REPORTS OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
FEDERAL AWARDS SUPPLEMENTARY INFORMATION

LA JOLLA INSTITUTE FOR IMMUNOLOGY

December 31, 2021 and 2020

MOSSADAMS

Table of Contents

Report of Independent Auditors

The Board of Directors
La Jolla Institute for Immunology

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of La Jolla Institute for Immunology (the "Institute"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institute as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 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 schedule of expenditures of federal awards 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 June 21, 2022, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of La Jolla Institute'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 La Jolla Institute's internal control over financial reporting and compliance.

Moss Adams LLP

San Diego, California
June 22, 2022

ASSETS

	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	$ 12,069,000	$ 8,331,000
Restricted cash	-	1,750,000
Investments	23,116,000	15,300,000
Grants and contracts receivable	11,962,000	12,279,000
Pledges receivable, net	1,159,000	2,162,000
Prepaid expenses and other receivables	2,618,000	2,085,000
Property, net	19,225,000	18,630,000
Total assets	$ 70,149,000	$ 60,537,000

LIABILITIES AND NET ASSETS

	December 31, 2021	December 31, 2020
LIABILITIES		
Accounts payable and accrued expenses	$ 18,332,000	$ 17,515,000
Deferred revenue	4,938,000	5,243,000
Debt	7,786,000	14,836,000
Total liabilities	31,056,000	37,594,000
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET ASSETS		
Without donor restrictions	24,652,000	10,985,000
With donor restrictions	14,441,000	11,958,000
Total net assets	39,093,000	22,943,000
Total liabilities and net assets	$ 70,149,000	$ 60,537,000

La Jolla Institute for Immunology
Statements of Activities

	Years Ended December 31,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Grants and contracts						
NIH grants and contracts	$ 47,230,000	$ -	$ 47,230,000	$ 41,762,000	$ -	$ 41,762,000
NIH consortium revenue	14,463,000	-	14,463,000	11,469,000	-	11,469,000
Other grants	7,196,000	-	7,196,000	7,256,000	-	7,256,000
Total grants and contracts	68,889,000	-	68,889,000	60,487,000	-	60,487,000
Contract research funding	6,000,000	-	6,000,000	6,000,000	-	6,000,000
Affiliate funding	3,000,000	-	3,000,000	3,000,000	-	3,000,000
Contributions	657,000	12,161,000	12,818,000	197,000	8,930,000	9,127,000
Investment income	807,000	-	807,000	517,000	-	517,000
PPP loan forgiveness	5,832,000	-	5,832,000	-	-	-
Other	3,022,000	-	3,022,000	1,291,000	-	1,291,000
License fees and royalties	1,722,000	-	1,722,000	202,000	-	202,000
Net assets released from restrictions	9,678,000	(9,678,000)	-	4,834,000	(4,834,000)	-
Total revenue and support	99,607,000	2,483,000	102,090,000	76,528,000	4,096,000	80,624,000
EXPENSES						
Research	76,400,000	-	76,400,000	71,411,000	-	71,411,000
General and administrative	8,331,000	-	8,331,000	8,670,000	-	8,670,000
Fundraising	1,209,000	-	1,209,000	1,089,000	-	1,089,000
Total expenses	85,940,000	-	85,940,000	81,170,000	-	81,170,000
CHANGE IN NET ASSETS	13,667,000	2,483,000	16,150,000	(4,642,000)	4,096,000	(546,000)
NET ASSETS						
Beginning of year	10,985,000	11,958,000	22,943,000	15,627,000	7,862,000	23,489,000
End of year	$ 24,652,000	$ 14,441,000	$ 39,093,000	$ 10,985,000	$ 11,958,000	$ 22,943,000

See accompanying notes.

	Years Ended December 31, 2021	2020
OPERATING ACTIVITIES		
Change in net assets	$ 16,150,000	$ (546,000)
Reconciliation to net cash from operating activities		
Depreciation and amortization	4,662,000	4,109,000
Net realized/unrealized gains on investments	(754,000)	(469,000)
Forgiveness of PPP loan principal and interest	(5,832,000)	
Contributions restricted for endowment	(2,000,000)	-
Accrued interest added to debt	-	43,000
Decrease (increase) in operating assets		
Grants and contracts receivable	317,000	(449,000)
Pledges receivable	1,003,000	237,000
Prepaid expenses and other receivables	(533,000)	(115,000)
Increase in operating liabilities		
Accounts payable and accrued expenses	817,000	1,233,000
Deferred revenue	302,000	2,030,000
Net cash provided by operating activities	14,132,000	6,073,000
INVESTING ACTIVITIES		
Purchases of property	(5,257,000)	(3,733,000)
Purchases of investments	(10,569,000)	(8,006,000)
Proceeds from sales of investments	3,507,000	2,866,000
Net cash used in investing activities	(12,319,000)	(8,873,000)
FINANCING ACTIVITIES		
Proceeds from debt	-	6,146,000
Principal payments on debt	(1,218,000)	(347,000)
Contributions restricted for endowment	1,393,000	-
Net cash provided by financing activities	175,000	5,799,000
INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,988,000	2,999,000
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Beginning of year	10,081,000	7,082,000
End of year	$ 12,069,000	$ 10,081,000

See accompanying notes.

