PALO ALTO VETERANS INSTITUTE FOR RESEARCH

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

September 30, 2023 and 2022

PAVIR

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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 Audit of the Financial Statements

Opinion

We have audited 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, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PAVIR as of September 30, 2023 and 2022, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PAVIR and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance U.S. GAAP and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of 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 U.S. GAAS. 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 27, 2024 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 solely 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 the effectiveness of PAVIR's 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 27, 2024

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF FINANCIAL POSITION

As of September 30, 2023 and 2022

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,250,925	$ 7,511,742
Investments	8,004,008	3,705,736
Accounts receivable	3,540,479	3,474,986
Prepaid expenses	141,049	295,245
Total current assets	19,936,461	14,987,709
Equipment, net	782,904	655,299
Total assets	$ 20,719,365	$ 15,643,008
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 845,476	$ 1,040,145
Payroll and payroll related payables	649,968	892,298
Accrued vacation	779,026	742,869
Other accrued liabilities	1,233,682	862,102
Refundable advances	9,216,236	3,932,574
Total liabilities	12,724,388	7,469,988
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions	6,199,789	5,680,883
With donor restrictions	1,795,188	2,492,137
Total net assets	7,994,977	8,173,020
Total liabilities and net assets	$ 20,719,365	$ 15,643,008

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended September 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Federal award revenue	$ 15,837,791	$ -	$ 15,837,791
Other program revenue	13,063,996	1,124,601	14,188,597
Interest income	450,437	-	450,437
Gain on sale of securities	57,594	-	57,594
Other income	24,203	-	24,203
	29,434,021	1,124,601	30,558,622
Net assets released from restrictions:			
Satisfaction of program restrictions	1,821,550	(1,821,550)	-
Total revenue and other support	31,255,571	(696,949)	30,558,622
Expenses:			
Program services	24,598,270	-	24,598,270
Management and general	6,138,395	-	6,138,395
Total expenses	30,736,665	-	30,736,665
Change in net assets	518,906	(696,949)	(178,043)
Net assets, beginning of year	5,680,883	2,492,137	8,173,020
Net assets, end of year	$ 6,199,789	$ 1,795,188	$ 7,994,977

Palo Alto Veterans Institute for Research

Statements of Activities and Changes in Net Assets, continued

For the year ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Federal award revenue	$ 19,870,773	$ -	$ 19,870,773
Other program revenue	8,123,884	1,862,271	9,986,155
Interest income	33,232	-	33,232
Gain on sale of securities	17,344	-	17,344
Other income	30,820	-	30,820
	28,076,053	1,862,271	29,938,324
Net assets released from restrictions:			
Satisfaction of program restrictions	2,328,876	(2,328,876)	-
Total revenue and other support	30,404,929	(466,605)	29,938,324
Expenses:			
Program services	23,660,238	-	23,660,238
Management and general	6,103,893	-	6,103,893
Total expenses	29,764,131	-	29,764,131
Change in net assets	640,798	(466,605)	174,193
Net assets, beginning of year	5,040,085	2,958,742	7,998,827
Net assets, end of year	$ 5,680,883	$ 2,492,137	$ 8,173,020

PALO ALTO VETERANS INSTITUTE FOR RESEARCH

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended September 30, 2023

	Program Services	Management and General	Total
Personnel costs	$ 16,333,940	$ 4,133,036	$ 20,466,976
Subawards	4,710,530	-	4,710,530
Supplies	1,832,936	301,735	2,134,671
Outside services	978,560	396,031	1,374,591
Computer maintenance and supplies	133,721	364,604	498,325
Travel	108,481	180,878	289,359
Depreciation	16,342	236,438	252,780
Professional fees	3,236	152,111	155,347
Comparative medicine	149,981	-	149,981
Subject related cost	121,190	17,159	138,349
Meetings and conferences	25,750	78,800	104,550
Insurance	-	80,524	80,524
Telecommunications	9,611	60,585	70,196
Maintenance and repairs	52,773	15,951	68,724
Printing and publication	17,297	36,216	53,513
Small equipment	33,893	11,294	45,187
VA Services	42,571	1,700	44,271
Dues and subscriptions	1,045	33,792	34,837
Postage and delivery	20,419	13,466	33,885
Other expenses	2,949	13,631	16,580
Office supplies	3,045	10,444	13,489
	$ 24,598,270	$ 6,138,395	$ 30,736,665

