



Financial Statements
September 30, 2020

Huntington Medical Research Institutes

(With Comparative Totals for September 30, 2019)

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Independent Auditor's Report

To the Board of Directors
Huntington Medical Research Institutes
Pasadena, California

Report on the Financial Statements

We have audited the accompanying financial statements of Huntington Medical Research Institutes, which comprise the statement of financial position as of September 30, 2020, 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 Huntington Medical Research Institutes as of September 30, 2020, and the 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

We have previously audited the 2019 financial statements of Huntington Medical Research Institutes, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 27, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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), 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 schedule of expenditures of federal awards 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 March 17, 2021, on our consideration of Huntington Medical Research Institutes' 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 to solely 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 Institutes' internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Huntington Medical Research Institutes' internal control over financial reporting and compliance.



Pasadena, California

March 17, 2021

Huntington Medical Research Institutes
Statement of Financial Position
September 30, 2020
(with comparative totals for September 30, 2019)

	2020	2019
Assets		
Cash and cash equivalents	\$ 4,366,776	\$ 4,322,171
Government and contract receivables	577,584	514,064
Other receivables	124,251	91,723
Promises to give, net	1,773,586	3,631,878
Prepaid expenses	59,540	12,771
Investments	34,396,538	29,803,299
Property and equipment, net	33,600,928	34,947,756
Beneficial interest in a charitable remainder unitrust	104,630	105,862
Patents, net	66,595	72,615
Patent deposits	318,051	303,334
	\$ 75,388,479	\$ 73,805,473
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 279,926	\$ 339,988
Accrued expenses and deposits	858,527	547,310
Refundable advance	438,898	822,468
Refundable advance - Paycheck Protection Program	1,039,287	-
Accrued pension cost	4,581,528	4,224,918
	7,198,166	5,934,684
Net Assets		
Net assets without donor restrictions		
Undesignated	30,941,507	33,791,407
Designated by the Board	20,764,177	17,701,733
	51,705,684	51,493,140
Net assets with donor restrictions	16,484,629	16,377,649
Total net assets	68,190,313	67,870,789
Total liabilities and net assets	\$ 75,388,479	\$ 73,805,473

Huntington Medical Research Institutes
Statement of Activities
Year Ended September 30, 2020
(with comparative totals for September 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Donor Restrictions	Total	
Revenue, Support, and Gains				
Gain on sale of property and equipment	\$ 5,088,130	\$ -	\$ 5,088,130	\$ -
Government grants and contracts	2,685,370	-	2,685,370	2,206,191
Contributions, grants, and bequests	1,092,523	1,378,557	2,471,080	5,009,406
Investment return utilized for operations	1,442,522	84,518	1,527,040	3,058,912
Clinical and royalty income	478,467	-	478,467	786,525
Rental income	113,873	-	113,873	345,302
Gain on charitable remainder unitrust	-	2,538	2,538	1,297
Net assets released from restrictions	2,391,168	(2,391,168)	-	-
Total revenue, support, and gains	<u>13,292,053</u>	<u>(925,555)</u>	<u>12,366,498</u>	<u>11,407,633</u>
Expenses and Losses				
Program services	8,188,475	-	8,188,475	6,978,613
Supporting services				
Management and general	3,382,261	-	3,382,261	2,927,725
Fundraising	476,953	-	476,953	458,060
Total supporting services	<u>3,859,214</u>	<u>-</u>	<u>3,859,214</u>	<u>3,385,785</u>
Loss on uncollectable promises to give	365,000	-	365,000	-
Total expenses and losses	<u>12,412,689</u>	<u>-</u>	<u>12,412,689</u>	<u>10,364,398</u>
Change in Net Assets from Operations	<u>879,364</u>	<u>(925,555)</u>	<u>(46,191)</u>	<u>1,043,235</u>