La Jolla Institute for Immunology
Statements of Cash Flows (Continued)

	Years Ended December 31, 2021	2020
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for		
Income taxes	$ 13,000	$ 500
Interest	$ 368,000	$ 389,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY		
Accounts payable for property	$ 116,000	$ 546,000
Purchase of property with debt	$ -	$ 1,255,000
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO THE STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents	$ 12,069,000	$ 8,331,000
Restricted cash	-	1,750,000
Total cash, cash equivalents, and restricted cash	$ 12,069,000	$ 10,081,000

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – La Jolla Institute for Immunology (the "Institute") is dedicated to increasing knowledge and improving human health through studies of the immune system. The Institute's essential purpose is to expand the understanding of how the immune system works and to discover the causes of immune system disorders. The knowledge gained through the Institute's biomedical research can in turn lead to the prevention, treatment, and cure of a wide range of human diseases.

The Institute is a California not-for-profit public benefit corporation, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701d of the California Revenue and Taxation Code.

Basis of accounting – The financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial statement presentation – The Institute's net assets and its revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with U.S. GAAP. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. Items that affect this category consist of unrestricted gifts, plus revenue and expenses associated with the primary objectives of the Institute, and releases of net assets with donor restrictions as described below.

Net assets with donor restrictions – Net assets with donor restrictions result from amounts designated by donors for use in future periods or for specific research projects. Expirations of temporary restrictions are reported as net assets released from restrictions upon appropriation or upon the expiration of the restriction period. Restricted amounts whose restrictions are met in the same reporting period are reported as increases to net assets with donor restrictions with a corresponding release from restriction. Net assets with permanent restrictions are perpetual in nature, whereby the donor has stipulated the funds to be maintained in perpetuity.

The costs of providing program and supporting services have been summarized on a functional expense basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. See Note 10.

Revenue recognition:

Grants and contracts – Revenue from grants and contracts consists of cost reimbursable grants and contracts from governmental agencies, grants from private grant-making agencies, and commercially sponsored research agreements.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Cost reimbursable grants and contracts from governmental agencies and grants from private grant-making agencies:

Revenue from cost-reimbursable governmental grants and contracts and grants from private grant-making agencies, are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Grant and contract awards are recognized as revenue when the Institute has met the conditions of the grants or contracts by incurring expenditures in compliance with specific grant provisions.

Total revenue from these grants and contracts recognized in the accompanying statements of activities in grants and contracts revenue is $65,298,000 and $57,708,000, for the years ended December 31, 2021 and 2020, respectively.

Total receivables from these grants and contracts included in grants and contracts receivable in the accompanying statements of financial position as of December 31, 2021 and 2020, is $11,820,000 and $11,437,000, respectively.

Amounts received prior to meeting the conditions of these grants and contracts by incurring qualifying expenditures are reported as deferred revenue in the statements of financial position. Deferred revenue on these grants and contracts was $1,113,000 and $2,808,000 at December 31, 2021 and 2020, respectively.

On an annual basis, the Institute evaluates whether grant revenue recognized on federal grants using the provisional indirect cost rate approved by the Institute's cognizant agency is in excess of grant revenue calculated using the Institute's estimated actual indirect cost rate (Note 7).

Commercially sponsored research agreements:

Revenue from commercially sponsored research agreements is recognized over time as the performance obligations in the contract are met, which generally is as the specified research activities are performed and results are available to the sponsor. Total revenue recognized from commercially sponsored research agreements in the accompanying statements of activities in grants and contracts revenue is $3,590,000 and $2,779,000 for the years ended December 31, 2021 and 2020, respectively.

Total receivables from these contracts included in grants and contracts receivable in the accompanying statements of financial position as of December 31, 2021 and 2020, is $738,000 and $842,000, respectively. Receivables are due upon invoicing by the Institute.

Amounts received prior to completing performance obligations under these contracts are reported as deferred revenue in the statements of financial position. Deferred revenue from commercially sponsored research agreements was $1,565,000 and $1,826,000 at December 31, 2021 and 2020, respectively.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Contract research funding – The Institute receives annual funding for direct and indirect research costs and new faculty recruitment under an agreement from Kyowa Kirin, Inc. (KKUS), a related party (Note 9). In exchange for this funding, KKUS is granted rights to negotiate for a license in the technology to undertake further research development and commercialization of such technology. Revenue is recognized ratably over the period covered by the agreement.

Affiliate funding – The Institute receives funding under an affiliation agreement with the University of California, San Diego (UCSD) in exchange for collaboration on research, shared resources, and to accelerate the translation of research work at the Institute into clinical practice at UCSD Health. Under the agreement, UCSD makes quarterly payments of $750,000 to the Institute through 2027. Funds received under this agreement are to be used for research, teaching support, and faculty recruitment and retention. Revenue is recognized ratably over the period covered by the agreement.

