



Financial Statements
September 30, 2019

Huntington Medical Research Institutes

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Independent Auditor's Report

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, 2019, 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, 2019, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, Huntington Medical Research Institutes has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. Accordingly, the September 30, 2018 financial statements have been restated to adopt this standard. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of Huntington Medical Research Institutes as of and for the year ended September 30, 2018, were audited by Vavrinek, Trine, Day & Co., LLP, who joined Eide Bailly LLP as of July 22, 2019, and whose reported dated July 17, 2019, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, 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 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 27, 2020, 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 27, 2020

Huntington Medical Research Institutes
Statement of Financial Position
September 30, 2019
(with comparative totals for September 30, 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 4,322,171	\$ 1,148,082
Government and other contract receivables	2,995,073	1,699,674
Other receivables	216,723	259,750
Unconditional promises to give	1,025,869	2,345,173
Prepaid expenses	12,771	29,951
Investments	29,803,299	31,654,664
Land, buildings, and equipment, net	34,947,756	35,955,068
Beneficial interest in a charitable remainder unitrust	105,862	108,399
Patents, net	72,615	78,635
Patent deposits	303,334	279,463
	\$ 73,805,473	\$ 73,558,859
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 339,988	\$ 194,395
Accrued expenses and deposits	547,310	520,739
Deferred revenue	822,468	-
Accrued pension cost	4,224,918	3,179,897
	5,934,684	3,895,031
 Net Assets		
Net assets without donor restrictions		
Undesignated	33,791,407	33,977,095
Designated by the Board	17,701,733	21,231,347
	51,493,140	55,208,442
Net assets with donor restrictions	16,377,649	14,455,386
	\$ 67,870,789	\$ 69,663,828
	\$ 73,805,473	\$ 73,558,859

Huntington Medical Research Institutes
Statement of Activities
Year Ended September 30, 2019
(with comparative totals for September 30, 2018)

	2019		Total	2018
	Without Donor Restrictions	With Donor Restrictions		
Support, Revenue, Gains, and Investment Return				
Specific research				
Privately funded grants, contracts and projects	\$ 70,642	\$ 3,270,000	\$ 3,340,642	\$ 2,364,028
Government funded grants and contracts	2,206,191	-	2,206,191	1,810,262
Donations	877,005	662,135	1,539,140	2,737,518
Clinical and royalty income	786,525	-	786,525	599,758
Rental income	345,302	-	345,302	304,641
Bequests	129,624	-	129,624	134,023
Gain (loss) in value - charitable remainder unitrust	-	1,297	1,297	(5,592)
Loss on disposal of fixed assets	-	-	-	(316,191)
Total support and revenue	<u>4,415,289</u>	<u>3,933,432</u>	<u>8,348,721</u>	<u>7,628,447</u>
Net Assets Released Due to Satisfaction of Restrictions	<u>2,471,767</u>	<u>(2,471,767)</u>	<u>-</u>	<u>-</u>
Investment Return Designated for Current Operations	<u>2,947,124</u>	<u>111,788</u>	<u>3,058,912</u>	<u>6,849,103</u>
Total support, revenue, gains, and investment return	<u>9,834,180</u>	<u>1,573,453</u>	<u>11,407,633</u>	<u>14,477,550</u>
Expenses				
Research	<u>6,978,613</u>	<u>-</u>	<u>6,978,613</u>	<u>5,978,942</u>
Research Support Services				
General	2,927,725	-	2,927,725	2,296,658
Fundraising	458,060	-	458,060	367,127
Total research support services	<u>3,385,785</u>	<u>-</u>	<u>3,385,785</u>	<u>2,663,785</u>
Total expenses	<u>10,364,398</u>	<u>-</u>	<u>10,364,398</u>	<u>8,642,727</u>
Change in Net Assets from Operations	<u>(530,218)</u>	<u>1,573,453</u>	<u>1,043,235</u>	<u>5,834,823</u>