Huntington Medical Research Institutes
Statement of Activities
Year Ended September 30, 2020
(with comparative totals for September 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Donor Restrictions	Total	
Net Investment Return				
Interest and dividends	\$ 609,042	\$ 431,546	\$ 1,040,588	\$ 1,006,993
Realized gains on investments	388,933	232,275	621,208	319,023
Unrealized gains (losses) on investments	166,881	453,232	620,113	(12,423)
Investment fees	(32,544)	-	(32,544)	(45,934)
Total net investment return	1,132,312	1,117,053	2,249,365	1,267,659
Less Investment Return Designated for Current Operations	(1,442,522)	(84,518)	(1,527,040)	(3,058,912)
Investment return reduced by the portion of net investment return designated for current operations	(310,210)	1,032,535	722,325	(1,791,253)
Change in net assets before change in accrued pension cost	569,154	106,980	676,134	(748,018)
Change in Accrued Pension Cost	(356,610)	-	(356,610)	(1,045,021)
Change in Net Assets	212,544	106,980	319,524	(1,793,039)
Net Assets, Beginning of Year	51,493,140	16,377,649	67,870,789	69,663,828
Net Assets, End of Year	\$ 51,705,684	\$ 16,484,629	\$ 68,190,313	\$ 67,870,789

Huntington Medical Research Institutes
Statement of Functional Expenses
Year Ended September 30, 2020
(with comparative totals for September 30, 2019)

	2020					
	Program Services	Supporting Services			Total	2019
		Management and General	Fundraising	Total		
Salaries and wages	\$ 2,461,386	\$ 1,774,037	\$ 229,225	\$ 2,003,262	\$ 4,464,648	\$ 4,025,841
Professional fees and contract service payments	1,486,628	416,665	55,069	471,734	1,958,362	1,132,839
Payroll taxes and employee benefits	994,642	716,980	92,554	809,534	1,804,176	1,414,136
Depreciation and amortization	1,306,748	163,957	21,127	185,084	1,491,832	1,571,099
Occupancy and related expenses	531,267	81,253	12,500	93,753	625,020	542,289
Repairs, maintenance, and service contracts	533,051	48,624	7,481	56,105	589,156	537,522
Office and other expenses	237,795	123,775	27,356	151,131	388,926	392,831
Insurance	227,947	34,862	5,363	40,225	268,172	234,439
Research and other supplies	209,312	-	-	-	209,312	317,371
Taxes and licenses	137,159	20,977	3,227	24,204	161,363	110,017
Travel, conferences, conventions and meetings	62,540	1,131	23,051	24,182	86,722	86,014
	<u>\$ 8,188,475</u>	<u>\$ 3,382,261</u>	<u>\$ 476,953</u>	<u>\$ 3,859,214</u>	<u>\$ 12,047,689</u>	<u>\$ 10,364,398</u>

Huntington Medical Research Institutes

Statement of Cash Flows

Year Ended September 30, 2020

(with comparative totals for September 30, 2019)

	2020	2019
Operating Activities		
Cash received from government grants and contracts	\$ 2,161,717	\$ 2,867,161
Cash received from donors	3,968,142	5,049,608
Cash received from rental, clinical, and royalty income	559,812	1,174,854
Cash received from interest and dividends	1,040,588	1,006,993
Cash received from refundable advance - Paycheck Protection Program	1,039,287	-
Cash paid to suppliers and employees	<u>(10,307,452)</u>	<u>(8,610,181)</u>
Net Cash from (used for) Operating Activities	<u>(1,537,906)</u>	<u>1,488,435</u>
Investing Activities		
Purchase of property and equipment	(883,996)	(547,767)
Proceeds from sale of property and equipment	5,833,142	-
Purchase of investments	(2,869,780)	(640,681)
Proceeds from sale of investments	2,807,553	2,266,312
Distributions from limited partnership interests	548,679	631,661
Addition to endowment	(3,838,370)	-
Deposits paid on patents	<u>(14,717)</u>	<u>(23,871)</u>
Net Cash from Investing Activities	<u>1,582,511</u>	<u>1,685,654</u>
Net Change in Cash and Cash Equivalents	44,605	3,174,089
Cash and Cash Equivalents, Beginning of Year	<u>4,322,171</u>	<u>1,148,082</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,366,776</u>	<u>\$ 4,322,171</u>
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Donations of stock	<u>\$ -</u>	<u>\$ 99,327</u>
Donations of lab equipment	<u>\$ -</u>	<u>\$ 10,000</u>

Note 1 - Principal Activities and Significant Accounting Policies**Organization**

Huntington Medical Research Institutes (HMRI) is a nonprofit public benefit California 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 is subject to, and undergoes, a Single Audit annually in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), due to its expenditure of \$750,000 or more in federal grant awards.

