

Muscular Dystrophy Association, Inc.

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

December 31, 2021
(With Comparative Information for December 31, 2020)

Muscular Dystrophy Association, Inc.

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Independent Auditor's Report

To the Board of Directors
Muscular Dystrophy Association, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Muscular Dystrophy Association, Inc., which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Muscular Dystrophy Association, Inc. as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Muscular Dystrophy Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Muscular Dystrophy Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Muscular Dystrophy Association Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Muscular Dystrophy Association Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 6, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Chicago, Illinois
May 6, 2022

Muscular Dystrophy Association, Inc.

**Statement of Financial Position
December 31, 2021
(With Comparative Totals as of December 31, 2020)**

	<u>Assets</u>	
	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 11,632,247	\$ 7,888,385
Contributions receivable	2,769,668	3,099,037
Investments	54,607,036	53,276,935
Prepaid expenses and other assets	3,035,485	5,726,149
Beneficial interest in charitable remainder trusts	24,911	24,911
Fixed assets, net	<u>3,495,647</u>	<u>1,900,018</u>
 Total assets	 <u><u>\$ 75,564,994</u></u>	 <u><u>\$ 71,915,435</u></u>
	<u>Liabilities and Net Assets (Deficit)</u>	
Liabilities		
Accounts payable and accrued expenses	\$ 5,293,050	\$ 4,847,691
Research and training grants payable	5,380,356	7,681,991
Revolving line of credit	8,000,000	8,000,000
SBA PPP loan	2,067,353	8,726,730
Term loan	2,500,000	5,000,000
Deferred revenue	2,265,058	555,933
Pension and postretirement plan obligations	<u>45,337,427</u>	<u>60,812,751</u>
 Total liabilities	 <u>70,843,244</u>	 <u>95,625,096</u>
Commitments and contingencies		
Net assets (deficit)		
Without donor restrictions	980,444	(27,557,359)
With donor restrictions	<u>3,741,306</u>	<u>3,847,698</u>
 Total net assets (deficit)	 <u>4,721,750</u>	 <u>(23,709,661)</u>
 Total liabilities and net assets (deficit)	 <u><u>\$ 75,564,994</u></u>	 <u><u>\$ 71,915,435</u></u>

See Notes to Financial Statements.

Muscular Dystrophy Association, Inc.

Statement of Activities Year Ended December 31, 2021 (With Comparative Totals for the Year Ended December 31, 2020)

	Without donor restrictions	With donor restrictions	2021 Total	2020 Total
Revenue				
Public support				
Received directly				
Special events	\$ 37,059,630	\$ -	\$ 37,059,630	\$ 36,274,348
Less fund-raising direct benefit costs	(1,596,499)	-	(1,596,499)	(658,568)
Special events, net	35,463,131	-	35,463,131	35,615,780
Contributions	14,397,788	740,923	15,138,711	16,483,059
Total received directly	49,860,919	740,923	50,601,842	52,098,839
Received indirectly - combined federal campaign and combined health appeals	248,583	-	248,583	296,677
Total revenue from the public	50,109,502	740,923	50,850,425	52,395,516
Other revenue				
Interest income	158,853	-	158,853	360,089
Gain on sale of oil and gas lease	-	-	-	1,900,235
Revenue from government awards	330,000	-	330,000	329,833
Total revenue	50,598,355	740,923	51,339,278	54,985,673
Net assets released from restrictions	864,325	(864,325)	-	-
Total revenue and support	51,462,680	(123,402)	51,339,278	54,985,673
Expenses				
Program services				
Patient and community services	13,545,923	-	13,545,923	18,830,936
Research	7,730,993	-	7,730,993	11,024,253
Professional public health education	5,772,023	-	5,772,023	6,771,280
Total program services	27,048,939	-	27,048,939	36,626,469
Supporting services				
Fundraising	22,045,509	-	22,045,509	29,975,462
Management and general	3,217,113	-	3,217,113	4,666,525
Total supporting services	25,262,622	-	25,262,622	34,641,987
Total expenses	52,311,561	-	52,311,561	71,268,456
Decrease in net assets from operations	(848,881)	(123,402)	(972,283)	(16,282,783)
Other non-operating items				
Net investment return	6,295,166	17,010	6,312,176	5,899,759
Forgiveness of SBA PPP loan	8,659,377	-	8,659,377	-
Changes in unrecognized benefit plan costs	14,432,141	-	14,432,141	(12,612,986)
Total other gains (losses)	29,386,684	17,010	29,403,694	(6,713,227)
Change in net assets	28,537,803	(106,392)	28,431,411	(22,996,010)
Net assets, beginning of year	(27,557,359)	3,847,698	(23,709,661)	(713,651)
Net assets, end of year	\$ 980,444	\$ 3,741,306	\$ 4,721,750	\$ (23,709,661)

