

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

September 30, 2020 and 2019



PALO ALTO VETERANS INSTITUTE FOR RESEARCH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Palo Alto Veterans Institute for Research
Palo Alto, California

Report on the Financial Statements

We have audited the accompanying financial statements of Palo Alto Veterans Institute for Research (a nonprofit Organization; "PAVIR"), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PAVIR as of September 30, 2020 and 2019, 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.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of federal expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2021, on our consideration of PAVIR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAVIR's internal control over financial reporting and compliance.

BPM LLP

San Jose, California
February 18, 2021

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF FINANCIAL POSITION

As of September 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,851,450	\$ 1,261,365
Investments, current	4,968,183	4,736,280
Accounts receivable, less allowance for doubtful accounts of \$0 and \$30,000 at 2020 and 2019, respectively	4,029,336	5,112,136
Prepaid expenses	214,129	378,361
Total current assets	11,063,098	11,488,142
Investments, non-current	1,003,554	-
Equipment, net	915,754	1,037,799
Total assets	\$ 12,982,406	\$ 12,525,941
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,254,925	\$ 683,600
Payroll and payroll related payables	1,036,468	633,495
Accrued vacation	808,537	649,412
Other accrued liabilities	1,056,033	877,978
Refundable advances	1,409,314	1,347,858
Note payable, Paycheck Protection Program, current	38,614	-
Total current liabilities	5,603,891	4,192,343
Note payable, Paycheck Protection Program, non-current	661,386	-
Total liabilities	6,265,277	4,192,343
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions	5,271,449	6,271,716
With donor restrictions	1,445,680	2,061,882
Total net assets	6,717,129	8,333,598
Total liabilities and net assets	\$ 12,982,406	\$ 12,525,941

The accompanying notes are an integral part of these financial statements.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Federal award revenue	\$ 20,837,243	\$ -	\$ 20,837,243
Other program revenue	7,879,796	767,737	8,647,533
Interest income	47,227	588	47,815
Other income	39,858	-	39,858
Total revenue and other support	<u>28,804,124</u>	<u>768,325</u>	<u>29,572,449</u>
Net assets released from restrictions			
Satisfaction of program restrictions	<u>1,384,527</u>	<u>(1,384,527)</u>	<u>-</u>
Total revenue and other support	<u>30,188,651</u>	<u>(616,202)</u>	<u>29,572,449</u>
Expenses:			
Program services	24,520,429	-	24,520,429
Management and general	<u>6,668,489</u>	<u>-</u>	<u>6,668,489</u>
Total expenses	<u>31,188,918</u>	<u>-</u>	<u>31,188,918</u>
Change in net assets	(1,000,267)	(616,202)	(1,616,469)
Net assets, beginning of year	<u>6,271,716</u>	<u>2,061,882</u>	<u>8,333,598</u>
Net assets, end of year	<u>\$ 5,271,449</u>	<u>\$ 1,445,680</u>	<u>\$ 6,717,129</u>

The accompanying notes are an integral part of these financial statements.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS, CONTINUED

For the year ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Federal award revenue	\$ 21,709,298	\$ -	\$ 21,709,298
Other program revenue	7,772,043	1,489,102	9,261,145
Interest income	60,600	(861)	59,739
Other income	29,447	-	29,447
Total revenue and other support	29,571,388	1,488,241	31,059,629
Net assets released from restrictions			
Satisfaction of program restrictions	958,274	(958,274)	-
Total revenue and other support	30,529,662	529,967	31,059,629
Expenses:			
Program services	23,959,998	-	23,959,998
Management and general	6,748,328	-	6,748,328
Total expenses	30,708,326	-	30,708,326
Change in net assets	(178,664)	529,967	351,303
Net assets, beginning of year	6,450,380	1,531,915	7,982,295
Net assets, end of year	\$ 6,271,716	\$ 2,061,882	\$ 8,333,598

The accompanying notes are an integral part of these financial statements.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended September 30, 2020

