

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

September 30, 2021 and 2020



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, 2021 and 2020, 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 audits. We conducted our audits 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, 2021 and 2020, 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, 2022, 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, 2022

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF FINANCIAL POSITION

As of September 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,932,188	\$ 1,851,450
Investments, current	6,903,391	4,968,183
Accounts receivable	3,294,258	4,029,336
Prepaid expenses	268,015	214,129
Total current assets	<u>14,397,852</u>	<u>11,063,098</u>
Investments, non-current	-	1,003,554
Equipment, net	792,121	915,754
Total assets	<u>\$ 15,189,973</u>	<u>\$ 12,982,406</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,022,320	\$ 1,254,925
Payroll and payroll related payables	877,946	1,036,468
Accrued vacation	753,187	808,537
Other accrued liabilities	846,448	1,056,033
Refundable advances	3,389,862	1,409,314
Note payable, Paycheck Protection Program, current	11,482	38,614
Total current liabilities	<u>6,901,245</u>	<u>5,603,891</u>
Payroll payable - FICA taxes, non-current	289,901	-
Note payable, Paycheck Protection Program, non-current	-	661,386
Total liabilities	<u>7,191,146</u>	<u>6,265,277</u>
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions	5,040,085	5,271,449
With donor restrictions	2,958,742	1,445,680
Total net assets	<u>7,998,827</u>	<u>6,717,129</u>
Total liabilities and net assets	<u>\$ 15,189,973</u>	<u>\$ 12,982,406</u>

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Federal award revenue	\$ 17,329,249	\$ -	\$ 17,329,249
Other program revenue	7,742,569	3,596,460	11,339,029
Interest income	17,581	-	17,581
Gain on sale of securities	627	-	627
Gain on debt forgiveness - Paycheck Protection Program	678,976	-	678,976
Other income	35,177	-	35,177
	<u>25,804,179</u>	<u>3,596,460</u>	<u>29,400,639</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>2,083,398</u>	<u>(2,083,398)</u>	<u>-</u>
Total revenue and other support	<u>27,887,577</u>	<u>1,513,062</u>	<u>29,400,639</u>
Expenses:			
Program services	21,696,301	-	21,696,301
Management and general	6,422,640	-	6,422,640
Total expenses	<u>28,118,941</u>	<u>-</u>	<u>28,118,941</u>
Change in net assets	(231,364)	1,513,062	1,281,698
Net assets, beginning of year	<u>5,271,449</u>	<u>1,445,680</u>	<u>6,717,129</u>
Net assets, end of year	<u>\$ 5,040,085</u>	<u>\$ 2,958,742</u>	<u>\$ 7,998,827</u>

PALO ALTO VETERANS INSTITUTE FOR RESEARCH
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS, CONTINUED
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
	28,804,124	768,325	29,572,449
Net assets released from restrictions:			
Satisfaction of program restrictions	1,384,527	(1,384,527)	-
	30,188,651	(616,202)	29,572,449
Expenses:			
Program services	24,520,429	-	24,520,429
Management and general	6,668,489	-	6,668,489
Total expenses	31,188,918	-	31,188,918
Change in net assets	(1,000,267)	(616,202)	(1,616,469)
Net assets, beginning of year	6,271,716	2,061,882	8,333,598
Net assets, end of year	\$ 5,271,449	\$ 1,445,680	\$ 6,717,129

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended September 30, 2021

	Program Services	Management and General	Total
Personnel costs	\$ 14,373,311	\$ 4,374,831	\$ 18,748,142
Subawards	3,953,427	-	3,953,427
Supplies	2,128,591	440,023	2,568,614
Outside services	653,771	438,936	1,092,707
Computer maintenance and supplies	105,711	373,934	479,645
Depreciation	23,224	250,362	273,586
Comparative medicine	193,568	3,604	197,172
Professional fees	9,164	121,284	130,448
Maintenance and repairs	96,931	30,780	127,711
Printing and publication	6,915	78,083	84,998
Meetings and conferences	1,353	71,062	72,415
Subject related cost	53,334	10,183	63,517
Insurance	-	56,345	56,345
Small equipment	28,668	24,070	52,738
Dues and subscriptions	1,037	44,383	45,420
Telecommunications	11,708	31,881	43,589
Travel	10,694	25,142	35,836
VA Services	28,615	1,325	29,940
Postage and delivery	11,076	13,717	24,793
Office supplies	4,654	18,468	23,122
Books	631	8,452	9,083
Bank charges and other expenses	(82)	5,775	5,693
	<u>\$ 21,696,301</u>	<u>\$ 6,422,640</u>	<u>\$ 28,118,941</u>

