
LSU HEALTH FOUNDATION, NEW ORLEANS

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

LSU HEALTH FOUNDATION, NEW ORLEANS

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

TABLE OF CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1 - 2
<u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 21
<u>REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 23
<u>SUPPLEMENTARY INFORMATION, as required by R.S. 24:513(a)(3), as amended</u>	
<u>Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer (Schedule omitted as compensation is not paid for by public funds)</u>	

INDEPENDENT AUDITORS' REPORT

Board of Directors
LSU Health Foundation, New Orleans
New Orleans, Louisiana

We have audited the accompanying financial statements of the LSU Health Foundation, New Orleans (the "Foundation") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2020, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and in considering the Foundation's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
November 30, 2020

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 327,892	\$ 566,168
Investments	5,516,982	167,335
Unconditional promises to give, net	450,669	296,424
Accounts receivable	1,004,283	1,227,969
Prepaid and other assets	167,740	94,050
Total current assets	<u>7,467,566</u>	<u>2,351,946</u>
Noncurrent Assets:		
Investments	137,673,877	140,427,647
Property and equipment, net	17,644,758	15,292,337
Unconditional promises to give, net	259,763	516,551
Total noncurrent assets	<u>155,578,398</u>	<u>156,236,535</u>
<u>TOTAL ASSETS</u>	<u>\$ 163,045,964</u>	<u>\$ 158,588,481</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,595,074	\$ 697,178
Line of credit	1,136,000	647,034
Split-interest agreements	51,375	51,375
Note payable	381,000	-
Total current liabilities	<u>3,163,449</u>	<u>1,395,587</u>
Noncurrent Liabilities:		
Amounts held in custody for others	28,785,909	29,593,442
Split-interest agreements	222,469	149,093
Total noncurrent liabilities	<u>29,008,378</u>	<u>29,742,535</u>
<u>TOTAL LIABILITIES</u>	<u>32,171,827</u>	<u>31,138,122</u>
<u>NET ASSETS</u>		
Without donor restrictions	15,420,474	16,041,496
Board-designated	379,447	515,628
Total without donor restrictions	<u>15,799,921</u>	<u>16,557,124</u>
With donor restrictions	115,074,216	110,893,235
Total net assets	<u>130,874,137</u>	<u>127,450,359</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 163,045,964</u>	<u>\$ 158,588,481</u>

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

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Contributions	\$ 45,809	\$ 7,564,644	\$ 7,610,453
Management and deposit fee income	2,354,013	-	2,354,013
Investment income, net	368,170	6,827,341	7,195,511
Rental income	288,028	-	288,028
Business venture revenue	522,267	-	522,267
Other revenue	137,981	-	137,981
	<u>3,716,268</u>	<u>14,391,985</u>	<u>18,108,253</u>
	10,211,004	(10,211,004)	-
Net assets released from restrictions	<u>13,927,272</u>	<u>4,180,981</u>	<u>18,108,253</u>
Total revenue and other support			
Expenses:	11,712,327	-	11,712,327
Program services	1,207,799	-	1,207,799
General and administrative	1,764,349	-	1,764,349
Development	<u>14,684,475</u>	<u>-</u>	<u>14,684,475</u>
Total expenses	(757,203)	4,180,981	3,423,778
Change in net assets	<u>16,557,124</u>	<u>110,893,235</u>	<u>127,450,359</u>
Net assets at beginning of year	<u>\$ 15,799,921</u>	<u>\$ 115,074,216</u>	<u>\$ 130,874,137</u>
Net assets at end of year			

The accompanying notes are an integral part of this financial statement.