Contributions – Contributions from individuals and non-grant making agencies are recorded as revenue at their fair value when unconditionally pledged or when received, whichever is earlier. Conditional promises to give are not recorded as contributions until the conditions are substantially met. Conditional contributions related to the retention of certain faculty members and matching restrictions totaling $1,400,000 and $2,207,000 exist as of December 31, 2021 and 2020, respectively. This amount is conditioned on retaining certain faculty for the next nine years or obtaining matching donations. As of December 31, 2020, $607,000 of the conditional contribution with a matching restriction was received in advance. The matching condition for that contribution was met during the year ended December 31, 2021, and the revenue was recognized in full.

Contributions subject to donor-imposed time or purpose restrictions for use in a future period are reported as net assets with donor restrictions. When the restriction has been met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

License fees and royalties – License fees and royalty revenues are recognized either at a point in time or over time, as applicable, based on the pattern of transfer of control. Amounts reported as revenue are net of distributions paid to inventors. Such distributions are made in accordance with the Institute's royalty distribution policy.

Cash and cash equivalents – The Institute considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Institute's policy is to place cash and cash equivalents with high-credit-quality financial institutions. Amounts placed with Federal Deposit Insurance Corporation (FDIC)- and Securities Investor Protection Corporation (SIPC)-insured institutions and covered by insurance exceeds the insured deposit limit. The Institute has not experienced any losses in such accounts.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Restricted cash – Under the Institute's debt agreement with a bank (Note 6), the Institute was required to maintain $1,750,000 as of December 31, 2020, in an interest-bearing money market account deposit account with the bank as a compensating balance for the debt. Due to meeting the required annual debt service ratio covenant for two consecutive years, there was no such requirement and thus no restricted cash balance as of December 31, 2021.

Investments – The fair value of investments in mutual funds, U.S. and international equities, exchange-traded funds and money market accounts are based on quoted prices in active markets. The fair value of U.S. government fixed income securities and corporate bonds is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Investment income or loss (including interest and realized and unrealized gains and losses), net of fees, is included in the change in net assets in the statements of activities.

Grants and contracts receivable – Grants and contracts receivable consist of amounts due to the Institute for expenditures that have been incurred or, where applicable, grant conditions have been met, but for which payment from the grantor or contractor has not yet been received. Grants and contracts receivable are reviewed for collectability and reserves for uncollectible amounts are established when needed. Accounts are written off against the allowance when deemed uncollectible. Management has determined that no allowance is necessary as of December 31, 2021 and 2020.

Pledges receivable – Pledges receivable consist of unconditional promises to give from individual donors. The Institute records pledges receivable net of an allowance for estimated uncollectible pledges. Pledges receivable are written off against the allowance when deemed uncollectible. Pledges receivable that are expected to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. The discounts are computed using risk-free rates applicable in the years in which the pledges are made. Pledges receivable due in more than one year have been discounted to their net present value using discount rates from 0.16 to 2.49 percent. Amortization of the discounts is included in contributions.

Property – Property is recorded at cost and is depreciated or amortized on a straight-line basis over the estimated useful lives of the assets, ranging from three to twenty years. The Institute's policy is to capitalize property having a useful life of more than one year and an acquisition cost of $10,000 or more per unit.

The carrying amount of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Management does not believe that there is any impairment at December 31, 2021 and 2020.

Income taxes – The Institute is subject to federal and state income taxes on unrelated business income as defined under IRC Sections 511 through 515. For each of the years ended December 31, 2021 and 2020, taxes are recorded when paid and no provision for income tax has been made. The Institute had no unrecognized tax benefits or liabilities as of December 31, 2021 and 2020.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain amounts in the December 31, 2020 statement of activities have been reclassified to conform to the December 31, 2021 presentation, with no effect on net assets.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The Institute recognizes in the financial statements the effects of all significant 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 Institute'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 the financial statements are available to be issued.

The Institute has evaluated subsequent events through June 22, 2022, which is the date the financial statements were available to be issued.

Recent accounting pronouncement – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. In July 2018, the FASB issued two updates to ASU 2016-02, ASU 2018-10, *Codification Improvements to Topic 842 Leases*, and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. In 2021, the FASB issued two additional updates to ASU 2016-02, ASU 2021-05, *Lessors – Certain leases with Variable Lease Payments* and ASU 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities.* The new standard is effective for fiscal years beginning after December 15, 2021. ASU 2016-02 requires recognition of operating leases with lease terms of more than twelve months on the statement of financial position as both assets and liabilities for the obligations created by the leases. Topic 842 also requires disclosures that provide qualitative and quantitative information for the lease assets and liabilities recorded in the financial statements. The Institute is still assessing the impact this standard will have on its financial statements.

Note 2 – Concentration of Credit Risk

The Institute is dependent on two primary sources of revenue: grants and contracts from the National Institutes of Health (NIH), and research funding from KKUS, a related party (Note 9).

The Institute received approximately 60 and 65 percent of its total revenue and support from grants and contracts provided through the NIH during the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, 83 and 91 percent, respectively, of grants and contracts receivable are due from the NIH.

Note 2 – Concentration of Credit Risk (continued)

During the years ended December 31, 2021 and 2020, the Institute received approximately 6 and 7 percent, respectively, of its total revenue and support from research funding provided through KKUS.

