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

HUNTINGTON MEDICAL RESEARCH INSTITUTES

September 30, 2022 and 2021

MOSSADAMS

Table of Contents

	PAGE
Report of Independent Auditors	1–3
Financial Statements	
Statements of financial position	4
Statement of activities	5–6
Statement of functional expenses	7
Statements of cash flows	8
Notes to financial statements	9–29
Supplementary Information	
Schedule of expenditures of federal awards	30
Notes to schedule of expenditures of federal awards	31
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*	32–33
Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	34–36
Schedule of Findings and Questioned Costs	37–39
Summary Schedule of Prior Audit Findings	40

Report of Independent Auditors

The Board of Directors
Huntington Medical Research Institutes

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Huntington Medical Research Institutes, which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Huntington Medical Research Institutes as of September 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Huntington Medical Research Institutes and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Huntington Medical Research Institutes' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Huntington Medical Research Institutes' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Huntington Medical Research Institutes' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Huntington Medical Research Institutes' 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary 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 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 20, 2023, 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 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 Institutes' 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 Institutes' internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California
March 20, 2023

ASSETS

	September 30, 2022	September 30, 2021
ASSETS		
Cash	$ 4,686,352	$ 4,946,631
Government and contract receivables	234,945	1,190,696
Other receivables, net	385,085	534,777
Promises to give, net	4,922,760	6,048,191
Prepaid expenses	147,917	111,962
Investments	27,343,142	36,724,949
Property and equipment, net	32,165,263	32,535,409
Patents, net	205,420	167,105
Total assets	$ 70,090,884	$ 82,259,720

LIABILITIES AND NET ASSETS

	2022	2021
LIABILITIES		
Accounts payable	$ 408,464	$ 546,630
Accrued expenses	1,064,704	1,002,400
Refundable advance	3,634	144,917
Accrued pension cost	636,560	4,251,809
Total liabilities	2,113,362	5,945,756
NET ASSETS		
Net assets without donor restrictions		
Undesignated	31,878,995	29,764,856
Designated by the Board	14,067,676	20,653,186
Total net assets without donor restrictions	45,946,671	50,418,042
Net assets with donor restrictions	22,030,851	25,895,922
Total net assets	67,977,522	76,313,964
Total liabilities and net assets	$ 70,090,884	$ 82,259,720

Huntington Medical Research Institutes
Statement of Activities
(with Summarized Comparative Totals for the Year Ended September 30, 2021)

	Year Ended September 30, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total	2021
REVENUE, SUPPORT, AND GAINS				
Contributions, grants, and bequests	$ 1,208,251	$ 1,763,585	$ 2,971,836	$ 9,668,231
Investment return utilized for operations	3,507,688	76,811	3,584,499	3,793,329
Government grants and contracts	2,903,198	-	2,903,198	2,690,195
Paycheck Protection Program	-	-	-	1,039,287
Clinical and royalty income	1,177,135	-	1,177,135	878,683
Rental income	194,316	-	194,316	159,206
Partnership (loss)	(272,223)	-	(272,223)	(493,203)
Net assets released from restrictions	3,371,412	(3,371,412)	-	-
Total revenue, support, and gains	12,089,777	(1,531,016)	10,558,761	17,735,728
EXPENSES				
Program services	8,409,288	-	8,409,288	8,426,996
Supporting services				
Management and general	4,542,147	-	4,542,147	4,912,370
Fundraising	639,471	-	639,471	372,948
Total supporting services	5,181,618	-	5,181,618	5,285,318
Total expenses	13,590,906	-	13,590,906	13,712,314
CHANGE IN NET ASSETS FROM OPERATIONS	(1,501,129)	(1,531,016)	(3,032,145)	4,023,414

(continued)

See accompanying notes.