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENT OF FUNCTIONAL EXPENSES, CONTINUED

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 other expenses	(3,080)	12,148	9,068
	<u>\$ 24,520,429</u>	<u>\$ 6,668,489</u>	<u>\$ 31,188,918</u>

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 1,281,698	\$ (1,616,469)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	273,586	296,054
Gain on debt forgiveness - Paycheck Protection Program	(678,976)	-
Unrealized gain in securities value	(627)	-
Equipment write-off charged to expense	623	-
Change in operating assets:		
Accounts receivable, net	735,078	1,082,800
Prepaid expenses	(53,886)	164,232
Change in operating liabilities:		
Accounts payable	(232,605)	571,325
Payroll and payroll related payables	131,379	402,973
Accrued vacation	(55,350)	159,125
Other accrued liabilities	(209,585)	178,055
Refundable advances	1,980,548	61,456
Net cash provided by operating activities	3,171,883	1,299,551
Cash flows from investing activities:		
Purchases of equipment	(150,576)	(174,009)
Purchases of certificate of deposits	(16,632,829)	(15,366,156)
Proceeds from sales of certificates of deposit	15,701,802	14,130,699
Net cash used in investing activities	(1,081,603)	(1,409,466)
Cash flows from financing activities:		
Proceeds from note payable - Paycheck Protection Program	-	2,500,750
Payments on note payable - Paycheck Protection Program	(9,542)	(1,800,750)
Net cash (used in) provided by financing activities	(9,542)	700,000
Net change in cash and cash equivalents	2,080,738	590,085
Cash and cash equivalents, beginning of year	1,851,450	1,261,365
Cash and cash equivalents, end of year	\$ 3,932,188	\$ 1,851,450

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

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, 2021 and 2020.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

The Organization has analyzed the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (“Topic 606”), and has concluded that no changes are necessary to conform with the new standard. Revenue from federal grants and contracts is recognized based on:

- Identifying the contract with a customer;
- Identifying the performance obligations in the contract;
- Determining the transaction price; and
- Allocating the transaction price to the performance obligations in the contract; and
- Recognizing revenue when, or as the performance obligations are satisfied.

The aforementioned revenue streams, often include multiple promises to the Organization’s customers under each contract. Although some of these services are capable of being distinct, they are not distinct within the context of the contract. The Organization integrates its services into a combined output, which is conducting research activities and delivery of data from the research study. Therefore all of the Organization’s services in relation to the contracts represent a single performance obligation. The performance obligation is satisfied over time and recognized as services are performed, since the Organization creates an asset with no alternative use and an enforceable right to payment exists for performance completed to date. The Organization measures its satisfaction of the performance obligation according to an input method based on allowable direct and indirect costs incurred, and where appropriate, fixed fee, up to the limits specified in each agreement. The Organization has elected to use the practical expedient to disregard the financing component when its payment terms are less than one year. The Organization has not incurred any material costs to obtain contracts to date.

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 Topic 606 discussed above. Federal contracts are an example of reciprocal or exchange transactions. For the year ended September 30, 2021, the Organization recognized \$2,488,420 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 \$41,953,000 that have not been recognized as of September 30, 2021, because qualifying expenditures have not yet been incurred. The amounts received in advance for research activities were \$3,389,862 and \$1,409,314 as of September 30, 2021 and 2020, 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, regardless of whether the contribution is unconditional or conditional.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

2. Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

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 statement of activities and changes in net assets. 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 \$2,513,842 and \$27,651 of certificates of deposit as of September 30, 2021 and 2020, respectively.

Investments

The Organization holds investments in U.S. treasury bills and certificates of deposits that are carried at fair value. The Organization has both the ability and the intent to hold them to maturity. They are valued using maturity and interest rates as observable inputs.