As of December 31, 2021 and 2020, 57 and 48 percent of net pledges receivable was due from one donor, respectively.

Note 3 – Investments

Investments at December 31, are summarized as follows:

	2021	2020
Mutual funds		
Fixed income	$ 10,955,000	$ 7,035,000
Multi-strategy	2,734,000	658,000
U.S. Treasuries	331,000	303,000
U.S. equities	3,639,000	2,503,000
International equities	-	12,000
Exchange-traded funds		
International	1,868,000	1,002,000
Emerging markets	612,000	374,000
Domestic	-	3,000
Corporate bonds	287,000	286,000
Money market accounts	2,690,000	3,124,000
Total investments	$ 23,116,000	$ 15,300,000

The Institute carries investments at fair value. The Institute had no liabilities required to be reported at fair value as of December 31, 2021 or 2020. Fair value is 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 Institute determines fair value under a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

There are three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities which are actively traded;

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; and

Note 3 – Investments (continued)

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.

The following fair value hierarchy tables present information about each major category of the Institute's financial assets measured at fair value on a recurring basis as of December 31:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	2021 Total
Mutual funds	$ 13,689,000	$ -	$ -	$ 13,689,000
U.S. Treasuries	-	331,000	-	331,000
U.S. equities	3,639,000	-	-	3,639,000
Exchange-traded funds	2,480,000	-	-	2,480,000
Corporate bonds	-	287,000	-	287,000
Money market accounts	2,690,000	-	-	2,690,000
Total	$ 22,498,000	$ 618,000	$ -	$ 23,116,000

	Fair Value Measurements			
	Level 1	Level 2	Level 3	2020 Total
Mutual funds	$ 7,693,000	$ -	$ -	$ 7,693,000
U.S. Treasuries	-	303,000	-	303,000
U.S. equities	2,503,000	-	-	2,503,000
International equities	12,000	-	-	12,000
Exchange-traded funds	1,379,000	-	-	1,379,000
Corporate bonds	-	286,000	-	286,000
Money market accounts	3,124,000	-	-	3,124,000
Total	$ 14,711,000	$ 589,000	$ -	$ 15,300,000

Note 4 – Pledges Receivable

Pledges receivable at December 31 are summarized as follows:

	2021	2020
Pledges receivable to be paid in		
Less than one year	$ 602,000	$ 1,357,000
One to five years	397,000	652,000
More than five years	750,000	750,000
	1,749,000	2,759,000
Less: discount to net present value	(315,000)	(322,000)
Less: allowance for uncollectible pledges	(275,000)	(275,000)
Total pledges receivable, net	$ 1,159,000	$ 2,162,000

Note 5 – Property

Property at December 31, is summarized as follows:

	2021	2020
Equipment	$ 36,043,000	$ 32,755,000
Leasehold improvements	10,129,000	9,455,000
Furniture and fixtures	49,000	72,000
Work in progress	183,000	-
	46,404,000	42,282,000
Less: accumulated depreciation and amortization	(27,179,000)	(23,652,000)
Total property, net	$ 19,225,000	$ 18,630,000

Work in progress consisted of leasehold improvements that were not fully completed at December 31, 2021.

Note 6 – Debt

In July 2019, the Institute obtained a $9,000,000 line of credit (LOC) to purchase certain pieces of scientific equipment. The LOC was secured by the equipment purchased using the LOC proceeds. The entire $9,000,000 was outstanding as of July 2020 at which time it was converted to a term loan with an interest rate of four percent. At December 31, 2021 and 2020, the outstanding balance of the term loan was $7,786,000 and $8,646,000, respectively.

Note 6 – Debt (continued)

The LOC required a compensating balance of $3,500,000 to be maintained for the first two years with the lender. Per the agreement, the compensating balance could be released after meeting the required annual debt service coverage ratio covenant for two consecutive years. The lender released $1,750,000 of the compensating balance during each of the years ended December 31, 2021 and 2020.

On April 15, 2020, the Institute received $6,146,000 in funding from the United States Small Business Administration's (SBA's) Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The unsecured loan, which accrued interest at one percent, was forgivable to the extent it was used for certain allowable costs incurred during a specified period. The Institute submitted an application for forgiveness of the loan in October 2020. In May 2021, $5,769,000 of the PPP loan and accrued interest was formally forgiven by the SBA. The remaining balance of the PPP loan and accrued interest that did not qualify for forgiveness was repaid in June 2021.

The annual principal payments due on the term loan are as follows:

Years Ending December 31,	
2022	$ 896,000
2023	933,000
2024	972,000
2025	1,012,000
2026	1,054,000
Thereafter	2,919,000
Total	$ 7,786,000

Note 7 – Commitments and Contingencies

Leases – The Institute leases its main facility from KKUS, a related party (Note 9), under an operating lease expiring in June 2026. The lease provides for rate increases every five years based on changes in the consumer price index. The cumulative amount of such increases every five years is subject to a minimum increase of 10.4 percent and a maximum increase of 40.3 percent. As required by the lease, in June 2021, the rate for the land component of the lease was adjusted by a reappraisal of the land.