Huntington Medical Research Institutes
Statement of Activities (continued)
Year Ended September 30, 2019
(with comparative totals for September 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Net Investment Return				
Interest and dividends	\$ 596,168	\$ 410,825	\$ 1,006,993	\$ 740,776
Realized gains on investments	208,060	110,963	319,023	1,024,549
Unrealized gains (losses) on investments	48,767	(61,190)	(12,423)	969,582
Investment fees	(45,934)	-	(45,934)	(31,098)
Total net investment return	807,061	460,598	1,267,659	2,703,809
Less Investment Return Designated for Current Operations	(2,947,124)	(111,788)	(3,058,912)	(6,849,103)
Investment return reduced by the portion of net investment return designated for current operations	(2,140,063)	348,810	(1,791,253)	(4,145,294)
Change in net assets before pension-related changes other than net periodic pension cost	(2,670,281)	1,922,263	(748,018)	1,689,529
Pension-related Changes Other Than Net Periodic Pension Cost	(1,045,021)	-	(1,045,021)	1,256,528
Change in Net Assets	(3,715,302)	1,922,263	(1,793,039)	2,946,057
Net Assets, Beginning of Year, as restated	55,208,442	14,455,386	69,663,828	66,717,771
Net Assets, End of Year	\$ 51,493,140	\$ 16,377,649	\$ 67,870,789	\$ 69,663,828

Huntington Medical Research Institutes
Statement of Functional Expenses
Year Ended September 30, 2019
(with comparative totals for September 30, 2018)

	2019				2018
	Research Support Services			Total	
	Research	General	Fundraising		
Salaries and wages	\$ 2,267,082	\$ 1,497,883	\$ 260,876	\$ 4,025,841	\$ 3,275,100
Payroll taxes and employee benefits	796,300	526,200	91,636	1,414,136	1,246,344
Total personnel costs	<u>3,063,382</u>	<u>2,024,083</u>	<u>352,512</u>	<u>5,439,977</u>	<u>4,521,444</u>
Professional fees and contract service payments	665,672	502,073	11,028	1,178,773	577,987
Occupancy and related expenses	460,946	70,498	10,845	542,289	764,413
Repairs, maintenance, and service contracts	492,390	39,115	6,017	537,522	496,228
Office and other expenses	214,925	127,986	49,920	392,831	437,067
Research and other supplies	317,371	-	-	317,371	379,440
Insurance	199,273	30,477	4,689	234,439	150,786
Taxes and licenses	93,514	14,302	2,201	110,017	34,750
Travel, conferences, conventions and meetings	83,695	1,974	345	86,014	44,440
Impairment loss on patents and patent deposits	-	-	-	-	73,370
Total expenses before depreciation and amortization	<u>5,591,168</u>	<u>2,810,508</u>	<u>437,557</u>	<u>8,839,233</u>	<u>7,479,925</u>
Depreciation and amortization	<u>1,387,445</u>	<u>163,151</u>	<u>20,503</u>	<u>1,571,099</u>	<u>1,193,900</u>
Total expenses	<u>6,978,613</u>	<u>2,973,659</u>	<u>458,060</u>	<u>10,410,332</u>	<u>8,673,825</u>
Less expenses included with investment return in the statement of activities and changes in net assets	<u>-</u>	<u>(45,934)</u>	<u>-</u>	<u>(45,934)</u>	<u>(31,098)</u>
Total expenses included in the expenses section of the statement of activities and changes in net assets	<u>\$ 6,978,613</u>	<u>\$ 2,927,725</u>	<u>\$ 458,060</u>	<u>\$ 10,364,398</u>	<u>\$ 8,642,727</u>

Huntington Medical Research Institutes
 Statement of Cash Flows
 Year Ended September 30, 2019
 (with comparative totals for September 30, 2018)

	2019	2018
Operating Activities		
Cash received from service recipients	\$ 2,876,406	\$ 1,148,493
Cash received from donors	6,215,217	5,231,719
Cash received from interest and dividends	1,006,993	740,776
Cash paid to suppliers and employees	(8,610,181)	(9,272,340)
Net Cash from (used for) Operating Activities	1,488,435	(2,151,352)
Investing Activities		
Purchase of land, buildings, and equipment	(547,767)	(8,752,702)
Purchase of investments	(640,681)	(1,793,118)
Proceeds from sale of investments	2,266,312	6,580,253
Distributions from partnership	631,661	807,069
Deposits paid on patents	(23,871)	(57,922)
Net Cash from (used for) Investing Activities	1,685,654	(3,216,420)
Financing Activities		
Contributions restricted for capital campaign	-	884,370
Net Change in Cash and Cash Equivalents	3,174,089	(4,483,402)
Cash and Cash Equivalents, Beginning of Year	1,148,082	5,631,484
Cash and Cash Equivalents, End of Year	\$ 4,322,171	\$ 1,148,082
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Donations of stock	\$ 99,327	\$ -
Donations of lab equipment	\$ 10,000	-

Note 1 - Organization and Summary of 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 donations, 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.

