

BOSTON VA RESEARCH INSTITUTE, INC.

***FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS***

YEARS ENDED DECEMBER 31, 2019 and 2018

BOSTON VA RESEARCH INSTITUTE, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 and 2018

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Financial Section

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Independent Auditor's Report

The Audit Committee
Boston VA Research Institute, Inc.
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Boston VA Research Institute, Inc. (BVARI), a nonprofit organization, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boston VA Research Institute, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Revenue, as listed in the table of contents, is presented for the purpose of supplementary analysis and is not a required part of the financial statements of BVARI. 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 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 May 14, 2020 on our consideration of BVARI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 BVARI's internal control over financial reporting and compliance.

Power & Juliani, LLC

May 14, 2020

Financial Statements

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BOSTON VA RESEARCH INSTITUTE, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

	2019	2018
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 21,029,312	\$ 13,945,909
Short-term investments.....	-	6,921,800
Accounts receivable, net.....	3,946,851	3,654,658
Accrued interest receivable.....	-	513
Prepaid expenses and other current assets.....	72,058	106,987
TOTAL CURRENT ASSETS.....	25,048,221	24,629,867
NONCURRENT:		
Property and equipment, net of accumulated depreciation.....	60,171	2,940
TOTAL ASSETS.....	\$ 25,108,392	\$ 24,632,807
LIABILITIES		
CURRENT:		
Accounts payable and accrued expenses.....	\$ 2,461,564	\$ 1,569,578
Payroll related liabilities.....	473,053	366,730
IPA rate revenue due to the VA Boston Healthcare System.....	228,217	152,145
Advances.....	18,285,147	19,137,951
TOTAL CURRENT LIABILITIES.....	21,447,981	21,226,404
NONCURRENT:		
IPA rate revenue due to the VA Boston Healthcare System.....	304,290	532,507
TOTAL LIABILITIES.....	21,752,271	21,758,911
NET ASSETS		
Without donor restrictions:		
Programmatically designated for on-going research activities.....	646,590	838,734
Funds designated for on-going educational activities.....	908,211	814,648
Residual and fund balances designated for research and educational activities.....	1,965,513	1,802,968
Administrative (deficit).....	(183,193)	(602,454)
Total without donor restrictions.....	3,337,121	2,853,896
With donor restrictions.....	19,000	20,000
TOTAL NET ASSETS.....	3,356,121	2,873,896
TOTAL LIABILITIES AND NET ASSETS.....	\$ 25,108,392	\$ 24,632,807

See notes to financial statements.

BOSTON VA RESEARCH INSTITUTE, INC.

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Program revenue.....	\$ 10,695,155	\$ -	\$ 10,695,155	\$ 7,110,188	\$ -	\$ 7,110,188
Support services.....	1,483,777	-	1,483,777	4,616,500	-	4,616,500
Education revenue.....	153,389	-	153,389	130,493	-	130,493
Investment income.....	365,112	-	365,112	259,227	-	259,227
TOTAL SUPPORT AND REVENUE.....	12,697,433	-	12,697,433	12,116,408	-	12,116,408
EXPENSES:						
Program expenses - research.....	10,357,744	-	10,357,744	10,216,519	-	10,216,519
Program expenses - education.....	46,969	1,000	47,969	45,225	1,500	46,725
General and administrative expenses.....	1,809,495	-	1,809,495	1,522,240	-	1,522,240
TOTAL EXPENSES.....	12,214,208	1,000	12,215,208	11,783,984	1,500	11,785,484
CHANGE IN NET ASSETS.....	483,225	(1,000)	482,225	332,424	(1,500)	330,924
NET ASSETS AT BEGINNING OF YEAR.....	2,853,896	20,000	2,873,896	2,521,472	21,500	2,542,972
NET ASSETS AT END OF YEAR.....	\$ 3,337,121	\$ 19,000	\$ 3,356,121	\$ 2,853,896	\$ 20,000	\$ 2,873,896

See notes to financial statements.