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.

Change in Accounting Principles

HMRI has adopted the provisions of Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) applicable to contributions received. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists HMRI in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of October 1, 2019, HMRI has implemented the provisions of ASU 2018-08 applicable to contributions received on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on HMRI's financial statements.

HMRI has adopted the provisions of ASU 2017-07, *Compensation - Retirement Benefits*. This ASU was issued primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. ASU 2017-07 requires that employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit costs are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of change in net assets from operations, if one is presented. HMRI adopted this standard for the year ended September 30, 2020. Since the defined benefit pension plan is frozen, the adoption of this standard did not have an impact on the financial statements of HMRI.

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, 2019, 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.

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, 2020 and 2019, as management believes that the remaining government and contracts receivables are fully collectable.

Promises to Give

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 has been established as of September 30, 2020 and 2019, 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 statement 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 to 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 currently.

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, 2020 and 2019.

Patents and Patent Deposits

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

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. There were no indicators of asset impairment during the years ended September 30, 2020 and 2019.

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 that 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

Revenues 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 statement of financial position. There were refundable advances of \$438,898 and \$822,468, respectively as of September 30, 2020 and 2019. HMRI has unexpended cost-reimbursable grants of approximately \$4,831,000 and \$5,729,000 that have not been recognized as of September 30, 2020 and 2019, respectively, because qualifying expenditures have not been incurred.

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 earned and collection is assured.

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 present 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.

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 of the governing Board. Although the fair value of investments is subject to fluctuation on a year-to-year basis, management and the Investment 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.

Note 2 - Liquidity and Availability

The financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Cash and cash equivalents	\$ 2,576,420	\$ 2,407,492
Government and contract receivables	577,584	514,064
Promises to give	850,240	1,006,009
Other receivables	124,251	91,723
	<u>\$ 4,128,495</u>	<u>\$ 4,019,288</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 and cash equivalents of \$3,000,000 to fund operations. In addition, HMRI has a Board designated endowment fund totaling \$20,640,831 and \$16,675,864 as September 30, 2020 and 2019, 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. The use of these funds requires approval from the Board.

Note 3 - Promises to Give

As of September 30, 2020, and 2019, unconditional promises to give are scheduled to be collected as follows:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 973,586	\$ 1,449,799
In one to five years	<u>800,000</u>	<u>2,202,596</u>
	1,773,586	3,652,395
Less discount to net present value at 2%	<u>-</u>	<u>(20,517)</u>
	<u><u>\$ 1,773,586</u></u>	<u><u>\$ 3,631,878</u></u>

Subsequent to September 30, 2020, one funding source paid \$1,600,000 of their remaining promise to give, of which \$800,000 was originally scheduled to be collected in fiscal year 2022.

Note 4 - Other Receivables

Other receivables as of September 30, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Liver Center salaries	\$ 52,114	\$ 58,444
Huntington Trust	-	21,579
Other miscellaneous receivables	<u>72,137</u>	<u>11,700</u>
	<u><u>\$ 124,251</u></u>	<u><u>\$ 91,723</u></u>

Note 5 - Investments

As of September 30, 2020, investments consist of the following:

	<u>Fair Value</u>	<u>Cost</u>
Mutual funds	\$ 29,897,237	\$ 25,265,076
Limited partnership interests	<u>4,499,301</u>	<u>2,862,726</u>
	<u><u>\$ 34,396,538</u></u>	<u><u>\$ 28,127,802</u></u>

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2020

As of September 30, 2019, investments consist of the following:

	Fair Value	Cost
Mutual funds	\$ 24,287,467	\$ 21,109,839
Limited partnership interests	5,414,499	3,347,155
Exchange traded funds	98,824	83,460
Cash and cash equivalents (at cost)	2,509	2,509
	\$ 29,803,299	\$ 24,542,963

