



REPORTS OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
FEDERAL AWARDS SUPPLEMENTARY INFORMATION

HUNTINGTON MEDICAL RESEARCH INSTITUTES

September 30, 2021 and 2020

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Financial Statements	
Statements of financial position	3
Statements of activities	4–5
Statements of functional expenses	6
Statements of cash flows	7
Notes to financial statements	8–27
Supplementary Information	
Schedule of expenditures of federal awards	28
Notes to schedule of expenditures of federal awards	29
Report of Independent Auditors 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>	30–31
Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	32–33
Schedule of Findings and Questioned Costs	34–37



Report of Independent Auditors

The Board of Directors
Huntington Medical Research Institutes

Report on the Financial Statements

We have audited the accompanying financial statements of Huntington Medical Research Institutes (“HMRI”), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor’s 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HMRI as of September 30, 2021, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of Huntington Medical Research Institutes as of September 30, 2020, were audited by other auditors. Their report dated March 17, 2021, expressed an unmodified opinion. The summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2022 on our consideration of Huntington Medical Research Institute'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 the effectiveness of Huntington Medical Research Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Huntington Medical Research Institute's internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California
June 22, 2022

Huntington Medical Research Institutes Statements of Financial Position

ASSETS		September 30,	
		<u>2021</u>	<u>2020</u>
ASSETS			
Cash	\$	4,946,631	\$ 4,366,776
Government and contract receivables		1,190,696	577,584
Other receivables, net		534,777	124,251
Promises to give, net		6,048,191	1,773,586
Prepaid expenses		111,962	59,540
Investments		36,724,949	34,501,168
Property and equipment, net		32,535,409	33,600,928
Patents, net		<u>167,105</u>	<u>384,646</u>
Total assets	\$	<u>82,259,720</u>	\$ <u>75,388,479</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$	546,630	\$ 279,926
Accrued expenses		1,002,400	858,527
Refundable advance		144,917	438,898
Refundable advance – Paycheck Protection Program		-	1,039,287
Accrued pension cost		<u>4,251,809</u>	<u>4,581,528</u>
Total liabilities		<u>5,945,756</u>	<u>7,198,166</u>
NET ASSETS			
Net assets without donor restrictions			
Undesignated		29,764,856	30,941,507
Designated by the Board		<u>20,653,186</u>	<u>20,764,177</u>
Total net assets without donor restrictions		50,418,042	51,705,684
Net assets with donor restrictions		<u>25,895,922</u>	<u>16,484,629</u>
Total net assets		<u>76,313,964</u>	<u>68,190,313</u>
Total liabilities and net assets	\$	<u>82,259,720</u>	\$ <u>75,388,479</u>

Huntington Medical Research Institutes
Statement of Activities
(with summarized comparative totals for the year ended September 30, 2020)

	Year Ended September 30, 2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE, SUPPORT, AND GAINS				
Contributions, grants, and bequests	\$ 1,042,679	\$ 8,625,552	\$ 9,668,231	\$ 2,471,080
Investment return utilized for operations	4,187,839	98,693	4,286,532	1,529,578
Government grants and contracts	2,690,195	-	2,690,195	2,685,370
Paycheck protection program	1,039,287	-	1,039,287	-
Clinical and royalty income	878,683	-	878,683	478,467
Rental income	159,206	-	159,206	113,873
Gain on sale of property and equipment	-	-	-	5,088,130
Net assets released from restrictions	2,084,710	(2,084,710)	-	-
Total revenue, support, and gains	12,082,599	6,639,535	18,722,134	12,366,498
EXPENSES				
Program services	8,426,996	-	8,426,996	8,188,475
Supporting services				
Management and general	4,912,370	-	4,912,370	3,747,261
Fundraising	372,948	-	372,948	476,953
Total supporting services	5,285,318	-	5,285,318	4,224,214
Total expenses	13,712,314	-	13,712,314	12,412,689
CHANGE IN NET ASSETS FROM OPERATIONS	(1,629,715)	6,639,535	5,009,820	(46,191)

(continued)

Huntington Medical Research Institutes
Statement of Activities (continued)
(with summarized comparative totals for the year ended September 30, 2020)

	Year Ended September 30, 2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
NET INVESTMENT RETURN				
Unrealized gains on investments	\$ 2,488,076	\$ 1,500,379	\$ 3,988,455	\$ 620,113
Realized gains on investments	1,032,833	958,144	1,990,977	621,208
Interest and dividends	703,282	423,644	1,126,926	1,040,588
Investment fees	(23,998)	(11,716)	(35,714)	(32,544)
Total net investment return	4,200,193	2,870,451	7,070,644	2,249,365
LESS: INVESTMENT RETURN DESIGNATED FOR CURRENT OPERATIONS	(4,187,839)	(98,693)	(4,286,532)	(1,527,040)
Investment return reduced by the portion of net investment return designated for current operations	12,354	2,771,758	2,784,112	722,325
Change in net assets before change in accrued pension cost	(1,617,361)	9,411,293	7,793,932	676,134
CHANGE IN ACCRUED PENSION COST YEAR TO YEAR	329,719	-	329,719	(356,610)
CHANGE IN NET ASSETS	(1,287,642)	9,411,293	8,123,651	319,524
NET ASSETS, BEGINNING OF YEAR	51,705,684	16,484,629	68,190,313	67,870,789
NET ASSETS, END OF YEAR	\$ 50,418,042	\$ 25,895,922	\$ 76,313,964	\$ 68,190,313

Huntington Medical Research Institutes
Statement of Functional Expenses
(with summarized comparable totals for the year ended September 30, 2020)