	Program Services	Management and General	Total
Personnel costs	\$ 15,860,596	\$ 4,218,873	\$ 20,079,469
Subawards	4,498,639	-	4,498,639
Supplies	2,445,520	356,252	2,801,772
Outside services	1,025,892	515,424	1,541,316
Computer maintenance and supplies	101,691	486,158	587,849
Maintenance and repairs	228,423	227,838	456,261
Depreciation	23,224	272,830	296,054
Comparative medicine	137,989	18,807	156,796
Travel	44,446	86,403	130,849
Professional fees	2,378	125,383	127,761
Meetings and conferences	16,283	82,669	98,952
Subject related cost	75,813	16,021	91,834
Printing and publication	13,924	60,894	74,818
Insurance	-	55,582	55,582
Small equipment	9,236	33,734	42,970
Telecommunications	8,468	33,331	41,799
Dues and subscriptions	1,536	27,677	29,213
Postage and delivery	9,656	11,135	20,791
Office supplies	4,012	16,550	20,562
VA Services	13,345	70	13,415
Books	2,438	10,710	13,148
Bank charges and fees	-	5,921	5,921
Other expenses	(3,080)	6,227	3,147
	<u>\$ 24,520,429</u>	<u>\$ 6,668,489</u>	<u>\$ 31,188,918</u>

The accompanying notes are an integral part of these financial statements.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENT OF FUNCTIONAL EXPENSES, CONTINUED

For the year ended September 30, 2019

	Program Services	Management and General	Total
Personnel costs	\$ 14,854,221	\$ 4,114,558	\$ 18,968,779
Subawards	3,927,490	-	3,927,490
Supplies	2,920,007	446,358	3,366,365
Outside services	1,352,394	449,105	1,801,499
Computer maintenance and supplies	97,297	445,955	543,252
Travel	159,996	283,242	443,238
Maintenance and repairs	104,597	224,259	328,856
Depreciation	23,223	235,845	259,068
Comparative medicine	211,466	5,668	217,134
Subject related cost	159,792	17,313	177,105
Meetings and conferences	28,463	119,153	147,616
Professional fees	8,138	126,825	134,963
Small equipment	44,430	38,468	82,898
Printing and publication	26,627	36,111	62,738
Insurance	-	49,704	49,704
Dues and subscriptions	6,847	41,244	48,091
Office supplies	7,927	27,588	35,515
Telecommunications	6,292	26,984	33,276
Postage and delivery	13,915	14,644	28,559
Other expenses	-	23,209	23,209
Books	1,041	13,932	14,973
Bank charges and fees	-	7,123	7,123
VA Services	5,835	1,040	6,875
	<u>\$ 23,959,998</u>	<u>\$ 6,748,328</u>	<u>\$ 30,708,326</u>

The accompanying notes are an integral part of these financial statements.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (1,616,469)	\$ 351,303
Adjustments to reconcile change in net assets to net cash flows provided by (used in) operating activities:		
Depreciation	296,054	259,068
Loss from disposal of equipment	-	9,444
Equipment write-off charged to expense	-	87,792
Change in operating assets:		
Accounts receivable, net	1,082,800	(749,389)
Prepaid expenses	164,232	(24,853)
Change in operating liabilities:		
Accounts payable	571,325	(91,206)
Payroll payable	402,973	8,851
Accrued vacation	159,125	(42,603)
Other accrued liabilities	178,055	(125,524)
Deferred revenue	61,456	86,981
Net cash provided by (used in) operating activities	1,299,551	(230,136)
Cash flows from investing activities:		
Purchases of equipment	(174,009)	(412,558)
Purchases of certificate of deposits	(15,366,156)	(8,500,000)
Proceeds from sales of certificates of deposit	14,130,699	5,650,359
Net cash used in investing activities	(1,409,466)	(3,262,199)
Cash flows from financing activities:		
Proceeds from note payable - Paycheck Protection Program	2,500,750	-
Payments on note payable - Paycheck Protection Program	(1,800,750)	-
Net cash provided by financing activities	700,000	-
Net change in cash and cash equivalents	590,085	(3,492,335)
Cash and cash equivalents, beginning of year	1,261,365	4,753,700
Cash and cash equivalents, end of year	\$ 1,851,450	\$ 1,261,365

The accompanying notes are an integral part of these financial statements.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

1. Description of the Organization

Palo Alto Veterans Institute for Research (the “Organization”), formerly known as Palo Alto Institute for Research and Education, Inc., was incorporated in the state of California on November 30, 1988, and is an independent 501(c)(3) tax exempt corporation. The Organization is located at the VA Palo Alto Health Care System (“VAPAHCS”) facility in Palo Alto, California. The Organization is the second largest of 81 active Department of Veteran Affairs (“VA”) affiliated not for profits in the United States. The mission of the Organization is to advance Veteran and public health through innovative research.