BOSTON VA RESEARCH INSTITUTE, INC.

**STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31,**

	2019			2018	
	Program Expenses - Research	Program Expenses - Education	General and Administrative Expenses	Total	Total
Without Donor Restrictions:					
Salaries and wages.....	\$ 3,696,078	\$ -	\$ 814,827	\$ 4,510,905	\$ 5,997,440
Retirement contributions.....	264,559	-	83,432	347,991	266,380
Other employee benefits.....	734,014	-	219,251	953,265	1,510,397
Payroll taxes.....	373,897	-	82,075	455,972	562,227
Subawards.....	3,292,313	-	12,811	3,305,124	1,458,467
Subject reimbursements.....	-	-	-	-	114,551
Personnel agreement reimbursements.....	277,359	-	109,332	386,691	361,065
Payments to affiliates.....	682,924	27,217	-	710,141	292,365
Professional fees - legal.....	-	-	36,470	36,470	11,786
Professional fees - accounting and auditing.....	-	-	46,275	46,275	45,220
Professional fees - other.....	674,608	392	100,064	775,064	221,401
Information technology.....	16,784	-	67,142	83,926	145,671
Office.....	62,771	1,500	34,572	98,843	127,161
Lab supplies.....	105,968	495	2,898	109,361	248,798
Insurance.....	-	-	21,211	21,211	21,397
Grant equipment.....	43,485	-	-	43,485	107,965
Donated services - rent.....	-	-	126,964	126,964	123,119
Travel.....	123,136	6,372	37,656	167,164	107,267
Conferences and training.....	9,848	11,993	7,230	29,071	52,135
Depreciation.....	-	-	7,285	7,285	10,672
TOTAL EXPENSES.....	\$ 10,357,744	\$ 47,969	\$ 1,809,495	\$ 12,215,208	\$ 11,785,484

See notes to financial statements.

BOSTON VA RESEARCH INSTITUTE, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Expenses - <u>Research</u>	Program Expenses - <u>Education</u>	General and Administrative <u>Expenses</u>	<u>Total</u>
Without Donor Restrictions:				
Salaries and wages.....	\$ 5,156,160	\$ 17,975	\$ 823,305	\$ 5,997,440
Retirement contributions.....	230,978	773	34,629	266,380
Other employee benefits.....	1,319,116	4,143	187,138	1,510,397
Payroll taxes.....	487,507	1,630	73,090	562,227
Subawards.....	1,458,467	-	-	1,458,467
Subject reimbursements.....	114,551	-	-	114,551
Personnel agreement reimbursements.....	361,065	-	-	361,065
Payments to affiliates.....	292,365	-	-	292,365
Professional fees - legal.....	-	-	11,786	11,786
Professional fees - accounting and auditing.....	-	-	45,220	45,220
Professional fees - other.....	129,687	34	91,680	221,401
Information technology.....	76,375	-	69,296	145,671
Office.....	100,171	3,186	23,804	127,161
Lab supplies.....	248,138	660	-	248,798
Insurance.....	-	-	21,397	21,397
Grant equipment.....	107,965	-	-	107,965
Donated services - rent.....	-	-	123,119	123,119
Travel.....	103,656	-	3,611	107,267
Conferences and training.....	30,318	18,324	3,493	52,135
Depreciation expense.....	-	-	10,672	10,672
TOTAL EXPENSES.....	\$ <u>10,216,519</u>	<u>46,725</u>	<u>1,522,240</u>	\$ <u>11,785,484</u>

See notes to financial statements.