Palo Alto Veterans Institute for Research

Statements of Functional Expenses, continued

For the year ended September 30, 2022

	Program Services	Management and General	Total
Personnel costs	$ 14,261,262	$ 3,968,762	$ 18,230,024
Subawards	6,349,177	-	6,349,177
Supplies	1,877,499	426,578	2,304,077
Outside services	518,977	461,835	980,812
Computer maintenance and supplies	125,069	457,852	582,921
Depreciation	23,224	236,778	260,002
Comparative medicine	166,021	3,394	169,415
Travel	49,005	118,769	167,774
Subject related cost	105,990	20,662	126,652
Professional fees	6,515	112,569	119,084
Meetings and conferences	19,850	73,290	93,140
Insurance	-	69,139	69,139
Maintenance and repairs	53,473	7,987	61,460
Printing and publication	19,836	34,337	54,173
Telecommunications	7,925	34,811	42,736
Dues and subscriptions	2,406	34,893	37,299
Small equipment	31,334	4,491	35,825
Postage and delivery	14,704	15,115	29,819
VA Services	25,590	225	25,815
Office supplies	2,263	13,415	15,678
Other expenses	118	8,991	9,109
	$ 23,660,238	$ 6,103,893	$ 29,764,131

Palo Alto Veterans Institute for Research

Statements of Cash Flows

For the years ended September 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ (178,043)	$ 174,193
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	252,780	260,002
Unrealized gain in securities value	(57,594)	(17,344)
Change in operating assets:		
Accounts receivable, net	(65,493)	(180,728)
Prepaid expenses	154,196	(27,230)
Change in operating liabilities:		
Accounts payable	(194,669)	17,825
Payroll and payroll related payables	(242,330)	(275,549)
Accrued vacation	36,157	(10,318)
Other accrued liabilities	371,580	15,654
Refundable advances	5,283,662	542,712
Net cash provided by operating activities	5,360,246	499,217
Cash flows from investing activities:		
Purchases of equipment	(380,385)	(123,180)
Purchases of securities	(56,494,027)	(36,476,370)
Proceeds from sales of securities	52,253,349	39,691,369
Net cash (used in) provided by investing activities	(4,621,063)	3,091,819
Cash flows from financing activities:		
Payments on note payable - Paycheck Protection Program	-	(11,482)
Net cash provided by (used in) financing activities	-	(11,482)
Net change in cash and cash equivalents	739,183	3,579,554
Cash and cash equivalents, beginning of year	7,511,742	3,932,188
Cash and cash equivalents, end of year	$ 8,250,925	$ 7,511,742

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 79 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. They include the following:

- 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, 2023 and 2022.

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

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;
- 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 the revenue recognition process discussed above. Federal contracts are an example of reciprocal or exchange transactions. The Organization recognized $466,591 and $3,164,869 in revenue from federal contracts for the years ended September 30, 2023 and 2022, respectively.

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 statements of financial position. The advances received from the state and private foundation are recognized as restricted revenue that are released from restriction when the conditions are met (expenses incurred). The Organization received cost-reimbursable federal grants of approximately $44,331,000 and $40,643,000 that have not been recognized as of September 30, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred. The amounts received in advance for research activities were $9,216,236 and $3,932,574 as of September 30, 2023 and 2022, respectively.