Basis of Accounting

HMRI accounts for its financial transactions using the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

Basis of Presentation

HMRI's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Under U.S. GAAP, HMRI is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Change in Accounting Principle

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. This ASU modified the current guidance over several criteria of which the following affected the HMRI's financial statements:

- Net assets are to be segregated into two categories, “with donor restrictions” and “without donor restrictions”, as opposed to the previous requirement of three classes of net assets.
- Disclosure of qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the statement of financial position date.
- Presentation of the indirect method reconciliation of operating cash flows on the statements of cash flows is no longer required when the direct method of reporting is used.

As of October 1, 2018, HMRI has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all prior periods presented. HMRI has elected to omit the liquidity disclosures for 2018. The adoption of this ASU did not impact HMRI’s net asset balance, change in net assets, or cash flows for the year ended September 30, 2018.

As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in HMRI’s September 30, 2018 financial statements.

Statement of Financial Position	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net Assets			
Unrestricted	\$ 55,208,442	\$ (55,208,442)	\$ -
Temporarily restricted	8,889,191	(8,889,191)	-
Permanently restricted	5,566,195	(5,566,195)	-
Without donor restrictions	-	55,208,442	55,208,442
With donor restrictions	-	14,455,386	14,455,386

Comparative Financial Information

The 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 U.S. GAAP. Accordingly, such information should be read in conjunction with HMRI’s financial statements as of and for the year ended September 30, 2018, from which the summarized information was derived.

Cash and Cash Equivalents

For the purpose of financial statement reporting, HMRI considers all money market accounts and all highly liquid debt investments purchased with original maturity dates of three months or less to be cash equivalents.

Government and Other Contract Receivables

Government and other contract receivables are reported at the amount expects to collect from outstanding balances. No allowance for doubtful accounts has been established as of September 30, 2019 and 2018, as management believes that the remaining government and other contracts receivables are fully collectable.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give that are due in the next year are recorded at their net realizable value; those due in subsequent years are recorded at the present value of their net realizable value, discounted using low-risk interest rates applicable to the year in which the promise was received. No allowance for doubtful promises to give has been established as of September 30, 2019 and 2018, as management believes that the remaining promises are fully collectable.

Amounts received or promised that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions.

Investments

Investments are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the changes in net assets. Gains and losses are considered without donor restrictions or with donor restrictions depending on whether external restrictions were imposed on the gains and losses at the time of the initial investment.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost if purchased and at fair market value if contributed. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	3 - 40 years
Lab and other equipment	3 - 10 years
Leasehold improvements	Life of lease

Depreciation on construction in process begins when the related assets are placed in service. Expenditures for maintenance and repairs are charged to expense; betterments and major renewals are capitalized.

Patents

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

Patent Deposits

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.

Asset Impairment

HMRI evaluates the recoverability of identifiable long-term assets whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to: 1) a significant decrease in the market value of the asset; 2) a significant adverse change in the extent or manner in which an asset is used; or 3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. HMRI measures the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires HMRI to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts. For the year ended September 30, 2019, there was no impairment loss related to patents and patent deposits. For the year ended September 30, 2018, HMRI recorded an impairment loss of \$73,370 related to patents and patent deposits.

Net Assets

HMRI's net assets comprise the following:

Net Assets Without Donor Restrictions - Net assets without donor restrictions include expendable net assets available to support the general research, administration, and fundraising of HMRI. Net assets without donor restrictions include funds designated by the Board of Directors for investment activities.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, or other events specified by the donor. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying financial statements as net assets released due to satisfaction of restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Under donor provisions, the initial principal shall remain intact while earnings are available for without donor restrictions and with donor restrictions use.

A description of each endowment fund that is restricted in perpetuity is as follows:

The Ross McCollum Endowment Trust was created in 1991 pursuant to the provisions of a trust created under the Will of Ross McCollum. Under the provisions of the trust, the principal is to remain intact and kept separate from the other assets of HMRI. The income from the fund is without donor restrictions.

The Marylou Ingram Fund was created in 2015 pursuant to the provisions of a trust that was created by Marylou Ingram in 2006 and restated in 2012 and that became irrevocable upon her death in 2013. Under the provisions of the trust, the principal is to remain intact and kept separate from other assets of HMRI. The income from the fund is available for research in tissue engineering, cancer molecular genetics, and other related research programs.

Support and Revenue

Contributions are recorded in the year they are made. All contributions are considered to be available for without donor restrictions use unless specifically restricted by the donor.

Amounts received or promised that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions support that increase the related net asset class. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying financial statements as net assets released due to satisfaction of restrictions.