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 7,093,395	\$ 4,855,939	\$ 11,949,334
Management and deposit fee income	2,011,147	-	2,011,147
Investment income, net	541,454	5,068,771	5,610,225
Rental income	281,837	-	281,837
Business venture revenue	736,859	-	736,859
Other revenue	3,180	-	3,180
	<u>10,667,872</u>	<u>9,924,710</u>	<u>20,592,582</u>
Net assets released from restrictions	<u>9,087,632</u>	<u>(9,087,632)</u>	<u>-</u>
Total revenue and other support	<u>19,755,504</u>	<u>837,078</u>	<u>20,592,582</u>
Expenses:			
Program services	10,712,617	-	10,712,617
General and administrative	1,217,206	-	1,217,206
Development	1,577,363	-	1,577,363
Total expenses	<u>13,507,186</u>	<u>-</u>	<u>13,507,186</u>
Change in net assets	6,248,318	837,078	7,085,396
Net assets at beginning of year	<u>10,308,806</u>	<u>110,056,157</u>	<u>120,364,963</u>
Net assets at end of year	<u>\$ 16,557,124</u>	<u>\$ 110,893,235</u>	<u>\$ 127,450,359</u>

The accompanying notes are an integral part of this financial statement.

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

Program Services

	Program Services - Scientific, Research and Educational Enhancement of The LSU Health Sciences Center			Supporting Services		Total Expenses
	Other Program Services	Total Program Services	General and Administrative	Development		
Salary and related cost	\$ 2,777,149	\$ 628,764	\$ 3,405,913	\$ 669,407	\$ 1,100,295	\$ 5,175,615
Travel, conferences and meetings	1,405,193	4,895	1,410,088	4,538	30,409	1,445,035
Deposit and management fees	2,354,013	-	2,354,013	-	-	2,354,013
Professional services	727,921	141,857	869,778	150,769	118,448	1,138,995
Office supplies and equipment	1,846,214	57,155	1,903,369	15,439	25,092	1,943,900
Community and campus support	1,049,693	771	1,050,464	476	178,486	1,229,426
Dues, subscriptions and databases	215,495	1,769	217,264	39,986	103,323	360,573
Utilities and property maintenance	66,376	147,964	214,340	89,945	34,935	339,220
Depreciation	-	8,229	8,229	160,464	41,145	209,838
Repairs and maintenance	67,345	76,788	144,133	56,737	16,168	217,038
Professional education	124,447	-	124,447	1,364	495	126,306
Printing and postage	68,545	4,238	72,783	4,002	101,584	178,369
Marketing and website	39,581	-	39,581	90	10,404	50,075
Provision for uncollectible accounts and pledge discounts	(188,491)	-	(188,491)	-	-	(188,491)
Banking and credit card fees	29,145	19,677	48,822	4,968	38	53,828
Taxes and licenses	36,239	1,355	37,594	9,614	3,527	50,735
Totals	\$ 10,618,865	\$ 1,093,462	\$ 11,712,327	\$ 1,207,799	\$ 1,764,349	\$ 14,684,475

The accompanying notes are an integral part of this financial statement.

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

Program Services

	Program Services - Scientific, Research and Educational Enhancement of The LSU Health Sciences Center			Supporting Services		Total Expenses
	Other Program Services	Total Program Services	General and Administrative	Development		
Salary and related costs	\$ 2,084,180	\$ 650,358	\$ 2,734,538	\$ 742,289	\$ 1,006,902	\$ 4,483,729
Travel, conferences and meetings	2,188,573	8,931	2,197,504	4,967	43,258	2,245,729
Deposit and management fees	2,011,147	-	2,011,147	-	-	2,011,147
Professional services	624,577	194,134	818,711	141,397	158,204	1,118,312
Office supplies and equipment	1,018,239	62,422	1,080,661	13,599	27,811	1,122,071
Community and campus support	961,895	462	962,357	1,218	67,120	1,030,695
Dues, subscriptions and databases	168,363	3,301	171,664	14,854	148,507	335,025
Utilities and property maintenance	59,572	124,234	183,806	79,205	19,304	282,315
Depreciation	-	8,694	8,694	165,194	34,778	208,666
Repairs and maintenance	65,551	54,734	120,285	42,661	10,214	173,160
Professional education	111,672	2,924	114,596	310	-	114,906
Printing and postage	63,747	1,732	65,479	2,523	43,555	111,557
Marketing and website	63,866	11,834	75,700	119	16,334	92,153
Provision for uncollectible accounts and pledge discounts	88,130	-	88,130	-	-	88,130
Banking and credit card fees	23,285	22,111	45,396	6,974	-	52,370
Taxes and licenses	32,900	1,049	33,949	1,896	1,376	37,221
Totals	\$ 9,565,697	\$ 1,146,920	\$ 10,712,617	\$ 1,217,206	\$ 1,577,363	\$ 13,507,186