Program revenues are primarily derived from conducting investigative projects sponsored by public and private funding sources. The Organization receives government grants and contracts as well as awards from private corporations and philanthropic foundations to pursue health and biomedical research and education goals.

The Organization works with a large community of uniquely talented medical researchers across a broad spectrum of research areas. The research activities include major diseases categories, all of which are prevalent in the VA’s patient population. These are:

- Cardiovascular medicine
- Mental Health – including Traumatic Brain Injury and Post Traumatic Stress Disorder
- Infectious diseases
- Pain management

In addition, the Organization is particularly interested in chronic inflammatory disease, and stem cell/regenerative medicine. A deeper understanding of chronic inflammatory disease, genetic, and other factors influencing veterans’ health can provide significant insight into the understanding of an individual’s health status.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, the Organization classified its net assets and changes in net assets as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization does not have any donor restricted net assets that are perpetual in nature as of September 30, 2020 and 2019.

Continued

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

The Organization administers several different types of research agreements, including those that are reciprocal and nonreciprocal (charitable) in nature. The research agreements that are reciprocal in nature, are considered exchange transactions and revenue is recognized in accordance with the terms of each contract which are primarily based on costs incurred, completion of milestones, or other obligations as specified in the contracts. Federal contracts are an example of reciprocal or exchange transactions. For the year ended September 30, 2020, the Organization recognized \$2,724,123 in revenue from federal contracts.

Nonreciprocal revenues or contributions are derived from cost-reimbursable federal, state and private foundations' grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with grant provisions. Amounts received prior to incurring qualifying expenditures on federal grants and sub-awards are reported as refundable advances in the statement of financial position. The advances received from the state and private foundation recognized as restricted revenue that released from restriction when the conditions are met (expenses incurred). The Organization received cost-reimbursable federal grants of approximately \$46,922,000 that have not been recognized as of September 30, 2020, because qualifying expenditures have not yet been incurred. The amounts received in advance was \$1,409,314 and \$1,347,858 as of September 30, 2020 and 2019, respectively.

Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as restricted support, depending upon the type of restriction. Contributions with donor-imposed restrictions that are completed within the year of receipt are reported as unrestricted support.

The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the consolidated statement of activities. Such transactions are recorded as net assets released from restrictions and are reported separately from other transactions.

Other program revenue includes both grants and contracts from public and private sources. Revenue is recognized as unrestricted or restricted as specified by the donor, either when received, when costs are incurred, or when milestones are reached based on the individual grant or contract provisions.

Cash and Cash Equivalents

The Organization considers short-term, highly liquid investments to be cash equivalents, provided that they are both readily convertible to cash and had an original maturity of three months or less when purchased. Included in cash equivalents are \$27,651 and \$1,054,654 of certificates of deposit as of September 30, 2020 and 2019, respectively.

Certificates of Deposit

Certificates of deposits are carried at fair value. The Organization has both the ability and the intent to hold them to maturity. Certificates of deposits are valued using maturity and interest rates as observable inputs.

Continued

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

Accounts Receivable, Net

Accounts receivables are stated at the amount management expects to collect from outstanding balances after reserves for discounts, bad debts, and allowances, taking into account past experience, contracts, history and other organizations' ability to meet their obligations. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to expense and a reduction of accounts receivable. The Organization has evaluated the collectability of the receivables and determined that an allowance for doubtful accounts of \$0 and \$30,000 was required as of September 30, 2020 and 2019, respectively.

Equipment

Equipment is stated at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives ranging from three to seven years. The Organization's capitalization policy is to capitalize equipment purchases of \$5,000 or more.

