



*Report of Independent Auditors and
Financial Statements with
Federal Awards Supplementary Information*

Palo Alto Veterans Institute for Research

September 30, 2018

Table of Contents

REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities.....	5
Statement of Functional Expenses	6
Statement of Cash Flows.....	7
Notes to Financial Statements	8
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards.....	15
Notes to Schedule of Expenditures of Federal Awards	17
REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	18
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	20
Schedule of Findings and Questioned Costs.....	22

Report of Independent Auditors

To the Board of Directors
Palo Alto Veterans Institute for Research

Report on the Financial Statements

We have audited the accompanying financial statements of Palo Alto Veterans Institute for Research (the "Organization"), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 auditor considers internal control relevant to the Organization'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 Organization'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 Palo Alto Veterans Institute for Research as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *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 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 28, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Organization'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 the Organization's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
February 28, 2019

Financial Statements

Palo Alto Veterans Institute for Research
Statement of Financial Position
As of September 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 4,753,700
Certificates of deposit	1,266,006
Accounts receivable, net of allowance for doubtful account of \$30,000	4,362,747
Prepaid expenses	<u>353,508</u>

Total current assets	<u>10,735,961</u>
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CERTIFICATES OF DEPOSIT - long-term	620,633
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EQUIPMENT, net	<u>981,545</u>
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Total assets	<u><u>\$ 12,338,139</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 774,807
Payroll payable	624,644
Accrued vacation	692,015
Other accrued liabilities	1,003,502
Deferred revenue	<u>1,260,876</u>

Total current liabilities	<u>4,355,844</u>
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NET ASSETS

Unrestricted	
Board-designated	252,892
Undesignated	<u>6,197,488</u>

Total unrestricted	6,450,380
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Temporarily restricted	<u>1,531,915</u>
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Total net assets	<u>7,982,295</u>
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Total liabilities and net assets	<u><u>\$ 12,338,139</u></u>
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Palo Alto Veterans Institute for Research
Statement of Activities
For the Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Federal award revenue	\$ 19,557,997	\$ -	\$ 19,557,997
Other program revenue	6,558,419	1,957,951	8,516,370
Interest income	53,865	860	54,725
Unrealized gain on certificates of deposit	999	-	999
Other income	27,951	-	27,951
Total revenue	26,199,231	1,958,811	28,158,042
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions	917,446	(917,446)	-
Total revenue and other support	27,116,677	1,041,365	28,158,042
EXPENSES			
Program expenses	22,104,883	-	22,104,883
Management and general expenses	6,361,969	-	6,361,969
Total expenses	28,466,852	-	28,466,852
Change in net assets	(1,350,175)	1,041,365	(308,810)
NET ASSETS, at beginning of year	7,800,555	490,550	8,291,105
NET ASSETS, at end of year	\$ 6,450,380	\$ 1,531,915	\$ 7,982,295

Palo Alto Veterans Institute for Research
Statement of Functional Expenses
For the Year Ended September 30, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Personnel costs	\$ 14,764,497	\$ 3,766,360	\$ 18,530,857
Subawards	3,045,000	-	3,045,000
Supplies	2,654,466	300,904	2,955,370
Outside services	776,493	605,705	1,382,198
Computer maintenance and supplies	152,062	318,189	470,251
Maintenance and repairs	46,903	363,918	410,821
Travel	123,225	239,279	362,504
Depreciation	41,410	311,648	353,058
Comparative medicine	216,357	-	216,357
Professional fees	7,779	132,711	140,490
Meetings and conferences	34,281	97,098	131,379
Subject related cost	104,250	8,081	112,331
Printing and publication	31,399	32,499	63,898
Small equipment	34,746	17,144	51,890
Insurance	-	49,412	49,412
Dues and subscriptions	1,363	39,070	40,433
Office supplies	13,800	25,922	39,722
Postage and delivery	22,370	17,325	39,695
Telecommunications	2,876	21,642	24,518
Subject recruitment	16,592	-	16,592
VA Services	13,750	360	14,110
Bank charges and fees	-	6,974	6,974
Books	1,246	4,930	6,176
Miscellaneous expense	18	2,798	2,816
	<u>\$ 22,104,883</u>	<u>\$ 6,361,969</u>	<u>\$ 28,466,852</u>

Palo Alto Veterans Institute for Research
Statement of Cash Flows
For the Year Ended September 30, 2018

