Reports of Independent Auditors and
Financial Statements with
Federal Awards Supplementary Information

La Jolla Institute for Immunology

December 31, 2022 and 2021

MOSSADAMS

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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, which comprise the statements of financial position as of December 31, 2022 and 2021, 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 La Jolla Institute for Immunology as of December 31, 2022 and 2021, 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 La Jolla Institute for Immunology 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 La Jolla Institute for Immunology'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 La Jolla Institute for Immunology'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 La Jolla Institute for Immunology'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* (Uniform Guidance) 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 May 22, 2023, on our consideration of La Jolla Institute for Immunology'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 for Immunology'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 for Immunology's internal control over financial reporting and compliance.

Moss Adams LLP

San Diego, California
May 22, 2023

Financial Statements

La Jolla Institute for Immunology
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
ASSETS		
Cash and cash equivalents	$ 10,293,000	$ 12,069,000
Investments	20,582,000	23,116,000
Grants and contracts receivable	15,138,000	11,962,000
Pledges receivable, net	750,000	1,056,000
Prepaid expenses and other receivables	2,092,000	2,721,000
Property, net	18,261,000	19,225,000
Right-of-use assets	13,180,000	-
Total assets	$ 80,296,000	$ 70,149,000
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 21,346,000	$ 18,332,000
Deferred revenue	879,000	4,938,000
Debt	6,890,000	7,786,000
Lease liabilities	14,697,000	-
Total liabilities	43,812,000	31,056,000
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET ASSETS		
Without donor restrictions	20,115,000	24,652,000
With donor restrictions	16,369,000	14,441,000
Total net assets	36,484,000	39,093,000
Total liabilities and net assets	$ 80,296,000	$ 70,149,000

See accompanying notes.

La Jolla Institute for Immunology
Statements of Activities
Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Grants and contracts						
NIH grants and contracts	$ 48,913,000	$ -	$ 48,913,000	$ 47,230,000	$ -	$ 47,230,000
NIH consortium revenue	12,817,000	-	12,817,000	14,463,000	-	14,463,000
Other grants	5,353,000	-	5,353,000	7,196,000	-	7,196,000
Total grants and contracts	67,083,000	-	67,083,000	68,889,000	-	68,889,000
Contract research funding	8,000,000	-	8,000,000	6,000,000	-	6,000,000
Affiliate funding	3,000,000	-	3,000,000	3,000,000	-	3,000,000
Contributions	860,000	10,171,000	11,031,000	657,000	12,161,000	12,818,000
Investment income	(1,927,000)	(213,000)	(2,140,000)	807,000	-	807,000
PPP loan forgiveness	-	-	-	5,832,000	-	5,832,000
Other	1,876,000	-	1,876,000	3,022,000	-	3,022,000
License fees and royalties	837,000	-	837,000	1,722,000	-	1,722,000
Net assets released from restrictions	8,030,000	(8,030,000)	-	9,678,000	(9,678,000)	-
Total revenue and support	87,759,000	1,928,000	89,687,000	99,607,000	2,483,000	102,090,000
EXPENSES						
Research	80,835,000	-	80,835,000	76,400,000	-	76,400,000
General and administrative	10,119,000	-	10,119,000	8,331,000	-	8,331,000
Fundraising	1,342,000	-	1,342,000	1,209,000	-	1,209,000
Total expenses	92,296,000	-	92,296,000	85,940,000	-	85,940,000
CHANGE IN NET ASSETS	(4,537,000)	1,928,000	(2,609,000)	13,667,000	2,483,000	16,150,000
NET ASSETS						
Beginning of year	24,652,000	14,441,000	39,093,000	10,985,000	11,958,000	22,943,000
End of year	$ 20,115,000	$ 16,369,000	$ 36,484,000	$ 24,652,000	$ 14,441,000	$ 39,093,000

See accompanying notes.