The accompanying notes are an integral part of this financial statement.

LSU HEALTH FOUNDATION, NEW ORLEANS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net income	\$ 3,423,778	\$ 7,085,396
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	209,838	208,666
Change in allowance for uncollectible accounts	(86,629)	151,682
Net change in discount on unconditional promises to give	(101,860)	(63,551)
Realized and unrealized gain on investments	(2,315,092)	(1,922,439)
Non-cash donation of property	(333,321)	(7,035,000)
Contributions with donor restrictions in perpetuity	(3,149,200)	(1,802,405)
Increase in split interest agreement	124,751	-
Changes in operating assets and liabilities:		
Decrease in unconditional promises to give	291,032	181,571
(Increase) decrease in accounts receivable	223,686	(182,533)
Decrease in other assets	(73,690)	(7,176)
Increase (decrease) in accounts payable and accrued expenses	897,896	(56,556)
Decrease in funds held in custody	(807,533)	(357,756)
	<u>(1,696,344)</u>	<u>(3,800,101)</u>
Net cash used in operating activities		
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Net (purchases)/sales of investments	(280,785)	2,608,890
Purchases of property	(2,228,938)	(269,975)
Net cash provided (used in) by investing activities	<u>(2,509,723)</u>	<u>2,338,915</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from line of credit	488,966	210,294
Proceeds from notes payable	381,000	-
Contributions with donor restrictions in perpetuity	3,149,200	1,802,405
Payments to beneficiaries of split interest agreements	(51,375)	(51,375)
Net cash provided by financing activities	<u>3,967,791</u>	<u>1,961,324</u>
Net change in cash and cash equivalents	<u>(238,276)</u>	<u>500,138</u>
Cash and cash equivalents at beginning of year	<u>566,168</u>	<u>66,030</u>
Cash and cash equivalents at end of year	<u>\$ 327,892</u>	<u>\$ 566,168</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 53,859</u>	<u>\$ -</u>

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

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities

The LSU Health Foundation, New Orleans (the “Foundation”) is a non-profit organization which was organized to promote and support the activities of the LSU Health Sciences Center in New Orleans. The Foundation’s activities and purpose include scientific research, educational, solicitation and management of funds, including endowments, and other functions for the benefit of the LSU Health Sciences Center. The Foundation is supported primarily through donor contributions.

In December 2017, the Foundation, through a cooperative endeavor agreement with the Algiers Development District, assumed management operations for the Riverside Fitness Center in Algiers, Louisiana and rebranded the facility as LSU Health Fitness.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (US GAAP), which require 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 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.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets.

Risks and Uncertainties

The Foundation holds various investments in any combination of stocks, bonds, fixed income securities, mutual funds, hedge funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Given the level of risk associated with certain investment securities and the level of uncertainty related to the changes in the value of investment securities it is at least reasonably possible that changes in values in the near term could materially affect investment balances and the amounts reported in the statements of financial position and the statements of activities and changes in net assets.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Certain investments in hedge and private equity funds are through limited partnership interests and valued by management using net asset value (NAV) as a practical expedient. Net investment income/loss is reported in the statements of activities and changes in net assets and consists of realized and unrealized gains and losses, interest income, and dividends, less investment management and custodial fees.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities and changes in net assets in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

The Foundation's pooled investments are managed by various portfolio management companies. Custody of some of the investments is performed by an investment bank custodian. The alternative investment assets are custodied by various prime brokers and invested in various restricted corporations and limited partnerships.