As of September 30, 2020, and 2019, investments by net asset class consist of the following:

	2020	2019
Without donor restrictions	\$ 21,406,895	\$ 17,846,191
With donor restrictions	12,989,643	11,957,108
	\$ 34,396,538	\$ 29,803,299

As of September 30, 2020, and 2019, investments by intended purpose consist of the following:

	2020	2019
Undesignated	\$ 766,064	\$ 1,170,327
Endowments	33,630,474	28,632,972
	\$ 34,396,538	\$ 29,803,299

Note 6 - 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, 2020 and 2019 comprises the following:

	2020	2019
Asset	\$ 117,456	\$ 121,226
Liability	(12,826)	(15,364)
	<u>\$ 104,630</u>	<u>\$ 105,862</u>

Note 7 - 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.

A significant portion of HMRI's investments are classified within Level 1 because they are comprised of investments with readily determinable fair values based on daily redemption values.

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2020

Investments in limited partnerships interests are not readily marketable and are reported at fair value utilizing the most current information provided by investment managers and third-party independent appraisers. The fair value of the CRUT is determined by management using the estimated present value of the expected future cash flows. These are Level 3 measurements.

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

	<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>
Investments				
Mutual funds	\$ 29,897,237	\$ 29,897,237	\$ -	\$ -
Limited partnership interests	4,499,301	-	-	4,499,301
Total investments	<u>\$ 34,396,538</u>	<u>\$ 29,897,237</u>	<u>\$ -</u>	<u>\$ 4,499,301</u>
Charitable remainder unitrust	<u>\$ 104,630</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,630</u>

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, as of September 30, 2019:

	<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>
Investments				
Exchange traded funds	\$ 98,824	\$ 98,824	\$ -	\$ -
Mutual funds	24,287,467	24,287,467	-	-
Limited partnership interests	5,414,499	-	-	5,414,499
Cash and cash equivalents (at cost)	<u>2,509</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 29,803,299</u>	<u>\$ 24,386,291</u>	<u>\$ -</u>	<u>\$ 5,414,499</u>
Charitable remainder unitrust	<u>\$ 105,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,862</u>

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2020

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:

	Limited Partnership Interests	Charitable Remainder Unitrust
Balance, September 30, 2019	\$ 5,414,499	\$ 105,862
Purchases	64,250	-
Investment return	(430,769)	7,504
Withdrawals and distributions	(548,679)	(8,736)
Balance, September 30, 2020	\$ 4,499,301	\$ 104,630

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, 2019:

	Limited Partnership Interests	Charitable Remainder Unitrust
Balance, September 30, 2018	\$ 5,554,337	\$ 108,399
Purchases	38,177	-
Investment return	453,646	6,225
Withdrawals and distributions	(631,661)	(8,762)
Balance, September 30, 2019	\$ 5,414,499	\$ 105,862

Note 8 - Property and Equipment

Property and equipment consists of the following as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,506,062	\$ 2,506,062
Buildings and improvements	33,362,744	33,028,587
Leasehold improvements	99,101	99,101
Lab equipment	6,166,889	5,680,496
Other equipment	611,783	548,336
Assets held for future development (Note 9)	<u>1,217,551</u>	<u>1,962,563</u>
	43,964,130	43,825,145
Less accumulated depreciation	<u>(10,363,202)</u>	<u>(8,877,389)</u>
	<u>\$ 33,600,928</u>	<u>\$ 34,947,756</u>

Depreciation expense for the years ended September 30, 2020 and 2019 was \$1,485,812 and \$1,565,079, respectively.

Note 9 - 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 \$3.2 million. 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 \$5.9 million. As of September 30, 2020, approximately \$1.2 million is included in land and approximately \$1.2 million consisting of several undeveloped parcels of real property is included in assets held for future development. As of September 30, 2019, approximately \$1.2 million is included in land and approximately \$2 million consisting of several undeveloped parcels of real property is included in assets held for future development.