The Institute leases additional space from UCSD, a related party (Note 9), under an operating lease which commenced in 2019 and expires in June 2027. The lease provides for annual rent increases of 2.5 percent. The lease also includes a $150,000 tenant allowance that is amortized over the life of the lease at 8 percent per annum. At December 31, 2021 and 2020, $115,000 and $131,000 was included in accounts payable and accrued expenses in the accompanying statements of financial position for this liability.

Rent expense on these leases is recorded on a straight-line basis over the lease terms. Deferred rent of $1,914,000 and $2,503,000 is recorded for the difference between rent paid and rent expense and is included in accounts payable and accrued liabilities in the accompanying statements of financial position as of December 31, 2021 and 2020, respectively.

Note 7 – Commitments and Contingencies (continued)

Future annual minimum rental payments under the Institute's leases as of December 31, 2021, are as follows:

Years Ending December 31,	
2022	$ 4,206,000
2023	4,216,000
2024	4,140,000
2025	4,146,000
2026	2,213,000
2027	183,000
Total	$ 19,104,000

The Institute and Sanford Consortium for Regenerative Medicine (the "Consortium") entered into a license agreement ("Collaboratory Agreement") which grants the Institute a non-exclusive license to use space in the Consortium facility for stem cell research ("Collaboratory") under an initial term, which ended on December 31, 2021. The Collaboratory Agreement also states that beginning on January 1, 2020, the Institute can provide notice to withdraw from its space obligation, effective two years from the date of notice. No notice to withdraw from its space obligation has been given to the Consortium. The Institute pays the Consortium a monthly license fee in an amount equal to its share of the Consortium's debt service and operating expenses allocable to the portion of the Collaboratory occupied for stem cell research. As of December 31, 2021, future committed amounts to be paid by the Institute to the Consortium are $81,000 and $84,000 for the years ended December 31, 2022 and 2023, respectively, and relate solely to the Institute's proportionate share of the Consortium's debt service. These amounts do not include estimated amounts for the Institute's proportionate shares of the Consortium's operating expenses.

The total amount paid by the Institute to the Consortium for its proportionate share of debt service and operating costs for the years ended December 31, 2021 and 2020, was $196,000 and $185,000, respectively, and is included in rent expense. Total rent expense under the agreements with KKUS, UCSD, and the Consortium was $3,345,000 and $3,280,000 for the years ended December 31, 2021 and 2020, respectively.

Retirement plans – The Institute has a defined contribution retirement plan covering substantially all of its employees. The Institute's contributions to the defined contribution retirement plan, determined as a percentage of a participant's salary, were $2,759,000 and $2,637,000 in 2021 and 2020, respectively.

The Institute has a 457(b) deferred compensation plan for qualified employees. The Institute made $91,000 and $80,000, respectively, of contributions to the plan in 2021 and 2020. As of December 31, 2021 and 2020, plan assets were $2,225,000 and $1,863,000, respectively, and are included in investments in the accompanying statements of financial position. The corresponding liability is included in accounts payable and accrued expenses in the accompanying statements of financial position.

Note 7 – Commitments and Contingencies (continued)

Grants and contracts – The Institute has grants and contracts with various organizations and government agencies that are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability that may result from these audits would not be material.

On an annual basis, the Institute evaluates whether grant revenue recognized on federal grants using the provisional indirect cost rate approved by the Institute's cognizant agency is in excess of grant revenue calculated using the Institute's estimated actual indirect cost rate. A liability is recorded for the excess amount related to grants that have ended. As of December 31, 2021 and 2020, a liability of $2,862,000 and $2,747,000, respectively, is included in accounts payable and accrued expenses in the accompanying statements of financial position. The actual amounts to be repaid will be based on the difference between grant revenue recognized using the provisional rate compared to calculated revenue using the actual final approved rate when received by the cognizant agency.

Legal matters – The Institute is party to certain legal actions arising in the ordinary course of business. In the opinion of management, liabilities, if any, under the actions will not have a material impact on its financial position.

Risks and uncertainties – In March 2020, the World Health Organization declared the novel coronavirus outbreak a public health emergency. The Institute responded to the coronavirus outbreak by enabling its employees who can work remotely to do so, limiting research operations to COVID-19 and other research that could be done while maintaining appropriate social distancing. In further response to the uncertain situation, in April 2020, the Institute obtained a $6,146,000 PPP loan through the SBA. See Note 6. The Institute continues to monitor the situation closely, but given the uncertainty about the impact, the Institute cannot estimate the effect on the Institute's future financial statements.

Note 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31 are comprised of:

	2021	2020
Purpose restriction	$ 11,385,000	$ 10,152,000
Time restriction	1,056,000	1,806,000
Restricted in perpetuity	2,000,000	-
Total	$ 14,441,000	$ 11,958,000

During the years ended December 31, 2021 and 2020, net assets with donor restrictions of $9,678,000 and $4,834,000, respectively, were released from restriction as the purpose and time restrictions were satisfied.

During the year ended December 31, 2021, $2,000,000 of endowment contributions was recognized as revenue. The endowment contributions are restricted in perpetuity and reported in the statement of activities as donor-restricted.