Accounts Receivable, Net

Accounts receivable 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 accounts receivable and determined that no allowance for doubtful accounts was required as of September 30, 2021 and 2020.

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.

Refundable Advances

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

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

2. Summary of Significant Accounting Policies, continued

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, 2021 and 2020.

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, 2021 and 2020, 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.

Change in Accounting Principles

During the year ended September 30, 2021, the Organization adopted the requirements of the FASB Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. Analysis of various provisions of ASU 2014-09 resulted in no significant changes in the way the Organization recognizes revenue and, therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard. ASU 2014-09 is based on the 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 and services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Organization evaluated and concluded ASU 2014-09 did not have any material impact on its financial statements, as the Organization derives substantially all of its reciprocal exchange transactions from single performance obligations.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 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 ASU 2016-02 on its financial statements.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958) (“ASU 2020-07”). ASU 2020-07 requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The FASB issued ASU 2020-07 in an effort to improve transparency in reporting nonprofit gifts-in-kind. ASU 2020-07 requires the new standard to be applied retrospectively, with amendments taking effect for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. ASU 2020-07 does allow for early adoption. The Organization is in the process of evaluating the impact of ASU 2020-07 on its financial statements.

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:

	2021	2020
Cash and cash equivalents	\$ 3,932,188	\$ 1,851,450
Investments, current	6,903,391	4,968,183
Accounts receivable	3,294,258	4,029,336
Less: donor restricted assets	(2,958,742)	(1,445,680)
	<u>\$ 11,171,095</u>	<u>\$ 9,403,289</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 the years ended September 30, 2021 and 2020.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

4. Equipment, Net

Equipment, net was comprised of the following as of September 30:

	<u>2021</u>	<u>2020</u>
Laboratory and medical equipment	\$ 3,282,278	\$ 3,202,910
Computer and software	669,791	666,146
	<u>3,952,069</u>	<u>3,869,056</u>
Less: accumulated depreciation	<u>(3,159,948)</u>	<u>(2,953,302)</u>
Equipment, net	<u>\$ 792,121</u>	<u>\$ 915,754</u>

5. Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Research activities	\$ 2,943,742	\$ 1,430,680
Educational activities	15,000	15,000
Net assets with donor restrictions	<u>\$ 2,958,742</u>	<u>\$ 1,445,680</u>

Net assets were released from donor restrictions during the years ended September 30, 2021 and 2020, 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:

	<u>2021</u>	<u>2020</u>
Research activities	<u>\$ 2,083,398</u>	<u>\$ 1,384,527</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 \$896,621 and \$865,363 for the years ended September 30, 2021 and 2020, respectively. Plan assets are not reflected in the accompanying financial statements.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

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 an 8-week period after the loan is made; and employee and compensation levels are maintained.

On February 18, 2021, the SBA forgave \$678,976 of the loan, leaving the remaining principal of \$21,024. Amounts outstanding under the loan 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. As of September 30, 2021, \$9,542 of the outstanding principal was paid and the remaining \$11,482 will be paid in the year ending September 30, 2022.

8. Related Party Transactions

In 1988, Congress passed Public Law 100-322 (now codified as 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 the 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 \$240,856 and \$28,242 for the years ended September 30, 2021 and 2020, 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 \$4,171,779 and \$4,066,028 for the years ended September 30, 2021 and 2020, respectively. These costs were included in personnel costs on the statements of functional expenses. As of September 30, 2021 and 2020, the VA was indebted to the Organization in the amount of \$459,797 and \$783,705, respectively, which is included in the accounts receivable balance as of September 30, 2021 and 2020, 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.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

9. Concentrations

Major Funding

During the year ended September 30, 2021, the Organization received approximately 45% and 14% 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, 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. 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, 2021, the Organization had receivables from the U.S. Department of Health and Human Services National Institutes of Health of \$1,072,672 (or 33% of total accounts receivable); Stanford University of \$532,153 (or 16% of total accounts receivable); the U.S. Department of Veteran Affairs of \$459,797 (or 14% of total accounts receivable); and Siemens Medical Solutions of \$319,538 (or 10% of total accounts receivable).

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 2% 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).

Major Vendor

The Organization incurred expenses of \$4,118,863 or 19% of program expenses from one vendor for the year ended September 30, 2021. The Organization incurred expenses of \$5,086,400 or 21% of program expenses from one vendor for the year ended September 30, 2020.