See Notes to Financial Statements.

Muscular Dystrophy Association, Inc.

Statement of Functional Expenses Year Ended December 31, 2021 (With Comparative Totals for the Year Ended December 31, 2020)

	Patient and Community Services	Research	Professional and Public Health Education	Total Program Services	Fundraising	Management and General	2021 Total	2020 Total
Salaries Benefits and Taxes	\$ 4,673,847	\$ 1,092,812	\$ 3,184,300	\$ 8,950,959	\$ 11,016,779	\$ 735,893	\$ 20,703,631	\$ 32,355,001
Awards, Grants, and Fellowships	-	6,499,657	-	6,499,657	-	-	6,499,657	8,867,761
Contract Services and Professional Fees	456,552	8,021	1,091,966	1,556,539	3,188,955	298,872	5,044,366	6,298,497
Disbursements made on behalf of Individuals	6,586,789	-	32,695	6,619,484	1,200	-	6,620,684	5,869,237
Indirect Event Expenses	-	-	490,757	490,757	776,400	-	1,267,157	5,126,784
Other Operating Expenses	207,038	36,414	686,187	929,639	4,924,182	440,436	6,294,257	4,532,858
Occupancy	4,901	-	-	4,901	966,427	630,888	1,602,216	3,310,750
Office Supplies and Equipment	1,166,095	72,968	231,075	1,470,138	905,480	343,305	2,718,923	2,945,754
Telephone and Internet	90,986	17,060	54,023	162,069	210,405	79,613	452,087	805,967
Depreciation	356,735	-	-	356,735	-	633,707	990,442	745,638
Travel, Lodging, Conferences, and Meetings	2,980	4,061	1,020	8,061	55,681	54,399	118,141	410,209
Total	<u>\$ 13,545,923</u>	<u>\$ 7,730,993</u>	<u>\$ 5,772,023</u>	<u>\$ 27,048,939</u>	<u>\$ 22,045,509</u>	<u>\$ 3,217,113</u>	<u>\$ 52,311,561</u>	<u>\$ 71,268,456</u>

See Notes to Financial Statements.

Muscular Dystrophy Association, Inc.

Statement of Cash Flows Year Ended December 31, 2021 (With Comparative Totals for the Year Ended December 31, 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 28,431,411	\$ (22,996,010)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net realized gain on investments	(2,191,236)	(5,945,985)
Loss on disposed assets	89,439	96,359
Depreciation	990,442	745,640
Changes in recognized benefit plan costs	(1,043,183)	(6,204,635)
Changes in unrecognized benefit plan costs	(14,432,141)	12,612,986
Forgiveness of SBA PPP loan	(8,659,377)	-
Changes in assets and liabilities:		
Contributions receivable	329,369	772,890
Prepaid expenses and other assets	15,154	1,466,819
Beneficial interest in charitable remainder trusts	-	360,000
Accounts payable, accrued expenses, and deferred revenue	2,154,484	(3,530,623)
Research and training grants payable	(2,301,635)	(3,701,223)
Net cash provided by (used in) operating activities	3,382,727	(26,323,782)
Cash flows from investing activities		
Proceeds from sale of investments	5,054,391	62,468,245
Purchases of investments	(4,193,256)	(51,455,767)
Purchases of fixed assets	-	(140,436)
Proceeds from sale of fixed assets	-	65,015
Net cash provided by investing activities	861,135	10,937,057
Cash flows from financing activities		
Principal payments on term loan	(2,500,000)	(2,500,000)
Draws on revolving line of credit	-	8,000,000
Proceeds from SBA PPP loan	2,000,000	8,726,730
Net cash (used in) provided by financing activities	(500,000)	14,226,730
Net change in cash and cash equivalents	3,743,862	(1,159,995)
Cash and cash equivalents, beginning of year	7,888,385	9,048,380
Cash and cash equivalents, end of year	\$ 11,632,247	\$ 7,888,385
Supplemental disclosures for cash flow information:		
Cash paid for interest	\$ 199,898	\$ 267,278
Supplemental schedule of noncash investing and financing activities:		
Decrease in prepaid and other assets	\$ 2,675,510	\$ 1,000,000
Increase in investments	-	(1,074,301)
Increase in fixed assets	(2,675,510)	-
	\$ -	\$ (74,301)