Note 9 – Related-Party Transactions

Since its inception in 1988, the Institute has received contract research funding from KKUS, a Delaware corporation that has a representative on the Board of Directors of the Institute. Such funding is governed by a research agreement that expires December 31, 2024. Under the terms of the research agreement, KKUS can obtain exclusive rights to certain technology resulting from research that was funded in whole or in part by KKUS, subject to all rights relating to United States government grants. Funding under the research agreement and other research collaboration agreements totaled $6,020,000 in 2021 and $6,019,000 in 2020. Reimbursements received under the research agreement and other option or license agreements for patent-related costs totaled $34,000 and $16,000 in 2021 and 2020, respectively.

The Institute is a party to other agreements with KKUS that provide for the licensing of technology in exchange for license fees and royalties. The terms of such agreements are subject to all rights relating to United States government grants. License revenue of $1,300,000 and $40,000 was recognized under these agreements in 2021 and 2020, respectively.

The Institute has entered into a shared services agreement to provide certain administrative and laboratory support services to KKUS. Payments received for providing such shared services totaled $394,000 and $388,000 in 2021 and 2020, respectively.

The Institute has entered into a lease agreement for its facilities from KKUS (Note 7). The Institute has also entered into a property management agreement to manage and maintain the facilities leased from, and owned by, KKUS. Payments received for property management services and building operating costs from KKUS totaled $791,000 and $763,000 in 2021 and 2020, respectively.

Included in the accompanying statements of financial position are prepaid and other receivables from KKUS of $42,000 and $6,000 as of December 31, 2021 and 2020, respectively, and payables to KKUS of $0 and $351,000 as of December 31, 2021 and 2020, respectively.

In 2015, the Institute entered an affiliation agreement whereby the Institute receives annual funding of $3 million from UCSD, a California university which has a representative on the Board of Directors of the Institute. The agreement was effective July 1, 2015, and renews automatically for 12 years. Under the terms of the affiliation agreement with UCSD, the Institute’s grant funding is annually reported to UCSD for inclusion in their cumulative grant portfolio. Funding under the affiliation agreement totaled $3 million in 2021 and 2020. The Institute leases facilities space from UCSD (Note 7).

Included in the accompanying statements of activities are contributions from the Institute’s Board of Directors of $759,000 and $456,000 for the years ended December 31, 2021 and 2020, respectively.

Note 10 – Classification of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Facilities, including depreciation and occupancy costs, are either directly charged to a function/program based on specific identification or allocated based on square footage utilized by departments within a function.

Note 10 – Classification of Expenses (continued)

The following reflects the classification of the Institute's expenses by both the underlying nature of the expense and function for the year ended December 31, 2021:

	Research	General and Administrative	Fundraising	Total Expenses
Salaries and wages	$ 26,454,000	$ 3,932,000	$ 667,000	$ 31,053,000
Consortium	14,224,000	-	-	14,224,000
Research supplies and services	10,788,000	11,000	2,000	10,801,000
Fringe benefits	7,327,000	1,067,000	219,000	8,613,000
Occupancy	6,345,000	522,000	27,000	6,894,000
Depreciation and amortization	4,313,000	349,000	-	4,662,000
Professional fees	2,063,000	1,311,000	146,000	3,520,000
Minor equipment and repairs	2,200,000	42,000	1,000	2,243,000
Office and computer supplies	1,828,000	241,000	4,000	2,073,000
Other	258,000	650,000	47,000	955,000
Meetings and conferences	600,000	206,000	96,000	902,000
	$ 76,400,000	$ 8,331,000	$ 1,209,000	$ 85,940,000

The following reflects the classification of the Institute's expenses by both the underlying nature of the expense and function for the year ended December 31, 2020:

	Research	General and Administrative	Fundraising	Total Expenses
Salaries and wages	$ 24,533,000	$ 3,790,000	$ 687,000	$ 29,010,000
Research supplies and services	12,212,000	74,000	-	12,286,000
Consortium	10,428,000	315,000	-	10,743,000
Occupancy	7,784,000	766,000	42,000	8,592,000
Fringe benefits	6,841,000	948,000	198,000	7,987,000
Depreciation and amortization	3,794,000	315,000	-	4,109,000
Professional fees	1,666,000	1,560,000	71,000	3,297,000
Office and computer supplies	1,893,000	107,000	38,000	2,038,000
Minor equipment and repairs	1,595,000	11,000	-	1,606,000
Other	225,000	706,000	37,000	968,000
Meetings and conferences	440,000	78,000	16,000	534,000
	$ 71,411,000	$ 8,670,000	$ 1,089,000	$ 81,170,000

Note 11 – Liquidity

The following table reflects the Institute's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general expenditures within one year due to contractual or donor-imposed restrictions.