Note 10 - Patents

Patents as of September 30, 2020 and 2019, consists of the following:

	<u>2020</u>	<u>2019</u>
Patents	\$ 184,395	\$ 184,395
Less accumulated amortization	<u>(117,800)</u>	<u>(111,780)</u>
	<u>\$ 66,595</u>	<u>\$ 72,615</u>

Amortization expense for the years ended September 30, 2020 and 2019 was \$6,020. Estimated future amortization of these patents is as follows:

<u>Years Ending September 30,</u>	
2021	\$ 6,020
2022	6,020
2023	6,020
2024	6,020
2025	6,020
Thereafter	<u>36,495</u>
	<u>\$ 66,595</u>

Note 11 - Paycheck Protection Program Loan

HMRI was granted a \$1,039,287 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. HMRI is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. HMRI has initially recorded the loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended September 30, 2020. HMRI will be required to repay any remaining balance, plus interest accrued at 1 percent, in monthly payments commencing upon notification of forgiveness or partial forgiveness through the maturity date April 20, 2022.

Subsequent to September 30, 2020, HMRI received notification from the SBA approved partner that 100% of the loan has been forgiven, however, formal notification of legal release from the SBA has not been received as of March 17, 2021.

Note 12 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose or period		
Accumulated investment gains-endowment	\$ 7,423,448	\$ 6,390,913
Time restrictions	1,704,630	2,505,862
Research activities	<u>1,790,356</u>	<u>1,914,679</u>
Total subject to expenditure for specified purpose or period	<u>10,918,434</u>	<u>10,811,454</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><u>\$ 16,484,629</u></u>	<u><u>\$ 16,377,649</u></u>

Note 13 - 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 for without donor restrictions use. 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 without donor restrictions use. 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 market 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 a) the original value of gifts donated to the endowment, b) the original value of subsequent gifts to the 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
- (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, exchange traded funds, mutual funds, and limited partnership interests. The fiduciary responsibility for HMRI's portfolio is assigned to the Board delegated Investment Committee (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.

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2020

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.

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
	\$ 20,640,831	\$ 12,989,643	\$ 33,630,474

As of September 30, 2019, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 16,675,864	\$ -	\$ 16,675,864
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	-	6,390,913	6,390,913
	\$ 16,675,864	\$ 11,957,108	\$ 28,632,972

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2020

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	(1,442,522)	(84,518)	(1,527,040)
Endowment net assets, end of year	\$ 20,640,831	\$ 12,989,643	\$ 33,630,474

Changes in endowment net assets for the year ended September 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 18,886,152	\$ 11,608,298	\$ 30,494,450
Investment return	736,836	460,598	1,197,434
Appropriation of endowment assets pursuant to spending-rate policy	(2,947,124)	(111,788)	(3,058,912)
Endowment net assets, end of year	\$ 16,675,864	\$ 11,957,108	\$ 28,632,972

Note 14 - 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. 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 statement 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 Financial Statements

September 30, 2020

The following provides further information about HMRI's pension plan as of September 30, 2020 and 2019:

Benefit obligations and funded status:

	2020	2019
Benefit obligation at September 30	\$ 15,349,687	\$ 15,191,589
Employer contributions	636,055	666,116
Benefit payments	834,317	799,631
Fair value of plan assets at September 30	10,768,159	10,966,671
Net unfunded status of plan	4,581,528	4,224,918
Accrued pension cost	4,581,528	4,224,918

Amounts recognized in the statement of financial position consist of:

	2020	2019
Accrued pension cost	\$ 4,581,528	\$ 4,224,918

Amounts recognized as changes in net assets without donor restrictions but not yet reclassified as components of net periodic benefit cost consist of:

	2020	2019
Actuarial loss	\$ 6,009,676	\$ 5,636,935

Other changes in net assets not yet included in net periodic benefit cost and reclassifications to net periodic benefit cost of amounts previously recognized as changes in net assets without donor restrictions but not included in net periodic benefit cost when they arose:

	2020	2019
Actual loss	\$ 356,610	\$ 1,045,021

The projected benefit obligation, accumulated obligation, and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were as follows:

	2020	2019
Projected benefit obligation	\$ 15,349,687	\$ 15,191,589
Accumulated benefit obligation	15,349,687	15,191,589
Fair value of plan assets	10,768,159	10,966,671