See Notes to Financial Statements.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

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.

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. COVID-19 presented extreme challenges in 2020 for the Association regarding fundraising activities. Event fundraising was down over 46% compared to historical trends due to stay at home orders, restrictions on in-person gatherings, and impacts to sponsor and donor levels of giving. The pandemic caused the Association to quickly pivot in order to continue to provide their mission benefits, including moving to virtual fundraising and a virtual platform for summer camp and care center support. Fundraising in 2021 is up 28% over 2020.

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 (noninterest-bearing) in 2021 and 2020 at a financial institution in excess of the federally insured limit; however, the Association

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

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.

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 a contract commitment or third-party confirmation. 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, 2021 and 2020, 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.

Note receivable

Note receivables held by the Association are recorded at their net expected realizable value.

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:

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

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

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.

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 expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Research and training grants payable

The Association awards 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.

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 prescribed by generally accepted accounting principles 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 representing those tracks were sold. 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

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

determined what percentage of time employees spend working within each functional area. Expenses are allocated based upon the time study.

Accounting pronouncements expected to be adopted in 2022

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 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.

Note 3 - Revenue recognition

Special events

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Association recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. Amounts received prior to the event taking place are reflected as deferred revenue in the statement of financial position. We recognize the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place.

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.

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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, 2021, 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, 2021 and 2020:

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	\$ 11,632,247	\$ 7,888,385
Investments	54,607,036	53,276,935
Contributions receivable	2,769,668	3,099,037
Total financial assets	69,008,951	64,264,357
Less amounts not available to be used within one year		
Net assets with donor restrictions	(3,741,306)	(3,847,698)
Financial assets available to meet general expenditures within one year	<u>\$ 65,267,645</u>	<u>\$ 60,416,659</u>

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.

Liabilities are in excess of assets; however, management does not believe any liquidity issues exist as cash and liquid investments exceed payables and current obligations by approximately \$37,000,000.

As more fully described in Note 10, the Association has a revolving credit facility in the amount of \$11,000,000 and term loan facility of \$7,500,000, with remaining loan availability of \$3,000,000 and \$0, respectively. The Association has \$3,000,000 available to 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

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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.

During the year ended December 31, 2020, the Association converted its \$1,000,000 receivable with AavantiBio, a biotechnology company committed to developing new gene therapies, into preferred stock valued at \$1,074,301. The preferred stock does not carry interest and includes a cumulative dividend of 8%. At December 31, 2021 and 2020, the investment value in AavantiBio is \$1,074,301 and \$1,074,301, respectively, and is included in the fair value table below.

As of December 31, 2021, AavantiBio held \$39,876,990 of cash or cash equivalents and had positive equity of \$36,522,552. The Association believes its investment is carried at net realizable value.