Accrued Vacation

Accrued vacation represents vacation earned but not taken. The maximum vacation time that can be accrued is 240 hours.

Deferred Revenue

The Organization receives advances for services to be performed in the future. The amounts are recorded as deferred revenue when received and are recognized as revenue when the services are provided.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, approximate their carrying values.

Functional Allocation of Expenses

Directly identifiable expenses are charged to program services. Certain categories of expenses are attributable to program services or supporting services administration and are allocated on a reasonable basis that is consistently applied. The major expenses that are allocated are personnel costs and outside services, which are allocated on the basis of actual effort (allocated on the basis of time spent), and supplies, which is allocated on the basis of usage. There were no fundraising activities for the years ended September 30, 2020 and 2019.

Income Taxes

The Organization is a nonprofit corporation exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and state income tax under California Revenue and Taxation Code Section 23701d. However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income. The Organization qualifies for the charitable contribution deduction under IRC section 170(b)(1)(A)(iii) and has been classified as an Organization that is not a private foundation under section 509(a)(1). As of September 30, 2020 and 2019, the Organization had no unrecognized tax benefits or uncertain tax positions requiring accrual. Therefore, no provision for income taxes has been provided in the financial statements.

Continued

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

2. Summary of Significant Accounting Policies, continued

Change in Accounting Principles

In June 2018, the Financial Accounting Standards Board's ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-08 clarifies guidance on how an entity determines whether a transfer of assets is a contribution or exchange transaction. ASU 2018-08 also clarifies the termination of conditional contributions based on evaluating whether there is a right of return and a barrier to overcome. The two permitted transition methods under ASU 2018-08 are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified prospective method, in which case the effect of applying the standard would be recognized for any agreements not completed and any new agreements entered into at the date of initial application. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018 for resource recipients and for annual reporting periods beginning after December 15, 2019 for resource providers. The Organization has adopted ASU 2018-08, as a resource recipient, for the year ended September 30, 2020. The Organization will adopt ASU 2018-08 as a resource provider for the year ending September 30, 2021 and is still considering the impact of adoption as a resource provider. The amendment has been applied using the modified prospective method. There was not a cumulative effect of applying ASU 2018-08.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which converges the FASB and the International Accounting Standards Board standards on revenue recognition. The ASU supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. ASU 2014-09 provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict 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 also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities* ("ASU 2020-05") which extended the effective date of ASU 2014-09 for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact of the adoption of this ASU 2014-09 on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (842)* ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). In June 2020, the FASB issued ASU 2020-05, which extended the effective date of ASU 2016-02 for fiscal years beginning after December 15, 2021. The Organization is in the process of evaluating the impact of the new guidance on its financial statements.

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PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

3. Liquidity and Availability

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and accounts receivable.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The Organization's financial assets available for general expenditures within one year of the statement of financial position date were as follows as of September 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,851,450	\$ 1,261,365
Investments, current	4,968,183	4,736,280
Accounts receivable, net	4,029,336	5,112,136
Less: donor restricted assets	<u>(1,445,680)</u>	<u>(2,061,882)</u>
	<u>\$ 9,403,289</u>	<u>\$ 9,047,899</u>

In addition to financial assets available to meet general expenditures over the next 12-months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statements of cash flows which identifies the sources and uses of the Organization's cash for fiscal years 2020 and 2019.

4. Equipment

Equipment is comprised of the following as of September 30:

	<u>2020</u>	<u>2019</u>
Laboratory and medical equipment	\$ 3,202,910	\$ 3,073,512
Computer and software	666,146	658,789
	<u>3,869,056</u>	<u>3,732,301</u>
Less: accumulated depreciation	<u>(2,953,302)</u>	<u>(2,694,502)</u>
Equipment, net	<u>\$ 915,754</u>	<u>\$ 1,037,799</u>

Continued

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

5. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of September 30:

	2020	2019
Research activities	\$ 1,430,680	\$ 2,046,882
Educational activities	15,000	15,000
Net assets with donor restrictions	<u>\$ 1,445,680</u>	<u>\$ 2,061,882</u>