BOSTON VA RESEARCH INSTITUTE, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets.....	\$ 482,225	\$ 330,924
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation.....	7,285	10,672
Market value adjustment.....	68,004	(50,064)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable.....	(292,193)	(246,449)
Decrease (increase) in accrued interest receivable.....	513	1,636
Decrease (increase) in prepaid expenses and other current assets.....	34,929	36,785
Increase (decrease) in accounts payable and accrued expenses.....	891,986	(66,203)
Increase (decrease) in payroll related liabilities.....	106,323	(70,074)
Increase (decrease) in advances.....	(852,804)	2,505,264
Increase (decrease) in IPA rate revenue due to VA Boston Healthcare System.....	<u>(152,145)</u>	<u>-</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>294,123</u>	<u>2,452,491</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures.....	(64,516)	-
Purchase of investments.....	-	(8,630,736)
Proceeds from the sale of investments.....	<u>6,853,796</u>	<u>15,393,534</u>
NET CASH FROM INVESTING ACTIVITIES.....	<u>6,789,280</u>	<u>6,762,798</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	7,083,403	9,215,289
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>13,945,909</u>	<u>4,730,620</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 21,029,312</u>	<u>\$ 13,945,909</u>

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Boston VA Research Institute, Inc. (BVARI) is presented to assist in understanding BVARI's financial statements. The financial statements and notes are representations of the BVARI's management who is responsible for their integrity and objectivity.

Organization

BVARI was established and incorporated as a non-profit organization under the laws of the Commonwealth of Massachusetts in May 1990. BVARI derives its origins in legislation authorizing non-profit research corporations at all Veterans Affairs (VA) Medical Centers. Public law 100-322 dated May 20, 1988 amended 38 USC, Chapter 73 authorizing the establishment of non-profit corporations at each VA Medical Center, the purpose of which is to provide a funding mechanism for monies received from other than VA appropriations for conducting research and educational projects approved by the Medical Center.

The purpose of BVARI is to advance the research mission of the Department of Veterans Affairs through the support of research and educational related activities at the VA Boston Health Care System. Collaborative research and educational endeavors may be established with universities, for-profit companies, hospitals, charitable foundations, professional societies, the Public Health Service or other governmental agencies, and other non-profit agencies.

Basis of Presentation

BVARI's policy is to prepare its financial statements in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 *Not-for-Profit Organizations (FASB ASC 958-205)*, as updated by FASB Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, on an accrual basis of accounting which recognizes revenue when earned rather than when received and records expenses when incurred rather than when paid. Under ASC 958 BVARI is required to report information regarding its financial position and activities based on two classes of net assets as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions or limits as to their use.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations in which only the earnings can be used to fund various programs.

Revenue and Revenue Recognition

A portion of BVARI's revenue is derived from federal and private awards which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when BVARI has incurred expenditures in compliance with specific award provisions. Amounts received prior to incurring qualified expenditures are reported as refundable advances in the statement of financial position. BVARI received advances of \$18,285,147 and \$19,137,951 for the years ending December 31, 2019 and 2018, respectively that have not been recognized because qualifying expenditures have not yet been incurred.

Tax Status

BVARI is a tax-exempt organization under the Internal Revenue Code Section 501(c) (3) and, therefore, has no provision for Federal or state income taxes.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

BVARI reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the organization to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of BVARI's financial instruments, see Note 3 – Fair Value Measurements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, BVARI considers all highly liquid investments available for current use with an initial maturity date of three months or less to be cash equivalents.

BVARI utilizes a U.S. Government Portfolio at UBS Bank in addition to several operating checking accounts for its deposits. All cash balances in excess of the FDIC insured limits are swept into securities that are fully guaranteed

by the U.S. Government.

Investments

Investments are stated at fair value as of the financial statement date, in accordance with *FASB ASC 958-320*. The fair values of investments are based on quoted market prices for those or similar investments.

Property and Equipment

BVARI capitalizes the costs of office furnishings and equipment with expected useful lives greater than one year. This policy relates to individual purchases in excess of \$5,000 and these are valued at historical cost. Depreciation is provided using the straight-line method for financial reporting purposes at rates based on estimated useful lives of 3 to 5 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized and are treated as expenses when incurred.