Conditional promises to give are not included as donations until the conditions are substantially met.

HMRI is and may be named a beneficiary of various trusts and wills. The amounts to be received, if any, cannot be determined and therefore, bequests are only reflected in HMRI's financial statements when the amounts are received or become known.

Revenues from government agencies are recorded as of the date HMRI has the right to receive such revenue under cost reimbursement contracts currently in force. With most of these contracts, HMRI incurs expenses while fulfilling the terms of the contract and then requests reimbursement from the government for those expenses. Amounts advanced in excess of these expenditures are recorded as deferred revenue in the accompanying statement of financial position.

Privately funded grants, contracts, and projects are recorded as revenue when they are awarded or costs are incurred.

Rental income is recognized pro-rata over the lease terms.

Clinical and royalty income are recorded when earned and collection is assured.

Donated securities and other noncash 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.

Contributions of Long-lived 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.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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 Operating Activities

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 and pension related changes other than net periodic pension cost.

Income Taxes

HMRI qualifies as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code (IRC). HMRI has been classified as an organization that is not a private foundation as defined in Section 509(a) of the IRC. Further, it has been determined that HMRI is a “publicly supported” organization. Accordingly, contributions by individual donors qualify for the maximum limitation under Section 170(b)(1)(A) of the IRC. Nonprofit organizations are generally not liable for taxes on income; however, HMRI is subject to federal income tax on any unrelated business taxable income.

HMRI considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. HMRI evaluates its uncertain tax positions in accordance with standards set forth under U.S. GAAP. These standards require management to perform an evaluation of all income tax positions taken, or expected to be taken, in the course of preparing HMRI’s tax returns. Management believes the tax positions taken more likely than not will be sustained under examination by the applicable tax authorities. Examples of tax positions taken include the tax-exempt status of HMRI and various positions related to potential sources of unrelated business taxable income. Since matters are subject to some degree of uncertainty, there can be no assurance that HMRI’s tax returns will not be challenged by the tax authorities and that HMRI will not be subject to additional tax, penalties, and interest as a result of such challenge.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2018 financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2019 financial statements.

Note 2 - Liquidity and Availability of Resources

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:

	2019
Cash and cash equivalents	\$ 2,407,492
Government and other contract receivables	1,395,073
Other receivables	216,723
	<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 an operating reserve (designated by the Board) totaling \$17,701,733 as September 30, 2019. The objective of this reserve 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 - Government and Other Contract Receivables

As of September 30, 2019, and 2018, government and other contract receivables are scheduled to be collected as follows:

	2019	2018
Government and other contracts receivables scheduled to be collected in one year or less	\$ 1,395,073	\$ 1,699,674
Government and other contract receivables scheduled to be collected in one to five years	1,600,000	-
	<u>\$ 2,995,073</u>	<u>\$ 1,699,674</u>

Note 4 - Other Receivables

Other receivables consist of the following as of September 30, 2019 and 2018:

	2019	2018
Liver Center salaries	\$ 58,444	\$ 82,428
Huntington Outpatient Imaging Center (Note 17)	-	6,936
Huntington Trust	21,579	22,834
Other miscellaneous receivables	136,700	147,552
	<u>\$ 216,723</u>	<u>\$ 259,750</u>

Note 5 - Unconditional Promises to Give

As of September 30, 2019, and 2018, unconditional promises to give are scheduled to be collected as follows:

	2019	2018
Promises scheduled to be collected in one year or less	\$ 568,790	\$ 806,006
Promises scheduled to be collected in one to five years	477,596	1,644,320
Gross unconditional promises to give	1,046,386	2,450,326
Less discount to present value at 2%	20,517	105,153
Unconditional promises to give at present value	<u>\$ 1,025,869</u>	<u>\$ 2,345,173</u>

Note 6 - Investments

As of September 30, 2019, and 2018, investments consist of the following:

2019	Aggregate Fair Value	Cost
Cash and cash equivalents	\$ 2,509	\$ 2,509
Exchange traded funds	98,824	83,460
Mutual funds	24,287,467	21,109,839
Limited partnership interests	5,414,499	3,347,155
	<u>\$ 29,803,299</u>	<u>\$ 24,542,963</u>
2018	Aggregate Fair Value	Cost
Cash and cash equivalents	\$ 1,322,864	\$ 1,322,864
Common stocks	45,132	44,855
Mutual funds	24,732,331	21,319,352
Limited partnership interests	5,545,731	3,932,011
Life insurance	8,606	8,628
	<u>\$ 31,654,664</u>	<u>\$ 26,627,710</u>

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2019

Investments by net asset class were as follows as of September 30, 2019 and 2018.