Net assets were released from donor restrictions during the years ended September 30, 2020 and 2019, by incurring expenses to satisfy the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as shown in the table below:

	2020	2019
Research activities	<u>\$ 1,384,527</u>	<u>\$ 958,274</u>

6. Retirement Plan

The Organization's retirement plan (under Internal Revenue Code section 401(k)) is a defined contribution retirement plan, which includes a company-match contribution and a profit-sharing contribution. Effective March 1, 2014, regular full-time, part-time, and temporary employees are eligible to participate in the plan. Eligible employees may elect to defer a percentage of their salary into the plan. Effective October 1, 2014, the plan year changed from a fiscal year to a calendar year plan. Effective January 1, 2015, a Safe Harbor plan was implemented and the company match for 401(k) deferrals increased from 5% to 6%, and the company profit sharing contribution decreased from 5% to 3%. Employees are eligible for company match and profit sharing contributions after one year of service with the Organization.

Contributions made to the plan by the Organization were \$865,363 and \$798,127 for the years ended September 30, 2020 and 2019, respectively. Plan assets are not reflected in the accompanying financial statements.

7. Note Payable

On May 6, 2020, the Organization was successfully approved for a \$2,500,750 Small Business Administration ("SBA") loan under the Paycheck Protection Program ("PPP") through Comerica Bank to secure payroll expenses for otherwise furloughed employees impacted by government imposed shelter in place orders. The Organization determined they would only utilize \$700,000 of the PPP loan and returned \$1,800,750 of the funds received. Per the terms of the loan, the full amount will be forgiven as long as loan proceeds are used to cover payroll costs and other specified non-payroll costs (provided any non-payroll costs do not exceed 25% of the forgiven amount) over a 8-week period after the loan is made; and employee and compensation levels are maintained. The Organization fully intends to comply with the above terms in order to qualify for loan forgiveness; however, no assurance can be provided that the loan will be forgiven in whole or in part. In the event the Organization is required to repay the loan, all payments are deferred for ten months after the covered period, with accrued interest over this period. Amounts outstanding under the loan will bear a fixed interest rate of 1.00% per annum with a maturity date of May 5, 2022 or two years from the commencement date. The loan provides for minimum payment commitments of \$38,614 and \$661,386 for the years ending September 30, 2021 and 2022, respectively. The terms noted above are per the agreement signed in May 2020 and are subject to change based on changing laws and legislation related to the PPP, PPP Flexibility Act, and CARES Act. On February 11, 2021, the Organization applied for loan forgiveness, pending final approval from the SBA.

Continued

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

8. Related Party Transactions

In 1988, Congress passed Public Law 100-322 (now codified at section 7361-66 of title 38, United States Code) that allowed VA medical centers to establish nonprofit corporations (“NPCs”), forming a unique partnership that dramatically broadened VA’s ability to benefit from private and non-VA public support for research and education conducted at VA medical centers.

Accordingly, the Organization provides a flexible funding mechanism for the conduct of approved research and education at the VAPAHCS facility. Furthermore, as stipulated by statute, the persons holding the positions of Director, Chief of Staff, Associate Chief of Staff for Research and Development, and Associate Chief of Staff for Education of VAPAHCS are permanent Board members of the Organization. The majority of the Organization’s Board of Directors are employed or affiliated with the VA.

The Organization reimburses the VA for various services. Expenses incurred for services received from the VA were \$28,242 and \$26,009 for the years ended September 30, 2020 and 2019, respectively.

Additionally, the Organization charges the VA for some personnel costs via the Intergovernmental Personnel Act (“IPA”) of 1970. Costs expended include salaries and wages, as well as payroll taxes and other benefit costs. Reimbursements for these costs were \$4,066,028 and \$3,723,001 for the years ended September 30, 2020 and 2019, respectively. These costs were included in personnel costs on the statement of functional expenses. As of September 30, 2020 and 2019, the VA was indebted to the Organization in the amounts of \$783,705 and \$681,723, respectively, which is included in the accounts receivable balance as of September 30, 2020 and 2019, respectively. In addition, the VA provides office space utilities to the Organization at no cost. This is not recorded as an in-kind donation, as management has deemed it insignificant to the financial statements.