Contributed Facilities and Equipment

FASB ASC 958-605 requires the fair value of donated materials and facilities to be recognized in the financial statements. BVARI is provided with office space and the use of necessary office equipment as part of their association with the VA Medical Center. BVARI has recorded the estimated value of the office space provided as donated services and rent expense in the amount of \$126,964 and \$123,119 for the years ended December 31, 2019 and 2018, respectively. No amounts have been recorded in the financial statements for the value of office equipment provided as there is no measurable benefit specifically accruing to BVARI.

Insurance

BVARI is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which BVARI carries commercial insurance.

Compensated Absences

Employees are granted time off in varying amounts based on state laws and executive policies. Vested or accumulated unused leave is recorded as a liability.

Advertising

Advertising costs are expensed as incurred. There were no advertising expenses incurred for the years ended December 31, 2019 and 2018.

Fund-Raising Activities

BVARI has no significant fund-raising activities.

Reclassifications

Certain amounts reported in 2018 have been reclassified to compare with the presentations in 2019 without any change to net assets.

Subsequent Events

BVARI has evaluated subsequent events through May 14, 2020, the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

VA Research Corporations are legally restricted as to the management of funds. The Corporation may use idle funds to purchase instruments backed by the full faith and credit of the United States Government such as US Treasury bills and notes, and fully insured bank certificates of deposit. At December 31, 2019, BVARI had \$16,417,321 of U.S. Treasury notes that are classified as cash equivalents and in 2018 BVARI had \$6,921,800 of U.S. Treasury notes and certificates of deposit with original maturity dates greater than three months that are classified as short-term investments. The individual certificates of deposit were all insured by the FDIC.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure within one year consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents.....	\$ 21,029,312	\$ 13,945,909
Short-term investments.....	-	6,921,800
Accounts receivable, net.....	3,946,851	3,654,658
Accrued interest receivable.....	-	513
	<u>24,976,163</u>	<u>24,522,880</u>
Total financial assets available within one year.....		
Less amounts not available to be used within one year:		
Grant advances.....	(18,285,147)	(19,137,951)
Less financial assets held with restrictions:		
Purpose-restricted net assets.....	(19,000)	(20,000)
Less amounts designated for:		
Programmatically designated for on-going research activities.....	(646,590)	(838,734)
Funds designated for on-going educational activities.....	(908,211)	(814,648)
Residual and fund balances designated for research and educational activities.....	<u>(1,965,513)</u>	<u>(1,802,968)</u>
	<u>3,151,702</u>	<u>1,908,579</u>
Amount available for expenditures within one year.....	\$	\$

The above table reflects donor-restricted and designated funds as unavailable because it is the Organization's intention to maintain those resources for the long-term support of the organization's research and educational activities.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments.

NOTE 4 – FAIR VALUE MEASUREMENTS

The following table presents financial assets at December 31, 2019, that BVARI measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<u>Assets</u>	<u>Portion carried at fair value</u>	<u>Quoted prices in active markets Level 1</u>	<u>Significant observable inputs Level 2</u>	<u>Significant unobservable inputs Level 3</u>
U.S. Treasury Notes.....	\$ 16,417,321	\$ 16,417,321	\$ -	\$ -

The following table presents financial assets at December 31, 2018, that BVARI measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<u>Assets</u>	<u>Portion carried at fair value</u>	<u>Quoted prices in active markets Level 1</u>	<u>Significant observable inputs Level 2</u>	<u>Significant unobservable inputs Level 3</u>
U.S. Treasury Notes.....	\$ 5,726,580	\$ 5,726,580	\$ -	\$ -
Certificates of Deposit.....	1,195,220	1,195,220	-	-
Total assets at fair value	\$ 6,921,800	\$ 6,921,800	\$ -	\$ -

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Furniture and Equipment	\$ 219,728	\$ 155,212
Less: Accumulated Depreciation	<u>(159,557)</u>	<u>(152,272)</u>
Total Property and Equipment	<u>\$ 60,171</u>	<u>\$ 2,940</u>

Depreciation expense amounted to \$7,285 and \$10,672 for the years ended December 31, 2019 and 2018, respectively.

