

Muscular Dystrophy Association, Inc.

**Financial Statements
and Independent Auditor's Report**

December 31, 2019
(With Comparative Information for December 31, 2018)

Muscular Dystrophy Association, Inc.

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8

Independent Auditor's Report

To the Board of Directors
Muscular Dystrophy Association, Inc.

We have audited the accompanying financial statements of Muscular Dystrophy Association, Inc. (the "Association"), which comprise the statement of financial position as of December 31, 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. 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 the Association as of December 31, 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.

Report on Summarized Comparative Information

We have previously audited the Association's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 14, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Chicago, Illinois
June 25, 2020

Muscular Dystrophy Association, Inc.

**Statement of Financial Position
December 31, 2019
(With Comparative Totals as of December 31, 2018)**

Assets

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 9,048,380	\$ 12,829,490
Contributions receivable	3,871,927	226,832
Investments	58,344,302	59,455,546
Prepaid expenses and other assets	7,192,968	10,122,815
Beneficial interest in charitable remainder trusts	384,911	384,911
Fixed assets, net	<u>2,666,598</u>	<u>644,947</u>
 Total assets	 <u><u>\$ 81,509,086</u></u>	 <u><u>\$ 83,664,541</u></u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 7,212,362	\$ 4,068,625
Research and training grants payable	11,383,214	10,468,957
Term loan	7,500,000	7,500,000
Deferred revenue	1,721,885	1,689,054
Pension and postretirement plan obligations	<u>54,405,276</u>	<u>49,991,402</u>
 Total liabilities	 <u>82,222,737</u>	 <u>73,718,038</u>
 Commitments and contingencies		
 Net assets		
Without donor restrictions	(5,966,906)	5,364,018
With donor restrictions	<u>5,253,255</u>	<u>4,582,485</u>
 Total net assets	 <u>(713,651)</u>	 <u>9,946,503</u>
 Total liabilities and net assets	 <u><u>\$ 81,509,086</u></u>	 <u><u>\$ 83,664,541</u></u>

See Notes to Financial Statements.

Muscular Dystrophy Association, Inc.

Statement of Activities Year Ended December 31, 2019 (With Comparative Totals for the Year Ended December 31, 2018)

	Without donor restrictions	With donor restrictions	2019 Total	2018 Total
Revenue				
Public support				
Received directly				
Special events	\$ 87,950,610	\$ -	\$ 87,950,610	\$ 98,821,717
Less fund-raising direct benefit costs	(5,145,937)	-	(5,145,937)	(7,895,334)
Special events, net	82,804,673	-	82,804,673	90,926,383
Contributions	10,194,378	4,213,830	14,408,208	12,042,982
Total received directly	92,999,051	4,213,830	97,212,881	102,969,365
Received indirectly - combined federal campaign and combined health appeals	496,872	-	496,872	268,675
Total revenue from the public	93,495,923	4,213,830	97,709,753	103,238,040
Other revenue				
Interest income	229,107	-	229,107	435,561
Sale of donated securities	-	-	-	2,489,597
Revenue from government awards	335,898	-	335,898	304,341
Total revenue	94,060,928	4,213,830	98,274,758	106,467,539
Net assets released from restrictions	3,693,266	(3,693,266)	-	-
Total revenue and support	97,754,194	520,564	98,274,758	106,467,539
Expenses				
Program services				
Patient and community services	28,614,874	-	28,614,874	27,069,767
Research	19,855,585	-	19,855,585	20,344,711
Professional public health education	9,124,865	-	9,124,865	6,244,416
Total program services	57,595,324	-	57,595,324	53,658,894
Supporting services				
Fundraising	47,462,922	-	47,462,922	44,336,080
Management and general	7,150,763	-	7,150,763	8,044,138
Total supporting services	54,613,685	-	54,613,685	52,380,218
Total expenses	112,209,009	-	112,209,009	106,039,112
Increase (decrease) in net assets from operations	(14,454,815)	520,564	(13,934,251)	428,427
Other gains (losses)				
Net investment return	11,045,110	150,206	11,195,316	(5,436,787)
Changes in unrecognized benefit plan costs	(7,921,219)	-	(7,921,219)	(1,214,005)
Total other gains (losses)	3,123,891	150,206	3,274,097	(6,650,792)
Change in net assets	(11,330,924)	670,770	(10,660,154)	(6,222,365)
Net assets, beginning of year	5,364,018	4,582,485	9,946,503	16,168,868
Net assets, end of year	\$ (5,966,906)	\$ 5,253,255	\$ (713,651)	\$ 9,946,503

See Notes to Financial Statements.