9. Concentrations

Major Funding

During the year ended September 30, 2020, the Organization received approximately 58% and 12% of its revenue from the U.S. Department of Health and Human Services National Institutes of Health and the Department of Defense, respectively. During the year ended September 30, 2019, the Organization received approximately 54% and 17% of its revenue from the U.S. Department of Health and Human Services National Institutes of Health and the Department of Defense, respectively. The Organization has long-term agreements with these federal agencies and does not anticipate a decrease in funding from these sources.

As of September 30, 2020, the Organization had receivables from the U.S. Department of Health and Human Services National Institutes of Health of \$1,085,634 (or 27% of total accounts receivable); the U.S. Department of Veteran Affairs of \$783,705 (or 19% of total accounts receivable); and Stanford University of \$406,569 (or 10% of total accounts receivable).

As of September 30, 2019, the Organization had receivables from the U.S. Department of Health and Human Services National Institutes of Health of \$1,349,424 (or 26% of total accounts receivable); DFAS Indianapolis Center of \$862,261 (or 17% of total accounts receivable); Stanford University of \$675,963 (or 13% of total accounts receivable); and the U.S. Department of Veteran Affairs of \$681,723 (or 13% of total accounts receivable).

Major Vendor

The Organization incurred expenses of \$5,086,400 or 21% of program expenses from one vendor for the year ended September 30, 2020. The Organization incurred expenses of \$4,291,775 or 18% of program expenses from one vendor for the year ended September 30, 2019.

Continued

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

10. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2, and Level 3). The following methods and assumptions were used to estimated fair value of financial instruments:

Level 1 – Inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. An active market is a market in which transaction occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the Organization’s own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about the risk). Unobservable inputs are developed based on the best information available in the circumstance and may include the Organization’s own data.

The Organization’s fair value hierarchy tables for its financial assets were as follows, as of September 30:

	Assets at Fair Value as of September 30, 2020			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 27,651	\$ -	\$ 27,651
Investments:				
Treasury bills	2,649,238	-	-	2,649,238
Certificates of deposit	-	3,322,499	-	3,322,499
Total investments	2,649,238	3,322,499	-	5,971,737
	\$ 2,649,238	\$ 3,350,150	\$ -	\$ 5,999,388

	Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 1,054,654	\$ -	\$ 1,054,654
Investments:				
Certificates of deposit	-	4,736,280	-	4,736,280
Total investments	-	4,736,280	-	4,736,280
	\$ -	\$ 5,790,934	\$ -	\$ 5,790,934

Continued

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

11. Commitments and Contingencies

The Organization has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant and contract terms, management believes the Organization is in substantial compliance with current laws and regulations and that any potential liability arising from compliance issues will not be material to the Organization's financial position and changes in net assets as of and for the years ended September 30, 2020 and 2019.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any adverse public health developments have adversely affected workforces, economics, and financially adverse public health developments. The full impact of the COVID-19 pandemic continues to evolve as of the date of this report. While the Organization has been operating since March with Veteran Administration restrictions on its research activities that have resulted in slower than expected research spending, management expects that these sponsored research funds will eventually be fully expended. As such, it is uncertain as to the full magnitude of the effect that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact on its financial statements, liquidity, operations, and workforce.