NOTE 6 – IPA RATE REVENUE DUE TO VA BOSTON HEALTHCARE SYSTEM

BVARI was established in 1990 to conduct, promote and support the medical research and education activities of the VABHS, and to advance the wellbeing of veterans and the general public through these endeavors. As such, BVARI engages in collaborative arrangements with the VA and other governmental agencies, universities, for profit companies, hospitals, charitable foundations, professional societies, and other non-profit entities.

In order to further these activities, BVARI has for many years entered into agreements with VABHS whereby BVARI assigns some of its employees to work at VABHS. These arrangements, common throughout the Federal Government, are authorized by the Intergovernmental Personnel Act ("IPA"), 5 U.S.C. Sections 3371 through

3375. The increasing administrative costs of employing individuals assigned to VABHS and managing the IPA agreements became of concern to BVARI a number of years ago. BVARI therefore sought reimbursement for some of those costs through the establishment of an IPA Rate. Pursuant to the IPA Agreements with VABHS, the VA agreed to reimburse BVARI for the employees' salary and benefits, and beginning in 2014, to also pay an "IPA Rate" of 3.9% to 4.4% (varying by year) of the compensation as reimbursement for administrative costs BVARI incurred in connection with employing these individuals and administering the IPA Agreements.

Pursuant to Federal regulation, 2 CFR Part 200, BVARI's cognizant agency for indirect costs negotiates and signs agreements with BVARI for all indirect cost rates. The cognizant agency for indirect costs is the Federal agency responsible for reviewing, negotiating, and approving indirect cost proposals on behalf of all Federal agencies. ONR (Office of Naval Research), BVARI's cognizant agency for indirect costs, negotiated the IPA Rate with BVARI, as reflected in our 2014 through 2017 Negotiation Agreements.

BVARI negotiated in good faith and agreed upon the IPA Agreements with the VA. The IPA Rate was expressly and consistently contained in each agreement and the Agreements are only a few pages in length.

The Intergovernmental Personnel Act of 1970, 5 USC sec. 3371-3375, does not prohibit processing fees or administrative rates, nor do the regulations governing the IPA, found at 5 CFR Part 334, or any other law. Nonetheless, the VA asserts that the IPA Rates and any IPA processing fees were improper because they are prohibited by the VA Handbook 5005 and not affirmatively or explicitly authorized by the IPA Act.

From January 2014 through April 2017, BVARI charged and VABHS paid the IPA Rate agreed to in the IPA Agreements and the Negotiation Agreements with ONR. In April 2017, the VA's Nonprofit Program Office ("NPPO") conducted a routine triennial on-site limited review of BVARI's financial policies and procedures, internal controls, operations and finances. On April 28, 2017, NPPO issued a written report on its review that stated that payment of the IPA Rate was improper and in violation of VA Handbook 5005. Even though the charges were a clear and unambiguous term of the IPA Agreements, the report stated that BVARI would be required to make restitution to the VA for all such costs, totaling \$684,652.

In addition to the IPA Rate matter discussed above, the VA questioned the use of specific IPA's for three of BVARI's employees and also for a Board Designated retirement contribution reimbursed to BVARI for employees who participated in the IPA program during 2013 and 2014. The VA has informally suggested that these amounts may also be subject to reimbursement by BVARI. As of the date of this report, BVARI is waiting for the VA to issue its opinion clarifying its position regarding these matters.

Given that the VA has invoiced BVARI for the \$684,652 mentioned above, this amount has been accrued as a liability in these financial statements. BVARI classified this as a long-term liability in 2017 expecting that the VA would allow BVARI to repay it over time. In February 2019, the VA offered a 36-month repayment plan to begin in May of 2019. BVARI signed a promissory note payable to the VA for this amount in early 2020. During 2019, BVARI made scheduled payments of \$152,145 reducing the liability to \$532,507 at December 31, 2019.