La Jolla Institute for Immunology
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Change in net assets	$ (2,609,000)	$ 16,150,000
Reconciliation to net cash from operating activities		
Depreciation and amortization	5,206,000	4,662,000
Amortization of right-of-use assets	3,612,000	-
Loss on disposal of property	7,000	-
Net realized/unrealized losses (gains) on investments	2,243,000	(754,000)
Forgiveness of PPP principal and Interest	-	(5,832,000)
Contributions restricted for endowment	(100,000)	(2,000,000)
Contributions restricted for property acquisitions	(1,889,000)	(908,000)
(Increase) decrease in operating assets		
Grants and contracts receivable	(3,176,000)	317,000
Pledges receivable, net	306,000	1,003,000
Prepaid expenses and other receivables	629,000	(533,000)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	3,014,000	817,000
Lease liabilities	(2,095,000)	-
Deferred revenue	(4,059,000)	302,000
Net cash provided by operating activities	1,089,000	13,224,000
INVESTING ACTIVITIES		
Purchases of property	(4,264,000)	(5,257,000)
Proceeds from disposals of property	15,000	-
Purchases of investments	(4,298,000)	(10,569,000)
Proceeds from sales of investments	4,589,000	3,507,000
Net cash used in investing activities	(3,958,000)	(12,319,000)
FINANCING ACTIVITIES		
Principal payments on debt	(896,000)	(1,218,000)
Contributions restricted for endowment	100,000	1,393,000
Contributions restricted for property acquisitions	1,889,000	908,000
Net cash provided by financing activities	1,093,000	1,083,000
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,776,000)	1,988,000
Cash and cash equivalents – beginning of year	12,069,000	10,081,000
Cash and cash equivalents – end of year	$ 10,293,000	$ 12,069,000

See accompanying notes.

La Jolla Institute for Immunology
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2022 and 2021

	2022	2021
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for		
Income taxes	$ 67,000	$ 13,000
Interest	$ 299,000	$ 368,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY		
Accounts payable for property	$ 51,000	$ 116,000

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 (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 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 (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.

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 $63,955,000 and $65,298,000, for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, is $14,682,000 and $11,820,000, 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 $13,000 and $1,113,000 at December 31, 2022 and 2021, 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 $3,128,000 and $3,590,000 for the years ended December 31, 2022 and 2021, respectively.

Total receivables from these contracts included in grants and contracts receivable in the accompanying statements of financial position as of December 31, 2022 and 2021, is $456,000 and $738,000, 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 $866,000 and $1,565,000 at December 31, 2022 and 2021, respectively.

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 a right of first negotiation for intellectual property rights to certain Institute technology, subject to all rights relating to United States government grants. 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"), a related party (see Note 9) 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. A conditional contribution pledged with annual installments through the year 2029 totaled $1,200,000 and $1,400,000 as of December 31, 2022 and 2021, respectively. This amount is conditioned on retaining certain faculty.

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 exceed the insured deposit limit. The Institute has not experienced any losses in such accounts.

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.

Endowments – The Institute's endowment consists of two individual donor-restricted funds established to support research and operations. The Institute classifies as net assets with donor restrictions (a) the original value of contributions to the permanent endowment, (b) the original value of subsequent contributions to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, and (d) investment income until appropriated for expenditure.

Endowment net assets are invested with the objective of creating growth while allowing an annual appropriation for expenditure. The investment policy is overseen by the Finance Committee of the Board of Directors and reviewed for appropriateness from time to time.

In accordance with the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Institute; and
7. The investment policies of the Institute.

When approved by the Board of Directors, appropriate for expenditure is calculated using a spending rate applied to a rolling 36-month average historical fair value. From time to time, endowment funds may have fair values that are less than their historical dollar value. The Institute may make appropriations for expenditure from such endowment funds if deemed prudent and approved by the Board of Directors. The amount by which the historical dollar value exceeds fair value is reported in net assets with donor restrictions.

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, 2022 and 2021.

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. Discount rates range from 0.16 to 2.49 percent. Amortization of the discounts is included in restricted 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 3 to 20 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, 2022 and 2021.

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, 2022 and 2021, 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, 2022 and 2021.

Use of estimates – The preparation of financial statements in accordance with GAAP 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, 2021 financial statements have been reclassified to conform to the December 31, 2022 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 May 22, 2023, which is the date the financial statements were available to be issued.

Recently adopted accounting pronouncement – Effective January 1, 2022, the Institute adopted Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize right-of-use assets and lease liabilities measured at the present value of lease payments not yet paid at the lease commitment date and disclose key information about leasing arrangements. The Institute elected to apply the package of practical expedients, which allows the Institute to not reassess whether expired or existing contracts contain leases, not reassess the classification of existing leases, and not reassess initial direct costs for existing leases. The Institute did not apply hindsight in the determination of the lease term and assessing impairment of right-of-use assets for existing leases. The Institute adopted the standard using the modified retrospective method.

As part of the Institute's lease accounting policies, leases with an initial term of 12 months or less are not recorded in the statements of financial position. Additionally, the Institute elected to account for lease and nonlease components as separate lease components (consistent with Accounting Standards Codification 840) for all underlying assets in the measurement of its lease liabilities and right-of-use assets in which the Institute is the lessee. Nonlease components are distinct elements of a contract that are not related to securing the use of the leased asset, such as common area maintenance and other management costs. On January 1, 2022, the Institute recorded total operating lease liabilities of $18,706,000 and total operating lease right-of-use assets of $16,792,000, net of deferred rent liabilities, which had no impact on the statements of activities and statements of cash flows and the Institute did not make any adjustments to beginning net assets. See Note 7, Leases, Commitments and Contingencies, for additional information.