2. **Summary of Significant Accounting Policies**, continued

Revenue Recognition, continued

The refundable advances were comprised of the following for the years ended September 30:

	2023	2022
Refundable advances, beginning of year	$ 3,932,574	$ 3,389,862
Add: Increase in efundable advances due to cash received during the year	10,286,157	3,251,115
Less: returns to sponsor	-	(26,960)
Less: refundable advances recognized during the year	(5,002,495)	(2,681,443)
Refundable advances, end of year	$ 9,216,236	$ 3,932,574

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.

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 $6,197,605 and $5,262,482 of treasury bills and money market funds as of September 30, 2023 and 2022, respectively.

Investments

The Organization holds investments in U.S. treasury bills 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, 2023 and 2022. The beginning accounts receivable balance as of October 1, 2021 was $3,294,258.

2. Summary of Significant Accounting Policies, continued

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.

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 year ended September 30, 2023.

Income Taxes

The Organization is a nonprofit corporation exempt from federal income tax under Internal Revenue Code ("IRC") 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, 2023 and 2022, 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.

Recent Accounting Pronouncements - Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *Leases (Topic 842)*, ("ASU 2016-02"), which aims to increase transparency and comparability among organizations by requiring lessees to recognize leases with a term greater than 12-months as a right-of-use ("ROU") asset and corresponding lease liabilities on the statement of financial position, regardless of lease classification, and requiring disclosure of key information about leasing arrangements. The lease liability should be initially measured at the present value of the remaining contractual lease payments. Subsequently, the ROU assets will be amortized generally on a straight-line basis over the lease term, and the lease liability will bear interest expense and be reduced for lease payments. ASU 2016-02 was effective for the Organization on August 1, 2022. the Organization adopted ASU 2016-02 on August 1, 2022, using the modified retrospective approach. Under this approach, the Organization is not required to restate or disclose the effects of applying ASU 2016-02 for comparative periods.

2. **Summary of Significant Accounting Policies**, continued

Recent Accounting Pronouncements – Adopted, continued

In addition, the Organization elected the transition package of three practical expedients, which allow companies not to reassess (i) whether agreements contain leases, (ii) the classification of leases, and (iii) the capitalization of initial direct costs. the Organization also made an accounting policy election to recognize lease expense for leases with a term of 12 months or less on a straight-line basis over the lease term and recognize no ROU asset or lease liability for those leases. Further, the Organization elected not to separate lease and non-lease components for all asset classes. The Organization also elected the practical expedient to utilize the risk-free rate at the date of lease commencement as opposed to the Organization's incremental borrowing rate. As of August 1, 2022, the Organization did not have any leases with a term of 12-months or greater.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* ("ASU 2016-13") and subsequently issued several supplemental/clarifying ASUs (collectively, "ASC 326"). ASC 326 requires entities to estimate a lifetime expected credit loss for most financial assets, including trade and other receivables, other long-term financings including available for sale and held-to-maturity debt securities, and loans. Subsequently, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses,* which amended the scope of ASC 326 and clarified that receivables arising from operating leases are not within the scope of the standard and should continue to be accounted for in accordance with ASC 842. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815),* and *Leases (Topic 842): Effective Dates,* which amended certain effective dates. This ASC 326 will be effective for the Organization on August 1, 2023. Currently, the Organization is evaluating the impact of adopting ASC 326 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 statements of financial position date were as follows as of September 30:

	2023	2022
Cash and cash equivalents	$ 8,250,925	$ 7,511,742
Investments	8,004,008	3,705,736
Accounts receivable	3,540,479	3,474,986
Less: donor restricted assets	(1,795,188)	(2,492,137)
	$ 18,000,224	$ 12,200,327

3. Liquidity and Availability, continued

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, 2023 and 2022.