CASH FLOWS USED IN OPERATING ACTIVITIES	
Change in net assets	\$ (308,810)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	353,058
Unrealized gain on certificates of deposit	(999)
Change in operating assets	
Accounts receivable, net	(679,778)
Prepaid expenses	(35,731)
Change in operating liabilities	
Accounts payable	(845,334)
Payroll payable	3,562
Accrued vacation	(8,839)
Other accrued liabilities	388,929
Deferred revenue	<u>(648,872)</u>
Total adjustments	<u>(1,474,004)</u>
Net cash used in operating activities	<u>(1,782,814)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of equipment	(164,106)
Purchases of certificate of deposits	(5,607,000)
Proceeds from sales of certificates of deposit	<u>7,131,539</u>
Net cash from investing activities	<u>1,360,433</u>
Net change in cash and cash equivalents	(422,381)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,176,081</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,753,700</u>

Palo Alto Veterans Institute for Research

Notes to Financial Statements

NOTE 1 – GENERAL DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

Basis of 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 (“GAAP”).

Use of estimates – The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Organization utilizes estimates in its allowance for doubtful accounts, calculation of depreciation expense, and functional expenses.

Net asset classifications – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.

Palo Alto Veterans Institute for Research Notes to Financial Statements

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time. When donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets that are subject to donor-imposed restrictions that specify assets donated be invested to provide a permanent source of income. There were no permanently restricted net assets as of September 30, 2018.

Revenue recognition – The Organization administers several different types of research agreements, including those that are reciprocal and nonreciprocal (charitable) in nature. Grant revenue is recognized when earned, generally in proportion to the expense incurred. Clinical trials agreements are typically on a per-subject payment schedule or milestones. Advance payments from sponsors are classified as deferred revenue and recognized as revenue upon expenditure of allowable costs or completion of the various stages of the studies.

Nonreciprocal revenues or contributions are reported as increases in restricted net assets if they are given with a donor-imposed restriction. Expiration of donor-imposed restrictions (i.e., the donor-stipulated purpose has been satisfied) is reported as satisfaction of program restrictions. The Organization reports donations as unrestricted revenue when the donor does not restrict its use as well as when the donor's restrictions are met in the same reporting period.

Other program revenue includes both grants and contracts from public and private sources. Revenue is recognized as unrestricted or temporarily 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.

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

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 receivables and determined that an allowance for doubtful accounts of \$30,000 was required at September 30, 2018.

Equipment – Equipment is stated at cost. Depreciation is computed using the straight-line method with half-year convention over the assets' estimated useful lives ranging from three to seven years. The Organization has adopted a capitalization policy of capitalizing 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. The accrued vacation balance as of September 30, 2018, was \$692,015.

Palo Alto Veterans Institute for Research

Notes to Financial Statements

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

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

Functional expenses allocation – All costs are charged directly to the appropriate functional expense category. There were no fundraising activities for the year ended September 30, 2018.

Income taxes – Palo Alto Veterans Institute for Research 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, 2018, 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.

NOTE 2 – EQUIPMENT

Equipment is comprised of the following as of September 30, 2018:

Administrative assets	\$ 869,360
Medical research assets	2,560,483
Less accumulated depreciation	<u>(2,448,298)</u>
Equipment, net	<u><u>\$ 981,545</u></u>

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2018, are available for the following purposes:

Research activities	\$ 1,516,915
Educational activities	<u>15,000</u>
Total	<u><u>\$ 1,531,915</u></u>

Net assets were released from donor restrictions during the year ended September 30, 2018, 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:

Research activities	<u>\$ 917,446</u>
Total	<u><u>\$ 917,446</u></u>

NOTE 4 – 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. Postdoctorate fellows were excluded from 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 to 6% from 5%, and the company profit sharing contribution decreased to 3% from 5%. 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 \$745,597 for the year ended September 30, 2018. Plan assets are not reflected in the accompanying financial statements.

NOTE 5 – RELATED-PARTY TRANSACTIONS

In 1988 Congress passed Public Law 100-322 (now codified at section 7361-66 of title 38, United States Code) that allowed VA medical centers to establish nonprofit research corporations (NPCs), forming a unique partnership that dramatically broadened VA's ability to benefit from private and non-VA public support for research 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 \$14,110 for the fiscal year.