	2019	2018
Without donor restrictions	\$ 17,846,191	\$ 20,046,366
With donor restrictions	11,957,108	11,608,298
	<u>\$ 29,803,299</u>	<u>\$ 31,654,664</u>

Investments by intended purpose were as follows as of September 30, 2019 and 2018:

	2019	2018
Undesignated	\$ 1,170,327	\$ 1,160,214
Endowments	28,632,972	30,494,450
	<u>\$ 29,803,299</u>	<u>\$ 31,654,664</u>

Note 7 - 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, 2019 and 2018 comprises the following:

	2019	2018
Asset	\$ 121,226	\$ 125,060
Liability	(15,364)	(16,661)
	<u>\$ 105,862</u>	<u>\$ 108,399</u>

Note 8 - Fair Value Measurements

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

There have been no changes in the methodologies used at September 30, 2019 and 2018.

Cash and cash equivalents: Cash and cash equivalents include money market funds, valued at fair value by reference to quoted market prices in active markets for identical assets or liabilities (unadjusted) and other relevant generated market transactions that HMRI has the ability to access at the measurement date.

Exchange traded funds, common stocks, and mutual funds: Valued at fair value by reference to quoted market prices in active markets for identical assets or liabilities (unadjusted) and other relevant generated market transactions that HMRI has the ability to access at the measurement date.

Limited partnership interests: Valued at fair value using significant unobservable inputs (Level 3) that have quantitative unobservable inputs that are not developed by HMRI when measuring fair value, such as the most current information provided by investment managers and third-party independent appraisers.

Life insurance: Valued at fair value using significant unobservable inputs (Level 3) that have quantitative unobservable inputs that are not developed by HMRI when measuring fair value, such as prices from prior transactions or third party pricing information, without adjustment.

CRUT: HMRI measured the CRUT at fair value using significant unobservable inputs (Level 3) with various quantitative information used in the measurement. On an annual basis, HMRI revalues the liability to make distributions to the life income beneficiary based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate, as provided in Internal Revenue Service tables, and applicable mortality tables. The discount rate was 3.4% and 2.6% for the amounts owed at September 30, 2019 and 2018, respectively.

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2019

Fair values of assets measured on a recurring basis as of September 30, 2019, are as follows:

	Assets at Fair Value as of September 30, 2019			
	Total	Level 1	Level 2	Level 3
Investments				
Cash and cash equivalents	\$ 2,509	\$ 2,509	\$ -	\$ -
Exchange traded funds	98,824	98,824	-	-
Mutual funds	24,287,467	24,287,467	-	-
Limited partnership interests	5,414,499	-	-	5,414,499
Charitable remainder unitrust	105,862	-	-	105,862
	<u>\$ 29,909,161</u>	<u>\$ 24,388,800</u>	<u>\$ -</u>	<u>\$ 5,520,361</u>

The following table summarizes the changes in the fair value of the Level 3 assets for the year ended September 30, 2019:

	Investments	Charitable Remainder Unitrust
Balance, September 30, 2018	\$ 5,554,337	\$ 108,399
Additions	38,177	-
Net income	-	4,928
Unrealized gains	218,712	-
Realized gains	234,934	1,297
Withdrawals and distributions	(631,661)	(8,762)
Balance, September 30, 2019	<u>\$ 5,414,499</u>	<u>\$ 105,862</u>

The change in value of the Level 3 investments, which includes net income, unrealized gains, and realized gains, is included in the statement of activities for the year ended September 30, 2019. The change in value of the charitable remainder unitrust is attributable to the revaluation of the present value of the remainder interest and is included in the statement of activities for the year ended September 30, 2019.

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2019

Fair values of assets measured on a recurring basis at September 30, 2018 are as follows:

	Assets at Fair Value as of September 30, 2018			
	Total	Level 1	Level 2	Level 3
Investments				
Cash and cash equivalents	\$ 1,322,864	\$ 1,322,864	\$ -	\$ -
Common stocks	45,132	45,132	-	-
Mutual funds	24,732,331	24,732,331	-	-
Limited partnership interests	5,545,731	-	-	5,545,731
Life insurance	8,606	-	-	8,606
Charitable remainder unitrust	108,399	-	-	108,399
	\$ 31,763,063	\$ 26,100,327	\$ -	\$ 5,662,736