In accordance with FASB ASC 450-20 Contingencies, BVARI has not recorded any other liabilities as a result of the NPPO review. Although BVARI may be ultimately liable for additional reimbursements to the VA, these amounts, if any, are not determinable as of the date of this report. BVARI is aware of a range of potential claims made by the VA but these are subject to final determination by the VA and to negotiation by BVARI and the VA based on other matters that have not yet been clarified.

NOTE 7 – CONCENTRATION

BVARI derives its revenues from research and educational activities associated with the Department of Veterans Affairs and related collaborative research projects sponsored by a variety of organizations in support of the VA Boston Healthcare System.

Accounts receivable for the years ended December 31, 2019 and 2018 are net of an allowance for doubtful accounts in the amount of \$15,000, respectively.

BVARI believes that it has no significant concentration of credit risk outside of its basis of origin as described in Note 1.

NOTE 8 – ADVANCES

BVARI receives advances of funds from various Federal and Non-Federal agreements as well as through agreements with the VA for participation in governmental Interagency Agreements (IAA's). IAA's are written agreements entered into between two Federal agencies, or major organizational units within an agency, which specifies the goods to be furnished or tasks to be accomplished by one agency (the servicing agency) in support of the other (the requesting agency). Advances consist of the following at December 31:

	2019		2018
	<u> </u>		<u> </u>
Governmental Interagency Agreements.....\$	15,233,354	\$	15,049,172
Federal advances.....	504,525		1,305,594
Non-Federal advances.....	<u>2,547,268</u>		<u>2,783,185</u>
Total advances.....\$	<u>18,285,147</u>	\$	<u>19,137,951</u>

NOTE 9 – RETIREMENT PLAN

BVARI implemented a Section 403(b) retirement plan in 2008 that covers substantially all employees who have completed one year of service and are at least 21 years old. There is no minimum age or service requirement for employee pre-tax contributions. BVARI may make discretionary contributions to the plan as determined by the Board of Directors annually. Retirement benefit expense amounted to approximately \$347,991 and \$266,380 for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 – FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, expenses require allocation on a reasonable and consistent basis that is consistently applied. The expenses that are allocated are employee benefits that are allocated based on salaries and wages distribution.

NOTE 11 – CONTINGENCIES

Readers are referred to Note 6 for contingencies relating to claims made by the VA for BVARI's participation in Intergovernmental Personnel Act (IPA) payments.

BVARI participates in a number of federal award programs. Although BVARI's programs have been audited in accordance with the provisions of the Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, these programs are still subject to financial and compliance audits. The amounts, if any, of expenditures or overhead allowances which may be disallowed or changed by the granting agencies cannot be determined at this time, although BVARI expects such amounts, if any, to be immaterial. In addition to its federal award programs, BVARI is subject to the oversight of the Veterans' Health Administration of the Department of Veterans' Affairs (VHA). The VHA is responsible for the development and monitoring of compliance standards associated with the research projects administered by BVARI. As such, these projects are still subject to compliance audits by the VHA.

Supplementary Information

BOSTON VA RESEARCH INSTITUTE, INC.