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 estimate 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 transactions 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. The Organization's treasury bills and certificates of deposit fall under Level 2 as their inputs are other than quoted market prices.

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.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

10. Fair Value Measurements, continued

The Organization’s fair value hierarchy tables for its financial assets were as follows as of September 30, 2021 and 2020:

Assets at Fair Value as of September 30, 2021				
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 2,513,842	\$ -	\$ 2,513,842
Investments:				
Treasury bills	-	5,899,837	-	5,899,837
Certificates of deposit	-	1,003,554	-	1,003,554
Total investments	-	6,903,391	-	6,903,391
	\$ -	\$ 9,417,233	\$ -	\$ 9,417,233

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	-	5,971,737	-	5,971,737
	\$ -	\$ 5,999,388	\$ -	\$ 5,999,388

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, 2021 and 2020.

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 2020 with VA 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.

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

12. Subsequent Events

The Organization's management has evaluated subsequent events and transactions through February 18, 2022, the date which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements. Management has determined that 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, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Research and Development Cluster				
U.S. Department of Defense:				
Military Medical Research and Development	12.420		\$ 18,576	\$ 769,255
U.S. Army Medical Research Acquisition Activity - Military Medical Research and Development	12.U01		1,279,878	1,655,602
Subtotal direct programs			1,298,454	2,424,857
Pass-through programs from:				
Tampa Veterans Research and Education Foundation - Military Medical Research and Development	12.U02	W91Y TZ-13-C-0015	-	162,525
General Dynamics Information Technology - Military Medical Research and Development	12.U03	W91Y TZ-13-C-0015	-	71,168
General Dynamics Information Technology - Military Medical Research and Development	12.U04	HT0014-19-C-0004	-	25,571
Philips Research - Military Medical Research and Development	12.U05	HDTRA120C0041-2	-	50,366
Lawrence Livermore National Laboratory - Military Medical Research and Development	12.420	DE-AC52-07NA27344	-	18,383
Veterans Medical Research Foundation- Military Medical Research and Development	12.420	W81XWH-19-1-0691	-	126,693
University of California San Diego - Military Medical Research and Development	12.420	W81XWH-17-2-0051	-	97
Stanford University - Military Medical Research and Development	12.420	W81XWH-18-1-0590	-	800,160
University of Colorado - Military Medical Research and Development	12.420	W81XWH2010204	-	128,725
Washington University - Military Medical Research and Development	12.420	W81XWH-17-1-0285	-	16,220
The Henry M. Jackson Foundation - Uniform Services University Medical Research Projects	12.750	HU00012120002	-	40,854
The Henry M. Jackson Foundation - Uniform Services University Medical Research Projects	12.750	HU00011820032	-	97,498
Subtotal pass-through programs			-	1,538,260
Total - U.S. Department of Defense			1,298,454	3,963,117
National Science Foundation				
Engineering Grants	47.041		-	55,387
Total - National Science Foundation			-	55,387

PALO ALTO VETERANS INSTITUTE FOR RESEARCH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
For the year ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying 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		25,305	120,766
Oral Diseases and Disorders Research	93.121		-	267,920
Research and Training in Complementary and Interactive Health	93.213		28,395	379,912
Mental Health Research Grants	93.242		468,971	1,054,823
Alcohol Research Programs	93.273		36,704	74,492
Drug Abuse and Addiction Research Programs	93.279		99,020	467,307
COVID -19 - Minority Health and Health Disparities Research	93.307		150,346	289,312
Cancer Biology Research	93.396		-	375,126
Cardiovascular Diseases Research	93.837		716,295	1,216,216
Lung Diseases Research	93.838		48,242	307,911
Arthritis Musculoskeletal and Skin Diseases Research	93.846		-	527,078
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		42,179	418,116
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		-	765,123
COVID -19 - Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		218,759	440,678
Allergy and Infectious Diseases Research	93.855		195,415	1,711,405
Aging Research	93.866		169,428	2,159,172
COVID -19 - Aging Research	93.866		20,879	157,892
<i>Subtotal direct programs</i>			<u>2,219,938</u>	<u>10,733,249</u>