	Year Ended September 30, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total	2021
NET INVESTMENT RETURN				
Unrealized (losses) gains on investments	$ (4,012,163)	$ (3,432,918)	$ (7,445,081)	$ 3,988,455
Realized gains on investments	193,766	543,936	737,702	1,990,977
Interest and dividends	761,943	645,387	1,407,330	1,126,926
Investment fees	(21,349)	(13,649)	(34,998)	(35,714)
Total net investment return	(3,077,803)	(2,257,244)	(5,335,047)	7,070,644
LESS: INVESTMENT RETURN DESIGNATED FOR CURRENT OPERATIONS	(3,507,688)	(76,811)	(3,584,499)	(4,286,532)
Investment return reduced by the portion of net investment return designated for current operations	(6,585,491)	(2,334,055)	(8,919,546)	2,784,112
Change in net assets before change in accrued pension cost	(8,086,620)	(3,865,071)	(11,951,691)	7,793,932
CHANGE IN ACCRUED PENSION COST YEAR TO YEAR	3,615,249	-	3,615,249	329,719
CHANGE IN NET ASSETS	(4,471,371)	(3,865,071)	(8,336,442)	8,123,651
NET ASSETS, BEGINNING OF YEAR	50,418,042	25,895,922	76,313,964	68,190,313
NET ASSETS, END OF YEAR	$ 45,946,671	$ 22,030,851	$ 67,977,522	$ 76,313,964

Huntington Medical Research Institutes
Statement of Functional Expenses
(with Summarized Comparable Totals for the Year Ended September 30, 2021)

	Year Ended September 30, 2022					
		Supporting Services				
	Program Services	Management and General	Fundraising	Total	Total	2021
Salaries and wages	$ 2,683,360	$ 1,488,311	$ 248,276	$ 1,736,587	$ 4,419,947	$ 4,529,097
Payroll taxes and employee benefits	832,483	461,699	77,064	538,763	1,371,246	1,616,763
Total compensation	3,515,843	1,950,010	325,340	2,275,350	5,791,193	6,145,860
Professional fees and contract service payments	1,198,489	1,925,892	5,616	1,931,508	3,129,997	3,210,008
Depreciation and amortization	1,273,376	156,846	10,851	167,697	1,441,073	1,445,049
Occupancy and related expenses	579,337	79,908	6,659	86,567	665,904	656,054
Repairs, maintenance, and service contracts	565,669	78,023	6,502	84,525	650,194	531,176
Research and other supplies	481,593	-	-	-	481,593	490,665
Office and other expenses	485,444	290,847	277,457	568,304	1,053,748	490,583
Taxes and licenses	20,215	2,788	232	3,020	23,235	429,910
Insurance	246,299	33,972	2,831	36,803	283,102	262,250
Travel, conferences, conventions, and meetings	43,023	23,861	3,983	27,844	70,867	50,759
	$ 8,409,288	$ 4,542,147	$ 639,471	$ 5,181,618	$ 13,590,906	$ 13,712,314

See accompanying notes.

	Years Ended September 30, 2022	2021
OPERATING ACTIVITIES		
Change in net assets	$ (8,336,442)	$ 8,123,651
Reconciliation to net cash from operating activities		
Depreciation and amortization	1,441,073	1,445,049
Net unrealized losses (gains) on investments	7,445,081	(3,988,455)
Contribution restricted for long-term investment	(200,000)	-
Forgiveness of Paycheck Protection Program principal and interest	-	(1,039,287)
(Increase) decrease in operating assets		
Government and contract receivables	955,751	(613,112)
Other receivables, net	149,692	(410,526)
Promises to give, net	1,125,431	(4,274,605)
Prepaid expenses	(35,955)	(52,422)
Patents, net	(47,435)	217,541
Increase (decrease) in operating liabilities		
Accounts payable	(138,166)	266,704
Accrued expenses	62,304	143,873
Refundable advances	(141,283)	(293,981)
Accrued pension cost	(3,615,249)	(329,719)
Net cash used in operating activities	(1,335,198)	(805,289)
INVESTING ACTIVITIES		
Purchases of property and equipment	(1,061,807)	(379,530)
Purchases of investments	(2,344,648)	(8,840,884)
Proceeds from sales of investments	4,281,374	10,605,558
Net cash provided by investing activities	874,919	1,385,144
FINANCING ACTIVITIES		
Contribution restricted for long-term investment	200,000	-
Net cash provided by financing activities	200,000	-
(DECREASE) INCREASE IN CASH	(260,279)	579,855
CASH		
Beginning of year	4,946,631	4,366,776
End of year	$ 4,686,352	$ 4,946,631
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Forgiveness of note payable – Paycheck Protection Program	$ -	$ 1,039,287

See accompanying notes.

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, 2022, HMRI adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. There were no contributed nonfinancial assets for the years ended September 30, 2022 and 2021.