12. Subsequent Events

The Organization's management has evaluated subsequent events and transactions through February 18, 2021, the date which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements. Management has determined that, other than discussed in Note 7, there are no subsequent events that require disclosure or recognition in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subrecipients	Federal Expenditures
Research and Development Cluster				
U.S. Department of Defense:				
Military Medical Research and Development	12.420		\$ 53,069	\$ 707,848
U.S. Army Medical Research Acquisition Activity - Military Medical Research and Development	12.U01		1,271,799	1,460,991
Subtotal direct programs			<u>1,324,868</u>	<u>2,168,839</u>
Pass-through programs from:				
Tampa Veterans Research and Education Foundation - Military Medical Research and Development	12.U02	W91Y TZ-13-C-0015	-	134,607
General Dynamics Information Technology - Military Medical Research and Development	12.U03	W91Y TZ-13-C-0015	-	77,821
General Dynamics Information Technology - Military Medical Research and Development	12.U04	07ESM1087913	-	402,995
Veterans Medical Research Foundation- Military Medical Research and Development	12.420	W81XWH-19-1-0691	-	66,443
University of California San Diego - Military Medical Research and Development	12.420	W81XWH-17-2-0051	-	37,788
Stanford University - Military Medical Research and Development	12.420	W81XWH-18-1-0590	-	617,126
Boston VA Research Institute - Military Medical Research and Development	12.420	W81XWH-15-1-0374	-	(79)
Washington University - Military Medical Research and Development	12.420	W81XWH-17-1-0285	-	16,877
The Henry M. Jackson Foundation - Uniform Services University Medical Research Projects	12.750	HU00011820032	-	164,991
The Henry M. Jackson Foundation - Uniform Services University Medical Research Projects	12.750	HU0001-16-2-0014	-	(14,917)
Subtotal pass-through programs			<u>-</u>	<u>1,503,652</u>
Total - U.S. Department of Defense			<u>1,324,868</u>	<u>3,672,491</u>
National Science Foundation				
Engineering Grants	47.041	*	-	45,818
Total - National Science Foundation			<u>-</u>	<u>45,818</u>

The accompanying notes are an integral part of this schedule.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
For the year ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subrecipients	Federal Expenditures
<i>U.S. Department of Health and Human Services:</i>				
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		22,975	372,744
Oral Diseases and Disorders Research	93.121		51,497	410,268
Research and Training in Complementary and Interactive Health	93.213		19,168	180,715
Mental Health Research Grants	93.242		600,063	1,232,690
Alcohol Research Programs	93.273		178,995	275,706
Drug Abuse and Addiction Research Programs	93.279		186,180	886,509
Minority Health and Health Disparities Research	93.307		443,926	568,242
Trans-NIH Research Support	93.310		92,280	1,093,329
Cancer Biology Research	93.396		-	440,263
Cardiovascular Diseases Research	93.837		739,026	1,372,730
Lung Diseases Research	93.838		3,122	398,013
Arthritis Musculoskeletal and Skin Diseases Research	93.846		-	454,349
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		191,775	900,282
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		11,259	592,274
Allergy and Infectious Diseases Research	93.855		239,490	2,241,548
Aging Research	93.866		297,769	2,633,481
COVID -19 - Aging Research	93.866		54,432	407,829
<i>Subtotal direct programs</i>			<u>3,131,957</u>	<u>14,460,972</u>