The Board of Directors has a formal investment policy and has hired an independent investment consultant with discretionary and co-fiduciary oversight of the fund managers selected to meet the asset allocation and performance goals. The Foundation's investment policy statement defines and assigns responsibilities of all parties involved, establishes a clear understanding of the objectives and goals of the investments under management, offers guidelines and limitations to all parties involved, establishes a basis for evaluation of performance and sets principals to manage the investments according to prudent standards. The Foundation's investment committee, in coordination with the investment consultant, periodically examines the returns of the fund managers to ensure the Foundation's investment objectives are reached. The result is a portfolio with a demonstrated ability to protect capital from loss in adverse market conditions and to produce superior risk-adjusted returns.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

The Board of Directors has been advised by legal counsel that under Louisiana state law, the gains from sales of securities and increases in market value are to be treated as principal and must be retained in endowment fund accounts. However, under the Uniform Prudent Management of Institutional Funds Act adopted in Louisiana, such gains and appreciation in value may be expended for the purposes designated by the donors if it is prudent in the judgment of the Board of Directors after considering the long and short term needs of the LSU Health Sciences Center, its present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions.

If any donor stipulates that realized and unrealized investment gains should not be spent on the restricted purpose for which a fund was originated, then such gains will be added to investment principal and will not be expendable in the future. No such stipulations were present at June 30, 2020.

Investment income from interest, dividends and realized gains and losses are allocated to various activities and programs under the Foundation's investment policy. The portion that is without donor restriction and pertains to short term donor-restricted activities is reported as support without donor restriction, and the portion that pertains to endowment activities is reported as revenue with donor restriction, because it could be expended on the restricted purposes of the endowments in subsequent periods.

Unconditional Promises to Give

Contributions are recognized when a donor makes a promise to give to the Foundation that is, in substance, unconditional. The promises to give are recognized as assets and revenues, net of an allowance for uncollectible amounts. The allowance is based on historical experience and management's analysis of specific promises made. Pledges due in subsequent years are recorded at net present value of estimated future cash flows using an appropriate discount rate. Unconditional promises to give that are due to be received within one year are classified as current assets on the statements of financial position.

Management's estimate for the allowance of uncollectible promises to give at June 30, 2020 and 2019 was \$435,309 and \$537,169, respectively.

Property and Equipment

The Foundation capitalizes acquisitions of property, furniture, equipment, and accounting software purchased with unrestricted funds in excess of \$5,000. Costs of property, furniture, equipment, and accounting software purchased with unrestricted funds that are less than \$5,000 are charged to an expense. Capitalized assets are carried at cost or, if donated, at the approximate fair value at the date of donation. The Foundation finished construction on a new building in July of 2013 and is using the straight-line method to depreciate it over an estimated useful life of 40 years. Furniture is being depreciated over estimated useful lives of five years using the straight-line method. Construction-in-progress represents costs incurred on the construction of assets that have not been completed or placed in service as of the end of the year.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Amounts Held in Custody for Others

The Foundation considers all state matching funds and unexpended income from these funds to be reported as Amounts Held in Custody for Others. Amounts Held in Custody for Others are recorded at fair market value.

Contributions

Contributions are recorded as support without donor restriction or support with donor restriction, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in net assets with donor restriction, depending on the nature of the 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 net assets without donor restriction and reported in the statements of activities and changes in net assets as net assets released from restrictions. Contributed assets are recorded at fair value at the date of donation.

Program Service Fees

The Foundation recognizes revenues related to the management and deposit fee income when earned according to the contractually obligated terms. The Company's performance obligation is primarily satisfied over time as the services are performed and provided to the customer, which is the underlying donor fund. Fees are dependent on the market value of the underlying donor funds, which are sourced from donors based in Louisiana and elsewhere and through custodial arrangements. Business venture revenues, primarily the Foundation's management of fitness centers in the New Orleans area, are recognized as the performance obligations are met, which generally is at the point in time in which the services are performed.