Muscular Dystrophy Association, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)**

	Patient and Community Services	Research	Professional and Public Health Education	Fundraising	Management and General	2019 Total	2018 Total
Salaries Benefits and Taxes	\$ 12,877,407	\$ 2,676,403	\$ 5,062,587	\$ 25,846,947	\$ 3,959,526	\$ 50,422,870	\$ 50,254,273
Awards, Grants, and Fellowships	-	16,394,896	-	-	-	16,394,896	16,319,474
Disbursements made on behalf of Individuals	9,901,833	-	75,147	-	-	9,976,980	10,134,497
Indirect Event Expenses	184,848	22,809	466,551	8,608,193	26,958	9,309,359	4,434,423
Contract Services and Professional Fees	327,766	158,935	1,425,198	4,038,333	885,095	6,835,327	7,020,416
Occupancy	2,153,992	13,076	65,612	2,156,339	591,366	4,980,385	6,108,697
Travel, Lodging, Conferences, and Meetings	1,008,741	263,960	1,607,723	1,338,619	296,319	4,515,362	3,631,762
Other Operating Expenses	389,644	71,792	184,508	3,099,146	644,424	4,389,514	4,531,679
Office Supplies and Equipment	1,305,309	150,923	131,367	1,322,316	326,125	3,236,040	1,941,155
Telephone and Internet	294,452	68,714	70,044	695,037	350,266	1,478,513	1,392,043
Depreciation	170,882	34,077	36,128	357,992	70,684	669,763	270,693
Total	<u>\$ 28,614,874</u>	<u>\$ 19,855,585</u>	<u>\$ 9,124,865</u>	<u>\$ 47,462,922</u>	<u>\$ 7,150,763</u>	<u>\$ 112,209,009</u>	<u>\$ 106,039,112</u>

See Notes to Financial Statements.

Muscular Dystrophy Association, Inc.

Statement of Cash Flows
Year Ended December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (10,660,154)	\$ (6,222,365)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net realized (gain) loss on investments	(538,916)	4,753,819
Depreciation	669,763	270,693
Changes in recognized benefit plan costs	2,655,141	(3,234,762)
Changes in unrecognized benefit plan costs	7,921,219	543,808
Changes in assets and liabilities:		
Contributions receivable	(3,645,095)	2,115,089
Prepaid expenses and other assets	2,929,847	(8,205,916)
Beneficial interest in charitable remainder trusts	-	170,952
Accounts payable, accrued expenses, and deferred revenue	3,176,568	44,640
Research and training grants payable	<u>914,257</u>	<u>793,988</u>
Net cash provided by (used in) operating activities	<u>3,422,630</u>	<u>(8,970,054)</u>
Cash flows from investing activities		
Proceeds from sale of investments	25,026,821	11,144,273
Purchases of investments	(29,539,147)	(5,520,017)
Purchases of fixed assets	<u>(2,691,414)</u>	<u>(359,708)</u>
Net cash (used in) provided by investing activities	<u>(7,203,740)</u>	<u>5,264,548</u>
Cash flows from financing activities		
Principal payments on term loan	(1,875,000)	(2,500,000)
Payoff of original term loan	(5,625,000)	-
Proceeds from new term loan	<u>7,500,000</u>	<u>-</u>
Net cash used in financing activities	<u>-</u>	<u>(2,500,000)</u>
Net change in cash and cash equivalents	(3,781,110)	(6,205,506)
Cash and cash equivalents, beginning of year	<u>12,829,490</u>	<u>19,034,996</u>
Cash and cash equivalents, end of year	<u>\$ 9,048,380</u>	<u>\$ 12,829,490</u>
Supplemental disclosures for cash flow information:		
Cash paid for interest	<u>\$ 315,915</u>	<u>\$ 314,538</u>

See Notes to Financial Statements.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Note 1 - Organization

Muscular Dystrophy Association, Inc. (the "Association") is a not-for-profit national voluntary health agency supporting worldwide research at hundreds of universities and hospitals to find effective treatments and cures for neuromuscular diseases. Through more than 150 Association-supported, hospital-affiliated care centers and its field offices nationwide, the Association offers comprehensive medical services, education, and support to patients and their families. The Association produces and distributes educational information about neuromuscular diseases in the form of publications and seminars for the medical and scientific community and the general public. The Association receives the vast majority of its revenue from individual contributors.