For the year ended September 30, 2022, HMRI adopted FASB ASU 2018-14, *Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans in order to improve the effectiveness of disclosures in the notes to the financial statements.

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 (GAAP). Accordingly, such information should be read in conjunction with HMRI's audited financial statements for the year ended September 30, 2021, 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. There were no cash equivalents as of September 30, 2022.

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, 2022 and 2021, 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, 2022 and 2021, 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 and realized and unrealized gains and losses, less external investment expenses. HMRI invests in investments, which are subject to appreciation and depreciation depending on various factors which affect the investment portfolio. HMRI has a professional investment firm that manages the investments.

HRMI is accounting for its investment in Huntington Outpatient Imaging Center ("HOPIC"), a 28% owned affiliate, by the equity method of accounting under which HMRI's share of the net income of the affiliate is treated as an increase in the investment account and corresponding income in HMRI's statement of activities, and dividends received from the affiliate are treated as a reduction of the investment account.

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 accumulated 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.

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

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, 2022 and 2021.

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. During the year ended September 30, 2022, there were no patent deposits recognized as expired or abandoned and none issued and reclassified as patents to be amortized. There were no indicators of asset impairment during the years ended September 30, 2022 and 2021.

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 contributions with donor restrictions as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized.

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

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 $3,634 and $144,917, respectively, as of September 30, 2022 and 2021. HMRI has unexpended cost-reimbursable grants of approximately $5,316,000 and $7,338,000 that have not been recognized as of September 30, 2022 and 2021, 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 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.

There were no donated assets for the year ended September 30, 2022.

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.

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

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 exclude 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 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.

Investments, in general, are subject to various risks, including credit, interest, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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 1 – Principal Activities and Significant Accounting Policies (continued)

Subsequent events – Management has evaluated subsequent events through March 20, 2023, 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.

New accounting pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. In June 2020, the FASB issued ASU 2020-05, which defers the effective date for this standard to annual reporting periods beginning after December 15, 2021. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Organization is currently evaluating the impact of this new guidance on its 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:

	2022	2021
Financial assets		
Cash	$ 4,686,352	$ 4,946,631
Government and contract receivables	234,945	1,190,696
Other receivables, net	385,085	534,777
Promises to give, net	4,922,760	6,048,191
Investments	27,343,142	36,724,949
Total financial assets	37,572,284	49,445,244
Amounts not available for general expenditures		
Net assets with donor restrictions	22,030,851	25,895,922
Total amounts not available for general expenditures	22,030,851	25,895,922
Total financial assets available for general expenditures within one year	$ 15,541,433	$ 23,549,322

Note 2 – Liquidity and Availability (continued)

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 $14,067,767 and $20,653,186 as of September 30, 2022, and 2021, 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, 2022 and 2021, unconditional promises to give are scheduled to be collected as follows:

	2022	2021
Within one year	$ 2,498,933	$ 2,068,900
In one to five years	2,620,000	4,139,867
	5,118,933	6,208,767
Less: discount to net present value at 2%	(196,173)	(160,576)
	$ 4,922,760	$ 6,048,191

Note 4 – Investments

As of September 30, investments consisted of the following:

	2022	2021
Mutual funds	$ 23,126,304	$ 31,726,791
Limited partnership interests – fair value basis	4,174,053	4,789,853
Total fair value basis investments	27,300,357	36,516,644
Limited partnership interests – equity basis	42,785	208,305
	$ 27,343,142	$ 36,724,949

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.

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.

Note 5 – Fair Value Measurements and Disclosures (continued)

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, 2022	Valuation Technique	Significant Unobservable Inputs	Range of Input Value
Limited Partnerships	$ 584,207	Independent	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.