	2021	2020
Financial assets		
Grants and contracts receivable	$ 11,962,000	$ 12,279,000
Investments	23,116,000	15,300,000
Cash and cash equivalents	12,069,000	8,331,000
Restricted cash	-	1,750,000
Pledges receivable, net	1,159,000	2,162,000
Total financial assets	48,306,000	39,822,000
Less: amounts not available to be used within one year		
Investments held for 457(b) deferred compensation plan	(2,225,000)	(1,863,000)
Endowment assets	(2,000,000)	-
Restricted cash	-	(1,750,000)
Cash held for employee flexible spending account	(106,000)	(106,000)
Current pledges receivable, net – with purpose restriction	(283,000)	(826,000)
Pledges receivable, net – due after one year	(657,000)	(1,080,000)
Financial assets not available to be used within one year	(5,271,000)	(5,625,000)
Financial assets available to meet general expenditures within one year	$ 43,035,000	$ 34,197,000

The Institute receives contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Institute structures its financial assets to be available as general expenditures, liabilities, and other obligations become due. In addition, the Institute invests cash in excess of immediate requirements in short-term investments.

Supplementary Information

La Jolla Institute for Immunology
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Program Title/ Federal Grantor/ Pass-Through Grantor	Assistance Listing Number	Grant or Contract Number	Passed Through to Subrecipients	Total Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER				
U.S. Department of Health and Human Services				
Direct programs:				
National Institutes of Health				
21st Century Cures Act - Beau Biden Cancer Moonshot	93.353		$ 242,651	$ 1,048,399
Cancer Cause and Prevention Research	93.393		-	1,009,879
Cancer Detection and Diagnosis Research	93.394		81,225	703,101
Cancer Treatment Research	93.395		56,906	256,681
Cancer Biology Research	93.396		5,797	1,207,878
Cancer Research Manpower	93.398		-	165,046
Cardiovascular Diseases Research	93.837		1,171,190	4,291,327
Blood Diseases and Resources Research	93.839		-	105,181
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		-	1,028,746
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		486,944	768,388
Allergy and Infectious Diseases Research	93.855		11,044,786	35,219,780
Biomedical Research and Research Training	93.859		-	335,489
Total direct programs			13,089,499	46,139,895
Pass-through other organizations:				
Regents of the University of California, San Diego				
The Microvascular Aging and Eicosanoids - Women's Evaluation of Systemic Aging Tenacity (MAE-WEST) ("You are never too old to become younger!") Specialized Center for Research Excellence (SCORE)	93.866	AG065141		222,821
Specialized Cancer Center Core support grant	93.397	CA023100		108,595
Clinical translation of 19F MRI to visualize cancer immunotherapeutic cells	93.394	CA134633		26,485
A Rational Systematic Approach to Find Combinations of Pharmacologic and Immune Therapies that Target	93.393	CA217885		40,603
Combining Irreversible Electroporation with Immunotherapy for the Systemic Treatment of Pancreatic Cancer	93.395	CA254268		186,062
Data, Modeling,and Coordination Center for PrecISE Network	93.839	HL138008		29,286
San Diego Team Asthma Management using Phenotypes (STAMP)	93.838	HL139117		10,497
Cell Adhesion Mechanisms in Vascular Disease & Thrombosis	93.839	HL151433		484,352
Molecular basis of Zika-induced microcephaly	93.853	NS106387		42,954
Airway inflammation and airway remodeling	93.855	AI070535		320,207
Perturbing the HIV Reservoir with Immune Stimulation	93.855	AI118422		2,778
Identifying individuals at risk of progression to activate tuberculosis	93.855	AI137681		241,059
Regents of the University of California, Berkeley				
Protective immunity following dengue virus natural infections and vaccination	93.855	AI106695		291,632
Children's Hospital Medical Center				
Genetics Linkage in Lupus	93.855	AI024717		16,560
The Washington University				
Mucosal Immune Defense Mechanisms of the Urinary Bladder	93.855	AI095542		148,087
Emerging infections: surveillance, epidemiology and pathogenesis	93.855	AI151810		84,820
Benaroya Research Institute at Virginia Mason				
Histamine-releasing factor in LEAP peanut allergy	93.855	AI109565		64,472
Emory University				
Role of Antigen Specific T Cell Responses in the Control of TB	93.855	AI111211		51,910
B and T Cell Biology of Protection from and Eradication of SIV/SHIV Infection	93.855	AI124436		140,310
Regents of University of Wisconsin-Madison				
Inner City Asthma Consortium (ICAC3)	93.855	AI114271		241,511
Childhood Asthma in Urban Settings Clinical Research Network (CAUSE)	93.855	AI160040		137,753
Icahn School of Medicine at Mount Sinai				
HIPC Clinical Subcommittee Metadata Project (IOF)	93.855	AI118610		21,960
Dengue Human Immunology Project Consortium - Development of HIPC data standards (Project 2)	93.855	AI118610		31,117
Albert Einstein College of Medicine				
Structural, functional, and mechanistic analysis of autoreactive CD8 T cells	93.855	AI123730		23,606
Integrated analysis of CVD risk in HIV: gut microbiota, immune function and metabolites	93.837	HL140976		75,875
Immunophenotyping for Precision Medicine for Cardiovascular Disease in People Living with HIV	93.837	HL148094		443,979
Chicago BioSolutions, Inc				
4-(Aminomethyl) benzamides as novel anti-Ebola Agents	93.855	AI126971		116,340
Integrated Biotherapeutics, Inc.				
Rationally Designed Pan-Ebolavirus Vaccine	93.855	AI132204		370,473
Tulane University				
Structure-based Design of Novel Lassa Virus Glycoproteins for Vaccine Development	93.855	AI132244		285,121
Zalgen Labs, LLC				
Structure-Guided Design of Broadly neutralizing Lassa Virus BiSpecific Antibodies	93.855	AI141251		325,936

Continued on the following page.