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). The Association has been classified as a publicly supported charitable organization under Section 509(a)(1) of the IRC and qualifies for the maximum charitable contribution deduction by donors.

Note 2 - Summary of significant accounting policies

Basis of presentation

The financial statements include the assets, liabilities, net assets and financial activities of the Association. The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP").

Use of estimates

The preparation of the 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 the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparation of these financial statements include the valuation of investment gains and losses, the functional allocation of expenses, fair value measurements associated with investments and charitable trusts, and the assumptions used in calculating the pension and post retirement plan obligations.

Cash and cash equivalents

The Association considers all highly liquid short-term investments with an original maturity date of three months or less from the date of purchase to be cash equivalents.

Concentration of credit risk

Certain financial instruments, primarily cash, cash equivalents and investments, subject the Association to credit risk. The Association maintained cash balances (non-interest-bearing) in 2019 and 2018 at a financial institution in excess of the federally insured limit; however, the Association has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

With respect to investments, concentration is limited through the diversification of the portfolio. As of December 31, 2019 and 2018, the Association maintained 12% and 11%, respectively, of its investment balance in one fixed income pooled vehicle, 15% and 13%, respectively, in a large-cap value index fund, 15% and 11%, respectively, in a large-cap growth index fund and 12% and 11%, respectively, in an equity market fund. All funds are actively managed and aligned with internal policy.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Concentrations of credit risk with respect to contributions receivable are limited due to the Association's policy of not recording contributions receivable until they have an irrevocable right. While management uses the best information available in making its determination, the ultimate recovery of recorded contributions receivable is also dependent upon future economic and other conditions that may be beyond management's control.

Beneficial interest in charitable trusts

The Association is the beneficiary under various irrevocable charitable remainder trusts for which it does not act as the trustee. The income is recognized when the Association has an irrevocable right to the gift and the proceeds are measurable, and is included in contributions within the accompanying statements of activities. These consist primarily of irrevocable gifts to the Association through wills and bequests for which the cash has not yet been received. Beneficial interest in charitable remainder trusts is reported at the market value of the investments of the trust, as reported by the trustees, and adjusted based on the estimated life expectancy of the donor. The allowance for uncollectible accounts is estimated by management based upon historical experience and factors relating to specific gifts to reduce the beneficial interest in charitable remainder trusts balance to net realizable value. Management determined an allowance for doubtful accounts of \$0 to be necessary for beneficial interest in charitable remainder trusts at December 31, 2019 and 2018, respectively.

Contributions receivable

Certain unrelated organizations conduct fundraising programs on behalf of the Association, whereby they collect donations from their patrons and remit the proceeds to the Association. The Association records the amounts collected on behalf of the Association prior to year-end but not yet remitted to the Association until the subsequent period as contributions receivable.

Investments

Investments, other than money market funds and interest-bearing deposits, are reflected in the accompanying financial statements at fair value according to U.S. GAAP. All investment activity is reflected in the accompanying statement of activities as net investment return.

Fixed assets

Fixed assets are carried at cost at the date of purchase or estimated fair value at date of donation.

The estimated useful lives for each asset group are as follows:

	Estimated life	Method
Leasehold improvements	5 - 6 years	Straight-line
Furniture and equipment	3 - 7 years	Straight-line
Software	3 - 5 years	Straight-line

Net assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions using the following classifications:

Without donor restrictions - Represents unrestricted resources available for support of daily operations and contributions received with no donor restriction. The Board may designate certain net assets for a particular function or activity.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

With donor restrictions - Represents resources that are subject to restrictions imposed by the donor that will be met either by actions of the Association or the passage of time or are restricted to investments in perpetuity. When a donor restriction has been satisfied by incurred expenses consistent with the designated purpose, net assets with donor restrictions are reclassified to net assets without donor restrictions for reporting of related expenses.

Research and training grants payable

The Association makes research and training grants each year to physicians and scientists in the United States and abroad who are seeking the cause of, and cures or effective treatments for, the neuromuscular disorders covered by the Association's programs. These grants generally extend over a period of one to three years. The Association records the initial year's liability and corresponding expense for these grants after they have been recommended for approval by the Association's scientific or medical advisory committees and approved by the Board of Directors. Funding of the remaining committed future amounts of grants is contingent upon satisfactory scientific and/or medical review and availability of funds.