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 \$3,744,134 for the year ended September 30, 2018. These costs were included in personnel costs on the statement of functional expenses. At September 30, 2018, the VA was indebted to the Organization in the amount of \$665,644 which is included in the accounts receivable balance at September 30, 2018. In addition, the VA provides office space and 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.

NOTE 6 – CONCENTRATIONS

Major funding – During the year ended September 30, 2018, the Organization received approximately 57% of its revenue from the U.S. Department of Health & Human Services National Institutes of Health. The Organization has long-term agreements with the federal agency and does not anticipate a decrease in funding from these sources.

Palo Alto Veterans Institute for Research

Notes to Financial Statements

As of September 30, 2018, the Organization had receivables from the U.S. Department of Health and Human Services National Institutes of Health of \$1,451,335, or 33% of total accounts receivable; Stanford University of \$719,586, or 16% of total accounts receivable; DFAS Indianapolis Center of \$693,709, or 16% of total accounts receivable; and the United States Treasury of \$665,644, or 15% of total accounts receivable.

Major vendor – The Organization incurred expenses from one vendor for the year ended September 30, 2018, of \$3,168,602 or 14% of program expenses.

NOTE 7 – 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 year ended September 30, 2018.

Board designated funds – The Organization's Board has designated \$806,446 of unrestricted net assets, which could be spent with board approval.

NOTE 8 – FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. Level 2 investments include certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Palo Alto Veterans Institute for Research
Notes to Financial Statements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	<u>\$ -</u>	<u>\$ 1,886,639</u>	<u>\$ -</u>	<u>\$ 1,886,639</u>

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

The Organization has evaluated subsequent events through February 28, 2019, which is the date the financial statements are available to be issued.

Supplementary Information

**Palo Alto Veterans Institute for Research
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number (*)	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<i>Research and Development Cluster</i>				
U.S. Department of Defense:				
Military Medical Research and Development	12.420		\$ 587	\$ 1,468,920
US Army Medical Research Acquisition Activity - Military Medical Research and Development	*		544,207	830,163
Subtotal direct programs			<u>544,794</u>	<u>2,299,083</u>
Pass-through programs from:				
Cincinnati Education & Research for Veterans Foundation-Military Medical Research and Development	*	17-0815-IAA		35,282
Fibrating Corporation - Military Medical Research and Development	*	W81XWH-16-C-0009	-	30,475
Tampa Veterans Research and Education Foundation - Military Medical Research and Development	*	W91Y TZ-13-C-0015	-	62,441
General Dynamics Information Technology - Military Medical Research and Development	*	W91Y TZ-13-C-0015	-	899,863
University of California, San Diego - Military Medical Research and Development	12.420	W81XWH-14-1-0562	-	9,702
K-PAX Pharmaceuticals - Military Medical Research and Development	12.420	W81XWH-14-1-0607	-	1,188
University of Virginia - Military Medical Research and Development	12.420	W81XWH-15-2-0012	-	12,003
Stanford University - Military Medical Research and Development	12.420	W81XWH-15-1-0076	-	7,732
University of California San Diego - Military Medical Research and Development	12.420	W81XWH-17-2-0051	-	3,403
University of Pennsylvania - Military Medical Research and Development	12.420	W81XWH-14-1-0008	-	36,157
University of Pennsylvania - Military Medical Research and Development	12.420	W81XWH-15-1-0374	-	14,915
Washington University - Military Medical Research and Development	12.420	W81 XWH-17-1-0285	-	15,939
The Henry M. Jackson Foundation - Uniform Services University Medical Research Projects	12.750	HU0001-16-2-0014	-	73,665
Subtotal pass-through programs			-	<u>1,202,765</u>
Total U.S. Department of Defense			<u>544,794</u>	<u>3,501,848</u>
National Aeronautics and Space Administration				
Pass-through programs from:				
University of California, San Francisco - Science	43.001	NNX14AC94G	-	6,470
Total National Aeronautics and Space Administration			-	<u>6,470</u>
U.S. Department of Health and Human Services:				
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		73,614	251,144
Oral Diseases and Disorders Research	93.121		388,503	581,932
Research and Training in Complementary and Integrative Health	93.213		-	160,134
Mental Health Research Grants	93.242		610,750	1,651,354
Alcohol Research Programs	93.273		344,253	483,025
Drug Abuse and Addiction Research Programs	93.279		76,936	386,930
Minority Health and Health Disparities Research	93.307		119,949	362,593
Trans-NIH Research Support	93.310		212,547	1,481,532
Cancer Biology Research	93.396		-	201,411
Cardiovascular Diseases Research	93.837		-	256,933
Lung Diseases Research	93.838		18,834	207,695
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		-	176,541
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		124,434	416,720
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		389,271	1,323,046
Allergy and Infectious Diseases Research	93.855		62,360	2,151,268
Biomedical Research and Research Training	93.859		604	267,463
Aging Research	93.866		58,010	1,942,352
Subtotal direct programs			<u>2,480,065</u>	<u>12,302,073</u>