	Year Ended September 30, 2021					
	Program Services	Supporting Services			Total	2020
		Management and General	Fundraising	Total		
Salaries and wages	\$ 2,604,622	\$ 1,695,705	\$ 228,770	\$ 1,924,475	\$ 4,529,097	\$ 4,464,648
Payroll taxes and employee benefits	929,800	605,316	81,647	686,963	1,616,763	1,804,176
Total compensation	3,534,422	2,301,021	310,417	2,611,438	6,145,860	6,268,824
Professional fees and contract service payments	1,168,857	2,030,592	7,433	2,038,025	3,206,882	1,958,362
Depreciation and amortization	1,282,161	155,292	10,722	166,014	1,448,175	1,491,832
Occupancy and related expenses	570,767	78,726	6,561	85,287	656,054	625,020
Repairs, maintenance, and service contracts	462,123	63,741	5,312	69,053	531,176	589,156
Research and other supplies	490,665	-	-	-	490,665	209,312
Office and other expenses	286,630	180,935	23,018	203,953	490,583	388,926
Taxes and licenses	374,022	51,589	4,299	55,888	429,910	161,363
Insurance	228,157	31,470	2,623	34,093	262,250	268,172
Travel, conferences, conventions and meetings	29,192	19,004	2,563	21,567	50,759	86,722
Bad debt expense	-	-	-	-	-	365,000
	<u>\$ 8,426,996</u>	<u>\$ 4,912,370</u>	<u>\$ 372,948</u>	<u>\$ 5,285,318</u>	<u>\$ 13,712,314</u>	<u>\$ 12,412,689</u>

Huntington Medical Research Institutes Statements of Cash Flows

	Years Ended September 30,	
	2021	2020
OPERATING ACTIVITIES		
Change in net assets	\$ 8,123,651	\$ 319,524
Reconciliation to net cash from operating activities		
Depreciation and amortization	1,445,049	1,485,812
Net unrealized (gains) on investments	(3,986,850)	(620,113)
Gain on sale of property	-	(5,088,130)
Forgiveness of PPP Principal and Interest	(1,039,287)	-
(Increase) decrease in operating assets		
Government and contract receivables	(613,112)	(63,520)
Other receivables, net	(410,526)	(32,528)
Promises to give, net	(4,274,605)	1,858,292
Prepaid expenses	(52,422)	(46,769)
Patents, net	217,541	(8,697)
Increase (decrease) in operating liabilities		
Accounts payable	266,704	(60,062)
Accrued expenses	143,873	311,217
Refundable advances	(293,981)	(383,570)
Accrued pension cost	(329,719)	356,610
Net cash used in operating activities	<u>(803,684)</u>	<u>(1,971,934)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(379,530)	(883,996)
Proceeds from sale of property	-	5,833,142
Purchases of investments	(8,840,884)	(6,730,693)
Proceeds from sales of investments	<u>10,603,953</u>	<u>2,758,799</u>
Net cash provided by investing activities	<u>1,383,539</u>	<u>977,252</u>
FINANCING ACTIVITIES		
Proceeds from debt	<u>-</u>	<u>1,039,287</u>
Net cash provided by financing activities	<u>-</u>	<u>1,039,287</u>
INCREASE IN CASH	579,855	44,605
CASH		
Beginning of year	<u>4,366,776</u>	<u>4,322,171</u>
End of year	<u>\$ 4,946,631</u>	<u>\$ 4,366,776</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Forgiveness of note payable – Paycheck Protection Program	<u>\$ 1,039,287</u>	<u>\$ -</u>

See accompanying notes.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 1 – Principal Activities and Significant Accounting Policies

Organization – Huntington Medical Research Institutes (“HMRI”) is a California nonprofit public benefit corporation engaged in a program of basic and applied research devoted to new and advanced studies into the causes, nature, prevention, and cure of human diseases. Funding for research is received from the community and the federal government in the form of contributions, contracts, and grants.

HMRI conducts medical research in six different areas, the results of which are published in peer-reviewed papers presented in scientific and medical journals, and displayed at scientific meetings as platform presentations and poster sessions. The six areas include development of electronic neural implants; development of new magnetic resonance imaging technology; studies of new hepatitis drugs and post-hepatitis cancer detection methods; cardiovascular disease; proteomic profiling of cerebrospinal and other bodily fluids for Alzheimer’s disease and migraine headaches; and research on colorectal cancer. HMRI also conducts a summer student medical research program and provides monthly scientific lectures that are open to the public.

Recently adopted accounting standard – For the year ended September 30, 2021, HMRI adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This standard replaced existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. HMRI adopted ASU 2014-09 using the modified retrospective method applied to all contracts with no impact on revenue recognition.

For the year ended September 30, 2021, HMRI adopted FASB ASU 2018-13, *Fair Value Measurement* (Topic 820). This standard revised disclosure requirements related to fair value measurements. HMRI adopted ASU 2018-13 using the retrospective method.

Comparative financial information – The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with HMRI’s audited financial statements for the year ended September 30, 2020, from which the summarized information was derived.

Cash and cash equivalents – All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

Huntington Medical Research Institutes Notes to the Financial Statements

Note 1 – Principal Activities and Significant Accounting Policies (continued)

Government and contract receivables – Government and contract receivables are reported at the amount HMRI expects to collect from outstanding balances and consist of amounts to be reimbursed to HMRI for expenses incurred under the terms of its government grants and contracts. Allowance for uncollectable accounts is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. No allowance for uncollectable accounts has been established as of September 30, 2021 and 2020, as management believes that the remaining government and contracts receivables are fully collectable. Government and contract receivables are generally due upon receipt, unsecured, and non-interest bearing.

Promises to give, net – HMRI records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in contributions, grants, and bequests in the statement of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. No allowance for uncollectable promises to give was established as of September 30, 2021 and 2020, as management believes that the remaining promises are fully collectable.

Investments – Investment purchases 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. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Property and equipment – Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3–40 years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

HMRI reviews the carrying value of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended September 30, 2021 and 2020.