Contributions

All contributions are considered to be available for the program or supporting services of the Association unless explicitly restricted by the donor. When a donor restriction expires, that is when a stipulated time restriction ends or the purpose for the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions. Donations received and expended in the same year are classified as gifts without donor restrictions.

Contributed services

A substantial number of volunteers from the business community; organized labor; civic, fraternal and youth organizations; and the public at large have contributed their services to support the Association's research, patient and community services, and professional and public health education programs, as well as its fundraising and administrative activities. The value of these contributed services does not meet the criteria for recognition and accordingly, is not recognized in these financial statements.

Donated collection items

The Association does not capitalize donated works of art or recognize them as revenues or gains. Donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; and are protected, kept unencumbered, cared for, and preserved.

Donated securities

The Association was donated the rights to oil tracks. The donated securities represents the sale of those rights. This has been identified and reported separately from general revenue and contributions because of its value and type of donation; the Association does not generally receive donations of land in its normal course of business.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Included in each functional category are the expenses directly attributable to that functional area plus certain indirect or shared costs that have been allocated to the functional area. The allocated costs include field office and some executive salaries, benefits and operating expenses. The allocation was based on a time study that determined what percentage of time employees spend working within each functional area in addition to an allocation of expenses based on reporting from the accounting system.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Recently adopted accounting pronouncements

Accounting Standards Update 2014-09

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) in May 2014, providing new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues.

The Association adopted the new revenue recognition guidance as of January 1, 2018 using the full retrospective method of transition for all contracts that were not completed as of that date.

The Association's revenue for reporting periods ended after December 31, 2017 are presented under the new guidance, while financial results for prior periods will continue to be reported in accordance with the prior guidance and the Association's historical accounting policy. The Association has not experienced significant changes to the pattern of revenue recognition for its contracts, the identification of contracts and performance obligations or the measurement of variable consideration. The impact on the revenue recognition has been immaterial compared to the prior revenue recognition policy.

Accounting Standards Update 2016-02

In February 2016, the FASB issued Accounting Standard Update No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 31, 2021 with early adoption permitted. The Association is currently evaluating the effect the updated standard will have on its financial statements.

Accounting Standards Update 2018-08

In June 2018, the FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Association has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Reclassifications

Certain reclassifications have been made to the prior year balances to conform to the current year presentation.

Note 3 - Revenue and revenue recognition

Special events

Special events revenue is recorded equal to the fair value of the direct benefits to donors and to contribution income for the excess received when the event takes place. Sponsorships are recorded

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

upon receipt of a letter of agreement and have no future performance obligations or extended payment terms. All revenue is recognized upon completion of an event.

Contributions

The Association recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest 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.

Contributions are recorded as either with donor restriction or without donor restriction. Contributions are recognized as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as contributions without donor restrictions. 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 as net assets without donor restrictions and are reported in the statements of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as contribution without donor restrictions.

Federal campaign and combined health appeals

Transactions from third-party employee contribution programs are recorded as federal campaign and combined health appeals. Donations are recorded at the time of receipt.

Revenue from government awards

Revenue from governmental contracts and grants are conditional upon certain performance requirements and the incurrence of allowable qualifying expenses. At December 31, 2019, there are no conditional contributions that have not been recognized.

Other revenue

Proceeds from the sale of donated securities relate to land interests that have been donated to the Association and later sold. All revenue is recorded at the time of sale and there are no future performance obligations.

Note 4 - Availability and liquidity

The following represents the Association's financial assets at December 31, 2019 and 2018:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	\$ 9,048,380	\$ 12,829,490
Investments	58,344,302	59,455,546
Contributions receivable	3,871,927	226,832
Total financial assets	71,264,609	72,511,868
Less amounts not available to be used within one year		
Net assets with donor restrictions	(5,253,255)	(4,582,485)
Financial assets not available to be used within one year	(5,253,255)	(4,582,485)
Financial assets available to meet general expenditures within one year	\$ 66,011,354	\$ 67,929,383

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Liquidity management

The Association maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Association invests cash in excess of daily requirements in short-term investments and money market funds.

As more fully described in Note 10, the Association has a revolving credit facility in the amount of \$8,000,000 and term loan facility of \$7,500,000, which it could draw upon in the event of an unanticipated liquidity need.