The following table summarizes the changes in the fair value of the Level 3 assets for the year ended September 30, 2018:

	Investments	Charitable Remainder Unitrust
Balance, September 30, 2017	\$ 6,122,623	\$ 110,014
Additions	961,858	-
Net income	-	4,206
Unrealized gains	386,918	-
Realized gains	432,129	3,314
Withdrawals and distributions	(2,349,191)	(9,135)
Balance, September 30, 2018	\$ 5,554,337	\$ 108,399

The change in value of Level 3 investments, which includes net income, unrealized gains, and realized gains, is included in the statement of activities for the year ended September 30, 2018. The change in value of the charitable remainder unitrust is attributable to the reevaluation of the present value of the remainder interest and is included in the statement of activities for the year ended September 30, 2018.

Note 9 - Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following as of September 30, 2019 and 2018:

	2019	2018
Land	\$ 2,506,062	\$ 2,506,062
Buildings and improvements	33,028,587	32,895,805
Leasehold improvements	99,101	99,101
Lab equipment	5,680,496	5,255,511
Other equipment	548,336	548,336
Assets held for future development (Note 10)	1,962,563	1,962,563
	<u>43,825,145</u>	<u>43,267,378</u>
Less accumulated depreciation	8,877,389	7,312,310
	<u>\$ 34,947,756</u>	<u>\$ 35,955,068</u>

Depreciation expense for the years ended September 30, 2019 and 2018 was \$1,565,079 and \$1,187,880, respectively.

Note 10 - Assets Held For Future Development

In order to continue its efforts to provide excellence in medical research, HMRI has developed a facilities expansion plan. 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. As of September 30, 2019 and 2018, 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. Subsequent to September 30, 2019, HMRI sold these parcels of real property and land for \$5.9 million.

Note 11 - Patents

Patents at September 30, 2019 and 2018 comprise the following:

	2019	2018
Patents	\$ 184,395	\$ 184,395
Less accumulated amortization	<u>111,780</u>	<u>105,760</u>
	<u>\$ 72,615</u>	<u>\$ 78,635</u>

Amortization expense for the years ended September 30, 2019 and 2018 was \$6,020.

The estimated aggregate amortization expense for the five years ending subsequent September 30, 2019, is as follows:

<u>Years Ending September 30,</u>	
2020	\$ 6,020
2021	6,020
2022	6,020
2023	6,020
2024	6,020

Note 12 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose or period		
Time restrictions	\$ 2,505,862	\$ 108,399
Research activities	1,914,679	2,738,689
Total subject to expenditure for specified purpose or period	<u>4,420,541</u>	<u>2,847,088</u>
Restricted in perpetuity		
Ross McCollum Endowment Trust	3,486,792	3,486,792
Marylou Ingram Fund	2,079,403	2,079,403
Accumulated appreciation available for appropriation	6,390,913	6,042,103
Total restricted in perpetuity	<u>11,957,108</u>	<u>11,608,298</u>
Total net assets with donor restrictions	<u>\$ 16,377,649</u>	<u>\$ 14,455,386</u>

Note 13 - Endowment

HMRI's endowment consists of Board-designated endowment funds and the restricted McCollum Fund and 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 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 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.

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 appreciation 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, exchange traded funds, common stocks, 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, 2019

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.

A summary of endowment fund balances by type of fund as of September 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 11,957,108	\$ 11,957,108
Board-designated endowment funds	16,675,864	-	16,675,864
	<u>\$ 16,675,864</u>	<u>\$ 11,957,108</u>	<u>\$ 28,632,972</u>
Endowment net assets, end of year	<u>\$ 16,675,864</u>	<u>\$ 11,957,108</u>	<u>\$ 28,632,972</u>

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
Amounts appropriated for expenditure	(2,947,124)	(111,788)	(3,058,912)
	<u>\$ 16,675,864</u>	<u>\$ 11,957,108</u>	<u>\$ 28,632,972</u>
Endowment net assets, end of year	<u>\$ 16,675,864</u>	<u>\$ 11,957,108</u>	<u>\$ 28,632,972</u>

A summary of endowment fund balances by type of fund as of September 30, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 11,608,298	\$ 11,608,298
Board-designated endowment funds	18,886,152	-	18,886,152
	<u>\$ 18,886,152</u>	<u>\$ 11,608,298</u>	<u>\$ 30,494,450</u>
Endowment net assets, end of year	<u>\$ 18,886,152</u>	<u>\$ 11,608,298</u>	<u>\$ 30,494,450</u>

Changes in endowment net assets for the year ended September 30, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 23,432,485	\$ 10,829,583	\$ 34,262,068
Investment return	1,679,693	799,132	2,478,825
Contributions	523,257	79,403	602,660
Amounts appropriated for expenditure	(6,749,283)	(99,820)	(6,849,103)
Endowment net assets, end of year	<u>\$ 18,886,152</u>	<u>\$ 11,608,298</u>	<u>\$ 30,494,450</u>

Note 14 - 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.