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2020

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

	2020	2019
Net periodic benefit cost	\$ 619,924	\$ 592,575

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

	2020	2019
Loss recognition	\$ 563,629	\$ 479,927

The weighted-average assumptions used to determine benefit obligations at September 30, 2020 and 2019 were as follows:

	2020	2019
Discount rate	3.0%	3.5%
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, 2020 and 2019 were as follows:

	2020	2019
Discount rate	3.5%	4.5%
Expected return on plan assets	3.5%	3.5%
Rate of compensation increase	2.0%	2.0%

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.

HMRI's defined benefit pension plan investments are invested in a fixed income portfolio whose assets are held in a segment of Aetna's general account, with main holdings of bonds and mortgage loans. The investment strategy for the bond portfolio is to improve the income and long-term potential by maintaining a minimal U.S. Treasury position and a significant corporate bond position. Holdings continue to be primarily in investment grade corporate bonds. The investment strategy of the mortgage loan portfolio is to continue to seek opportunity in the commercial mortgage loan markets as existing loans mature and prepay. The target allocations for plan assets are 84% bonds, 14% mortgage loans, and 2% cash and short-term equity. Bond portfolio includes investments in corporate industrial, corporate foreign, corporate utilities, corporate financial, commercial mortgage backed, government, agency mortgage backed, and asset backed. Mortgage loan portfolio includes investments in apartment, retail, office, industrial, and others.

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2020

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>

The fair values of HMRI's pension plan assets for the year ended September 30, 2019, 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>\$ 10,966,671</u>	<u>\$ -</u>	<u>\$ 10,966,671</u>	<u>\$ -</u>

Expected future benefit payments are as follows as of September 30, 2020:

<u>Years Ending September 30,</u>	
2021	\$ 891,503
2022	884,304
2023	887,413
2024	882,373
2025	869,218
2026-2030	<u>4,311,530</u>
	<u>\$ 8,726,341</u>

HMRI expects to contribute approximately \$636,000 to the pension plan for the year ending September 30, 2021. No plan assets are expected to be returned to HMRI for the year ending September 30, 2021.

Defined Contribution Plans

On October 1, 2010, HMRI established a defined contribution retirement plan (the 401(k) Plan) for the benefit of all employees meeting the eligibility requirements as set forth in the 401(k) 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, 2020 and 2019, HMRI contributed approximately \$309,000 and \$238,000, respectively, to the 401(k) Plan.

HMRI also maintains a 403(b) defined contribution retirement plan for all employees who have attained 21 years of age and have completed one year of service. The plan is voluntary on behalf of the employees and HMRI has no obligation to contribute to the plan. HMRI has no liability for the administration or payment of benefits of the plan.

Note 15 - 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 40% of total contributions, grants, and bequests for the year ended September 30, 2020. One funding source accounted for approximately 64% of total contributions, grants, and bequests for the year ended September 30, 2019.

Note 16 - Related Party Transactions

HMRI owns 28% of Huntington Outpatient Imaging Center (HOPIC). HMRI's share of the partnership income (loss) from HOPIC was \$(404,263) and \$116,159 for the years ended September 30, 2020 and 2019, respectively.

HMRI leased 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. In addition, parking and storage space was leased on a month-to-month basis for \$500 and \$300 per month, respectively. Rental income from these leases was approximately \$14,000 and \$116,000 for the years ended September 30, 2020 and 2019, respectively.

During the year ended September 30, 2020, HMRI paid a Board member approximately \$24,000 for consulting services.

Note 17 - 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:

<u>Years Ending September 30,</u>	
2021	\$ 316,300
2022	325,789
2023	<u>249,798</u>
	<u>\$ 891,887</u>

Rent expense for the years ended September 30, 2020 and 2019 was approximately \$279,000 and \$261,000, respectively.

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, 2020 and 2019, HMRI's unfunded commitments to these limited partnerships were \$340,529 and \$404,779, respectively.

Note 18 - Risks and Uncertainties

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.