Note 5 - Investments

Fair value measurements

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Association considers the most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement; however, the determination of what constitutes observable requires significant judgment. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Quoted prices, other than quoted prices included in Level 1, that are observable for the assets or liabilities, either directly or indirectly.

Level 3 - Inputs that are unobservable for the assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

The following table discloses assets carried at fair value at December 31, 2019, by the level of observable input:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed Income:				
U.S. treasury notes	\$ 43,194	\$ -	\$ -	\$ 43,194
Corporate debt	-	212,121	-	212,121
Common stock:				
Mutual funds	58,088,987	-	-	58,088,987
Subtotal	58,132,181	212,121	-	58,344,302
Beneficial interest in charitable remainder trusts	-	-	384,911	384,911
Total	\$ 58,132,181	\$ 212,121	\$ 384,911	\$ 58,729,213

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

The following table discloses assets carried at fair value at December 31, 2018, by the level of observable input:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed Income:				
U.S. treasury notes	\$ 2,036,587	\$ -	\$ -	\$ 2,036,587
Corporate debt	-	341,567	-	341,567
Mortgage backed, asset backed or other	-	473,305	-	473,305
Common stock:				
Common equities securities	1,957,698	-	-	1,957,698
Mutual funds	54,646,389	-	-	54,646,389
Subtotal	58,640,674	814,872	-	59,455,546
Beneficial interest in charitable remainder trusts	-	-	384,911	384,911
Total	<u>\$ 58,640,674</u>	<u>\$ 814,872</u>	<u>\$ 384,911</u>	<u>\$ 59,840,457</u>

Note 6 - 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2018, from which the summarized information was derived. The Association's financial statements for the year ended December 31, 2018, audit report dated June 14, 2019, expressed an unmodified opinion on those statements.

Note 7 - Fixed assets

Fixed assets are comprised of the following as of December 31, 2019 and 2018:

	2019	2018
Leasehold improvements	\$ 219,994	\$ 161,304
Furniture and equipment	4,895,220	6,731,855
Software	4,525,466	56,107
Subtotal	9,640,680	6,949,266
Accumulated depreciation	(6,974,082)	(6,304,319)
Net	<u>\$ 2,666,598</u>	<u>\$ 644,947</u>

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$669,763 and \$270,693, respectively.

Muscular Dystrophy Association, Inc.

**Notes to Financial Statements
December 31, 2019 and 2018**

Note 8 - Allocation of joint costs

Costs incurred for informational materials and activities that include fundraising appeals are allocated to program and supporting services based upon the content of the materials or activities, the audience to whom the materials and activities are addressed, and the reasons for distributing the materials or conducting the activities.

Joint costs are allocated in the following manner for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Professional and public health education	\$ 666,298	\$ 466,037
Management and general	1,127,344	788,512
Fundraising	<u>2,847,754</u>	<u>1,991,839</u>
Total	<u>\$ 4,641,396</u>	<u>\$ 3,246,388</u>

Note 9 - Letter of credit

The Association has an outstanding letter of credit issued by JPMorgan Chase Bank as of December 31, 2019, that secures the seven remaining annual payments of \$40,000 to an award recipient. There have been no draws on such letter of credit since it was obtained in 2006.

Note 10 - Line of credit and term loan

The Association has a revolving line of credit with a financial institution in the amount of \$8,000,000, bearing interest at the one month daily LIBOR rate. Repayments on the revolving line of credit shall be interest only, with the entire principal balance due at maturity. The revolving line of credit matures on October 31, 2021. During the year ended December 31, 2019, no amounts were drawn on the revolving line of credit.

The Association had a term loan in the amount of \$7,500,000. During 2019, the term loan was paid off and the Association entered into a new term loan with a new financial institution, secured by securities, in the amount of \$7,500,000, bearing interest at 3.0%. No payments on the new term loan were due in 2019. The term loan matures on October 31, 2022. The Association and the financial institution agreed to reduce the outstanding principal balance by certain amounts as outlined below. At December 31, 2019 and 2018, \$7,500,000 and \$7,500,000 was outstanding and \$315,915 and \$314,538 of interest expense was incurred, respectively.