4. Equipment, Net

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

	2023	2022
Laboratory and medical equipment	$ 3,394,570	$ 3,060,511
Computer and software	620,809	574,483
	4,015,379	3,634,994
Less: accumulated depreciation	(3,232,475)	(2,979,695)
Equipment, net	$ 782,904	$ 655,299

5. Net Assets With Donor Restrictions

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

	2023	2022
Research activities	$ 1,780,188	$ 2,477,137
Educational activities	15,000	15,000
Net assets with donor restrictions	$ 1,795,188	$ 2,492,137

Net assets were released from donor restrictions during the years ended September 30, 2023 and 2022, 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:

	2023	2022
Research activities	$ 1,821,550	$ 2,328,876

6. Retirement Plan

The Organization's retirement plan (under IRC 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 $879,879 and $797,148 for the years ended September 30, 2023 and 2022, 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 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, 2022, the remaining $11,482 of the outstanding principal was paid in full.

The Organization had no additional activity related to the PPP for the year ended September 30, 2023.

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 $222,093 and $183,453 for the years ended September 30, 2023 and 2022, respectively.

8. Related Party Transactions, continued

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 $3,748,648 and $3,703,362 for the years ended September 30, 2023 and 2022, respectively. These costs were included in personnel costs on the statements of functional expenses. As of September 30, 2023 and 2022, the VA was indebted to the Organization in the amount of $1,016,708 and $646,285, respectively, which is included in the accounts receivable balance as of September 30, 2023 and 2022, 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

For the year ended September 30, 2023, the Organization received approximately 42% and 8% of its revenue from the U.S. Department of Health and Human Services National Institutes of Health and the Department of Defense, respectively. For the year ended September 30, 2022, the Organization received approximately 51% and 15% 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, 2023, the Organization had receivables from the U.S. Department of Veteran Affairs of $1,016,708 (or 27% of total accounts receivable); the U.S. Department of Health and Human Services National Institutes of Health of $712,795 (or 19% of total accounts receivable); and Stanford University of $956,149 (or 27% of total accounts receivable).

As of September 30, 2022, the Organization had receivables from the U.S. Department of Health and Human Services National Institutes of Health of $829,228 (or 24% of total accounts receivable); Stanford University of $805,370 (or 23% of total accounts receivable); the U.S. Department of Veteran Affairs of $646,285 (or 19% of total accounts receivable); and the EMD Serono Research & Development Institute Incorporated of $368,276 (or 11% of total accounts receivable).

Major Vendor

The Organization incurred expenses of $3,531,291 (or 14%) of program expenses from one vendor for the year ended September 30, 2023. The Organization incurred expenses of $3,762,383 (or 16%) of program expenses from one vendor for the year ended September 30, 2022.

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. The Organization's treasury bills, and money market funds fall under Level 1.

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 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.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2023 and 2022:

	Assets at Fair Value as of September 30, 2023			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 556,652	$ -	$ -	$ 556,652
Treasury bills	5,640,953	-	-	5,640,953
Total cash equivalents	6,197,605	-	-	6,197,605
Investments:				
Treasury bills	8,004,008	-	-	8,004,008
	$ 14,201,613	$ -	$ -	$ 14,201,613

10. Fair Value Measurements, continued

	Assets at Fair Value as of September 30, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 569,767	$ -	$ -	$ 569,767
Treasury bills	4,692,715	-	-	4,692,715
Total cash equivalents	5,262,482	-	-	5,262,482
Investments:				
Treasury bills	3,705,736	-	-	3,705,736
	$ 8,968,218	$ -	$ -	$ 8,968,218

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, 2023 and 2022.

12. Subsequent Events

The Organization's management has evaluated subsequent events and transactions through February 27, 2024, the date which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements. Management has determined that no material subsequent events have occurred since September 30, 2023 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, 2023