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 68 and 60 percent of its total revenue and support from grants and contracts provided through the NIH during the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, 90 and 83 percent, respectively, of grants and contracts receivable are due from the NIH.

During the years ended December 31, 2022 and 2021, the Institute received approximately 9 and 6 percent, respectively, of its total revenue and support from research funding provided through KKUS.

As of December 31, 2022 and 2021, 95 and 57 percent of net pledges receivable was due from one donor, respectively.

Note 3 – Investments

Investments at December 31, are summarized as follows:

	2022	2021
Mutual funds		
Fixed income	$ 9,545,000	$ 10,955,000
Multi-strategy	603,000	2,734,000
U.S. treasuries	292,000	331,000
U.S. equities	3,237,000	3,639,000
Exchange-traded funds		
International	1,628,000	1,868,000
Emerging markets	2,348,000	612,000
Corporate bonds	301,000	287,000
Money market funds	2,628,000	2,690,000
Total investments	$ 20,582,000	$ 23,116,000

The Institute carries investments at fair value. The Institute had no liabilities required to be reported at fair value as of December 31, 2022 and 2021. 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*

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	2022 Total
Mutual funds	$ 10,148,000	$ -	$ -	$ 10,148,000
U.S. treasuries	-	292,000	-	292,000
U.S. equities	3,237,000	-	-	3,237,000
Exchange-traded funds	3,976,000	-	-	3,976,000
Corporate bonds	-	301,000	-	301,000
Money market funds	2,628,000	-	-	2,628,000
Total	$ 19,989,000	$ 593,000	$ -	$ 20,582,000

	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 funds	2,690,000	-	-	2,690,000
Total	$ 22,498,000	$ 618,000	$ -	$ 23,116,000

Included in the investment totals as of December 31, 2022 and 2021, are $1,887,000 and $2,000,000, respectively, of investments for the Institute's donor-restricted endowment funds.

Note 4 – Pledges Receivable

Pledges receivable at December 31 are summarized as follows:

	2022	2021
Pledges receivable to be paid in		
Less than one year	$ 150,000	$ 499,000
One to five years	140,000	397,000
More than five years	750,000	750,000
	1,040,000	1,646,000
Less: discount to net present value	(273,000)	(315,000)
Less: allowance for uncollectible pledges	(17,000)	(275,000)
Total pledges receivable, net	$ 750,000	$ 1,056,000

Note 5 – Property

Property at December 31, is summarized as follows:

	2022	2021
Equipment	$ 37,896,000	$ 36,043,000
Leasehold improvements	10,265,000	10,129,000
Furniture and fixtures	49,000	49,000
Work in progress	393,000	183,000
	48,603,000	46,404,000
Less: accumulated depreciation and amortization	(30,342,000)	(27,179,000)
Total property, net	$ 18,261,000	$ 19,225,000

Work in progress consisted of leasehold improvements that were not fully completed at December 31, 2022.

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 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 4 percent. The term loan is secured by the equipment purchased with the LOC proceeds. At December 31, 2022 and 2021, the outstanding balance of the term loan was $6,890,000 and $7,786,000, respectively.

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 1 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,	
2023	$ 933,000
2024	971,000
2025	1,012,000
2026	1,054,000
2027	1,098,000
Thereafter	1,822,000
Total	$ 6,890,000

Note 7 – Leases, 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 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 the Institute can withdraw from its space obligation, with two years of advance 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.

Right-of-use assets of $13,180,000 as of December 31, 2022, represent the Institute's right to use an underlying asset for the lease term. Lease liabilities of $14,697,000 as of December 31, 2022, represent the Institute's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. For operating leases, the Institute recognizes lease expense on a straight-line basis over the lease term.

The lease term consists of the noncancelable period of the lease and the periods covered by options to extend or terminate the lease when it is reasonably certain the Institute will exercise such options. None of the lease agreements contain a residual value guarantee, restrictions, or covenants.

The Institute also assessed service arrangements to determine if an asset is explicitly or implicitly specified in the agreement and if the Institute has the right to control the use of the identified asset. The Institute concluded that there are no such arrangements that contain a lease.

When available, the rate implicit in the lease agreement is utilized to discount lease payments to present value; however, the Institute's leases do not provide information about the rate implicit in the lease. In determining its incremental borrowing rate to calculate the present value of lease liabilities, the Institute reviewed the terms of its lease and elected to use the practical expedient of applying a risk-free discount rate. The Institute applied the long-term treasury bill rate as of January 3, 2022, that was closest to the remaining term of each lease.