Patents and patent deposits – The legal costs to secure patents are capitalized and amortized using the straight-line method over 20 years.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 1 – Principal Activities and Significant Accounting Policies (continued)

Patent deposits represent accumulated legal and other costs related to registration and development of future patents. Upon approval of the patent, the costs are reclassified as patents and are amortized as described above.

HMRI reviews the carrying value of patents and patent deposits for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. During the year ended September 30, 2021, the amount of \$214,288 related to patent deposits was recognized as expired or abandoned and \$92,855 was recognized as issued and reclassified as patents to be amortized. There were no indicators of asset impairment during the year ended September 30, 2020.

Net assets – Net assets, revenues, and gains are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, funds designated for investment activities.

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. HMRI reports unconditional contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. HMRI reports contributions, grants, and bequests for all restricted activity that were initially classified as conditional contributions as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized.

Revenue recognition – Revenue from government agencies is derived from cost-reimbursement federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when HMRI has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. There were refundable advances of \$144,917 and \$438,898, respectively, as of September 30, 2021 and 2020. HMRI has unexpended cost-reimbursable grants of approximately \$7,338,000 and \$4,831,000 that have not been recognized as of September 30, 2021 and 2020, respectively, because qualifying expenditures have not been incurred.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 1 – Principal Activities and Significant Accounting Policies (continued)

Contributions, grants and bequests are recognized when cash, securities, or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Clinical and royalty income are recorded when the performance obligation is met in accordance with the terms of the underlying agreements.

Rental income is recognized pro rata over the lease terms.

Donated assets – Contributions of long-lived assets are recorded as contributions at their fair value at the date of donation. Such contributions of long-lived assets without donor restrictions are recognized as revenue without donor restrictions. Contributions of cash or other assets restricted to acquisition of long-lived assets are recorded as revenue with donor restrictions. Once the long-lived assets are acquired and placed into service, and if there are no donor restrictions on the long-lived asset's use, the donor restrictions are considered met and the net assets with donor restrictions are released and reclassified to net assets without donor restrictions.

Donated securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation and are considered to be available for without donor restrictions unless specifically restricted by the donor.

Functional allocation of expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Expenses that cannot be directly attributed to a specific program area are charged to individual program areas based on the most appropriate allocation base, such as square footage or time and effort.

Change in net assets from operations – Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as changes in net assets from operations in the accompanying financial statements. Changes in net assets from operating activities excludes investment activity not utilized for operations and change in accrued pension cost.

Income taxes – HMRI is a publicly supported organization and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). HMRI is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, HMRI is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 1 – Principal Activities and Significant Accounting Policies (continued)

Management believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. HMRI would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates – The preparation of financial statements in conformity with U.S. GAAP requires HMRI to make estimates and assumptions that affect the reported amounts of 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 those estimates, and those differences could be material.

Financial instruments and credit risk – Deposit concentration risk is managed by placing cash and cash equivalents with financial institutions believed by HMRI to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments. Investments are managed by professional investment managers whose performance is monitored by management and the Investment Committee (the “Committee”) of the governing Board. Although the fair value of investments is subject to fluctuation on a year-to-year basis, management and the Committee believe that the investment policies and guidelines are prudent for the long-term welfare of HMRI.

Credit risk associated with government and contract receivables and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of HMRI’s mission.

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent events – Management has evaluated subsequent events through June 22, 2022, which is the date the financial statements were available for issuance and concluded there were no events that met the criteria for disclosure in the financial statements.

Huntington Medical Research Institutes Notes to the Financial Statements

Note 2 – Liquidity and Availability

The financial assets available for general expenditures within one year of the statements of financial position comprise the following at September 30:

	<u>2021</u>	<u>2020</u>
Financial assets		
Cash	\$ 4,946,631	\$ 4,366,776
Government and contract receivables	1,190,696	577,584
Other receivables, net	534,777	124,251
Promises to give, net	6,048,191	1,773,586
Investments	<u>36,724,949</u>	<u>34,501,168</u>
Total financial assets	<u>49,445,244</u>	<u>41,343,365</u>
Amounts not available for general expenditures		
Expected pension plan contributions	511,183	646,948
Charitable remainder unitrust	102,057	104,630
Net assets with donor restrictions	<u>25,895,922</u>	<u>16,484,629</u>
Total amounts not available for general expenditures	<u>26,509,162</u>	<u>17,236,207</u>
Total financial assets available for general expenditures within one year	<u>\$ 22,936,082</u>	<u>\$ 24,107,158</u>

HMRI maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. HMRI maintains a target balance of cash of \$3,000,000 to fund operations. In addition, HMRI has a Board-designated endowment fund totaling \$20,653,186 and \$20,764,177 as of September 30, 2021 and 2020, respectively. The objective of this Board-designated endowment fund is to maintain funds that could be drawn down in the event of an immediate liquidity need subject to approval by the Board of Directors.

Note 3 – Promises to Give

As of September 30, 2021 and 2020, unconditional promises to give are scheduled to be collected as follows:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 2,068,900	\$ 973,586
In one to five years	<u>4,139,867</u>	<u>800,000</u>
	6,208,767	1,773,586
Less: discount to net present value at 2%	<u>(160,576)</u>	<u>-</u>
	<u>\$ 6,048,191</u>	<u>\$ 1,773,586</u>

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 4 – Investments

As of September 30, investments consisted of the following:

	<u>2021</u>	<u>2020</u>
Mutual funds	\$ 31,726,791	\$ 30,001,866
Limited partnership interests – fair value basis	<u>4,789,853</u>	<u>3,733,237</u>
Total fair value basis investments	36,516,644	33,735,103
Limited partnership interests – equity basis	<u>208,305</u>	<u>766,065</u>
	<u>\$ 36,724,949</u>	<u>\$ 34,501,168</u>

Note 5 – Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the accompanying financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting HMRI's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that can be accessed at the measurement date.