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		$ -	$ 593,686
U.S. Army Medical Research Acquisition Activity - Military Medical Research and Development	12.U01		193,902	285,299
Subtotal direct programs			193,902	878,985
Pass-through programs from:				
Tampa Veterans Research & Education Foundation - Military Medical Research and Development	12.U02	DHA J-9 TBICoE	-	181,292
Boston Veterans Research Institute - Military Health System Research	12.007	HT94022210004	-	16,464
Veterans Medical Research Foundation- Military Medical Research and Development	12.420	W81XWH-19-1-0691	-	31,404
The Roskamp Institute Inc. - Military Medical Research and Development	12.420	W81XWH-21-1-0655	-	35,835
University of Texas Health Science Center at San Antonio - Military Medical Research and Development	12.420	W81XWH-21-2-0044	-	262,231
Stanford University - Military Medical Research and Development	12.420	W81XWH-18-1-0590	-	648,452
University of Colorado - Military Medical Research and Development	12.420	W81XWH2010204	-	59,265
Washington University - Military Medical Research and Development	12.420	W81XWH-22-1-0908	-	31,997
San Jose State University Research Foundation - Military Medical Research and Development	12.420	W81XWH2110866	-	102,362
University of California, Irvine - Military Medical Research and Development	12.420	W81XWH2210172	-	54,730
The Henry M. Jackson Foundation - Uniform Services University Medical Research Projects	12.750	HU00012120002	-	86,963
The Henry M. Jackson Foundation - Uniform Services University Medical Research Projects	12.750	HU00012220006	-	150,084
Subtotal pass-through programs			-	1,661,079
Total - U.S. Department of Defense			193,902	2,540,064
National Science Foundation				
Computer and Information Science and Engineering	47.070		-	63,090
Engineering Grants	47.041		-	46,966
Total - National Science Foundation			-	110,056
U.S. Department of Energy				
Pass-through programs from:				
Lawrence Livermore National Laboratory - Office of Science Financial Assistance Program	81.049	DE-AC52-07NA27344	-	2,130
Total - U.S. Department of Energy			-	2,130
U.S. Department of Homeland Security				
Assistance to Firefighters Grant	97.044		331,555	372,539
Total - U.S. Department of Homeland Security			331,555	372,539

The accompanying notes are an integral part of this schedule.

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Research and Training in Complementary and Integrative Health	93.213		-	122,264
Mental Health Research Grants	93.242		99,382	341,152
Drug Abuse and Addiction Research Programs	93.279		144,454	608,270
Minority Health and Health Disparities Research	93.307		691,543	830,973
Cancer Cause and Prevention Research	93.393		147,279	506,889
Cancer Biology Research	93.396		-	410,410
Cardiovascular Diseases Research	93.837		26,754	781,552
Lung Diseases Research	93.838		63,488	724,932
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		-	15,485
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		285,923	1,127,333
COVID-19 - Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		187,847	315,025
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		(1,756)	691,980
Allergy and Infectious Diseases Research	93.855		94,466	1,827,904
Aging Research	93.866		215,731	1,560,313
Subtotal direct programs			1,955,111	9,864,482
Pass-through programs from:				
Department of Veterans Affairs - Research and Development	93.U03	IAA# AOD16037	1,652,087	2,484,611
Department of Veterans Affairs - Cancer Epidemiology and Genetics	93.U04	IAA# ACP21001	-	186,811
Stanford University - Food and Drug Administration Research	93.103	U01 FD005978	-	333,457
Stanford University - Human Genome Research	93.172	R01 HG011432	-	202,021
Stanford University - Human Genome Research	93.172	1U01HG011762-01	-	21,626
Yale University - Research and Training in Complementary and Alternative Medicine	93.213	UH3 AT009767	-	121,378
University of Pennsylvania - Research on Healthcare Costs, Quality and Outcomes	93.226	R01 HS027600	-	34,101
University of California, San Diego - Mental Health Research Grants	93.242	R01MH125785	-	25,895
University of Michigan - Mental Health Research Grants	93.242	R01MH125857	-	46,373
Stanford Univeristy- Mental Health Research Grants	93.242	R01 MH120126	-	45,458
Michigan State University - Mental Health Research Grants	93.242	R01 MH114883	-	3,058
COVID-19 - Stanford Univeristy- Mental Health Research Grants	93.242	RF1MH128785	-	26,602
Michigan State University - Mental Health Research Grants	93.242	R01MH132617	-	9,046
Northern California Institute for Research and Education - Mental Health Research Grants	93.242	R01AA028213	-	12,049
University of Massachusetts Chan Medical School - Alcohol Research Programs	93.273	R01AA028240	-	3,500
COVID-19 - University of Southern California - Alcohol Research Programs	93.273	R01 AA029312	-	153,541
Medical College of Wisconsin - Minority Health and Health Disparities Research	93.307	R01MD013826	-	43,548
Beth Israel Deaconess Medical Center - Trans-NIH Research Support	93.310	U54HL165440	-	4,329
Medical University of South Carolina - Nursing Research	93.361	R01 NR017892	-	(953)