The following table presents assets measured at fair value on a recurring basis, as of September 30, 2022:

		Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets Measured Using Net Asset Value (or Equivalent)
Mutual funds					
Fixed income	$ 8,217,252	$ 8,217,252	$ -	$ -	$ -
Foreign equity	5,317,559	5,317,559	-	-	-
U.S. equity	9,591,493	9,591,493	-	-	-
Limited partnership interests					
Private natural resources	1,836,062	-	-	380,207	1,455,855
Real assets	204,000	-	-	204,000	-
Venture capital	2,133,991	-	-	-	2,133,991
	$ 27,300,357	$ 23,126,304	$ -	$ 584,207	$ 3,589,846

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:

		Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets Measured Using Net Asset Value (or Equivalent)
Mutual funds					
Fixed income	$ 11,279,644	$ 11,279,644	$ -	$ -	$ -
Foreign equity	7,198,171	7,198,171	-	-	-
U.S. equity	13,248,976	13,248,976	-	-	-
Limited partnership interests					
Private natural resources	1,786,307	-	-	380,207	1,406,100
Real assets	204,000	-	-	204,000	-
Venture capital	2,799,546	-	-	-	2,799,546
	$ 36,516,644	$ 31,726,791	$ -	$ 584,207	$ 4,205,646

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, 2022:

Balance, September 30, 2021	$ 584,207
Net loss	-
Balance, September 30, 2022	$ 584,207

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	(73,540)
Balance, September 30, 2021	$ 584,207

Unfunded capital commitments – HMRI is committed to providing additional capital to certain limited partnerships based on the capital call provisions of those partnerships. As of September 30, 2022 and 2021, HMRI's unfunded commitments to these limited partnerships were $514,058 and $309,029, 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, 2022 and 2021:

	2022	2021
Land	$ 2,506,062	$ 2,506,062
Buildings and improvements	33,729,763	33,500,565
Lab equipment	7,217,211	6,464,041
Other equipment	691,222	611,783
Assets held for future development (Note 7)	1,217,551	1,217,551
	45,361,809	44,300,002
Less: accumulated depreciation	(13,196,546)	(11,764,593)
	$ 32,165,263	$ 32,535,409

Depreciation expense for the years ended September 30, 2022 and 2021, was $1,431,953 and $1,435,929, respectively.

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 was approximately $3,200,000. Development of some of these parcels was completed during the year ended September 30, 2018. As of September 30, 2022 and 2021, approximately $1,218,000 of the remaining undeveloped parcels of real property are 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 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.

Note 8 – Charitable Remainder Unitrust (continued)

The CRUT at September 30, 2022 and 2021, comprises the following:

	2022	2021
Other receivables, net	$ 109,668	$ 113,278
Accrued expenses	(8,514)	(11,221)
	$ 101,154	$ 102,057

Note 9 – Patents

Patents as of September 30, 2022 and 2021, consisted of the following:

	2022	2021
Patents	$ 277,638	$ 277,250
Less: accumulated amortization	(173,703)	(164,583)
	103,935	112,667
Add: deposits	101,485	54,438
	$ 205,420	$ 167,105

Amortization expense for the years ended September 30, 2022 and 2021, was $9,120. Estimated future amortization of these patents is as follows:

Years Ending September 30,	
2023	$ 9,120
2024	9,120
2025	9,120
2026	9,120
2027	9,120
Thereafter	58,335
	$ 103,935

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, 2022 and 2021:

	2022	2021
Subject to expenditure for specified purpose or period		
Accumulated investment gains	$ 7,861,170	$ 10,195,206
Time restrictions	3,957,671	5,947,484
Research activities	3,480,726	4,187,037
Total subject to expenditure for specified purpose or period	15,299,567	20,329,727
Restricted in perpetuity		
Ross McCollum Fund	3,486,792	3,486,792
Marylou Ingram Fund	2,079,403	2,079,403
Della Martin Postdoc Fellowship	1,165,089	-
Total restricted in perpetuity	6,731,284	5,566,195
Total net assets with donor restrictions	$ 22,030,851	$ 25,895,922

During the years ended September 30, 2022 and 2021, net assets with donor restrictions of $3,371,412 and $2,084,710, 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, Marylou Ingram Fund, and the Della Martin Postdoc Fellowship 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 Estate 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. In 2022, HMRI received a restricted endowment pledge from Della Martin Foundation and the Della Martin Endowed Postdoctoral Fellowship in Mental Health was created. Under the agreement, the endowment funds are to remain intact, and the income earned from appreciation of the investments is available to support postdoctoral fellows. As required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 12 – Endowment (continued)

HMRI adheres to 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
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 mutual funds. The fiduciary responsibility for HMRI's portfolio is assigned to the investment committee of the Board of Directors. 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, 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 perspective.

Note 12 – Endowment (continued)

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.