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

Level 3 – Unobservable inputs for the asset. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of an input to entire measurement requires judgment, considering factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk, or liquidity profile of the asset.

Huntington Medical Research Institutes Notes to the Financial Statements

Note 5 – Fair Value Measurements and Disclosures (continued)

The values of publicly traded securities, such as the mutual funds, are based on quoted market prices.

The values of limited partnerships interests that are considered alternative investment funds are based on net asset values (NAVs) as reported by the partnership, which are reported at fair value.

Investments in limited partnerships interests in private companies are not readily marketable and are reported at fair value utilizing the most current information provided by investment managers and third-party independent appraisers. These are Level 3 measurements.

Type	Fair Value at September 30, 2021	Valuation Technique	Significant Unobservable Inputs	Range of Input Value
Limited Partnerships	\$ 584,207	Independent appraisal	Discount rate	10%–33%

Investments held by HMRI are categorized as follows:

Fixed income – This category includes investments in publicly traded mutual funds.

Foreign equity – This category includes investments in publicly traded mutual funds.

Private natural resources – This category includes investments in alternative fund limited partnerships and private company limited partnerships.

Real assets – This category includes investments in private company limited partnerships.

U.S. equity – This category includes investments in publicly traded mutual funds.

Venture capital – This category includes investments in alternative fund limited partnerships.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 5 – Fair Value Measurements and Disclosures (continued)

The following table presents assets measured at fair value on a recurring basis, as of September 30, 2021:

	Total	Fair Value Measurements at Report Date Using			Assets Held at Net Asset Value (or equivalent)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed income	\$ 11,279,644	\$ 11,279,644	\$ -	\$ -	\$ -
Foreign equity	7,198,171	7,198,171	-	-	-
Private natural resources	1,786,307	-	-	380,207	1,406,100
Real assets	204,000	-	-	204,000	-
U.S. equity	13,258,776	13,258,776	-	-	-
Venture capital	2,789,746	-	-	-	2,789,746
	<u>\$ 36,516,644</u>	<u>\$ 31,736,591</u>	<u>\$ -</u>	<u>\$ 584,207</u>	<u>\$ 4,195,846</u>

The following table presents assets measured at fair value on a recurring basis, as of September 30, 2020:

	Total	Fair Value Measurements at Report Date Using			Assets Held at Net Asset Value (or equivalent)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed income	\$ 9,396,669	\$ 9,396,669	\$ -	\$ -	\$ -
Foreign equity	7,342,362	7,342,362	-	-	-
Private natural resources	1,550,537	-	-	453,747	1,096,790
Real assets	204,000	-	-	204,000	-
U.S. equity	13,262,835	13,262,835	-	-	-
Venture capital	1,978,700	-	-	-	1,978,700
	<u>\$ 33,735,103</u>	<u>\$ 30,001,866</u>	<u>\$ -</u>	<u>\$ 657,747</u>	<u>\$ 3,075,490</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2021:

Balance, September 30, 2020	\$ 657,747
Net loss	<u>(73,540)</u>
Balance, September 30, 2021	<u>\$ 584,207</u>

Huntington Medical Research Institutes Notes to the Financial Statements

Note 5 – Fair Value Measurements and Disclosures (continued)

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2020:

Balance, September 30, 2019	\$ 613,518
Net gain	<u>44,229</u>
Balance, September 30, 2020	<u>\$ 657,747</u>

Unfunded capital commitments – HMRI is committed to provide additional capital to certain limited partnerships based on the capital call provisions of those partnerships. As of September 30, 2021 and 2020, HMRI's unfunded commitments to these limited partnerships were \$309,029 and \$340,529, respectively.

Redemptions – All investments in limited partnerships are illiquid and therefore cannot be redeemed until the specified maturity date.

Note 6 – Property and Equipment

Property and equipment consisted of the following as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,506,062	\$ 2,506,062
Buildings and improvements	33,500,565	33,362,744
Leasehold improvements	-	99,101
Lab equipment	6,464,041	6,166,889
Other equipment	611,783	611,783
Assets held for future development (Note 9)	<u>1,217,551</u>	<u>1,217,551</u>
	44,300,002	43,964,130
Less: accumulated depreciation	<u>(11,764,593)</u>	<u>(10,363,202)</u>
	<u>\$ 32,535,409</u>	<u>\$ 33,600,928</u>

Depreciation expense for the years ended September 30, 2021 and 2020, was \$1,445,049 and \$1,485,812, respectively.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 7 – Assets Held for Future Development

HMRI has purchased several parcels of real property in Pasadena, California. The aggregate purchase cost for these properties is approximately \$3,200,000. Development of some of these parcels, including a new facility for HMRI, began during the year ended September 30, 2016, and was completed during the year ended September 30, 2018. In March of 2018, a certificate of occupancy was issued and HMRI moved into the new facility. During the year ended September 30, 2020, HMRI sold one of these parcels for approximately \$5,800,000. As of September 30, 2021 and 2020, approximately \$1,200,000 is included in land and approximately \$1,218,000 consisting of several undeveloped parcels of real property is included in assets held for future development. These assets are not being depreciated.

Note 8 – Charitable Remainder Unitrust

During 2003, HMRI became the beneficiary and administrator of a charitable remainder unitrust (CRUT). The CRUT provides the donor income for the donor's lifetime, after which the remaining funds will be distributed to HMRI. These amounts are recorded at present value, which represents the current fair market value of the trust, reduced by the estimated actuarial liability necessary to meet the future payments to the life income beneficiary. The portion of the gift attributable to the present value of the future benefits to be received by HMRI was recorded in the statement of activities as a restricted donation in the period the gift was established.