The following provides further information about HMRI's pension plan as of September 30, 2019 and 2018:

Benefit obligations and funded status:

	2019	2018
Benefit obligation at September 30	\$ 15,191,589	\$ 13,930,884
Employer contributions	666,116	574,954
Benefit payments	799,631	746,046
Fair value of plan assets at September 30	10,966,671	10,750,987
Net unfunded status of plan	(4,224,918)	(3,179,897)
Accrued pension cost	(4,224,918)	(3,179,897)

Huntington Medical Research Institutes

Notes to Financial Statements

September 30, 2019

Amounts recognized in the statement of financial position consist of:

	2019	2018
Liabilities	\$ 4,224,918	\$ 3,179,897

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

	2019	2018
Actuarial loss	\$ 5,636,935	\$ 4,518,373

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:

	2019	2018
Actual (gain) loss	\$ 1,045,021	\$ (1,256,528)

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:

	2019	2018
Projected benefit obligation	\$ 15,191,589	\$ 13,930,884
Accumulated benefit obligation	15,191,589	13,930,884
Fair value of plan assets	10,966,671	10,750,987

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

	2019	2018
Net periodic benefit cost	\$ 592,575	\$ 595,546

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

	2019	2018
Loss recognition	\$ 479,927	\$ 356,768

The weighted-average assumptions used to determine benefit obligations at September 30, 2019 and 2018 were as follows:

	2019	2018
Discount rate	3.5%	4.5%
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, 2019 and 2018 were as follows:

	2019	2018
Discount rate	4.5%	4.0%
Expected return on plan assets	3.5%	4.0%
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.

HMRI's 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.

The fair values of HMRI's pension plan assets for the year ended September 30, 2019, by asset class are as follows:

	Assets at Fair Value as of September 30, 2019			
	Total	Level 1	Level 2	Level 3
Insurance contract	<u>\$ 10,966,671</u>	<u>\$ -</u>	<u>\$ 10,966,671</u>	<u>\$ -</u>

The fair values of HMRI's pension plan assets for the year ended September 30, 2018, by asset class are as follows:

	Assets at Fair Value as of September 30, 2018			
	Total	Level 1	Level 2	Level 3
Insurance contract	<u>\$ 10,750,987</u>	<u>\$ -</u>	<u>\$ 10,750,987</u>	<u>\$ -</u>

Expected future benefit payments are as follows as of September 30, 2019:

Years Ending September 30,	
2020	\$ 862,505
2021	890,507
2022	888,099
2023	895,811
2024	895,413
2025-2029	4,474,594

HMRI expects to contribute approximately \$450,000 to the pension plan for the year ending September 30, 2020. No plan assets are expected to be returned to HMRI for the year ending September 30, 2020.

Note 15 - 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, 2019 and 2018, HMRI contributed approximately \$238,000 and \$220,000, 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 16 - Concentrations**Concentration of Credit Risk**

HMRI maintains cash balances at high credit-quality financial institutions where account balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At September 30, 2019, account balances at one financial institution exceeded the aforementioned FDIC insurance limit by approximately \$2,307,000. HMRI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Concentration of Grants and Revenue

HMRI received approximately 26% and 24% of its support and revenue from federal government programs in 2019 and 2018, respectively. 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 38% of total support and revenue for the year ended September 30, 2019. Two funding sources accounted for approximately 41% of total support and revenue for the year ended September 30, 2018.

Note 17 - Related Party Transactions

HMRI owns 28% of Huntington Outpatient Imaging Center (HOPIC). HMRI's share of the partnership income from HOPIC was \$116,159 and \$256,104 for the years ended September 30, 2019 and 2018, respectively.

HMRI leases real property to a Board member. Effective October 2019, HMRI sold the property (see Note 10). 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. Effective April 2018, the lease was extended through March 2023. In addition, parking and storage space is leased on a month-to-month basis for \$500 and \$300 per month, respectively. Rental income from these leases was approximately \$116,000 and \$108,000 for the years ended September 30, 2019 and 2018, respectively.