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services, continued:				
Pass-through programs from:				
Stanford University - Cancer Cause and Prevention Research	93.393	U01 CA231851	-	9,770
Duke University - Cancer Cause and Prevention Research	93.393	R01 CA244172	-	25,808
Virginia Commonwealth University - ACL Nat'l Institute on Disability, Independent Living, & Rehabilitation Research	93.433	90D PHF0006	-	6,733
Medical University of South Carolina - ACL Nat'l Institute on Disability, Independent Living, & Rehabilitation Research	93.433	90DPEM0006-01-00	-	30,767
Vanderbilt University Medical Center - Cardiovascular Diseases Research	93.837	R01 HL158884	-	111,461
Boston University - Cardiovascular Diseases Research	93.837	R01 HL127564	-	54,894
Fred Hutchinson Cancer Center - Cardiovascular Diseases Research	93.837	R01HL151152	-	32,688
Stanford University - Cardiovascular Diseases Research	93.837	R01 HL152256	-	160,839
Stanford University - Cardiovascular Diseases Research	93.837	R01 HL141712	-	49,274
Medical College of Wisonsin - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01 DK120861	-	39,733
Medical College of Wisonsin - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01 DK118038	-	45,205
Stanford University - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01 DK101674	-	81,261
Stanford University - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01DK128881	-	60,644
Stanford University - Allergy and Infectious Diseases Research	93.855	U19 AI116484	-	86,875
Colorado State University - Allergy and Infectious Diseases Research	93.855	R01 AI141603	-	6,931
Stanford University - Allergy and Infectious Diseases Research	93.855	R01 AI173189	-	5,435
Boston University - Child Health and Human Development Extramural Research	93.865	R01HD107282	-	14,289
Stanford University - Aging Research	93.866	R01 AG064897	-	72,049
University of Pennsylvania - Aging Research	93.866	R01AG071610	-	26,104
Boston Medical Center Corporation - Aging Research	93.866	R01 AG066892	-	77,762
Univeristy of Texas Health Science Center at Houston - Aging Research	93.866	R01 AG059993	-	16,942
Johns Hopkins University - Extramural Research Programs in the Neurosciences and Neurological Disorders	98.853	R37 NS054791	-	61,066
Subtotal pass-through programs			1,652,087	4,832,981
Total - U.S. Department of Health and Human Services			3,607,198	14,697,463
Total Research and Development Cluster and Expenditures of Federal Awards			$ 4,132,655	$ 17,722,252

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, 2023. The information in the 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, 2023, the Organization had two subrecipients who received $1,007,902 (or 24% 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.

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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, 2023, 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 27, 2024.

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.

Report on 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 27, 2024

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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

Opinion on 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 identified as subject to audit 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, 2023. PAVIR's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, PAVIR complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); 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*). Our responsibilities under those standards and the *Uniform Guidance* are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of PAVIR and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of PAVIR's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to PAVIR's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on PAVIR's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards*, and the *Uniform Guidance* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about PAVIR's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards*, and the *Uniform Guidance*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding PAVIR's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of PAVIR's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 PAVIR's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 27, 2024

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:	

Assistance listing number	Name of Federal Program or Cluster
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.