The CRUT at September 30, 2021 and 2020, comprises the following:

	<u>2021</u>	<u>2020</u>
Asset	\$ 113,278	\$ 117,456
Liability	<u>(11,221)</u>	<u>(12,826)</u>
	<u>\$ 102,057</u>	<u>\$ 104,630</u>

Note 9 – Patents

Patents as of September 30, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Patents	\$ 277,250	\$ 184,395
Less: accumulated amortization	<u>(164,583)</u>	<u>(117,800)</u>
	112,667	66,595
Add: deposits	<u>54,438</u>	<u>318,051</u>
	<u>\$ 167,105</u>	<u>\$ 384,646</u>

Huntington Medical Research Institutes Notes to the Financial Statements

Note 9 – Patents (continued)

Amortization expense for the years ended September 30, 2021 and 2020, was \$46,783. Estimated future amortization of these patents is as follows:

Years Ending September 30,	
2022	\$ 9,110
2023	9,110
2024	9,110
2025	9,110
2026	9,110
Thereafter	<u>67,117</u>
	<u>\$ 112,667</u>

Note 10 – Paycheck Protection Program Loan

On April 20, 2020, HMRI was granted a \$1,039,287 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. On March 15, 2021, HMRI received notification from the SBA approved partner that 100% of the loan has been forgiven. The total amount of \$1,039,287 was recorded as Paycheck Protection Program in the statement of activities, under Revenue, Support, and Gains.

Note 11 – Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose or period		
Accumulated investment gains	\$ 10,195,206	\$ 7,423,448
Time restrictions	5,947,484	1,704,630
Research activities	<u>4,187,037</u>	<u>1,790,356</u>
Total subject to expenditure for specified purpose or period	<u>20,329,727</u>	<u>10,918,434</u>
Restricted in perpetuity		
Ross McCollum Fund	3,486,792	3,486,792
Marylou Ingram Fund	<u>2,079,403</u>	<u>2,079,403</u>
Total restricted in perpetuity	<u>5,566,195</u>	<u>5,566,195</u>
Total net assets with donor restrictions	<u>\$ 25,895,922</u>	<u>\$ 16,484,629</u>

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 11 – Net Assets With Donor Restrictions (continued)

During the years ended September 30, 2021 and 2020, net assets with donor restrictions of \$2,084,710 and \$2,391,168, respectively, were released from restriction as the purpose and time restrictions were satisfied.

Note 12 – Endowment

HMRI's endowment consists of Board-designated endowment funds and the restricted Ross McCollum Fund and Marylou Ingram Fund. The Board-designated endowment funds are comprised of gifts received over the years that could be used at HMRI's discretion without donor restrictions. In 1991, HMRI received a restricted endowment contribution and the Ross McCollum Fund was created pursuant to the provisions of the trust created under the Will of Ross McCollum. Under the trust provisions, the corpus of the endowment is to remain intact and the income earned from appreciation of the corpus is available for HMRI's use without donor restrictions. In 2015, HMRI received a restricted endowment contribution and the Marylou Ingram Fund was created pursuant to the provisions of the trust created by Marylou Ingram. Under the trust provisions, the corpus of the endowment is to remain intact and the income earned from appreciation of the corpus is available for research in tissue engineering, cancer molecular genetics, and other related research programs. As required by U.S. GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

HMRI adheres to U.S. GAAP with respect to the endowment funds. The State of California has adopted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Board has further interpreted this to mean that there is an implicit understanding that the fair value of the donor-restricted endowment may from time to time fall below the fair value of the original gift as of the gift date due to market conditions or continued prudent expenditures by the Board of certain amounts of the endowment. If such a temporary deficit condition occurred, the Board would take all prudent steps, given ongoing market conditions, to restore the fair value of the fund to an amount at or above the amount of the original gift. HMRI's policy is that no distributions may be made from underwater endowments unless such distributions are expressly permitted in the corresponding gift instrument.

As a result of this interpretation, HMRI classifies restricted net assets held in perpetuity by a) the original value of gifts donated to the donor-restricted endowment, b) the original value of subsequent gifts to the donor-restricted endowment, and c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetuity is classified as accumulated investment gains available for appropriation until those amounts are appropriated for expenditure by HMRI in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, HMRI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of HMRI and the donor-restricted endowment fund

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 12 – Endowment (continued)

3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of HMRI
7. The investment policies of HMRI

The endowment consists of a portfolio of investments comprised of cash and cash equivalents, mutual funds, and limited partnership interests. The fiduciary responsibility for HMRI's portfolio is assigned to the Board delegated Committee. The Committee takes responsibility for allocation of funds to various asset classes, Board approved policy, and the engagement of investment managers. The Committee will normally review the portfolio's asset allocation, manager structure, and performance quarterly in order to evaluate diversification, adherence to policies, and progress towards long-term objectives. While short-term results will be monitored, it is understood that the objectives of the portfolio are long-term in nature and that progress toward these objectives will be evaluated from a long-term prospective.

The primary long-term financial objectives of the portfolio are to maintain and grow the real value (purchasing power) of the fund in perpetuity, while providing a relatively stable and growing source of funding to support HMRI's operations. The primary long-term investment objective of the portfolio is to earn an average annual real (after adjusting for inflation) total return that exceeds the Board approved total spending rate (generally 4%), net of consultant and management fees, over long time periods (rolling twenty-year periods). The Board recognizes that the investment objectives involve risk and, though it cannot be eliminated, can be mitigated by diversification and other risk management methods.