The accompanying are an integral part of this schedule.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
For the year ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subrecipients	Federal Expenditures
Pass-through programs from:				
Department of Veterans Affairs - Research and Development	93.U05	AOD16037	-	340,223
Center for Disease Control and Prevention - Atlanta Research and Education Foundation	93.U06	17FED1712125	-	(5,164)
Center for Disease Control and Prevention - Atlanta Research and Education Foundation	93.U07	75D30119C04211	-	346,152
Boston VA Research Institute/NCI/VA Interagency Group to Accelerate Trials Enrollment	93.U08	ACO17011	-	42,702
Brandeis University - Research and Training in Complementary and Alternative Medicine	93.213	R01AT008404	-	95,953
Yale University - Research and Training in Complementary and Alternative Medicine	93.213	various	-	40,815
Vanderbilt University - Research on Healthcare Costs, Quality and Outcomes	93.226	1R18HS026158-01	-	16,073
Stanford University- Mental Health Research Grants	93.242	R01MH120126-01	-	17,838
Fred Hutchinson Cancer Research Center - Drug Abuse and Addiction Research Programs	93.279	R34DA040119	-	(10)
Stanford University - Cancer Biology Research	93.396	R01CA206540	-	9,347
Stanford University - Cardiovascular Diseases Research	93.837	R01HL141412	-	10,870
UCSF - Cardiovascular Diseases Research	93.837	R25HL126146	-	6,220
University of California San Diego- Cardiovascular Diseases Research	93.837	various	-	80,958
Vanderbilt University - Cardiovascular Diseases Research	93.837	P01HL129941	-	207,782
University of Colorado, Denver - Lung Diseases Research	93.838	P01HL014985	-	212,811
Stanford University - Lung Disease Research	93.838	R01HL138473	-	280,552
Stanford University - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	various	-	11,089
Brigham & Women's - Extramural Research Programs in the Neurosciences & Neurological Disorders	93.853	R01NS030843	-	32,093
UCSF - Extramural Research Programs in Neurosciences & Neurological Disorders	94.853	R21NS108159	-	9,780
Emory University - Allergy and Infectious Diseases Research	93.855	U19AI057266	-	209,391
Stanford University - Allergy and Infectious Diseases Research	93.855	U19AI116484	-	61,516
John Hopkins University - Allergy and Infectious Diseases Research	93.855	R01AI117032	-	108,254
Brown University - Allergy and Infectious Diseases Research	93.855	R01AI083636	-	36,390
UCSF - Allergy and Infectious Diseases Research	93.855	R01AI131624-01A1	-	22,315
CSU - Allergy and Infectious Diseases Research	93.855	1R01AI141603-01A1	-	18,596
University of Pittsburgh - Child Health and Human Development Extramural Research	93.865	P2CHD086843	-	33,859
Stanford University - Aging Research	93.866	various	-	544,851
University of Connecticut Health Center - Aging Research	93.866	R01AG052962	-	235,360
Columbia University- Aging Research	93.866	R01AG057433	-	296,577
Subtotal pass-through programs			-	3,323,193
Total - U.S. Department of Health and Human Services			3,131,957	17,784,165
Total Research and Development Cluster and Expenditures of Federal Awards			\$ 4,456,825	\$ 21,502,474

The accompanying are an integral part of this schedule.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Palo Alto Veterans Institute for Research (“PAVIR” or the “Organization”) under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of PAVIR, it is not intended to and does not present the financial position, change in net assets, or cash flows of PAVIR.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, adjusted for the requirements described in Note 1. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. PAVIR has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Subrecipients

Certain funds are passed through to subrecipient organizations or institutes by the Organization. Expenditures incurred by the subrecipients, and reimbursed by the Organization, are included in the Schedule of Expenditures of Federal Awards. For the year ended September 30, 2020, the Organization had six subrecipients who received \$3,365,986 (or 76% of subrecipient funding). The Organization is also the subrecipient of federal funds, which are reported as expenditures and listed separately as federal pass-through funds.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Palo Alto Veterans Institute for Research
Palo Alto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palo Alto Veterans Institute for Research (a nonprofit organization, "PAVIR") which comprise the statements of financial position as of September 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PAVIR's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PAVIR's internal control. Accordingly, we do not express an opinion on the effectiveness of the PAVIR's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of PAVIR's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAVIR's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PAVIR's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAVIR's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BPM LLP

San Jose, California
February 18, 2021

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Palo Alto Veterans Institute for Research
Palo Alto, California

Report of Compliance for Each Major Federal Program

We have audited Palo Alto Veterans Institute for Research's (a nonprofit organization, "PAVIR") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of PAVIR's major federal programs for the year ended September 30, 2020. PAVIR's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of finding and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of PAVIR's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PAVIR's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of PAVIR's compliance.

Opinion on Each Major Federal Program

In our opinion, PAVIR has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of PAVIR is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PAVIR's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PAVIR's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BPM LLP

San Jose, California
February 18, 2021

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended September 30, 2020

Section I – Summary of Audit Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| • Material weakness identified? | No |
| • Significant deficiencies identified? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|--|---|
| 4. Internal control over major programs: | |
| • Material weakness identified? | No |
| • Significant deficiencies identified? | None reported |
| 5. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516 (a)? | No |
| 7. Identification of major programs: | |
| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
| Various | Research and Development Cluster |
| 8. Dollar threshold used to distinguish between type A and type B Programs: | \$750,000 |
| 9. Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Findings and Questioned Costs

No matters were reported.

Section IV – Status of Prior Year Audit Findings

Not applicable. No prior year findings noted.