Required Transfers

The Foundation has received various matching grants from the State of Louisiana under the Endowed Chairs for Eminent Scholars, Endowed Professorships and Endowed Superior Graduate Student Scholarships, which are only approved after certain levels of private funding have been raised. The Foundation must comply with certain policies, procedures, and regulations regarding the administration of these programs. One of the requirements of the Board of Regents for Higher Education's investment policy relates to increasing each program's endowment balance each year and some transfers to endowed net assets were made to comply with this policy.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements – Adopted

In June 2018, the FASB issued ASU No. 2018-08 Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The implementation of this new standard did not have a material impact on the measurement or recognition of contribution revenue.

The FASB has issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to update its revenue recognition standard 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. The standard may be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The implementation of this new standard did not have a material impact on the measurement or recognition of contribution revenue.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Salary and related cost	Time and effort
Professional services	Full time equivalent
Travel, conferences and meetings	Time and effort
Community and campus support	Full time equivalent
Printing and postage	Full time equivalent
Dues, subscriptions and databases	Full time equivalent
Professional education	Time and effort
Office supplies and equipment	Time and effort and square footage by full time equivalent
Taxes and licenses	Full time equivalent
Repairs and maintenance	Time and effort and square footage by full time equivalent
Utilities and property maintenance	Time and effort and square footage by full time equivalent
Depreciation	Square footage by full time equivalent

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Foundation is a not-for-profit foundation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and various positions related to the potential sources of unrelated business taxable income (UBTI). The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassification

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

3. Liquidity and Availability of Resources

The following represents the Foundation's financial assets at June 30:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 327,892	\$ 566,168
Investments	143,190,859	140,594,982
Unconditional promises to give, see Note 5	693,337	456,041
Accounts receivable	<u>1,004,283</u>	<u>1,227,969</u>
Total financial assets available within one year	<u>145,216,371</u>	<u>142,845,160</u>
Less amounts unavailable to be used for general expenditures within one year, due to:		
Amounts held in custody for others	28,785,909	29,593,442
Designated by Board of Directors	379,447	515,628
Restricted by donors with purpose restrictions	<u>115,074,216</u>	<u>110,893,235</u>
	<u>144,239,572</u>	<u>141,002,305</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 976,799</u>	<u>\$ 1,842,855</u>

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources (continued)

The Foundation maintains a practice of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of weekly requirements in a variety of short-term investments. To help manage unanticipated needs, the Foundation has a committed line of credit of \$4,000,000, of which \$2,864,000 is available which it could draw upon, subject to certain specific covenants in its agreement.

Additionally, the Foundation has Board-designated net assets without donor restriction that, while the Foundation does not intend to spend these for purposes other than those identified, the amounts could be made available for current operations, if necessary.

4. Restrictions on Net Assets

Net assets with donor restrictions are restricted by donors for specific programs, purposes, or to assist specific departments of the LSU Health Sciences Center. The Foundation conducts numerous program services, including assistance with research, scientific endeavors, educational assistance through faculty salary supplemental compensation and student scholarships, equipment purchases for specific departments, etc. These restrictions are considered to expire when payments for restricted purposes are made or when time has elapsed. Transfers can be made between net assets with and without donor restrictions to reflect a change in donor intent for specific gifts made or deposits held with the Foundation.