The following table discloses assets carried at fair value at December 31, 2021, 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	\$ 39,895	\$ -	\$ -	\$ 39,895
Mutual funds	12,255,172	-	-	12,255,172
Equities:				
Mutual funds	41,237,668	-	-	41,237,668
Preferred stock:				
AavantiBio	-	-	1,074,301	1,074,301
Subtotal	53,532,735	-	1,074,301	54,607,036
Beneficial interest in charitable remainder trusts	-	-	24,911	24,911
Total	\$ 53,532,735	\$ -	\$ 1,099,212	\$ 54,631,947

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

The following table discloses assets carried at fair value at December 31, 2020, 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	\$ 42,195	\$ -	\$ -	\$ 42,195
Corporate debt	-	-	-	-
Mutual funds	10,731,220	-	-	10,731,220
Equities:				
Mutual funds	41,429,219	-	-	41,429,219
Preferred stock:				
AavantiBio	-	-	1,074,301	1,074,301
Subtotal	52,202,634	-	-	53,276,935
Beneficial interest in charitable remainder trusts	-	-	24,911	24,911
Total	<u>\$ 52,202,634</u>	<u>\$ -</u>	<u>\$ 24,911</u>	<u>\$ 53,301,846</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, 2020, from which the summarized information was derived. The Association's financial statements for the year ended December 31, 2020, audit report dated May 6, 2021, expressed an unmodified opinion on those statements.

Note 7 - Fixed assets

Fixed assets are comprised of the following as of December 31, 2021 and 2020:

	2021	2020
Leasehold improvements	\$ 28,283	\$ 242,937
Furniture and equipment	1,592,635	1,592,635
Software	5,160,960	2,485,450
Subtotal	6,781,878	4,321,022
Accumulated depreciation	(3,286,231)	(2,421,004)
Net	<u>\$ 3,495,647</u>	<u>\$ 1,900,018</u>

Depreciation expense for the years ended December 31, 2021 and 2020 totaled \$990,442 and \$745,640, respectively.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

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, 2021 and 2020:

	2021	2020
Professional and public health education	\$ 537,347	\$ 254,634
Management and general	909,165	430,828
Fundraising	2,284,141	1,088,304
Total	<u>\$ 3,730,653</u>	<u>\$ 1,773,766</u>

Note 9 - Letter of credit

The Association has an outstanding letter of credit issued by JPMorgan Chase Bank as of December 31, 2021, 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 \$11,000,000, bearing interest at the one month daily LIBOR rate. The revolving line of credit is secured by the Association's endowment fund assets. Repayments on the revolving line of credit shall be interest only, with the entire principal balance due at maturity. The original maturity date of the revolving line of credit was October 31, 2021 which was extended to October 31, 2022. During the years ended December 31, 2021 and 2020, \$0 and \$8,000,000, respectively, were drawn on the revolving line of credit. As of December 31, 2021 and 2020, \$8,000,000 and \$8,000,000, respectively, remains outstanding.

The Association has a term loan in the amount of \$7,500,000, bearing interest at 3.0%. The term loan is secured by the Association's endowment fund assets. The term loan matures on October 31, 2022. Principal payments on the term loan during the years ended December 31, 2021 and 2020 were \$2,500,000 and \$2,500,000, respectively. At December 31, 2021 and 2020, \$2,500,000 and \$5,000,000, respectively, was outstanding and \$199,898 and \$267,278, respectively, of interest expense was incurred.

Annual payments on the term loan through December 31, 2022 is \$2,500,000.

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.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

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. The employer contributions made during the years ended December 31, 2021 and 2020 were \$110,853 and \$151,421, respectively.

Effective December 31, 2012, the Association established a nonqualified 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, 2021 and 2020, there was no liability associated with this plan.

During 2020, the Association changed the manager and custodian of their benefit plan from TIAA to US Bank.

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, 2021 and 2020 as follows:

	2021	2020
Benefit obligation at beginning of the year	\$ 169,683,897	\$ 156,750,646
Interest cost	3,190,311	4,373,340
Actuarial loss (gain)	(6,722,724)	16,748,639
Benefits Paid	(8,245,948)	(8,188,728)
Benefit obligation at end of year	<u>\$ 157,905,536</u>	<u>\$ 169,683,897</u>

The pension benefits' actuarial gain for the year ended December 31, 2021 is due to higher discount rate.

The pension benefits' actuarial loss for the year ended December 31, 2020 is due to longer life expectancies in mortality assumptions and a lower discount rate.

The accumulated benefit obligation at December 31, 2021 and 2020 was \$157,905,536 and \$169,683,897, respectively.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

The aggregate amount recognized in net periodic pension expense during the years ended December 31, 2021 and 2020 amounted to \$920,014 and \$288,519, respectively. The components of the net periodic benefit are as follows:

	2021	2020
Service cost - benefits earned during the period	\$ -	\$ -
Interest cost on projected benefit obligations	3,190,311	4,373,340
Expected return on plan assets	(6,155,653)	(7,409,792)
Amortization of net loss	3,885,356	3,324,971
Net periodic pension expense	<u>\$ 920,014</u>	<u>\$ 288,519</u>

Assumptions used to determine the funded status for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Discount rate	2.97%	2.53%

Assumptions used to determine net periodic benefit cost for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Discount rate	2.53%	3.25%
Expected return on assets	5.90%	7.50%

During 2021 and 2020, 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 unfunded status at December 31, 2021 and 2020:

	2021	2020
Plan assets at fair value, primarily invested in stocks and bonds	\$ 112,568,109	\$ 108,871,326
Projected benefit obligation	<u>(157,905,536)</u>	<u>(169,683,897)</u>
Unfunded status recognized in the statement of financial position	<u>\$ (45,337,427)</u>	<u>\$ (60,812,571)</u>

For the year ended December 31, 2021, pension and postretirement benefits paid were \$8,245,948 and pension and postretirement contributions were \$1,042,000. For the year ended December 31, 2020, pension and postretirement benefits paid were \$8,188,728 and pension and postretirement contributions were \$6,204,635. The expected employer contribution for the 2022 plan year for pension and postretirement benefits is \$0, as the Coronavirus Aid, Relief, and Economic Security ("CARES") Act allowed the Association to reset its amortization formula. Expected employer contributions are set to resume in 2023.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

The following future benefits are expected to be paid through December 31, 2026 and thereafter:

Year ending December 31, 2022	\$	8,083,666
2023		8,061,344
2024		8,001,136
2025		7,958,902
2026		7,979,381
Thereafter		<u>40,232,367</u>
Total	\$	<u>80,316,796</u>

The expected long-term rate of return on asset assumptions is 5.90%; 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 primary investment objective is to achieve long-term capital appreciation, while reducing funded status volatility to the extent possible as a secondary objective. The Association's investment guideline calls for a long-term target of 75% of the portfolio in Growth assets, and 25% of the portfolio in Immunizing assets as of December 31, 2021. The Growth Portfolio includes allocations to public equity, core fixed income, noncore fixed income, real assets and tactical tilts. The Growth Portfolio and Immunizing Portfolio weights are subject to +/- 10% ranges at the total portfolio level.

The fair values of the pension plan assets, by the level of observable input and based on market approach, as of December 31, 2021, 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	\$ 2,939,248	\$ -	\$ -	\$ 2,939,248
Common stock:				
Mutual funds	57,209,489	-	-	57,209,489
Fixed income				
Mutual funds - balanced	5,746,434	-	-	5,746,434
Mutual funds - international	5,549,227	-	-	5,549,227
Mutual funds	<u>41,123,711</u>	<u>-</u>	<u>-</u>	<u>41,123,711</u>
Total	<u>\$ 112,568,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,568,109</u>

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

The fair values of the pension plan assets, by the level of observable input and based on market approach, as of December 31, 2020, 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	\$ 7,775,016	\$ -	\$ -	\$ 7,775,016
Common stock:				
Mutual funds	52,790,775	-	-	52,790,775
Fixed income				
Mutual funds - balanced	5,166,068	-	-	5,166,068
Mutual funds - international	20,048,339	-	-	20,048,339
Mutual funds	23,091,128	-	-	23,091,128
Total	<u>\$ 108,871,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,871,326</u>

Note 12 - Net assets with donor restrictions

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

	2021	2020
Beneficial interest in charitable remainder trusts	\$ 24,911	\$ 24,911
Subject to expenditures for specific purposes:		
Program expenses	2,888,340	3,011,728
Research	57,956	57,956
Support the mission	68,783	68,783
Duchenne research	701,316	684,320
Total	<u>\$ 3,741,306</u>	<u>\$ 3,847,698</u>

Net assets of \$864,325 and \$2,924,357, respectively, were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2021 and 2020.

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 \$701,316 and \$684,320 at December 31, 2021 and 2020, respectively.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

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; and (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; and
- 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 with donor restrictions. There were no such deficiencies as of December 31, 2021 and 2020.

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; and
- 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.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements December 31, 2021 and 2020

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 remaining 15% returns to principal; this is known as the endowment fund's "growth" feature and is with donor restrictions. As of December 31, 2021 and 2020, the Association has classified \$576,165 and \$462,861, respectively, as net assets with donor restrictions.

During 2021 and 2020, the Association had the following endowment-related activities:

	Without donor restrictions	With donor restrictions	Total endowment
Endowment net assets, January 1, 2020	\$ -	\$ 662,010	\$ 662,010
Current endowments received	-	-	-
Net appreciation (depreciation) (realized and unrealized)	-	148,733	148,733
Appropriation of endowment assets for expenditure	-	(126,423)	(126,423)
Total change in endowment net assets	-	22,310	22,310
Endowment net assets, December 31, 2020	-	684,320	684,320
Current endowments received	-	-	-
Net appreciation (depreciation) (realized and unrealized)	-	113,304	113,304
Appropriation of endowment assets for expenditure	-	(96,308)	(96,308)
Total change in endowment net assets	-	16,996	701,316
Endowment net assets, December 31, 2021	\$ -	\$ 701,316	\$ 701,316

Note 14 - Commitments and contingencies

Lease commitments

The Association has various noncancellable 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 \$257,557 and \$270,378, respectively, at December 31, 2021 and 2020. Rent expense was approximately \$1,149,511 and \$2,526,548, respectively, for the years ended December 31, 2021 and 2020.

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

Year ending December 31, 2022	\$ 610,569
2023	420,624
Total	<u>\$ 1,031,193</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, 2021 and 2020

COVID-19

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.

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 (NCR20 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, 2021, 2020, 2019, 2018 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, 2021 and 2020, the gift annuity balance is \$1,254,180 and \$1,188,136 respectively, and is included within investments in the accompanying statements of financial position. At December 31, 2021 and 2020, the actuarially determined liability is \$442,915 and \$462,253, 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 - Paycheck Protection Program loan

In response to the COVID-19 outbreak in 2020, the U.S. Federal Government enacted the Coronavirus Aid, Relief, and Economic Security Act that, among other economic stimulus measures, established the Paycheck Protection Program ("PPP") to provide small business loans. In May 2020, the Association obtained a PPP loan directly from Bank of America in the amount of \$8,726,730. The note matures in May 2022 and bears interest at a fixed annual rate of 1%, with the first ten months of interest deferred. On February 3, 2021, the Association received additional funding in the amount of \$2,000,000 directly from Bank of America. The additional funding matures in February 2023 and bears interest at a fixed annual rate of 1%. The Association believes it used all the proceeds from the note for qualifying expenses which are classified as program expenses on the accompanying statements of activities.

Muscular Dystrophy Association, Inc.

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The note is contingently forgivable if the Association meets the conditions of the PPP. In December 2021, the Association was notified by the U.S. Small Business Administration that it met requirements for forgiveness of the PPP loan obtained in May 2020 in the amount of \$8,659,377. The remaining \$67,353 was not forgiven by the U.S. Small Business Administration and remains payable. During the year ended December 31, 2021, the Association recognized a gain on forgiveness of the loan in the amount of \$8,659,377. The remaining balance of \$67,353 was repaid in January 2022.

As of December 31, 2021 and 2020, the note payable balance is \$2,067,353 and \$8,726,730, respectively. On March 23, 2022, the Association received notification from the U.S. Small Business Administration that the \$2,000,000 PPP additional funding was forgiven.

Note 18 - Subsequent events

The Association evaluated subsequent events through May 6, 2022, the date the financial statements were available to be issued. Outside of the events discussed in Note 17, the Association is not aware of any subsequent events that would require recognition or disclosure in the financial statements.



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