,334,215
Europe	-	-	329,852
Asia	-	-	304,479
Emerging markets	-	-	76,120
Other	-	-	25,373
Money market	2,022,116	-	-
Mutual funds:			
Large cap equity - growth	435,249	-	-
Large cap equity - blend	1,981,901	-	-
Mid cap equity - blend	634,545	-	-
Small cap equity - growth	376,561	-	-
Small cap equity - blend	41,808	-	-
Small cap equity - value	360,614	-	-
Developing international large cap equity - growth	589,044	-	-
Developing international large cap equity - blend	1,633,803	-	-
Developing international large cap equity - value	47,378	-	-
Developing international small cap equity - growth	35,572	-	-
Developing international small cap equity - blend	583,455	-	-
Emerging markets equity - blend	1,368,007	-	-
Real estate investment trust - global	683,448		
Fixed income by credit quality rating:			
AAA	4,268,607	-	-
AA	304,900	-	-
A	990,926	-	-
BBB	914,701	-	-
BB	533,576	-	-
B	152,450	-	-
CCC	152,450	-	-
CC	304,900	-	-
Master limited partnerships	1,038,885	-	-
Total investments	19,454,896	-	3,070,039
Beneficial interest in split interest agreements	-	-	482,719
Total	$ 19,454,896	$ -	$ 3,552,758

5) Fair value of financial instruments (continued)

The following table presents the changes in fair value, in Level 3 instruments that are measured at fair value on a recurring basis for the years ended June 30, 2018 and 2017:

	Hedge Funds of Funds	Split-interest Agreements	Total
Balance - June 30, 2016	$ 2,893,211	$ 508,136	$ 3,401,347
Purchases	150,000	-	150,000
Sales	(69,915)	(43,157)	(113,072)
Unrealized gains	101,326	17,740	119,066
Realized losses	(4,583)	-	(4,583)
Balance - June 30, 2017	3,070,039	482,719	3,552,758
Purchases	140,000	-	140,000
Sales	(31,893)	(44,641)	(76,534)
Unrealized gains	125,195	18,093	143,288
Realized losses	(1,935)	-	(1,935)
Balance - June 30, 2018	$ 3,301,406	$ 456,171	$ 3,757,577

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

6) Funds held in custody and permanently restricted net assets

Included in investments at June 30, 2018 and 2017, 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 permanently restricted by donors.

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:

	2018	2017
State Matching Funds	$ 6,851,639	$ 6,872,041

6) Funds held-in-custody and permanently restricted net assets (continued)

Permanently restricted net assets were as follows at June 30, 2018 and 2017:

	2018	2017
Private donations	$ 8,249,723	$ 8,212,511
Beneficial interest in split interest agreements	456,171	482,719
	$ 8,705,894	$ 8,695,230

7) Unrestricted net assets - board designated

The Foundation maintained a Board Designated unrestricted fund balance of $146,161 and $294,430 as of June 30, 2018 and 2017, respectively, for use of future Center projects.

8) Temporarily restricted net assets

Temporarily restricted net assets were available for specific nutritional research programs and other nutritional research programs being conducted at the Pennington Biomedical Research Center. Temporarily restricted net assets consisted of the following at June 30, 2018 and 2017:

	2018	2017
Endowed Chairs & Professorships	$ 2,767,374	$ 2,726,338
Specific Research Projects	3,749,073	3,589,035
Faculty Research Support	1,102,065	1,262,870
Total Temporarily Restricted Net Assets	$ 7,618.512	$ 7,578,243

9) Net assets released from restrictions

Net assets released from donor restrictions for incurring program related expenses satisfying the restricted purposes for the years ended June 30, 2018 and 2017, were as follows:

	2018	2017
Endowed Chairs & Professorships	$ 598,711	$ 586,973
Specific Research Projects	1,538,796	1,924,416
Faculty Research Support	212,020	38,622
Total Restrictions Released	$ 2,349,527	$ 2,550,011

10) 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.

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 was as follows as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment	$ 146,161	$ 2,856,429	$ 8,705,894	$ 11,708,484

The net asset composition by type of fund was as follows as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment	$ 294,430	$ 2,801,747	$ 8,695,230	$ 11,791,407

10) Endowed net assets (continued)

Changes in endowment net assets were as follows as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ 297,867	$ 2,237,766	$ 8,675,811	$ 11,211,444
Investment return: Investment income	-	962,037	-	962,037
Net appreciation	-	221,123	19,419	240,542
Contributions	372,001	-	-	372,001
Appropriation of endowment assets for expenditure	(375,438)	(619,179)	-	(994,617)
Endowment net assets, June 30, 2017	294,430	2,801,747	8,695,230	11,791,407
Investment return: Investment income	-	915,182	-	915,182
Net appreciation (depreciation)	-	(234,149)	10,664	(223,485)
Contributions	100,171	-	-	100,171
Appropriation of endowment assets for expenditure	(248,440)	(626,351)	-	(874,791)
Endowment net assets, June 30, 2018	$ 146,161	$ 2,856,429	$ 8,705,894	$ 11,708,484

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 year ended June 30, 2018 was 4.50% and for the year ended June 30, 2017 was 5.00%. 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.

10) Endowed net assets (continued)

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 June 30, 2018 or June 30, 2017. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level would be classified as an increase in temporarily restricted net assets.

11) 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, 2018 and 2017 totaled approximately $17,000 and $20,000, respectively.

12) 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, 2018 and 2017, PMF paid the Foundation $3,000 and $6,250 for these services, respectively. The amounts owed from PMF to the Foundation at June 30, 2018 and 2017 for these types of services and other miscellaneous reimbursements were $786 and $270, 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, research 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, 2018 and 2017, these costs totaled $2,300,264 and $2,781,049, respectively. The amount owed to the Center at June 30, 2018 and 2017 for these types of expenses was $94,293 and $107,596, respectively.

13) 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 $632,000 and $663,000 at June 30, 2018 and 2017, 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.

14) Subsequent events

Management has evaluated events through the date that the financial statements were available to be issued, November 8, 2018, 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.