Note 18 - Commitments and Contingencies

Operating Leases

HMRI is committed to a lease agreement for a building, expiring in June 2020. The future minimum rental commitments under the lease are as follows:

<u>Year Ending September 30,</u>	
2020	\$ 200,017

Rent expense for the years ended September 30, 2019 and 2018 was approximately \$261,000 and \$493,000, respectively.

In April 2016, HMRI entered into a sale and leaseback agreement for a property used as HMRI's main office and research facility. Under this agreement, HMRI was not required to make lease payments until March 2018. Consequently, HMRI recorded \$240,000 of in-kind rent expense and in-kind contributions for the year ended September 30, 2018. The lease is renewable and requires monthly payments after the initial 24-month period, however, HMRI did not renew the lease and moved to its new location in March 2018 (see Note 10).

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, 2019, and 2018, HMRI's unfunded commitments to these limited partnerships were \$404,779 and \$483,134, respectively.

Pending Litigation

In May 2019, a former employee filed a lawsuit against HMRI, setting forth various employment related claims. No specific monetary amount has been identified and no trial date has been set. HMRI denies the claims and intends to vigorously defend itself.

Note 19 - Subsequent Events

Management has evaluated subsequent events through March 27, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, HMRI has been negatively impacted by the effects of the world-wide coronavirus pandemic. HMRI is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As a result of coronavirus pandemic, the United States and global markets experienced significant declines in value. HMRI is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. As of the date of issuance of these financial statements, the full impact to HMRI's financial position is not known and do not include adjustments to the fair value of investments that have resulted from these declines.

There was also one other event that met the criteria for disclosure in the financial statements (see Note 10).



Supplementary Information
September 30, 2019

Huntington Medical Research Institutes

Huntington Medical Research Institutes
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal Agency Program Name / Pass-Through Grantor / Program or Cluster Title	Catalog of Federal Assistance (CFDA) Number	Pass-Through Entity Identifying Number	Federal 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		\$ 518,437	\$ -
Total - Department of Defense			<u>518,437</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		10,061	-
The Effect of Electronic Cigarettes on Young Versus Old Normal Hearts and Pathologic Hearts	93.837		211,933	82,592
Configuring Microelectrodes for Safe and Effective Chronic Electrical Stimulation	93.853		426,402	120,951
Dysfunction of Sodium Homeostasis in Migraine	93.853		42,543	-
Subtotal - Direct Programs			<u>690,939</u>	<u>203,543</u>
Pass-Through Programs				
Pass-through from University of North Texas Health Disparities in Alzheimer's Disease Among Mexican Americans	93.866	[1]	235,360	-
Pass-through from University of Southern California Vascular Contributions to Dementia and Genetic Risk Factors of Alzheimer's Disease	93.866	48711319	98,976	-
Pass-through from University of Southern California Biomarkers of ABCA1 Mediated Functions in Alzheimer's Disease	93.866	48711319	226,880	-
Pass-through from EVAS Therapeutics, LLC Cardioprotection by Inhibition of Coagulation and Inflammation in Myocardial Infarction	93.837	[1]	46,493	-
Pass-through from University of Connecticut Towards Clinical Translation of Penetrating Multisite Device for Cochlear Nucleus	93.173	[1]	1,747	-
Pass-through from University of Southern California The Delivery of Essential Fatty Acids to the Brain in Alzheimer's disease	93.173	48711319	109,012	-
Total - Department of Health and Human Services National Institutes of Health			<u>1,409,407</u>	<u>203,543</u>
Total Research and Development Cluster and Federal Awards			<u>\$ 1,927,844</u>	<u>\$ 203,543</u>

[1] Pass-Through Entity Identifying Number not available

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Huntington Medical Research Institutes (HMRI) under programs of the federal government for the year ended September 30, 2019. The information in this SEFA is presented in accordance with the requirements of the Uniform Guidance. Because SEFA 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 B – Summary of Significant Accounting Policies

Expenditures reported on SEFA 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 funded grants and contracts per the financial statements to the schedule of federal expenditures of federal awards for the year ended September 30, 2019:

Total government funded grants and contracts per the financial statements	\$ 2,206,191
Non-federal government funded grants and contracts	<u>(278,347)</u>
Total federal awards for the year ended September 30, 2019	<u>\$ 1,927,844</u>

Note D – Indirect Cost Rate

HMRI has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



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*

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, 2019, 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 27, 2020.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

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Pasadena, California

March 27, 2020



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

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, 2019. 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, 2019.

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 Guide, 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 27, 2020

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	No
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	No
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
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