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

For the year ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Pass-through programs from:				
Department of Veterans Affairs - Research and Development	93.U06	IAA# AOD16037	158,237	643,622
Foundation for Atlanta Veterans Education and Research - Center for Disease Control and Prevention	93.U07	75D30119C04211	-	442,371
Boston VA Research Institute/NCI/VA Interagency Group to Accelerate Trials Enrollment	93.U08	IAA# ACO17011	-	74
Stanford University - Food and Drug Administration Research	93.103	U01 FD005978	-	44,630
Brandeis University - Research and Training in Complementary and Alternative Medicine	93.213	R01 AT008404	-	104,735
Yale University - Research and Training in Complementary and Alternative Medicine	93.213	UH3 AT009767	-	19,085
Vanderbilt University Medical Center - Research on Healthcare Costs, Quality and Outcomes	93.226	R18HS026158	-	(119)
Stanford University- Mental Health Research Grants	93.242	R01 MH120126	-	65,866
Medical University of South Carolina - Mental Health Research Grants	93.242	R01 MH110620	-	5,548
Michigan State University - Mental Health Research Grants	93.242	R01 MH114883	-	20,166
COVID -19 - University of California San Francisco - Alcohol Research Programs	93.273	R01 AA029312	-	4,970
Medical University of South Carolina - Nursing Research	93.361	R01 NR017892	-	13,702
Duke University - Cancer Cause and Prevention Research	93.393	R01 CA244172	-	67,100
Stanford University - Cancer Biology Research	93.396	R35 CA231997	-	2,857
Stanford University - Cardiovascular Diseases Research	93.837	various	-	31,607
University of California San Francisco - Cardiovascular Diseases Research	93.837	R25 HL126146	-	3,873
University of California San Diego- Cardiovascular Diseases Research	93.837	K01 HL122394	-	(12)
Vanderbilt University - Cardiovascular Diseases Research	93.837	P01 HL129941	-	169,338
University of Colorado, Denver - Lung Diseases Research	93.838	P01 HL014985	-	15,173
Stanford University - Lung Diseases Research	93.838	R01 HL138473	-	162,479
University of Colorado - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	R61 AR076792	-	20,978
Stanford University - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01 DK101674	-	70,068
Brigham & Women's - Extramural Research Programs in the Neurosciences & Neurological Disorders	93.853	R01 NS030843	-	7,343
Emory University - Allergy and Infectious Diseases Research	93.855	U19 AI057266	-	152,057
Stanford University - Allergy and Infectious Diseases Research	93.855	U19 AI116484	-	29,947
John Hopkins University - Allergy and Infectious Diseases Research	93.855	R01 AI117032	-	63,930
Brown University - Allergy and Infectious Diseases Research	93.855	R01 AI083636	-	(409)
University of California San Francisco - Allergy and Infectious Diseases Research	93.855	R01 AI 131624	-	27,390
Colorado State University - Allergy and Infectious Diseases Research	93.855	R01 AI141603	-	90,325
University of Pittsburgh - Child Health and Human Development Extramural Research	93.865	P2C HD086843	-	45,419
Stanford University - Aging Research	93.866	various	-	791,670

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

For the year ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
University of Connecticut Health Center - Aging Research	93.866	R01 AG052962	-	122,859
Columbia University- Aging Research	93.866	R01 AG057433	-	148,518
Boston Medical Center Corporation - Aging Research	93.866	R01 AG066892	-	60,992
University of Texas Health Science Center at Houston - Aging Research	93.866	R01 AG059993	-	15,293
Subtotal pass-through programs			<u>158,237</u>	<u>3,463,445</u>
<i>Total - U.S. Department of Health and Human Services</i>			<u>2,378,175</u>	<u>14,196,694</u>
Total Research and Development Cluster and Expenditures of Federal Awards			<u>\$ 3,676,629</u>	<u>\$ 18,215,198</u>

PALO ALTO VETERANS INSTITUTE FOR RESEARCH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2021

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, 2021. 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, 2021, the Organization had three subrecipients who received \$2,221,845 (or 60% 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 statement of financial position as of September 30, 2021, 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, 2022.

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, 2022

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, 2021. 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, 2021.

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, 2022

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended September 30, 2021

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.