5. Unconditional Promises to Give

Unconditional promises to give consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Gross unconditional promises to give	\$ 1,243,749	\$ 1,534,781
Less: unamortized discount	(98,008)	(184,637)
Less: allowance for uncollectible amounts	<u>(435,309)</u>	<u>(537,169)</u>
Net unconditional promises to give	<u>\$ 710,432</u>	<u>\$ 812,975</u>
Amount due in:		
Less than one year	\$ 693,337	\$ 456,041
One to five years	536,899	849,005
Over five years	<u>13,513</u>	<u>229,735</u>
Total	<u>\$ 1,243,749</u>	<u>\$ 1,534,781</u>

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Building	\$ 8,346,657	\$ 8,346,657
Building improvements	562,185	-
Furniture	206,788	206,788
Construction in progress	1,749,766	947,652
Land	8,447,986	7,250,026
Less accumulated depreciation	<u>(1,668,624)</u>	<u>(1,458,786)</u>
Property and equipment, net	<u>\$ 17,644,758</u>	<u>\$ 15,292,337</u>

7. Concentration of Credits Risks

The Foundation maintains its cash accounts in several financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 and collateralized for greater amounts by agreement with some financial institutions. At June 30, 2020, the Foundation's balances are fully insured or collateralized.

8. Amounts Held in Custody for Others

Under agreements with Louisiana State University Agricultural and Mechanical College (the "University"), the Foundation holds and manages funds received by the University as state matching funds for various accounts of the Endowed Chairs for Eminent Scholars, Endowed Professorships and Endowed Superior Graduate Student Scholarships Programs. Funds held in custody were \$28,785,909 and \$29,593,442 on June 30, 2020 and 2019, respectively. The amount of state matching funds received was \$1,200,000 and \$840,000 for the fiscal years ended June 30, 2020 and 2019, respectively.

9. Retirement Plan

Effective July 1, 2002, the Foundation established a Tax Deferred Annuity or 403(b) Plan. The Foundation's total contributions expense was \$64,999 and \$60,386 as of June 30, 2020 and 2019, respectively, which is allocated to both general and administrative and development expenses on the statements of activities and changes in net assets.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

10. Split-Interest Agreements

The Foundation has entered into three (3) charitable gift annuity agreements. A charitable gift annuity provides for the payment of distributions to the grantor or designated beneficiaries over the trust's term. In consideration of the contribution, the Foundation shall pay an annual annuity of \$51,375 paid in quarterly or monthly installments to the donor so long as they are living. The Foundation's obligation will terminate upon the donor's death. The present value of the estimated future payments (\$273,844 and \$200,468 at June 30, 2020 and 2019) is calculated using a discount rate of 0.6% and the applicable mortality rates. The Foundation made payments to the donor in the amount of \$51,375 and \$51,375 for the fiscal years ended June 30, 2020 and 2019, respectively.

11. Line of Credit

The Foundation also maintains a \$4,000,000 line of credit at a financial institution to mature on February 27, 2021 with options to renew. The line bears an interest rate at the 30 day LIBOR rate plus 2.75%, but not less than 3.75%, and is unsecured, and is subject to certain specific covenants in its agreement. As of June 30, 2020, there was \$1,136,000 outstanding for the line of credit account at a rate of 3.75%.

12. Notes Payable

On April 22, 2020, the Foundation received a loan in the amount of \$381,000 under the Paycheck Protection Program created as a part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at a fixed rate of 1.0%, but payments are not required to begin for seven months after the funding of the loan. The Foundation is eligible for forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal Government.

13. Endowments

The Foundation manages endowments for the benefit of the LSU Health Sciences Center. These endowments consist of funds raised for memorials, scholarships and awards along with Chairs and Professorships as defined by the Louisiana Board of Regents. The State of Louisiana enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective August 15, 2010, the provisions of which apply to endowment funds existing on or established after that date. The Board of Regents also has a policy statement that applies to the management of the endowments that received matching funds through their program.

The Foundation's endowment includes donor-restricted funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

13. Endowments (continued)

The Foundation further adheres to the policies adopted by the Louisiana Board of Regents and applies their Statement of Investment Policy and Objectives to the Foundation's management of Chairs, Professorships, and Student Scholarships. The Chairs program allows for eligible public matching funds totaling 40% of established thresholds to be received after successfully raising 60% of the goal in private contributions. The Professorships program allows for eligible public matching funds totaling 20% of established thresholds to be received after successfully raising 80% of the goal in private contributions. The Student Scholarships program allows for eligible public matching funds totaling 40% of established threshold to be received after successfully raising 60% of the goal in private contributions. The public matching funds are shown as amounts held in custody for others in the statements of financial position. Increases (decreases) in the endowment values below are due to changes in contributions received, investment earnings, matching funds received, and spending allocations.