**Palo Alto Veterans Institute for Research
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number (*)	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Pass-through programs from:				
Department of Veterans Affairs - Research and Development	*	AOD16037	-	352,341
Center for Disease Control and Prevention - Atlanta Research and Education Foundation	*	17FED1712125	-	167,899
Brandeis University - Research and Training in Complementary and Alternative Medicine	93.213	R01 AT008404	-	56,753
University of Michigan - Mental Health Research Grants	93.242	R01 MH096699	-	11,841
Posit Science Corporation - Alcohol Research Program	93.273	R43 AA025497	-	66,296
Fred Hutchinson Cancer Research Center - Drug Abuse and Addiction Research Programs	93.279	R34 DA040119	-	30,572
Stanford University - Discovery and Applied Research for Technological Innovations	93.286	R21 EB020235	-	30,592
Stanford University - Cardiovascular Diseases Research	93.837	various	-	267,954
Vanderbilt University - Cardiovascular Diseases Research	93.837	P01 HL129941	-	251,207
University of Colorado, Denver - Lung Diseases Research	93.838	P01 HL014985	-	297,935
Stanford University - Lung Diseases Research	93.838	R01 HL138473	-	147,885
University of Michigan - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	R34 AR068027	-	956
Brigham & Women's - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	R01 AR049880	-	(4,009)
Stanford University - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	various	-	211,398
Brigham & Women's - Extramural Research Programs in the Neurosciences & Neurological Disorders	93.853	R01 NS030843	-	40,678
Stanford University - Allergy and Infectious Diseases Research	93.855	various	-	418,318
Brown University - Allergy and Infectious Diseases Research	93.855	R01 AI083636	-	53,691
John Hopkins University - Allergy and Infectious Diseases Research	93.855	R01 AI117032	-	84,013
Emory University - Allergy and Infectious Diseases Research	93.855	U19 AI057266	-	260,318
University of Pittsburgh - Child Health and Human Development Extramural Research	93.865	P2C HD086843	-	76,194
University of Nebraska Medical Center - Aging Research	93.866	R01 AG037120	-	1,912
University of Connecticut Health Center - Aging Research	93.866	R01 AG052962	-	119,930
Albert Einstein College of Medicine - Aging Research	93.866	R01 AG057433	-	83,472
Stanford University - Aging Research	93.866	various	-	618,261
Subtotal pass-through programs			-	3,646,407
Total U.S. Department of Health and Human Services			2,480,065	15,948,480
Total Research and Development Cluster and Expenditures of Federal Awards			<u>\$ 3,024,859</u>	<u>\$ 19,456,798</u>

Palo Alto Veterans Institute for Research
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Palo Alto Veterans Institute for Research (the “Organization”), under programs of the federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the cost principles contained in 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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. The Organization recognizes grants to the extent that eligible grant costs are incurred. The Organization elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 – SUBRECIPIENTS

Certain funds are passed through to subrecipient organizations by the Organization. Expenditures incurred by the subrecipients, and reimbursed by the Organization, are included in the Schedule of Expenditures of Federal Awards. The Organization is also the subrecipient of federal funds, which are reported as expenditures and listed separately as federal pass through funds.

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Palo Alto Veterans Institute for Research

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 (the "Organization"), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, 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 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization'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 the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
February 28, 2019

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Palo Alto Veterans Institute for Research

Report on Compliance for the Major Federal Program

We have audited Palo Alto Veterans Institute for Research's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended September 30, 2018. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 the Organization'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 the major federal program. However, our audit does not provide a legal determination on the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Report on Internal Control over Compliance

Management of the Organization 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, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Organization'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.

Moss Adams LLP

San Francisco, California
February 28, 2019

**Palo Alto Veterans Institute for Research
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018**

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over federal major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516(a)? Yes No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for the Major Federal Program</i>
Various	Research and Development Cluster	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