As of September 30, 2022, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 14,067,676	$ -	$ 14,067,676
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts to be maintained in perpetuity by donor	-	6,731,284	6,731,284
Accumulated investment gains	-	7,861,170	7,861,170
	$ 14,067,676	$ 14,592,454	$ 28,660,130

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
	$ 20,653,186	$ 15,761,401	$ 36,414,587

Changes in endowment net assets for the year ended September 30, 2022, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 20,653,186	$ 15,761,401	$ 36,414,587
Addition to endowment	-	1,165,089	1,165,089
Investment return	(3,077,822)	(2,257,225)	(5,335,047)
Appropriation of endowment assets pursuant to spending-rate policy	(3,507,688)	(76,811)	(3,584,499)
Endowment net assets, end of year	$ 14,067,676	$ 14,592,454	$ 28,660,130

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	(4,187,839)	(97,088)	(4,284,927)
Endowment net assets, end of year	$ 20,653,186	$ 15,761,401	$ 36,414,587

Note 12 – Endowment (continued)

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 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, 2022 or 2021, as there were no underwater endowments to report.

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.

During the year end September 30, 2022, a substantial portion of the change in accrued pension cost was due to an increase in the discount rate used to calculate the accrued pension cost.

The following provides further information about HMRI's pension plan as of September 30, 2022 and 2021:

	2022	2021
Benefit obligation at September 30	$ 11,477,361	$ 15,289,364
Employer contributions	257,061	646,948
Benefit payments	868,150	808,316
Fair value of plan assets at September 30	10,840,802	11,037,556
Net unfunded status of plan	636,560	4,251,809
Accrued pension cost	636,560	4,251,809

Note 13 – Employee Benefit Plans (continued)

The net periodic benefit cost recognized in the change in net assets without donor restriction is as follows:

	2022	2021
Net periodic benefit cost	$ 476,823	$ 638,332

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

	2022	2021
Loss recognition	$ 94,362	$ 573,743

The weighted-average assumptions used to determine benefit obligations at September 30, 2022 and 2021, were as follows:

	2022	2021
Discount rate	5.5%	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, 2022 and 2021, were as follows:

	2022	2021
Discount rate	5.5%	3.0%
Expected long-term rate of return on plan assets	5.0%	5.0%
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.

Note 13 – Employee Benefit Plans (continued)

The fair values of HMRI's pension plan assets for the year ended September 30, 2022, by asset class are as follows:

		Fair Value Measurements at Report Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Insurance contract	$ 10,840,802	$ -	$ 10,840,802	$ -

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

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

Expected future benefit payments are as follows as of September 30, 2022:

Years Ending September 30,	
2023	$ 911,888
2024	910,700
2025	901,225
2026	893,454
2027	921,465
2028–2032	4,407,569
	$ 8,946,301

HMRI expects to contribute approximately $300,000 to the pension plan for the year ending September 30, 2023. No plan assets are expected to be returned to HMRI for the year ending September 30, 2023.

Plan assets – Investment strategy – HMRI's overall strategic investment objectives for the pension plan are to preserve capital for future benefit payments and to balance risk and return. In order to accomplish these objectives, HMRI oversees the pension plan's investment objectives and policy design, decides proper plan asset class strategies and structures, monitors the performance of plan investment managers and investment funds, and determines the proper investment allocation of pension plan contributions and withdrawals.

Note 13 – Employee Benefit Plans (continued)

Plan assets – Fair value measurements – The pension plan had all its assets invested in an insurance contract. These instruments accounted for at fair value are considered to be Level 2. 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.

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, 2022 and 2021, HMRI contributed approximately $275,000 and $316,000, 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 who are a director or above. The plan is voluntary on behalf of the employees and HMRI has no obligation to contribute to 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.

Two funding sources accounted for approximately 62% of total contributions, grants, and bequests for the year ended September 30, 2022. One funding source accounted for approximately 83% of total contributions, grants, and bequests for the year ended September 30, 2021.

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 ($455,519) and ($557,760) for the years ended September 30, 2022 and 2021, respectively.

Note 15 – Related-Party Transactions (continued)

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 $21,000 and $9,700 for the years ended September 30, 2022 and 2021, respectively.

Note 16 – Leases and Commitments

Leases – HMRI is committed to a lease agreement for a building, expiring in June 2023. The future minimum rental commitment under the lease is $249,798 for the fiscal year 2023.