The Foundation's investment portfolio is actively managed by an independent management consultant under the specific direction of the Foundation's Investment Committee. The Foundation's internal investment policy allows for the growth of each endowment while also achieving a 5% maximum annual spending allocation. The goal is for each endowment to maintain an adequate purchasing power while also actively benefitting the needs of the program supported by a particular endowment.

At June 30, the Foundation had the following endowment net asset composition:

	<u>2020</u>	<u>2019</u>
Without donor restriction	\$ 379,447	\$ 515,628
With donor restriction	<u>98,709,444</u>	<u>96,098,382</u>
Total endowment funds	<u>\$ 99,088,891</u>	<u>\$ 96,614,010</u>

A summary of the changes in the Foundation's Endowment net assets for the year ended June 30, 2020 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, July 1, 2019	\$ 515,628	\$ 96,098,382	\$ 96,614,010
Investment return, net	-	6,952,092	6,952,092
Contributions/transfers	100,000	3,149,200	3,249,200
Appropriated for expenditure	<u>(236,181)</u>	<u>(7,490,230)</u>	<u>(7,726,411)</u>
Endowment net assets, June 30, 2020	<u>\$ 379,447</u>	<u>\$ 98,709,444</u>	<u>\$ 99,088,891</u>

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

13. Endowments (continued)

A summary of the changes in the Foundation’s Endowment net assets for the year ended June 30, 2019 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, July 1, 2018	\$ 865,331	\$ 94,779,344	\$ 95,644,675
Investment return, net	-	3,871,015	3,871,015
Contributions/transfers	69,784	3,000,662	3,070,446
Appropriated for expenditure	<u>(419,487)</u>	<u>(5,552,639)</u>	<u>(5,972,126)</u>
Endowment net assets, June 30, 2019	<u>\$ 515,628</u>	<u>\$ 96,098,382</u>	<u>\$ 96,614,010</u>

14. Fair Value of Financial Instruments

FASB ASC 820, Fair Value Measurements and Disclosures (“ASC 820”) and FASB ASC 825, Financial Instruments (“ASC 825”) requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position. The 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. However, in some instances, there are no quoted market prices for the Foundation’s various financial instruments. 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. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. ASC 825 excludes certain financial instruments from its disclosure requirements.

Level 1 Quoted prices in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

Investment in corporate bonds, mutual funds, equities, and REITS – The fair value of investment securities including corporate bonds and notes, hedge funds and mutual funds and other equities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quoted prices are not available, fair value is based on externally developed models that use unobservable inputs due to the limited market activity of the investment.

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

14. Fair Value of Financial Instruments (continued)

Hedge funds, private equity and debt – This category includes investments in buyouts, build-ups, and growth equity investments in limited partnerships. The unfunded commitment related to the private equity investment is \$3,073,686 as of June 30, 2020. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the limited partnerships. The fair value of certain investments hedge and private equity funds is calculated from the net asset value of the Foundation's ownership interest in these limited partnerships. The private equity fund has a life of 10 years with two potential one-year extensions. The Foundation's investment in the fund is available for drawdown five years from initial inception with a potential one-year extension.

The Foundation also holds a note receivable which is convertible into equity securities to investors on or before the date of repayment in full of the note in an equity financing resulting in gross proceeds to the issuer of at least \$6,000,000. At which time the outstanding principal balance of the note shall automatically convert in whole without any further action by the Foundation into such equity securities at a conversion price equal to 80% of the per unit or share price paid by the investors and otherwise on the same terms and conditions as given to investors.