**SUPPLEMENTARY SCHEDULES OF REVENUE
YEARS ENDED DECEMBER 31,**

	<u>2019</u>	<u>2018</u>
PROGRAM REVENUE		
Federal:		
DOD revenue.....	\$ 4,048,820	\$ 2,298,428
Federal awards - subrecipient.....	757,461	1,602,304
DHHS revenue.....	3,893,804	1,725,610
Federal education.....	-	10,000
Total Federal Revenue.....	<u>8,700,085</u>	<u>5,636,342</u>
Non-Federal:		
CRADA revenue.....	808,364	601,930
Research revenue.....	571,654	470,116
Other research revenue.....	615,052	401,800
Total Non-Federal Revenue.....	<u>1,995,070</u>	<u>1,473,846</u>
TOTAL PROGRAM REVENUE.....	<u>10,695,155</u>	<u>7,110,188</u>
SUPPORT SERVICES		
IPA reimbursements.....	1,230,399	4,278,425
Other research support.....	126,414	214,956
SUPPORT SERVICES.....	<u>1,356,813</u>	<u>4,493,381</u>
OTHER SUPPORT		
Donated services - office space.....	126,964	123,119
TOTAL SUPPORT SERVICES.....	<u>1,483,777</u>	<u>4,616,500</u>
EDUCATION REVENUE		
Other education revenue.....	153,389	130,493
INVESTMENT INCOME.....	<u>365,112</u>	<u>259,227</u>
TOTAL REVENUE.....	<u>\$ 12,697,433</u>	<u>\$ 12,116,408</u>

BOSTON VA RESEARCH INSTITUTE, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-through Number	Passed through to Subrecipients	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER				
DIRECT PROGRAMS:				
U.S. DEPARTMENT OF DEFENSE				
Military Medical Research and Development	12.420	W81XWH-17-1-0217	\$ 159,878	\$ 205,292
Military Medical Research and Development	12.420	W81XWH-19-1-0057	27,968	121,447
Military Medical Research and Development	12.420	W81XWH-18-1-0697	11,462	270,663
Military Medical Research and Development	12.420	W81XWH-17-2-0067	375,834	556,305
Military Medical Research and Development	12.420	W81XWH-15-1-0216	-	49,557
Military Medical Research and Development	12.420	W81XWH-16-1-0694	-	209,872
Military Medical Research and Development	12.420	W81XWH-17-1-0041	50,577	158,708
Military Medical Research and Development	12.420	W81XWH-15-1-0391	470,892	685,432
Military Medical Research and Development	12.420	W81XWH-15-1-0631	-	228,071
Military Medical Research and Development	12.420	W81XWH-15-1-0374	6,065	173,231
TOTAL DEPARTMENT OF DEFENSE			<u>1,102,676</u>	<u>2,658,578</u>
PASS THROUGH PROGRAMS:				
U.S. DEPARTMENT OF DEFENSE				
<u>Passed through Joslin Diabetes Center:</u>				
Military Medical Research and Development	12.420	100086-2150028	-	52,933
<u>Passed through Salem Research Institute, Inc.:</u>				
Military Medical Research and Development	12.420	002	-	53,160
<u>Passed through the Bronx Veterans Medical Research Foundation, Inc.:</u>				
Military Medical Research and Development	12.420	W81XWH-12-1-0585 - Sub (1)	20,690	21,608
<u>Passed through the University of Texas Health Science Center at San Antonio:</u>				
Military Medical Research and Development	12.420	161447/155536	-	28,413
Military Medical Research and Development	12.420	159418/155536	-	2,668
Military Medical Research and Development	12.420	161084/155536	-	20,968
Military Medical Research and Development	12.420	161075/155536	-	10,095
<u>Passed through Florida State University:</u>				
Military Medical Research and Development	12.420	R02122	55,340	82,910
<u>Passed through Boston Children's Hospital:</u>				
Military Medical Research and Development	12.420	GENFD0001678711	-	4,659
<u>Passed through Boston University:</u>				
Military Medical Research and Development	12.420	9500300580	-	8,153
Military Medical Research and Development	12.420	4500003031	-	4,893
<u>Passed through Duke University:</u>				
Military Medical Research and Development	12.420	3130490	-	32,122
TOTAL DEPARTMENT OF DEFENSE			<u>76,030</u>	<u>322,582</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<u>Passed through EPhysBio, Inc.:</u>				
Mental Health Research Grants.....	93.242	0009FEDsB	-	21,596
<u>Passed through the Brigham & Women's Hospital:</u>				
Cardiovascular Diseases Research.....	93.837	114117	-	192,117
Aging Research.....	93.866	115900	-	2,412
<u>Passed through New York University School of Medicine:</u>				
Cardiovascular Diseases Research.....	93.837	001012	-	2,204
<u>Passed through New England Research Institutes, Inc.:</u>				
Cardiovascular Diseases Research.....	93.837	1314	8,035	15,201
<u>Passed through University of Washington:</u>				
Blood Diseases and Resources Research.....	93.839	UWSC10308	-	56,912
<u>Passed through the Harvard Medical School:</u>				
Aging Research.....	93.866	150950.5112310.0002	-	45,610
<u>Passed through Griffin Hospital:</u>				
Grants for Primary Care Training and Enhancement.....	93.884	T0BHP28572-VA-01	-	541
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>8,035</u>	<u>336,593</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS - RESEARCH AND DEVELOPMENT CLUSTER			<u>\$ 1,186,741</u>	<u>\$ 3,317,753</u>