Annual payments on the term loan through December 31, 2022 are as follows:

Year ending December 31, 2020	\$ 2,500,000
2021	2,500,000
2022	<u>2,500,000</u>
Total	<u>\$ 7,500,000</u>

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Note 11 - Employee benefit plans

The Association has a noncontributory defined benefit retirement plan (the "Plan") covering all employees hired prior to April 1, 2006, and who have been employed by the Association for more than one year. Pension costs are generally funded at the amount recommended by the Association's actuaries. Benefits to retirees are based on a percentage of their annual compensation for each year of service prior to retirement. As of December 31, 2010, the Association froze benefit accruals in the retirement plan to fully vested participants.

On April 1, 2006, the Muscular Dystrophy Association, Inc. Savings Plan ("Savings Plan"), a 403(b) Employee Retirement Income Security Act of 1974 qualifying plan, was established. Eligibility to participate in the Savings Plan is immediate and 100% of the value of the pretax matching contributions is vested immediately, and the employer contributions made during the years ended December 31, 2019 and 2018 were \$528,721 and \$237,570, respectively.

Effective December 31, 2012, the Association established a non-qualified deferred compensation plan pursuant to the provisions of Section 457(b) and 457(f) of the IRC of 1986, an executive deferred compensation plan. This plan was terminated in March 2017. As of December 31, 2019 and 2018, there was no liability associated with this plan.

Life insurance coverage is continued during retirement at an amount equal to the lesser of \$25,000 or the retiree's annual salary. Upon reaching the age of 70, this benefit is reduced by 50% to a maximum of \$12,500. Postretirement benefits are funded as incurred. Subsequent to December 31, 2016, the Association terminated the retiree life insurance program for postretirement benefits effective June 30, 2017, such that effective July 1, 2017, the Association will no longer provide life insurance coverage to former employees.

The following table sets forth the Plan's change in the benefit obligation at December 31, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Benefit obligation at beginning of the year	\$ 141,200,302	\$ 154,616,541
Interest cost	5,402,754	4,912,684
Actuarial loss (gain)	18,240,874	(10,688,903)
Benefits Paid	<u>(8,093,284)</u>	<u>(7,640,020)</u>
Benefit obligation at end of year	<u><u>\$ 156,750,646</u></u>	<u><u>\$ 141,200,302</u></u>

The pension benefits actuarial loss for the year ended December 31, 2019 is due to a longer life expectancies in mortality assumptions and a lower discount rate.

The pension benefits actuarial gain for the year ended December 31, 2018 is due to a higher discount rate.

Muscular Dystrophy Association, Inc.

**Notes to Financial Statements
December 31, 2019 and 2018**

The aggregate amount recognized in net periodic pension expense during the years ended December 31, 2019 and 2018 amounted to \$508,970 and \$84,606, respectively. The components of the net periodic benefit are as follows:

	<u>2019</u>	<u>2018</u>
Service cost - benefits earned during the period	\$ -	\$ -
Interest cost on projected benefit obligations	5,402,754	4,912,684
Expected return on plan assets	(7,460,199)	(7,567,696)
Amortization of net loss	<u>2,566,415</u>	<u>2,739,618</u>
Net periodic pension expense	<u>\$ 508,970</u>	<u>\$ 84,606</u>

Assumptions used to determine the funded status for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.25%	4.27%

Assumptions used to determine net periodic benefit cost for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	4.27%	3.67%
Expected return on assets	7.50%	7.50%

During 2019 and 2018, the Association elected to use the "spot rate" methodology to determine the interest cost components of net periodic benefit cost. Under this method, the Association selects a yield curve, not a discount rate for measuring benefits obligations.

The following sets forth the funded status at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Plan assets at fair value, primarily invested in stocks and bonds	\$ 102,345,370	\$ 91,208,900
Projected benefit obligation	<u>(156,750,646)</u>	<u>(141,200,302)</u>
Funded status recognized in the statement of financial position	<u>\$ (54,405,276)</u>	<u>\$ (49,991,402)</u>

For the year ended December 31, 2019, pension and postretirement benefits paid were \$8,093,284 and pension and postretirement contributions were \$2,928,574. For the year ended December 31, 2018, pension and postretirement benefits paid were \$7,640,020 and pension and postretirement contributions were \$3,319,808. The expected employer contribution for the 2020 plan year for pension and postretirement benefits is \$6,148,751. The estimated net loss that will be amortized from net assets into net periodic benefit cost over the next fiscal year is \$3,282,866.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

The following future benefits are expected to be paid through December 31, 2024 and thereafter:

Year ending December 31, 2020	\$	7,730,078
2021		7,670,937
2022		7,586,812
2023		7,646,812
2024		7,635,634
Thereafter		<u>39,364,801</u>
Total	\$	<u>77,635,074</u>

The expected long-term rate of return on assets assumptions is 7.50%; this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and the historical rates of return for each individual asset class.