Note 19 - Subsequent Events

Management has evaluated subsequent events through March 17, 2021, the date the financial statements were available to be issued.

There were two events that met the criteria for disclosure in the financial statements (see Note 3 and Note 11).



Supplementary Information
September 30, 2020

Huntington Medical Research Institutes



Independent Auditor’s 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*

To the Board of Directors
Huntington Medical Research Institutes
Pasadena, California

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 (HMRI), which comprise the statement of financial position as of September 30, 2020, 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 March 17, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HMRI’s 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 HMRI’s internal control. Accordingly, we do not express an opinion on the effectiveness of the HMRI’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 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 HMRI's financial statements are free of 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 HMRI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HMRI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Pasadena, California

March 17, 2021



Independent Auditor's Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Huntington Medical Research Institutes
Pasadena, California

Report on Compliance for the Major Federal Program

We have audited Huntington Medical Research Institutes (HMRI) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on HMRI's major federal program for the year ended September 30, 2020. HMRI's 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 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 HMRI's 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about HMRI's 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 HMRI's compliance.

Opinion on the Major Federal Program

In our opinion, HMRI 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, 2020.

Report on Internal Control over Compliance

Management of HMRI 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 HMRI's 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 HMRI's 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Pasadena, California
March 17, 2021

Huntington Medical Research Institutes
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amount Passed Through to Subrecipients
Research and Development Cluster				
Department of Defense				
Direct Program				
Application of Combined Cardioprotective Agents to Preserve Organ Function and Improve Survival During Experimental Hemorrhagic Shock	12.420		\$ 267,895	\$ -
Total - Department of Defense			<u>267,895</u>	<u>-</u>
Department of Health and Human Services				
National Institutes of Health				
Direct Programs				
Cognitive Challenge to Reveal Presymptomatic Alzheimer's Disease	93.866		380,521	153,287
The Effect of Electronic Cigarettes on Young Versus Old Normal Hearts and Pathologic Hearts	93.837		885,798	589,027
Novel Developmental Pathways Underlying Psychiatric Disorders	93.242		42,017	-
Novel Autonomous Roles of CNS Angiogenesis	93.853		15,045	-
Dysfunction of Sodium Homeostasis in Migraine	93.853		<u>525,040</u>	<u>263,460</u>
Subtotal - Direct Programs			<u>1,848,421</u>	<u>1,005,774</u>
Pass-Through Programs				
Pass-through from University of North Texas Health Disparities in Alzheimer's Disease Among Mexican Americans	93.866	[1]	14,256	-
Pass-through from University of Southern California Vascular Contributions to Dementia and Genetic Risk Factors of Alzheimer's Disease	93.866	48711319	59,783	-
Pass-through from University of Southern California Biomarkers of ABCA1 Mediated Functions in Alzheimer's Disease	93.866	48711319	65,398	-
Pass-through from University of Southern California The Delivery of Essential Fatty Acids to the Brain in Alzheimer's disease	93.173	48711319	<u>46,609</u>	<u>-</u>
Total - Department of Health and Human Services National Institutes of Health			<u>2,034,467</u>	<u>1,005,774</u>
Total Research and Development Cluster			<u>2,302,362</u>	<u>1,005,774</u>
Total Federal Financial Assistance			<u>\$ 2,302,362</u>	<u>\$ 1,005,774</u>

[1] Pass-Through Entity Identifying Number not available

Note A – 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, 2020. 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 B – 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 C – Reconciliation of the Financial Statements to the Schedule of Expenditures of Federal Awards

The following is a reconciliation of total government grants and contracts reported on the statement of activities to the schedule for the year ended September 30, 2020:

Total government grants and contracts per the financial statements	\$ 2,685,370
Non-federal government funded grants and contracts	<u>(383,008)</u>
Total federal awards for the year ended September 30, 2020	<u><u>\$ 2,302,362</u></u>

Note D – Indirect Cost Rate

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

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiency identified not considered to be material weakness	None Reported
Noncompliance material to financial statements noted	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified	No
Significant deficiency identified not considered to be material weakness	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Research and Development Cluster	12.420, 93.173, 93.837, 93.853, 93.866, 93.242
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported