

EISNERAMPER

**THE MICHAEL J. FOX FOUNDATION
FOR PARKINSON'S RESEARCH**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018



INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Michael J. Fox Foundation for Parkinson's Research

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Michael J. Fox Foundation for Parkinson's Research (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

The Foundation's management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Michael J. Fox Foundation for Parkinson's Research as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



EISNERAMPER LLP
New York, New York
May 28, 2020



THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Consolidated Statements of Financial Position

| | December 31, | |
|--|------------------------------|------------------------------|
| | <u>2019</u> | <u>2018</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 66,962,137 | \$ 52,892,700 |
| Contributions receivable, net | 26,227,084 | 24,536,345 |
| Investments | 81,613,399 | 60,131,383 |
| Charitable gift annuities | 2,390,103 | 1,728,826 |
| Inventory | 62,554 | 23,853 |
| Prepaid expenses and other assets | 2,588,901 | 1,897,552 |
| Cash and cash equivalents - restricted | 1,961,870 | 2,757,506 |
| Property and equipment, net | <u>11,341,074</u> | <u>11,735,277</u> |
| | <u>\$ 193,147,122</u> | <u>\$ 155,703,442</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 5,204,352 | \$ 4,426,933 |
| Deferred revenue – special events | 2,000 | 57,500 |
| Grants payable, net | 99,112,997 | 86,255,655 |
| Loans payable, net | 1,150,196 | 1,150,196 |
| Interest payable | 691,746 | 614,482 |
| Deferred rent obligation | 11,969,464 | 12,343,599 |
| Annuities payable | <u>1,091,767</u> | <u>876,183</u> |
| | <u>119,222,522</u> | <u>105,724,548</u> |
| Commitments and Contingency (Note K) | | |
| Net assets: | | |
| Without donor restrictions | <u>47,282,619</u> | <u>26,342,941</u> |
| With donor restrictions: | | |
| Purpose restrictions | 13,951,539 | 10,296,176 |
| Time-restricted for future periods | <u>12,690,442</u> | <u>13,339,777</u> |
| Total net assets with donor restrictions | <u>26,641,981</u> | <u>23,635,953</u> |
| Total net assets | <u>73,924,600</u> | <u>49,978,894</u> |
| | <u>\$ 193,147,122</u> | <u>\$ 155,703,442</u> |

See notes to consolidated financial statements.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Consolidated Statements of Activities

| | Year Ended December 31, | | | | | |
|---|----------------------------|-------------------------|----------------------|----------------------------|-------------------------|----------------------|
| | 2019 | | | 2018 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Public support and revenue: | | | | | | |
| Contributions | \$ 116,495,490 | \$ 37,041,682 | \$153,537,172 | \$ 77,433,452 | \$ 39,617,489 | \$ 117,050,941 |
| Special events (net of direct benefits to donors of \$1,139,197 and \$1,051,575 in 2019 and 2018, respectively) | 2,512,200 | 2,862,883 | 5,375,083 | 2,946,830 | 2,021,399 | 4,968,229 |
| Investment income, net | 2,057,446 | - | 2,057,446 | 889,404 | - | 889,404 |
| Rental income | 2,093,810 | - | 2,093,810 | 150,510 | - | 150,510 |
| Miscellaneous income (net cost of goods sold of \$14,014 and \$110,317 in 2019 and 2018, respectively) | 34,501 | - | 34,501 | 66,418 | - | 66,418 |
| Total public support and revenue before release of restrictions | 123,193,447 | 39,904,565 | 163,098,012 | 81,486,614 | 41,638,888 | 123,125,502 |
| Net assets released from restrictions | 36,898,537 | (36,898,537) | - | 30,907,063 | (30,907,063) | - |
| Total public support and revenue | 160,091,984 | 3,006,028 | 163,098,012 | 112,393,677 | 10,731,825 | 123,125,502 |
| Expenses: | | | | | | |
| Program services | 118,604,210 | | 118,604,210 | 108,539,237 | | 108,539,237 |
| Supporting services: | | | | | | |
| Management and general | 6,426,946 | | 6,426,946 | 4,318,395 | | 4,318,395 |
| Fund-raising | 14,121,150 | | 14,121,150 | 13,315,708 | | 13,315,708 |
| Total supporting services | 20,548,096 | | 20,548,096 | 17,634,103 | | 17,634,103 |
| Total expenses | 139,152,306 | | 139,152,306 | 126,173,340 | | 126,173,340 |
| Change in net assets | 20,939,678 | 3,006,028 | 23,945,706 | (13,779,663) | 10,731,825 | (3,047,838) |
| Net assets, beginning of year | 26,342,941 | 23,635,953 | 49,978,894 | 40,122,604 | 12,904,128 | 53,026,732 |
| Net assets, end of year | \$ 47,282,619 | \$ 26,641,981 | \$ 73,924,600 | \$ 26,342,941 | \$ 23,635,953 | \$ 49,978,894 |

See notes to consolidated financial statements.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Consolidated Statements of Functional Expenses

| | Year Ended December 31, 2019 | | | | | Year Ended December 31, 2018 | | | | |
|---|------------------------------|---------------------|------------------------|----------------------|-----------------------|------------------------------|---------------------------|----------------------|------------------------|-----------------------|
| | Program Services | Supporting Services | | | 2019 | Program Services | Supporting Services | | | 2018 |
| | | Research for a Cure | Management and General | Fund-Raising | | | Total Supporting Services | Research for a Cure | Management and General | |
| Grant awards | \$ 97,059,315 | \$ - | \$ - | \$ - | \$ 97,059,315 | \$ 88,257,395 | \$ - | \$ - | \$ - | \$ 88,257,395 |
| Salaries and wages | 9,505,798 | 2,538,647 | 6,228,118 | 8,766,765 | 18,272,563 | 8,809,929 | 2,307,860 | 5,236,799 | 7,544,659 | 16,354,588 |
| Payroll taxes and employee benefits | 1,776,139 | 599,497 | 1,494,323 | 2,093,820 | 3,869,959 | 1,864,263 | 559,327 | 1,229,292 | 1,788,619 | 3,652,882 |
| Data processing and bank fees | 10,987 | 2,554 | 657,527 | 660,081 | 671,068 | 18,620 | 46,005 | 596,751 | 642,756 | 661,376 |
| Professional fees | 2,209,779 | 384,108 | 767,390 | 1,151,498 | 3,361,277 | 1,222,891 | 110,237 | 662,219 | 772,456 | 1,995,347 |
| Recruitment and training costs | 182,686 | 146,238 | 128,701 | 274,939 | 457,625 | 119,175 | 85,204 | 84,659 | 169,863 | 289,038 |
| Technology | 668,710 | 53,894 | 365,415 | 419,309 | 1,088,019 | 492,653 | 51,572 | 348,664 | 400,236 | 892,889 |
| Scientific meetings | 1,721,596 | - | - | - | 1,721,596 | 1,243,079 | - | - | - | 1,243,079 |
| Travel and meetings | 15,854 | 9,914 | 582,709 | 592,623 | 608,477 | - | 9,338 | 543,792 | 553,130 | 553,130 |
| Postage and delivery | 105,552 | 4,714 | 285,596 | 290,310 | 395,862 | 73,029 | 2,916 | 134,123 | 137,039 | 210,068 |
| Office supplies and equipment | 129,709 | 56,166 | 82,140 | 138,306 | 268,015 | 76,911 | 22,820 | 57,651 | 80,471 | 157,382 |
| Advertising and publicity | 1,090,307 | - | 775,364 | 775,364 | 1,865,671 | 1,371,105 | - | 585,075 | 585,075 | 1,956,180 |
| Insurance | 72,325 | 18,621 | 30,488 | 49,109 | 121,434 | 69,845 | 10,345 | 32,639 | 42,984 | 112,829 |
| Printing and production | 475,492 | 5,875 | 629,917 | 635,792 | 1,111,284 | 319,899 | 2,637 | 359,580 | 362,217 | 682,116 |
| Dues and subscriptions | 202,855 | 10,410 | 31,490 | 41,900 | 244,755 | 265,010 | 6,257 | 44,616 | 50,873 | 315,883 |
| Occupancy | 2,322,594 | 2,291,459 | 755,149 | 3,046,608 | 5,369,202 | 3,640,097 | 587,683 | 2,000,683 | 2,588,366 | 6,228,463 |
| Depreciation and amortization | 1,032,612 | 227,585 | 612,192 | 839,777 | 1,872,389 | 695,336 | 442,228 | 747,826 | 1,190,054 | 1,885,390 |
| Marathon runner fees | 21,900 | - | 213,960 | 213,960 | 235,860 | - | - | - | - | - |
| Space rental/catering | - | - | 1,619,868 | 1,619,868 | 1,619,868 | - | - | 1,702,914 | 1,702,914 | 1,702,914 |
| Merchandise expense | - | 14,014 | - | 14,014 | 14,014 | - | 110,317 | - | 110,317 | 110,317 |
| Interest | - | 77,264 | - | 77,264 | 77,264 | - | 73,966 | - | 73,966 | 73,966 |
| Total expenses | 118,604,210 | 6,440,960 | 15,260,347 | 21,701,307 | 140,305,517 | 108,539,237 | 4,428,712 | 14,367,283 | 18,795,995 | 127,335,232 |
| Less: Direct benefits to donors | - | - | (1,139,197) | (1,139,197) | (1,139,197) | - | - | (1,051,575) | (1,051,575) | (1,051,575) |
| Less: Costs of goods sold | - | (14,014) | - | (14,014) | (14,014) | - | (110,317) | - | (110,317) | (110,317) |
| Total expenses per statement of activities | \$ 118,604,210 | \$ 6,426,946 | \$ 14,121,150 | \$ 20,548,096 | \$ 139,152,306 | \$ 108,539,237 | \$ 4,318,395 | \$ 13,315,708 | \$ 17,634,103 | \$ 126,173,340 |

See notes to consolidated financial statements.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Consolidated Statements of Cash Flows

| | Year Ended December 31, | |
|---|-----------------------------|-----------------------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 23,945,706 | \$ (3,047,838) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,872,389 | 1,885,390 |
| Gain on sale of furniture and fixtures | - | (125,577) |
| Net realized and unrealized (gains) losses | (268,747) | 121,744 |
| Donated securities | (73,557,879) | (45,283,419) |
| Proceeds from donated securities | 73,644,858 | 45,332,497 |
| Charitable gift annuities | (661,277) | (496,433) |
| Changes in: | | |
| Contributions receivable, net | (1,690,739) | (1,271,382) |
| Inventory | (38,701) | 533 |
| Prepaid expenses and other assets | (691,349) | 2,510,081 |
| Accounts payable and accrued expenses | 777,419 | 89,494 |
| Deferred revenue | (55,500) | 55,500 |
| Grants payable, net | 12,857,342 | 7,085,346 |
| Deferred rent obligation | (374,135) | 6,446,761 |
| Annuities payable | 215,584 | 258,729 |
| Net cash provided by operating activities | <u>35,974,971</u> | <u>13,561,426</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,478,186) | (7,147,717) |
| Proceeds from the sale of furniture and fixtures | - | 175,000 |
| Purchases of investments | (31,695,891) | (50,020,413) |
| Proceeds from sales of investments | <u>10,395,643</u> | <u>3,338,463</u> |
| Net cash used in investing activities | <u>(22,778,434)</u> | <u>(53,654,667)</u> |
| Cash flows from financing activities: | | |
| Interest payments accrued on loan payable | <u>77,264</u> | <u>73,966</u> |
| Net cash provided by financing activities | <u>77,264</u> | <u>73,966</u> |
| Net change in cash, cash equivalents, and restricted cash | 13,273,801 | (40,019,275) |
| Cash, cash equivalents, and restricted cash, beginning of year | <u>55,650,206</u> | <u>95,669,481</u> |
| Cash, cash equivalents and restricted cash, end of year | <u>\$ 68,924,007</u> | <u>\$ 55,650,206</u> |

See notes to consolidated financial statements.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

Actor Michael J. Fox established The Michael J. Fox Foundation for Parkinson's Research ("MJFF U.S."), incorporated in Delaware in 2000, after publicly disclosing in 1998 that he had been diagnosed with Parkinson's disease seven years earlier, at age 29.

In 2009, The Michael J. Fox Foundation for Parkinson's Research in Canada ("MJFF Canada") was established as an officially registered tax-exempt charity in Canada. Due to MJFF U.S.'s financial influence over MJFF Canada and the two entities having governing-board members in common, the financial statements of the two entities have been consolidated (together, the "Foundation"). All significant intercompany accounts and transactions have been eliminated in consolidation. MJFF Canada's assets and liabilities and its operations were not significant at December 31, 2019 and 2018, and they are not reported separately in the consolidated financial statements.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code"), and from state and local taxes under comparable laws. MJFF Canada is exempt from similar taxes under Canadian law.

Today, the Foundation is the world's largest not-for-profit funder of Parkinson's research. It is dedicated to accelerating a cure and improved therapies for the estimated six million people worldwide living with Parkinson's disease today. The Foundation pursues its goals through an aggressively funded, highly targeted research program, coupled with the active global engagement of scientists, Parkinson's patients and care partners, business leaders, clinical-trial participants and donors.

In addition to funding more than \$900,000,000 in research programs through the end of December 31, 2019, the Foundation has fundamentally altered the trajectory of progress toward a cure. Positioned at the global hub of Parkinson's research, the Foundation: (i) forges groundbreaking collaborations with industry leaders, academic scientists and government research funders; (ii) leverages new technologies to amplify the patient voice in Parkinson's research; (iii) mobilizes patients and loved ones to increase the flow of participants into clinical trials; and (iv) coordinates community engagement efforts including patient policy advocacy, education and community building through the grassroots involvement of thousands of Team Fox members around the world.

From inception, the Foundation has invested in high-risk, high-reward research targets - an approach that in a few short years has transformed the field of Parkinson's disease research. The Foundation partners with the Parkinson's research community, speeding financial and intellectual resources to the scientists who are carrying out projects with the greatest promise to impact patients' lives in the near term. This includes strengthening the Parkinson's drug development pipeline by pushing forward investigations of genetic and other emerging targets with the best chance of stopping or slowing Parkinson's disease progression, as well as by addressing patients' unmet symptomatic needs. To date, the Foundation has evaluated work on more than 600 therapeutic targets, and has supported more than 125 clinical trials.

[2] Basis of accounting:

The consolidated financial statements of the Foundation have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to not-for-profit organizations.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Use of estimates:

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, public support and revenue and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Cash, cash equivalents, and restricted cash:

For financial-statement purposes, cash and cash equivalents are composed of highly liquid financial instruments (such as U.S. Treasury notes or certificates of deposits) with original maturities of three months or less at the date of acquisition. Cash and cash equivalents includes approximately \$1,962,000 and \$2,758,000 of restricted cash related to the Foundation's letters of credits for 2019 and 2018, respectively (see Note K[3]).

Canadian cash equivalents expressed in United States dollars were approximately \$702,000 and \$526,000 for 2019 and 2018, respectively. Foreign-currency translation gains or losses are the inherent result of the process of translating Canadian dollars into U.S. dollars for financial-reporting purposes. The unrealized gains and losses on this translation are included in the accompanying consolidated statements of activities.

The Foundation maintains a large balance of cash and highly liquid investments in recognition of the fact that a high percentage of these assets have already been committed to future research payments.

[5] Investments:

Investments include certificates of deposit with original maturities of between four and twelve months at the date of acquisition, valued at amortized cost, which approximates fair value, as well as investments in common stock with readily determinable fair values were reported at their fair value as of year-end in the consolidated statements of financial position.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statements of activities as increases or decreases in net assets without donor restriction unless their use is restricted through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

Donated securities are recorded at their estimated fair values, or by their net asset values as determined by the Foundation's management on the date of donation. The Foundation's policy is to sell donated securities immediately, and, accordingly, for purposes of the consolidated statements of cash flows, donated securities and the proceeds generated from their sale are included as operating activities.

Investment expenses include the services of investment advisors. The balances of investment advisory fees disclosed in Note C are those specific fees charged by the Foundation's investment advisors in each year.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Split-interest agreements:

A portion of the Foundation's assets result from deferred-giving vehicles subject to split-interest agreements. The Foundation currently maintains a beneficial interest in seventeen charitable gift annuities, held by a third party.

The Foundation's liabilities associated with the charitable gift annuities are calculated on the basis of actuarial data commonly used by not-for-profit organizations. Discount rates published by the Internal Revenue Service ("IRS") are employed to determine the net present value of both contributions and liabilities pertaining to these deferred-giving arrangements.

[7] Inventory:

The Foundation's inventory consists of merchandise available for sale which is valued at the lower of cost or market at year-end, determined on a first-in, first-out method.

[8] Intellectual property:

During 2016, the Foundation established a patent related to a Parkinson's invention. Future revenue from royalties will be recognized as the payments are received. The value of the patent is immaterial to the consolidated financial statements as a whole, and therefore, has not been reported in the consolidated statements of financial position as of December 31, 2019 and 2018, respectively.

[9] Property and equipment:

Property and equipment are stated at their original costs, at dates of acquisition, or, if contributed, at their fair values at the dates of donation, less accumulated depreciation. The Foundation capitalizes computer hardware and software, furniture and fixtures, and leasehold improvements with a cost of \$2,500 or more, whereas minor costs of repair and maintenance are expensed as incurred. Depreciation of computer hardware and software and furniture and fixtures is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are amortized over the remaining lease term.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of December 31, 2019 and 2018, respectively, and in the opinion of management, there were no impairments. However, it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[10] Grants payable:

The Foundation records appropriations for research grants as an expense and liability after approval by the Board of Directors, based upon: (i) the recommendations of the Research Committee of the Board, with the guidance and input of the Scientific Advisory Board and other highly regarded scientists who serve on grant-review committees specializing in Parkinson's disease research; and (ii) the availability of funding. Grants not expected to be paid within the following year are reported at their discounted present values.

[11] Deferred rent obligation:

For financial reporting purposes, the aggregate minimum rent expense is recognized using the straight-line method over the terms of the lease. The accumulative difference between rent expense incurred by the Foundation and the rental amounts paid, which are attributable to scheduled rent increases, is reported as a deferred rent obligation in the consolidated statements of financial position.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[12] Accrued vacation:

Based on their tenure, the Foundation's employees are entitled to be paid for unused vacation time for a period up to five days, in the event that they leave the Foundation. Accordingly, at each year-end, the Foundation must recognize a liability for the amount that would be incurred if all employees with such unused vacation time were to leave. At December 31, 2019 and 2018, this accrued vacation obligation was approximately \$219,000 and \$143,000, respectively, and was reported in the accompanying consolidated statements of financial position as a part of accounts payable and accrued expenses.

[13] Net assets:

(i) *Net Assets without Donor Restrictions:*

The Foundation's net assets without donor restrictions represent those resources that are available for current operations, as there are no restrictions by donors regarding their use.

(ii) *Net Assets with Donor Restrictions:*

Net assets with donor restrictions represent those resources that are subject to donor imposed restrictions, such as specific purposes and/or a specified period of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the consolidated statements of activities as "net assets released from restrictions". A significant portion of contributions raised from special events are restricted for research.

[14] Revenue recognition:

(i) *Contributions, grants, and pledges:*

Contributions and grants to the Foundation are recognized as revenue upon the receipt of specified cash or other assets or of unconditional pledges. Contributions are reported as "with donor restrictions" if they are received with purpose restrictions or time considerations as to their use. Conditional contributions are recognized when the donor's conditions have been met by requisite actions of the Foundation's management or necessary events have taken place. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

(ii) *Special events:*

A portion of the gross proceeds paid by attendees at special events held as fundraising activities represents contribution revenue, whereas the other portion serves as the payment of the direct costs of the benefits received by the attendee at the event. Special-event income is reported net of the direct benefits to donors. Special event revenues, other than contributions, applicable to a current year are recognized as revenue in the year a special event takes place.

(iii) *Rental revenue:*

Revenue received from the sublease of the Foundation's office spaces are recognized ratably over the length of the terms specified in the agreements. Revenue related to rental income received in advance is deferred until the following year.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Advertising costs:

The Foundation expenses the cost of advertising as incurred. Advertising expenses were approximately \$1,866,000 and \$1,956,000 for 2019 and 2018, respectively.

[16] Functional allocation of expenses:

The costs of providing the Foundation's various program and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present expenses by functional and natural classification. Accordingly, direct costs have been allocated among the program and supporting services based on the nature of the expense. Indirect expenses have been allocated on the basis of time allocation with the exception of rent, insurance, depreciation and amortization, which are allocated based on square footage.

[17] Volunteers:

A number of unpaid volunteers have made significant contributions of their time supporting the Foundation. The value of this contributed time is not recorded in the consolidated financial statements because it does not meet the criteria for revenue recognition required by U.S. GAAP.

[18] Income taxes:

The Foundation follows the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes. For the Foundation, these provisions could be applicable to the incurrence of unrelated business income tax ("UBIT") on merchandise sales. Because the Foundation has always recorded the potential liability for UBIT, and due to its general tax-exempt status, management believes ASC Topic 740 has not had, and is not expected to have, a material impact on the Foundation's consolidated financial statements.

[19] Adoption of accounting principles:

(i) *Revenue from Contracts with Customers:*

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 enhances revenue related disclosures. The new standard is effective for fiscal years beginning after December 15, 2019; accordingly, the Foundation early adopted this pronouncement for its year ended December 31, 2019. Analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue, and therefore no changes to the previously issued audited consolidated financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the new standard.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[19] Adoption of accounting principles: (continued)

(ii) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made:*

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides a framework for evaluating whether grants should be accounted for as exchange transactions or as non-exchange transactions. For non-exchange transactions, the new guidance clarifies whether arrangements are conditional or unconditional. The standard is effective for years beginning after December 15, 2018 for entities receiving resources, and accordingly the Foundation adopted this for the year ending December 31, 2019. The standard for entities providing resources is effective for years beginning after December 15, 2019 and management is in the process of assessing the impact of this portion of the ASU on the consolidated financial statements.

(iii) *Disclosure Requirements for Fair Value Measurement:*

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, which modified the disclosure requirements for fair value measurements and is effective for years beginning after December 15, 2019, with early adoption permitted. The effect of adopting this accounting guidance will result in the removal or modification of certain fair value measurement disclosures presented in the Foundation's consolidated financial statements. The Foundation early-adopted this pronouncement as of December 31, 2019, which under U.S. GAAP is a change in accounting principle requiring retroactive application in the consolidated financial statements for all periods presented.

[20] Upcoming accounting principle:

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require entities to recognize lease assets and lease liabilities (related to leases previously classified as operating under previous U.S. GAAP) on the consolidated statements of financial position. The ASU will be effective commencing January 1, 2022. Management is in the process of assessing the impact of this ASU on the consolidated financial statements.

[21] Reclassification:

Certain information in the prior year's financial statements has been reclassified to conform to the current year's presentation.

[22] Subsequent events:

The Foundation has evaluated subsequent events through May 28, 2020 the date on which the consolidated financial statements were available to be issued.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE B - CONTRIBUTIONS RECEIVABLE

At each year-end, contributions receivable are estimated to be collected as follows:

| | <u>December 31,</u> | |
|---|-----------------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| Less than one year | \$ 14,316,470 | \$ 13,687,099 |
| One year to five years | <u>12,894,568</u> | <u>11,778,255</u> |
| | 27,211,038 | 25,465,354 |
| Reduction of pledges due in excess of one year to present value, at discount rates ranging from 2.5% - 3.5% | <u>(983,954)</u> | <u>(929,009)</u> |
| | <u>\$ 26,227,084</u> | <u>\$ 24,536,345</u> |

Based on prior experience with its donors, including the prior history of collections, management expects all receivables to be fully collectible. Accordingly, no allowance for doubtful amounts has been provided.

NOTE C - INVESTMENTS AND SPLIT INTEREST AGREEMENTS

At each year-end, investments and split-interest agreements consisted of the following:

| | <u>December 31,</u> | | | |
|--------------------------------|-----------------------------|-----------------------------|-----------------------|----------------------|
| | <u>2019</u> | | <u>2018</u> | |
| | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Investments in common stock | \$ 9,424 | \$ 3,218 | \$ 30,124 | \$ 28,223 |
| Certificates of deposit | 81,603,975 | 81,602,830 | 60,101,259 | 60,103,447 |
| Split-interest agreements | <u>2,390,103</u> | <u>2,220,557</u> | <u>1,728,826</u> | <u>1,733,199</u> |
| | <u>\$ 84,003,502</u> | <u>\$ 83,826,605</u> | <u>\$ 61,860,209</u> | <u>\$ 61,864,869</u> |

Concentrations of the Foundation's investment in excess of 10% of the fair values of its portfolio included approximately 97% invested in certificates of deposits in both year 2019 and 2018.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE C - INVESTMENTS AND SPLIT INTEREST AGREEMENTS (CONTINUED)

During each year, net investment income including gains (losses) from translation of foreign currencies, consisted of the following:

| | Year Ended December 31, | |
|---|----------------------------|-------------------|
| | 2019 | 2018 |
| Interest and dividends | \$ 1,763,407 | \$ 1,068,809 |
| Net realized gains | 87,190 | 10,546 |
| Net unrealized gains (losses) – investments | 7,638 | (2,186) |
| Change in value of split-interest agreements | 173,919 | (130,104) |
| Net foreign-translation exchange gains (losses) | 25,442 | (57,511) |
| Investment advisory fees | <u>(150)</u> | <u>(150)</u> |
| | <u>\$ 2,057,446</u> | <u>\$ 889,404</u> |

ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for identical assets, at the reporting date.

Level 2: Valuations are based on: (i) quoted prices for similar assets in active markets; or (ii) quoted prices for those assets or similar assets that are not active; or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.

Level 3: Valuations are based on pricing inputs that are unobservable and include situations where: (i) there is little, if any, market activity for the assets; or (ii) the assets cannot be independently valued.

The availability of market data is monitored by the Foundation's management, to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The following is a summary of the fair values of investments and other applicable assets at each year-end, in accordance with ASC Topic 820 fair-value levels:

| | December 31, 2019 | | | |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments in common stock | \$ 9,424 | \$ - | \$ - | \$ 9,424 |
| Certificates of deposit | - | 81,603,975 | - | 81,603,975 |
| Split-interest agreements | - | - | 2,390,103 | 2,390,103 |
| Total | <u>\$ 9,424</u> | <u>\$81,603,975</u> | <u>\$ 2,390,103</u> | <u>\$84,003,502</u> |

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE C - INVESTMENTS AND SPLIT INTEREST AGREEMENTS (CONTINUED)

| | December 31, 2018 | | | |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments in common stock | \$ 30,124 | \$ - | \$ - | \$ 30,124 |
| Certificates of deposits | - | 60,101,259 | - | 60,101,259 |
| Split-interest agreements | - | - | 1,728,826 | 1,728,826 |
| Total | <u>\$ 30,124</u> | <u>\$60,101,259</u> | <u>\$ 1,728,826</u> | <u>\$61,860,209</u> |

During 2019 and 2018, split-interest agreements in level 3 had purchases of \$607,001 and \$550,741 and withdrawals of \$119,643 and \$38,742, respectively.

Quantitative information regarding unobservable inputs developed by the Foundation and assumptions used to measure the fair value of split-interest agreements as of December 31, 2019 are as follows:

| Type | Fair Value | Valuation Technique | Significant Unobservable Inputs | Range |
|---------------------------|--------------|---------------------|---------------------------------|--------------|
| Split-interest agreements | \$ 2,390,103 | Income approach | Growth rate/ discount rate | 1.2% to 5.2% |

NOTE D - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

| | December 31, | |
|---|---------------------|----------------------|
| | 2019 | 2018 |
| Computer hardware and software | \$ 1,525,638 | \$ 1,459,590 |
| Furniture and fixtures | 2,299,316 | 2,212,676 |
| Leasehold improvements | <u>13,177,560</u> | <u>11,852,062</u> |
| | 17,002,514 | 15,524,328 |
| Less: accumulated depreciation and amortization | <u>(5,661,440)</u> | <u>(3,789,051)</u> |
| | <u>\$11,341,074</u> | <u>\$ 11,735,277</u> |

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE E - GRANTS PAYABLE

At each year-end, grants payable are due to be paid as follows:

| | <u>December 31,</u> | |
|--|-----------------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| In less than one year | \$ 76,617,933 | \$68,470,190 |
| In one-to-five years | <u>23,774,828</u> | <u>18,864,750</u> |
| | 100,392,761 | 87,334,940 |
| Reduction of grants due in excess of one year to present value, at discount rates ranging from 2.5% - 3.5% | <u>(1,279,764)</u> | <u>(1,079,285)</u> |
| | <u>\$ 99,112,997</u> | <u>\$86,255,655</u> |

NOTE F - LOANS PAYABLE

In 2008, the Foundation entered into an unsecured loan agreement with a bank, the terms of which stipulate that the Foundation record the present value of \$2,450,000, discounted at a rate of 4.53% per annum. Interest is compounded on a semiannual basis, and no principal or interest payments are due until 2028.

During 2012, the Foundation entered into an additional unsecured loan agreement with the bank, the terms of which stipulate that the Foundation must record the loan's present value of \$228,600, discounted at a rate of 2.56% per annum. Interest is compounded on a semiannual basis, and no principal or interest payments are due until 2028.

The loan balances, net of original issue discounts, were \$1,150,196 as of both December 31, 2019 and 2018, respectively, and accrued interest payable as of December 31, 2019 and 2018 was \$691,746 and \$614,482, respectively. Funds obtained were applied to fund research focused on developing a cure for Parkinson's disease.

NOTE G - REVENUE FOR SPECIAL EVENTS

The following table provides information about significant changes in deferred revenue from special event ticket sales consisting of the following:

| | <u>DECEMBER 31,</u> | |
|--|------------------------|------------------|
| | <u>2019</u> | <u>2018</u> |
| Deferred revenue, beginning of year | \$ 57,500 | \$ 2,000 |
| Revenue recognized that was included in deferred revenue at beginning of year | (57,500) | (2,000) |
| Increase in deferred revenue due to cash received during the period | <u>2,000</u> | <u>57,500</u> |
| Deferred revenue, end of year | <u>\$ 2,000</u> | <u>\$ 57,500</u> |

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

At each year-end, net assets with donor restrictions were restricted for the following:

| | December 31, | |
|------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| Purpose restricted: | | |
| Research | <u>\$ 12,690,442</u> | \$ 10,296,176 |
| Time-restricted for future periods | <u>13,951,539</u> | <u>13,339,777</u> |
| | <u>\$ 26,641,981</u> | <u>\$ 23,635,953</u> |

During each year, net assets with donor restrictions were released from restrictions as follows:

| | December 31, | |
|------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| Purpose restricted: | | |
| Research | <u>\$ 29,985,298</u> | \$ 25,254,112 |
| Time-restricted for future periods | <u>6,913,239</u> | <u>5,652,951</u> |
| | <u>\$ 36,898,537</u> | <u>\$ 30,907,063</u> |

NOTE I - RETIREMENT BENEFITS

The Foundation has a defined-contribution retirement plan, formed under Section 401(k) of the Code that covers all employees who meet certain length-of-service requirements. The Foundation's contributions to the plan were \$952,731 and \$890,878 in 2019 and 2018, respectively.

NOTE J - RENTAL INCOME AGREEMENTS

The Foundation has agreements with two unrelated parties to sublease a portion of its office space in Manhattan. These agreements are set to expire through 2022. Rental income related to these agreements was \$2,093,810 and \$150,510, as of December 31, 2019 and 2018, respectively, and was recognized in the accompanying consolidated statements of activities.

NOTE K - COMMITMENTS AND CONTINGENCIES

[1] Lease commitments:

In 2016, the Foundation signed an operating lease agreement for office space located in Manhattan. The lease provided for escalation charges through the lease term, which is set to expire in November 2029. The aggregate minimum lease payments are currently being amortized using the straight-line method over the term of the lease.

Additionally, under the terms of the lease, the Foundation is to be reimbursed by the landlord for a portion of the leasehold improvements. The amount to be reimbursed by the landlord is recorded as abatement, which is amortized as a reduction to rent expense over the term of the lease. The cumulative differences between rent expense and amounts paid were \$11,969,464 and \$12,343,599 as of December 31, 2019 and 2018, respectively and have been reported as deferred rent obligation in the accompanying consolidated statements of financial position.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[1] Lease commitments: (continued)

The Foundation has an additional lease agreement for office space located in Washington D.C. that is set to expire in May 2021.

Future minimum rent payments under these lease agreements, exclusive of escalation charges and real estate taxes are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|----------------------|
| 2020 | \$ 5,413,472 |
| 2021 | 5,436,413 |
| 2022 | 5,662,447 |
| 2023 | 5,925,137 |
| 2024 | 5,977,033 |
| Thereafter | <u>30,400,778</u> |
| | <u>\$ 58,815,280</u> |

Rent expense for 2019 and 2018 was \$5,369,202 and \$5,823,637, respectively,

[2] Contracts:

In the normal course of its business, the Foundation enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.

[3] Letters of credit:

As of December 31, 2018 the Foundation had a \$795,636 unused letter of credit with a bank, which was required under the lease agreement for its existing office space in Manhattan. This letter of credit was also collateralized by a \$795,636 time deposit that the Foundation had to maintain with the bank. During 2019, this lease expired and this time deposit was returned to the Foundation.

The Foundation has an additional \$3,923,739 unused letter of credit with a bank, which is required under the lease agreement for its existing office space in Manhattan. This letter of credit is also collateralized by a \$1,961,870 time-deposit that the Foundation must maintain with the bank.

Subsequent to year-end, the Foundation opened a new line of credit in the amount of \$20,000,000. The line may be used for operations and bears interest at prime rate minus 0.50% for unpaid principal amount.

[4] Contingent funding for research:

The Foundation has been awarded contingent research funding totaling \$1,500,000 from several donors, to be received over the next several years. Since these funds are contingent upon the progress of research, these amounts have not been included in the accompanying consolidated financial statements.

The Foundation has a total commitment of conditional contributions of \$8,575,000. The cumulative amount recorded as of December 31, 2019 is \$2,825,000. The remaining commitment of \$5,600,000 will be recorded once specific milestones are met.

THE MICHAEL J. FOX FOUNDATION FOR PARKINSON'S RESEARCH

Notes to Consolidated Financial Statements December 31, 2019 and 2018

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[5] COVID-19:

The extent of the impact of the Coronavirus ("COVID-19") outbreak on the operational and financial performance of the Foundation will depend on the continued future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of COVID-19 on the overall availability of contributions towards the Foundation's programs, all of which are highly uncertain and cannot be predicted. If contributions towards the Foundation's programs are impacted for an extended period, results of operations may be materially adversely affected. The Foundation has taken several measures to conserve cash, including reducing the 2020 budget and reforecasting expenses. These steps are intended to help protect the liquidity of the Foundation, which intentionally carries minimal operating reserves in order to maximize mission-related investments.

NOTE L - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Foundation's financial assets as of the consolidated statements of financial position date, reduced by amounts not available for general expenditure within one year of December 31, 2019 and 2018, because of donor-imposed restrictions:

| | <u>December 31,</u> | |
|---|-----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| Cash and cash equivalents | \$ 66,962,137 | \$ 52,892,700 |
| Contributions receivable, net | 26,227,084 | 24,536,345 |
| Investments | <u>81,613,399</u> | <u>60,131,383</u> |
| Total financial assets available within one year | <u>174,802,620</u> | <u>126,711,182</u> |
| Less: | | |
| Amounts unavailable for general expenditures within one year, due to donor restrictions for: | | |
| Purpose | (13,951,539) | (10,296,176) |
| Time-restricted for future periods | <u>(12,690,442)</u> | <u>(13,339,777)</u> |
| Total financial assets available to meet cash needs for general expenditures within one year | <u>\$ 148,160,639</u> | <u>\$103,075,229</u> |

Liquidity policy:

As part of the Foundation's liquidity management, it maintains a sufficient level of operating cash and investments to be available as its general expenditures, liabilities and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments.

NOTE M - CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash balances in a high-credit-quality financial institutions in amounts which, at times, may be in excess of federally insured limits. The Foundation has not experienced any losses in such accounts, and management believes that the Foundation is not exposed to any significant risk of loss due to the failure of these financial institutions.

NOTE N - CONCENTRATION OF REVENUE

During 2019 and 2018, approximately 37% and 43%, respectively, of the Foundation's total support and revenue was provided by one donor.