The investment objective is to achieve long-term capital appreciation with preservation of capital. The Association's investment guideline calls for any equity maximum of 50% of the portfolio. Investments in global asset allocation are permitted but are not to exceed 20% of the portfolio. The non-equity segment of the portfolio maybe invested in high yield fixed income to lower Portfolio risk and not to exceed 45% of the total fund.

The fair values of the pension plan assets, by the level of observable input and based on market approach, as of December 31, 2019, are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Interest bearing cash equivalents	\$ 3,723,420	\$ -	\$ -	\$ 3,723,420
Common stock:				
Mutual funds - international	20,057,233	-	-	20,057,233
Mutual funds	51,243,906	-	-	51,243,906
Fixed income				
U.S. treasury notes	5,326,733	-	-	5,326,733
Corporate debt	-	1,137,655	-	1,137,655
Mortgage backed, asset backed	-	7,541,199	-	7,541,199
Mutual funds - international	3,119,948	-	-	3,119,948
Mutual funds	10,195,276	-	-	10,195,276
Total	<u>\$ 93,666,516</u>	<u>\$ 8,678,854</u>	<u>\$ -</u>	<u>\$ 102,345,370</u>

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

The fair values of the pension plan assets, by the level of observable input and based on market approach, as of December 31, 2018, are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Interest bearing cash equivalents	\$ 2,631,897	\$ -	\$ -	\$ 2,631,897
Common stock:				
Mutual funds - international	26,528,420	-	-	26,528,420
Mutual funds	33,466,748	-	-	33,466,748
Fixed income				
U.S. treasury notes	4,855,750	-	-	4,855,750
Corporate debt	-	1,987,285	-	1,987,285
Mortgage backed, asset backed	-	4,628,413	-	4,628,413
Mutual funds - international	2,741,018	-	-	2,741,018
Mutual funds	14,369,369	-	-	14,369,369
Total	<u>\$ 84,593,202</u>	<u>\$ 6,615,698</u>	<u>\$ -</u>	<u>\$ 91,208,900</u>

Note 12 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2019	2018
Beneficial interest in charitable remainder trusts	\$ 384,911	\$ 384,911
Subject to expenditures for specific purposes:		
Program expenses	4,079,609	3,431,453
Research	57,942	57,859
Support the mission	68,783	68,783
Duchenne research	662,010	639,479
Total	<u>\$ 5,253,255</u>	<u>\$ 4,582,485</u>

Net assets of \$3,693,266 and \$1,741,720 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2019 and 2018, respectively.

Note 13 - Endowment net assets

The Association's endowment consists of one individual fund established for the advancement of research, programs and services for those with muscular dystrophy. The Glen E. & David K. Guttormsen Endowed Fund for Duchenne Muscular Dystrophy Research was established in an agreement, effective May 25, 2010, whereby the Association is to maintain and administer the fund in accordance with the donor's desires.

As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The endowment is held and managed by Wells Fargo Bank, N.A.

Endowment funds consist of the following net assets with donor restrictions of \$662,010 and \$639,479 at December 31, 2019 and 2018, respectively.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

The Board of Directors of the Association has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("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 be contrary. As a result of this interpretation, the Association classifies as net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts donated to the permanent endowment; (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds.

The remaining portion of the with donor restrictions endowment fund that is not classified in net assets without donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds;
- The purposes of the Association and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- The investment policies of the Association.

From time to time, the fair value of the assets associated with individual with donor restrictions endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in without donor restrictions. There were no such deficiencies as of December 31, 2019 and 2018.

The Association has adopted investment and spending policies for endowment funds that:

- Protect the invested assets;
- Preserve spending capacity of the fund income;
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundation
- Comply with applicable laws.

The endowment funds are invested in a "Balanced Pool" portfolio, which is structured for long-term total return. To provide diversification and to moderate risk, the investments are divided into carefully defined net classes.