Program Title/ Federal Grantor/ Pass-Through Grantor	Assistance Listing Number	Grant or Contract Number	Passed Through to Subrecipients	Total Federal Expenditures
The Scripps Research Institute				
Consortium for HIV/AIDS Vaccine Development	93.855	AI144462		765,625
Does priming TFH memory enhance HIV neutralizing Ab responses to immunization in NHPs? (Proposal 3)	93.855	AI144462		91,866
Trimer-delivery-by-mRNA and Apex-priming NHP Study Proposal (Proposal 2)	93.855	AI144462		574,771
Fusion peptide directed immunogens that elicit neutralizing and protective antibodies in non-human primates	93.855	AI145629		141,447
Transcription factor regulation of CD4 and CD8 T cell effector and memory differentiation and function	93.855	AI145815		138,485
Design and testing of germline-targeting and boosting immunogens to elicit 10E8-like broadly neutralizing	93.855	AI147826		55,881
Neutrophil lineage in inflammation	93.839	HL152958		207,982
The Regents of the University of California, Irvine				
The Fc Neonatal Receptor and Antibody-Dependent Enhancement of Dengue Virus Infection	93.855	AI149255		10,241
Massachusetts Institute of Technology				
Immune engineering of optimized sequential immunization strategies for HIV vaccines	93.855	AI161297		116,218
The Brigham and Women's Hospital, Inc				
Discovering Durable Pan-Coronavirus Immunity	93.855	AI165072		81,654
University of Puerto Rico Medical Sciences Campus				
SARS-CoV-2 correlates of protection in a Latin-orgin population	93.394	CA260541		147,047
Cedars-Sinai Medical Center				
Diversity and Determinants of the Immune-inflammatory Response to SARS-COV-2	93.394	CA260591		103,450
IBD: Role of Genetic and Immunopathologic Mechanisms	93.847	DK046763		268,398
Vaccine Induced Immune-Inflammatory Response and Cardiovascular Risk	93.837	HL151828		117,974
Vanderbilt University Medical Center				
Head and Neck Cancer Neoantigen characterization and Therapeutic Targeting	93.121	DE027749		125,783
Celsense, Inc.				
Product for sensitive imaging of cells in vivo	93.286	EB023761		14,746
Trustees of the University of Pennsylvania				
Non-destructive epigenetic sequencing with DNA deaminase enzymes	93.172	HG010646		87,167
Boston Children's Hospital				
Molecular regulation of atherosclerosis	93.837	HL146134		31,505
Northwestern University				
Immunologic, Inflammatory, and Clinical contributors to HIV-Related Heart Failure with Preserved Ejection Fraction (HEpEF)	93.837	HL156792		36,843
LCH Chicago				
Mechanisms regulating lncRNA short and long range signaling	93.242	MH111267		127,819
Yale University				
The role of TRIO signaling in neuronal development, synaptic function, and circuit connectivity	93.242	MH122449		6,205
Trustees of Columbia University in the City of New York				
Autoimmune features of neurodegenerative disorders	93.853	NS095435		386,379
Total pass-through programs			-	8,224,647
Total research and development cluster program and expenditures of federal awards			$ 13,089,499	$ 54,364,542

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of La Jolla Institute for Immunology (the "Institute") under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because it presents only a selected portion of the operations of the Institute, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Institute.

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 allowed or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3 – Indirect Cost Rate

The Institute has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

MOSSADAMS

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*

The Board of Directors
La Jolla Institute for Immunology

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 La Jolla Institute for Immunology (the "Institute"), which comprise the statement of financial position as of December 31, 2021, 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 June 22, 2022.

Report on Internal Control Over Financial Reporting

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute'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 financial statements. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Diego, California
June 22, 2022

MOSSADAMS

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

The Board of Directors
La Jolla Institute for Immunology

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited La Jolla Institute for Immunology's (the "Institute's") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Institute's major federal program for the year ended December 31, 2021. The Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Institute complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Institute's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Institute's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

Moss Adams LLP

San Diego, California
June 22, 2022

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 U.S. 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 the major federal program:		
• 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 with 2 CFR 200.516(a)?	☐ Yes	☒ No

Identification of the Major Federal Program and type of auditor's report issued on compliance for the major federal program

Assistance Listing Number	Name of Federal Program or Cluster	Type of Auditor's Report Issued on Compliance for the Major Federal Program
Various	Research and Development Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs:	$1,630,936	
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.

La Jolla Institute FOR IMMUNOLOGY | Life Without Disease.®

Summary Schedule of Prior Audit Findings

Name of Auditee: La Jolla Institute for Immunology
Period Covered by the Audit: January 1, 2021 – December 31, 2021
Name of Audit Firm: Moss Adams, LLP

There were no open findings from the prior audit report.