HMRI maintains master investment accounts for its donor-restricted and Board-designated endowments. Pooling endowment funds for investment purposes has many benefits, including but not limited to spreading the total risk for each endowment fund and making the risk equal for all funds invested in the master investment accounts, enhancing the investment performance relative to that of an individual fund, and reducing management fees. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 12 – Endowment (continued)

As of September 30, 2021, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 20,653,186	\$ -	\$ 20,653,186
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts to be maintained in perpetuity by donor	-	5,566,195	5,566,195
Accumulated investment gains	-	10,195,206	10,195,206
	<u>\$ 20,653,186</u>	<u>\$ 15,761,401</u>	<u>\$ 36,414,587</u>

As of September 30, 2020, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 20,640,831	\$ -	\$ 20,640,831
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts to be maintained in perpetuity by donor	-	5,566,195	5,566,195
Accumulated investment gains	-	7,423,448	7,423,448
	<u>\$ 20,640,831</u>	<u>\$ 12,989,643</u>	<u>\$ 33,630,474</u>

Changes in endowment net assets for the year ended September 30, 2021, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 20,640,831	\$ 12,989,643	\$ 33,630,474
Addition to endowment	-	-	-
Investment return	4,200,194	2,868,846	7,069,040
Appropriation of endowment assets pursuant to spending-rate policy	<u>(4,187,839)</u>	<u>(97,088)</u>	<u>(4,284,927)</u>
Endowment net assets, end of year	<u>\$ 20,653,186</u>	<u>\$ 15,761,401</u>	<u>\$ 36,414,587</u>

Huntington Medical Research Institutes Notes to the Financial Statements

Note 12 – Endowment (continued)

Changes in endowment net assets for the year ended September 30, 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 16,675,864	\$ 11,957,108	\$ 28,632,972
Addition to endowment	3,838,370	-	3,838,370
Investment return	1,569,119	1,117,053	2,686,172
Appropriation of endowment assets pursuant to spending-rate policy	<u>(1,442,522)</u>	<u>(84,518)</u>	<u>(1,527,040)</u>
Endowment net assets, end of year	<u>\$ 20,640,831</u>	<u>\$ 12,989,643</u>	<u>\$ 33,630,474</u>

Funds with deficiencies – The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires HMRI to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restrictions. HMRI policy requires a formal request to be submitted to and approved by the Board of Directors for a spending allowance from an underwater endowment. No requests were submitted during the years ended September 30, 2021 or 2020.

Note 13 – Employee Benefit Plans

Defined benefit pension plan – HMRI has a defined benefit pension plan covering substantially all of its employees hired prior to July 1, 2009, at which point the plan was frozen. The benefits are based on years of service and the employee's compensation during the highest five of the last ten years of employment. HMRI's funding policy is to contribute monthly the amount needed to satisfy the minimum funding standard required by the Employee Retirement Income Security Act of 1974.

At its January 2016 meeting, the Board passed a resolution to amend the defined benefit pension plan. As a result of this amendment, employee compensation levels earned and hours of service credited after February 14, 2016, will not factor into future benefit calculations. In addition, an employee's pension benefit shall not be less than his or her accrued pension benefit as of February 14, 2016.

HMRI recognizes the funded status of the pension plan in the statements of financial position and recognizes changes in the funded or unfunded status through the changes in net assets without donor restrictions. The pension plan's measurement date is the same as HMRI's financial statement date.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 13 – Employee Benefit Plans (continued)

The following provides further information about HMRI's pension plan as of September 30, 2021 and 2020:

Benefit obligations and funded status:

	<u>2021</u>	<u>2020</u>
Benefit obligation at September 30	\$ 15,289,364	\$ 15,349,687
Employer contributions	646,948	636,055
Benefit payments	808,316	834,317
Fair value of plan assets at September 30	11,037,556	10,768,159
Net unfunded status of plan	4,251,808	4,581,528
Accrued pension cost	4,251,808	4,581,528

The net periodic benefit cost recognized in the change in net assets is as follows:

	<u>2021</u>	<u>2020</u>
Net periodic benefit cost	\$ 638,332	\$ 619,924

Amounts expected to be recognized in net periodic cost in the coming year:

	<u>2021</u>	<u>2020</u>
Loss recognition	\$ 573,743	\$ 563,629

The weighted-average assumptions used to determine benefit obligations at September 30, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Discount rate	3.0%	3.0%
Rate of compensation increase	2.0%	2.0%

The weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Discount rate	3.0%	3.5%
Expected return on plan assets	5.0%	3.5%
Rate of compensation increase	2.0%	2.0%

Huntington Medical Research Institutes Notes to the Financial Statements

Note 13 – Employee Benefit Plans (continued)

The expected rate of return on pension plan assets is determined by those assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

The fair values of HMRI's pension plan assets for the year ended September 30, 2021, by asset class are as follows:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Insurance contract	<u>\$ 11,037,556</u>	<u>\$ -</u>	<u>\$ 11,037,556</u>	<u>\$ -</u>

The fair values of HMRI's pension plan assets for the year ended September 30, 2020, by asset class are as follows:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Insurance contract	<u>\$ 10,768,159</u>	<u>\$ -</u>	<u>\$ 10,768,159</u>	<u>\$ -</u>

Expected future benefit payments are as follows as of September 30, 2021:

Years Ending September 30,	
2022	\$ 905,663
2023	912,996
2024	912,092
2025	902,917
2026	895,394
2027–2031	<u>4,494,380</u>
	<u>\$ 9,023,442</u>

HMRI expects to contribute approximately \$511,000 to the pension plan for the year ending September 30, 2022. No plan assets are expected to be returned to HMRI for the year ending September 30, 2022.

Huntington Medical Research Institutes

Notes to the Financial Statements

Note 13 – Employee Benefit Plans (continued)

Defined contribution plans – On October 1, 2010, HMRI established a defined contribution retirement plan (the “401(a) Plan”) for the benefit of all employees meeting the eligibility requirements as set forth in the 401(a) Plan documents. HMRI may make an annual discretionary contribution up to 4% of employees’ compensation and may match up to an additional 4% based on voluntary contributions by employees to the 403(b) plan. During the years ended September 30, 2021 and 2020, HMRI contributed approximately \$316,000 and \$309,000, respectively.