The valuation of the Foundation's assets measured at fair value on a recurring basis at June 30, 2020 and 2019 are as follows:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Corporate stocks and convertible debt	\$ 8,469,986	\$ -	\$ 300,000	\$ 8,769,986
Mutual funds and other equities	41,218,433	-	-	41,218,433
Money market	-	5,516,982	-	5,516,982
	<u>\$ 49,688,419</u>	<u>\$ 5,516,982</u>	<u>\$ 300,000</u>	<u>\$ 55,505,401</u>
Hedge and private equity funds valued at NAV (a)				87,685,458
				<u>\$ 143,190,859</u>
	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Corporate stocks and convertible debt	\$ 44,517,567	\$ -	\$ 250,000	\$ 44,767,567
Mutual funds and other equities	68,000,930	-	-	68,000,930
REITS	7,436,550	-	-	7,436,550
Hedge funds		3,591,919	-	3,591,919
Money market	-	167,335	-	167,335
	<u>\$ 119,955,047</u>	<u>\$ 3,759,254</u>	<u>\$ 250,000</u>	<u>\$ 123,964,301</u>
Hedge and private equity funds valued at NAV (a)				16,630,681
				<u>\$ 140,594,982</u>

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

14. Fair Value of Financial Instruments (continued)

(a) The hedge and private funds are measured using NAV as a practical expedient. These investments have not been classified in the fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

15. Restricted Net Assets

Net assets without donor restrictions may be designated by the Board of Directors for certain purposes. These funds are not considered donor-restricted, carry no legal restrictions on spending by the Foundation, and may be undesignated by the Board at any time. The Board has designated net assets without donor restrictions as follows:

	<u>2020</u>	<u>2019</u>
Chancellor and deans' discretionary support funds	<u>\$ 379,447</u>	<u>\$ 515,628</u>

Net assets subject to expenditure for specified purpose are at June 30 as follows:

	<u>2020</u>	<u>2019</u>
Awards	\$ 235,496	\$ 241,017
Chairs and superchairs	58,762,514	56,509,647
Gift annuities	151,184	290,339
Lectureships	876,891	875,973
Memorials	272,407	267,727
Professorships	27,661,667	27,980,284
Scholarships	11,833,550	11,617,624
Other donor restrictions	<u>15,280,507</u>	<u>13,110,624</u>
Total subject to expenditure for specified purpose or period	<u>\$ 115,074,216</u>	<u>\$ 110,893,235</u>

LSU HEALTH FOUNDATION, NEW ORLEANS
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

15. Related Party Transactions

In the normal course of business, the Foundation reimburses the LSU Health Sciences Center for certain expenses and makes distributions to or on behalf of the Health Sciences Center. The Foundation also provides certain services for the Health Sciences Center. Included in expenses for the years ended June 30, 2020 and 2019 are \$8,453,343 and \$7,466,412, respectively, which represent payments on behalf of the Health Sciences Center. At June 30, 2020 and 2019, the Foundation no receivables for either year from the Health Sciences Center, and a payable to the Health Sciences Center of \$44,658 and \$58,538, respectively.

Members of the Foundation's board of directors and parties related to them made contributions of \$86,850 and \$7,205,428 for the years ended June 30, 2020 and 2019, respectively. The 2019 contributions include a contribution of land, recorded at fair value of \$7,035,000.

16. Effects of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic. This pandemic has subsequently impacted the global economy, creating volatility and negatively disrupting financial markets. Given the continued spread of COVID-19 throughout the United States, the related impact, if any, on the Foundation's operational and financial performance will depend on evolving factors that cannot be predicted at this time.

17. Subsequent Events

Subsequent events have been evaluated through November 30, 2020, the date the financial statements were available to be issued, and determined that no events occurred which require additional disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
LSU Health Foundation, New Orleans
New Orleans, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the LSU Health Foundation, New Orleans (the “Foundation”) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Metairie, Louisiana
November 30, 2020