Rent expense, included in occupancy and related expenses within the statements of functional expenses for the years ended September 30, 2022 and 2021, was approximately $326,000 and $326,000, respectively.

Note 17 – Risks and Uncertainties

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, 2022

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				
U.S. Department of Health and Human Services				
National Institutes of Health				
Direct Programs				
Cognitive Challenge to Reveal Systemic Neurophysiolgy Biomarkers in Presymptomatic Alzheimer's Disease	93.866		$ 804,874	$ 336,532
The Effect of Electronic Cigarettes on Young Versus Old Normal Hearts and Pathologic Hearts	93.837		341,176	190,017
Novel Developmental Pathways Underlying Psychiatric Disorders	93.242		466,235	64,443
Novel Autonomous Roles of CNS Angiogenesis	93.853		268,408	14,454
Dysfunction of Sodium Homeostasis in Migraine	93.853		525,499	299,645
Role of PHLPP in the Heart	93.837		380,431	-
Subtotal – Direct Programs			2,786,623	905,091
Total – U.S. Department of Health and Human Services and National Institutes of Health			2,786,623	905,091
Total Research and Development Cluster			2,786,623	905,091
Total Federal Financial Assistance			$ 2,786,623	$ 905,091

 See accompanying notes to schedule of expenditures of federal awards.

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, 2022. 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 of 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, 2022, 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 20, 2023.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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
March 20, 2023

MOSSADAMS

Report of Independent Auditors on Compliance for Each 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 Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Huntington Medical Research Institutes' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Huntington Medical Research Institutes' major federal programs for the year ended September 30, 2022. Huntington Medical Research Institutes' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Huntington Medical Research Institutes complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Huntington Medical Research Institutes and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Huntington Medical Research Institutes' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Huntington Medical Research Institutes' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Huntington Medical Research Institutes' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Huntington Medical Research Institutes' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Huntington Medical Research Institutes' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Huntington Medical Research Institutes' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Huntington Medical Research Institutes' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Huntington Medical Research Institutes' response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Huntington Medical Research Institutes' response was not subjected to the other 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
March 20, 2023

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 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.

Section III – Federal Award Findings and Questioned Costs

FINDING 2022-001 – 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
93.242	U.S. Department of Health and Human Services – Research and Development Cluster	RMH110438C	2022	$73

Criteria – 2 CFR 200.445 Goods or services for personal use –

The non-federal entity must adhere to certain principles establishing the allowability of items involved in determining cost. The following considerations must be made for goods or services for personal use:

(a) Costs of goods or services for personal use of the non-federal entity's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

(b) Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent), housing allowances, and personal living expenses are only allowable as direct costs regardless of whether reported as taxable income to the employees. In addition, to be allowable direct costs must be approved in advance by a federal awarding agency.

Condition/Context – A sample of 73 costs totaling $184,495 charged to federal research and development grants were selected from the population of all costs charged to federal research and development grants during the year ended September 30, 2022. The sample was not statistically valid.

One selected cost was a gift to a retiring employee who had worked on the federal grant. The cost was not allowable per the above federal regulation.

Cause – Due to turnover in certain positions, control procedures in place did not detect the unallowable cost.

Effect – An unallowable cost was charged to a federal grant. Since the grant was still open, management returned the amount to the federal government.

Repeat finding – This is not a repeat finding.

Recommendation – We recommend management provide training to employees who charge costs to federal grants and review costs charged to grants to ensure they are aware of the above and all pertinent cost principles.

FINDING 2022-001 – Allowable Costs and Cost Principles: Significant Deficiency in Internal Control Over Compliance (continued)

View of responsible officials – Management agrees with the auditor's finding regarding detecting the $73 of unallowable cost. HMRI has control procedures in place to detect unallowable costs; however, due to turnovers within the organization, the insignificant amount of the unallowable cost was not detected. HMRI hired a new Grants Director on February 6, 2023, who along with the accounting team will ensure all costs are being charged to their respective federal revenue streams in accordance with the federal agreements and guidelines. The employees who charge costs to federal grants are aware that this is an unallowable cost. In addition, HMRI will conduct training to refresh and reinforce the guidelines with employees who charge costs to federal grants. The $73 unallowable cost was returned to NIH as the grant is still open.

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

Status – Corrected.

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

Status – Corrected.