HMRI also maintains a 403(b) defined contribution retirement plan for all employees meeting the eligibility requirements as set forth in the 403(b) Plan documents. The plan is voluntary on behalf of the employees and HMRI has no obligation to contribute to the plan.

HMRI also maintains a 457(b) deferred compensation plan for all employees earning at least \$120,000 annually and are a director or above. The plan is voluntary on behalf of the employees and HMRI has no obligation to contribute the plan.

Note 14 – Concentrations

HMRI receives a substantial amount of its support and revenue from federal government programs. A significant reduction in the level of this support, if it were to occur, would have a pronounced effect on programs and activities.

One funding source accounted for approximately 83% of total contributions, grants, and bequests for the year ended September 30, 2021. One funding source accounted for approximately 40% of total contributions, grants, and bequests for the year ended September 30, 2020.

Note 15 – Related-Party Transactions

HMRI owns 28% of Huntington Outpatient Imaging Center (HOPIC). An employee of HMRI is on the board of managers of HOPIC. HMRI’s share of the partnership income (loss) from HOPIC was (\$557,760) and (\$404,263) for the years ended September 30, 2021 and 2020, respectively.

HMRI leases real property to a Board member through October 2019. The original lease called for base monthly payments of \$7,650 for 60 months commencing on September 1, 2010, with annual consumer price index adjustments, if any. The lease was subsequently amended and extended to March 2023; however, HMRI sold the building in fiscal year 2020. In addition, parking and storage space continues to be leased on a month-to-month basis for \$500 and \$300 per month, respectively, on adjacent property still owned by HMRI. Rental income from these leases was approximately \$9,700 and \$14,000 for the years ended September 30, 2021 and 2020, respectively.

During the year ended September 30, 2021, HMRI paid a non-Director Committee member approximately \$2,200 for consulting service.

Huntington Medical Research Institutes Notes to the Financial Statements

Note 16 – Leases and Commitments

Leases – HMRI is committed to a lease agreement for a building, expiring in June 2023. The future minimum rental commitments under the lease are as follows:

Years Ending September 30,	
2022	\$ 325,789
2023	<u>249,798</u>
	<u>\$ 575,587</u>

Rent expense, included in occupancy and related expenses within the statements of functional expenses for the years ended September 30, 2021 and 2020, was approximately \$326,000 and \$279,000, respectively.

Note 17 – Risks and Uncertainties

Coronavirus pandemic – HMRI is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of the continuation of the world-wide coronavirus pandemic. As of the date of issuance of these financial statements, the full impact to HMRI's financial position is not known.

Litigation – HMRI may be involved in legal matters that arise from time to time in the ordinary course of business. Management and legal counsel do not believe that the resolution of any of these matters would have a material impact on HMRI's financial position or change in net assets.

Supplementary Information

Huntington Medical Research Institutes Schedule of Expenditures of Federal Awards Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Expenditures	Amount Passed Through to Subrecipients
Research and Development Cluster				
Department of Health and Human Services				
National Institutes of Health				
Direct Programs				
Cognitive Challenge to Reveal Presymptomatic Alzheimer's Disease	93.866		\$ 110,347	\$ 39,027
Cognitive Challenge to Reveal Systemic Neurophysiology Biomarkers in Presymptomatic Alzheimer's Disease	93.866		162,154	28,976
The Effect of Electronic Cigarettes on Young Versus Old Normal Hearts and Pathologic Hearts	93.837		620,239	235,791
Novel Developmental Pathways Underlying Psychiatric Disorders	93.242		183,225	12,009
Novel Autonomous Roles of CNS Angiogenesis	93.853		310,294	19,188
Dysfunction of Sodium Homeostasis in Migraine	93.853		637,069	330,960
Role of PHLPP in the Heart	93.837		146,367	-
Subtotal – Direct Programs			2,169,695	665,951
Pass-Through Programs				
Pass-through from University of Southern California				
Vascular Contributions to Dementia and Genetic Risk Factors of Alzheimer's Disease	93.866	48711319	57,959	-
Pass-through from University of Southern California				
Biomarkers of ABCA1 Mediated Functions in Alzheimer's Disease	93.866	48711319	17,309	-
Pass-through from University of Southern California				
The Delivery of Essential Fatty Acids to the Brain in Alzheimer's Disease	93.173	48711319	31,318	-
Total – Department of Health and Human Services and National Institutes of Health			2,276,281	665,951
Total Research and Development Cluster			2,276,281	665,951
Total Federal Financial Assistance			\$ 2,276,281	\$ 665,951

Huntington Medical Research Institutes

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2021

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Huntington Medical Research Institutes (HMRI) under programs of the federal government for the year ended September 30, 2021. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations HMRI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HMRI.

Note 2 – Summary of Significant Accounting Policies

Expenditures including subrecipient expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

HMRI has not elected to use the 10% de minimis indirect cost rate.

Report of Independent Auditors 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*

The Board of Directors
Huntington Medical Research Institutes

We have audited, in accordance with the 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 Huntington Medical Research Institutes, which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, 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 June 22, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Huntington Medical Research Institutes' internal control over financial reporting (internal control) as a basis for designing 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 Huntington Medical Research Institutes' internal control. Accordingly, we do not express an opinion on the effectiveness of Huntington Medical Research Institutes' 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 entity'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 Huntington Medical Research Institutes' 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Los Angeles, California

June 22, 2022



Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
Huntington Medical Research Institutes

Report on Compliance for the Major Federal Program

We have audited Huntington Medical Research Institutes' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Huntington Medical Research Institutes' major federal program for the year ended September 30, 2021. Huntington Medical Research Institutes' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Huntington Medical Research Institutes' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Huntington Medical Research Institutes' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Huntington Medical Research Institutes' compliance.