Per the donor's designation, the Association is to disburse approximately 85% of year-end net earnings annually, based upon endowment earned interest, dividends, realized and unrealized gains and the

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

remaining 15% returns to principal; this is known as the endowment fund's "growth" feature and is with donor restrictions. As of December 31, 2019 and 2018, the Association has classified \$314,129 and \$163,922, respectively, as net assets with donor restrictions.

During 2019 and 2018, the Association had the following endowment-related activities:

	Without donor restrictions	With donor restrictions	Total endowment
Endowment net assets, January 1, 2018	\$ -	\$ 790,985	\$ 790,985
Current endowments received	-	-	-
Net appreciation (realized and unrealized)	-	(43,248)	(43,248)
Appropriation of endowment assets for expenditure	-	(108,258)	(108,258)
Total change in endowment net assets	-	(151,506)	(151,506)
Endowment net assets, December 31, 2018	-	639,479	639,479
Current endowments received	-	-	-
Net appreciation (depreciation) (realized and unrealized)	-	150,206	150,206
Appropriation of endowment assets for expenditure	-	(127,675)	(127,675)
Total change in endowment net assets	-	22,531	662,010
Endowment net assets, December 31, 2019	\$ -	\$ 662,010	\$ 662,010

Note 14 - Commitments and contingencies

Lease commitments

The Association has various non-cancellable operating leases for the office space for its field offices in various cities nationwide. Certain leases have escalation clauses that have been recorded on a straight-line basis over the respective lease terms, resulting in deferred lease credit of \$314,162 and \$393,447 at December 31, 2019 and 2018, respectively. Rent expense was approximately \$3,925,412 and \$4,943,152 for the years ended December 31, 2019 and 2018, respectively.

The future minimum annual rental commitments under all such operating leases for the next five years and thereafter are as follows:

Year ending December 31, 2020	\$ 2,683,254
2021	1,284,432
2022	785,344
2023	457,689
2024	40,821
Thereafter	6,828
Total	<u>\$ 5,258,368</u>

Litigation

In the normal course of business, the Association is occasionally named as a defendant in various claims. It is the opinion of management that the outcome of any pending claims will not materially affect the operation or the financial position of the Association.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Contingency for research and training grants

At December 31, 2019, the Association is contingently committed to providing research and training grants of \$13,207,809 including \$10,585,743 in the year ending December 31, 2020, and \$2,622,066 in the year ending December 31, 2021. These amounts are in addition to the \$11,383,214 in research and training grants payable at December 31, 2019.

Note 15 - Income taxes

The Association is a nonprofit organization and is exempt from taxation under IRC Section 501(c)(3) and New York Codes, Rules, and Regulations (NCRR20 Section 1-3.4(b)(6)).

U.S. GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Association in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Association's returns for years ended December 31, 2019, 2018, 2017, 2016 are open for examination by federal and state taxing authorities, which generally is for three years after they are filed. If applicable, the Association would recognize interest and penalties associated with tax matters as part of general and administrative expenses and would include accrued interest and penalties in accrued expenses.

Note 16 - Charitable gift annuities

Gift annuities require an annuity to be paid to the donor or the donor's beneficiary over the beneficiary's lifetime. The annuity payments are funded by the donated assets, with the remainder becoming a gift to the Association. The actuarially determined liability is recorded based on the terms of the gift, and the difference between the present value of the estimated liability and the fair value of the gift is recognized as revenue at the time of the gift. At December 31, 2019 and 2018, the gift annuity balance is \$1,374,198 and \$1,219,801, respectively, and is included within investments in the accompanying statements of financial position. At December 31, 2019 and 2018, the actuarially determined liability is \$530,666 and \$649,436, respectively, and is included in accounts payable and accrued expenses within the accompanying statements of financial position. The Association utilizes the Internal Revenue Service 2000 Mortality Table and market-based interest rates for the development of the liabilities. The Association maintains assets sufficient to meet the annuity requirements stipulated by the various state laws.

Note 17 - Subsequent events

The Association evaluated subsequent events through June 25, 2020, the date that the financial statements were available to be issued. Outside of the event discussed below, the Association is not aware of any subsequent events other than noted below that would require recognition or disclosure in the financial statements.

The spread of a novel strain of coronavirus (COVID-19) has caused significant business disruptions on the entire globe beginning in the first quarter of 2020. The economic impact of the business disruptions caused by COVID-19 is uncertain. The extent of any effects these disruptions may have on the operations and financial performance of the Association will depend on future developments, including possible impacts on the operations of the business, which cannot be determined.



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