See notes to schedule of expenditures of federal awards.

Note A – Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the Boston VA Research Institute, Inc. under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Boston VA Research Institute, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Boston VA Research Institute, Inc.

Note B – Significant Accounting Policies

1. 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.
2. Boston VA Research Institute, Inc. has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note C – Program Clusters

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)*, certain programs have been clustered in determining major programs. All of the Boston VA Research Institute, Inc. programs are included as one research and development cluster.

Note D – Governmental Interagency Agreement Activities

As mentioned in Note 8 to the financial statements, BVARI provides services to the VA Boston Healthcare System under a Memorandum of Understanding (MOU). Funding used under this MOU is provided through Interagency Agreements between the National Institute of Health (NIH) or the Department of Defense (DoD) and the Department of Veterans Affairs. BVARI provides support to the VA Precision Medicine Initiative Cohort Program (PMI-CP) for administrative, data management, extraction and storage of specimens, as well as health records and survey data, collected from Veterans who enroll into the Precision Medicine Program. BVARI provides support on the “NCI and VA Interagency Group to Accelerate Trials Enrollment” (NAVIGATE) program between NIH and the VA.

Spending under the PMI-CP MOU amounted to approximately \$2,440,317 for the year ending December 31, 2019. Spending under the PMI-CP (DoD) MOU amounted to approximately \$1,302,217 for the year ending December 31, 2019. Spending under the NAVIGATE (NIH) MOU amounted to approximately \$1,257,839 for the year ending December 31, 2019. Although these funds are sourced from the Federal government, they are not considered expenditures of Federal Grant Awards for the purpose of the Schedule of Expenditures of Federal Awards and are therefore not included on that Schedule.

Single Audit Section



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**INDEPENDENT AUDITOR'S REPORT 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 Audit Committee
Boston VA Research Institute, Inc.
Boston, Massachusetts

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 the Boston VA Research Institute, Inc. (BVARI), a nonprofit organization, which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 14, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BVARI'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BVARI's internal control. Accordingly, we do not express an opinion on the effectiveness of the BVARI'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 the entity'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 significant deficiencies or material weaknesses. 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 BVARI's financial statements are free of 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 organization'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.

Power + Juliani, LLC

May 14, 2020



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

To the Audit Committee
Boston VA Research Institute, Inc.
Boston, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited the Boston VA Research Institute, Inc.'s (BVARI) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of BVARI's major federal programs for the year ended December 31, 2019. BVARI's major federal programs are 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, BVARI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of BVARI is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered BVARI's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each for 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 BVARI'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 the 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 significant deficiencies or material weaknesses. 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.

Powers + Juliani, LLC

May 14, 2020

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Boston VA Research Institute, Inc.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report 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*.
3. No instances of noncompliance material to the financial statements of the Boston VA Research Institute, Inc., were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the Boston VA Research Institute, Inc. expresses an unmodified opinion.
6. There were no audit findings relative to the major federal award programs for the Boston VA Research Institute, Inc.
7. The programs tested as major grants included all programs within the Research and Development Cluster.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Boston VA Research Institute, Inc. was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs-Major Federal Award Programs

None

D. Summary Schedule of Prior Audit Findings

None