Opinion on the Major Federal Program

In our opinion, Huntington Medical Research Institutes complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of Huntington Medical Research Institutes is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Huntington Medical Research Institutes' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Huntington Medical Research Institutes' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

Huntington Medical Research Institutes' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Huntington Medical Research Institutes' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Los Angeles, California
June 22, 2022

Huntington Medical Research Institutes
Schedule of Findings and Questioned Costs
Year Ended September 30, 2021

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of report the auditor issued on compliance for major federal programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516?

Yes No

Identification of Major Federal Program

Name of Federal Program

Assistance Listing Number

Research and Development Cluster

Multiple

- Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

• Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

None reported.

**Huntington Medical Research Institutes
 Schedule of Findings and Questioned Costs (Continued)
 Year Ended September 30, 2021**

Section III – Federal Award Findings and Questioned Costs

FINDING 2021-001 – Subrecipient Monitoring: Significant Deficiency in Internal Control Over Compliance

Assistance Listing Number	Federal Agency/Pass-Through Entity – Program Name	Award Number	Award Year	Questioned Costs
Various	U.S. Department of Health and Human Services – Research and Development Cluster	Various	Various	\$0

Criteria – 2 CFR 200.332 Requirements for pass-through entities.–

All pass-through entities must:

(b) Evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section, which may include consideration of such factors as:

- (1) The subrecipient’s prior experience with the same or similar subawards;
- (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F of this part, and the extent to which the same or similar subaward has been audited as a major program;
- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
- (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

(f) Verify that every subrecipient is audited as required by Subpart F of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501.

Condition/Context – A sample of 3 subrecipients were selected from the population of all subrecipients in which Huntington Medical Research Institutes (“HMRI”) passed federal research and development funds to during the year ended September 30, 2021. We requested among other items, supporting documentation for HMRI’s risk assessment and review of subrecipient single audit reports.

HMRI includes a clause in all subrecipient contracts requiring the subrecipient to report any audit findings impacting HMRI funding, including identified non-compliance or questioned costs, to HMRI. In addition, HMRI personnel, including the PI, review all invoices received from their subrecipients. However, HMRI did not perform the required risk assessment or review of subrecipient single audit reports for its subrecipients during the year ended September 30, 2021.

Cause – Management did not have an established policy and procedures for subrecipient monitoring.

Effect – Without established policy and procedures documented and in place, HMRI became out of compliance with federal rules and regulations.

**Huntington Medical Research Institutes
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2021**

FINDING 2021-001 – Subrecipient Monitoring: Significant Deficiency in Internal Control Over Compliance (continued)

Repeat finding – This is not a repeat finding.

Recommendation – We recommend HMRI establish written policies and procedures around the subrecipient monitoring process which includes both a documented risk assessment of subrecipients and annual review of single audit reports in order to identify potential deficiencies and non-compliance.

View of responsible officials – Management agrees with the auditor’s finding regarding the establishment of written policies and procedures surrounding the subrecipient monitoring process. While policies and procedures are being formalized, HMRI has completed the following review:

1. Reviewed the subrecipients Single Audit reports and determined there are no material or significant findings.
2. Confirmed that subrecipient contracts include certification that subrecipient will comply with the audit and access to records clause to give notice to HMRI of any adverse findings which impact the subaward.
3. Verified subrecipient is a member of the Federal Demonstration Partnership, a partnership among universities, nonprofit organizations, and government entities, for the purpose of reducing the administrative burdens associated with research grants and contracts.

In addition, HMRI hired a Post-Award Grant Manager on June 21, 2022, who will be responsible for the continuing subrecipient monitoring outlined above and other steps that will be outlined in the formal policy.

FINDING 2021-002 – Allowable Costs and Cost Principles: Significant Deficiency in Internal Control Over Compliance

Assistance Listing Number	Federal Agency/Pass-Through Entity – Program Name	Award Number	Award Year	Questioned Costs
Various	U.S. Department of Health and Human Services – Research and Development Cluster	Various	Various	\$0

Criteria – 2 CFR 200.303 Internal controls.–

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Huntington Medical Research Institutes
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2021

FINDING 2021-002 – Allowable Costs and Cost Principles: Significant Deficiency in Internal Control Over Compliance (continued)

Condition/Context – A sample of 7 journal entries recorded to federal research and development grants were selected from the population of all journal entries recorded to federal research and development grants during the year ended September 30, 2021. We requested a copy of each journal entry, supporting schedules and documentation and evidence of review and approval of the selected journal entries

HMRI did not retain evidence of supervisory review of 5 of the 7 journal entries tested. In those cases there was documentation of the individual preparing the entry but not documentation supporting the individual reviewing the entry.

Cause – Management entered a period of significant turnover during the year ended September 30, 2021 which did not allow for the proper documentation of reviews and approvals and approvals.

Effect – Without consistent documentation, the books and records may be incomplete. If the books and records associated with federal grants are incomplete, federal agencies may question any unsupported costs.

Repeat finding – This is not a repeat finding.

Recommendation – We recommend HMRI establish clear documentation standards and require employees to retain formal documentation of reviews and approvals. We also recommend that for any journal entries impacting federal grants, and more critically, cost transfers between federal grants, be reviewed by key personnel within the laboratories.

View of responsible officials – Management agrees with the auditor’s finding regarding the establishment of clear documentation standards and requirement to retain formal documentation of reviews and approvals. During the fiscal year, HMRI experienced turnover in the accounting department which resulted in a new team of accountants. With the new team, HMRI implemented clear documentation standards, and a greater level of controls and procedures to ensure that supporting documentation is properly referenced and retained for all journal entries. Additionally, HMRI hired a Post-Award Grant Manager on June 21, 2022, who will ensure HMRI is distributing and reviewing monthly financial reports on federal grants with key personnel within the laboratories.