Weighted-Average Remaining Lease Term and Discount Rate

The weighted-average remaining lease term and weighted-average discount rate used to calculate the present value of lease liabilities are as follows for the year ended December 31, 2022:

Weighted-average remaining lease term - operating leases	3.52 years
Weighted-average discount rate - operating leases	1.37%

Lease Maturities

The following table summarizes the maturity of the Institute's operating lease liabilities as of December 31, 2022:

	Operating Leases
Years Ending December 31,	
2023	$ 4,245,000
2024	4,178,000
2025	4,189,000
2026	2,243,000
2027	216,000
Total lease payments	15,071,000
Less: imputed interest	(374,000)
Total lease liabilities	$ 14,697,000

Total rent expense under the agreements with KKUS, UCSD, and the Consortium was $3,345,000 for the years ended December 31, 2022 and 2021. Deferred rent of $1,914,000 was 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. During the year ended December 31, 2021, rent expense on leases with deferred rent was recorded on a straight-line basis over the lease term.

Future annual minimum rental payments under the Institute's leases as of December 31, 2022, were 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

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 $2,819,000 and $2,759,000 in 2022 and 2021, respectively.

The Institute has a 457(b) deferred compensation plan for qualified employees. The Institute made $85,000 and $91,000, respectively, of contributions to the plan in 2022 and 2021. As of December 31, 2022 and 2021, plan assets were $1,958,000 and $2,225,000, 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.

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, 2022 and 2021, a liability of $4,317,000 and $2,862,000, 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.

Note 8 – Net Assets with Donor Restrictions

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

	2022	2021
Purpose restriction	$ 13,732,000	$ 11,385,000
Time restriction	750,000	1,056,000
Restricted in perpetuity	1,887,000	2,000,000
Total	$ 16,369,000	$ 14,441,000

During the years ended December 31, 2022 and 2021, net assets with donor restrictions of $8,030,000 and $9,678,000, respectively, were released from restriction as the purpose and time restrictions were satisfied.

The changes in the Institute's donor-restricted endowment net assets are as follows for the years ended December 31, 2022 and 2021:

Endowment net assets at January 1, 2021	$ -
Contributions	2,000,000
Endowment net assets at December 31, 2021	2,000,000
Investment return	
Interest and dividends	40,000
Net losses	(253,000)
Total investment return	(213,000)
Contributions	100,000
Amounts appropriated for expenditure	-
Endowment net assets at December 31, 2022	$ 1,887,000

The fair value of endowment funds was less than original contribution by $213,000 as of December 31, 2022, resulting from unfavorable investment market conditions. At management's discretion and to minimize further reductions in endowment net assets, no appropriations for expenditure were provided for the year ended December 31, 2022.

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 Funding Agreement (RFA), the current version of which expires December 31, 2024. Under the terms of the RFA, KKUS is granted a first option to negotiate for an exclusive license to certain Institute technology arising from specific research projects, subject to federal regulations and requirements. Funding under the RFA and other research collaboration agreements totaled $8,137,000 in 2022 and $6,020,000 in 2021. Reimbursements received under the current RFA or predecessor agreements and other option or license agreements for patent-related costs totaled $16,000 and $34,000 in 2022 and 2021, 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 $675,000 and $1,300,000 was recognized under these agreements in 2022 and 2021, 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 $447,000 and $394,000 in 2022 and 2021, 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 $826,000 and $791,000 in 2022 and 2021, respectively.

Included in the accompanying statements of financial position are prepaid and other receivables from KKUS of $10,000 and $42,000 as of December 31, 2022 and 2021, respectively.

On July 1, 2015, the Institute entered an affiliation agreement whereby the Institute receives annual funding from UCSD, a California university which has a representative on the Board of Directors of the Institute, in exchange for collaboration on research, shared resources, and to accelerate the translation of research work at the Institute into clinical practices at UCSD Health. The agreement is effective through 2027, and then renews annually until cancelled by UCSD or the Institute. Funding under the affiliation agreement totaled $3 million in 2022 and 2021. 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 $934,000 and $759,000 for the years ended December 31, 2022 and 2021, 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.

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, 2022:

	Research	General and Administrative	Fundraising	Total Expenses
Salaries and wages	$ 27,939,000	$ 4,815,000	$ 749,000	$ 33,503,000
Consortium	14,111,000	-	-	14,111,000
Research supplies and services	10,898,000	-	-	10,898,000
Fringe benefits	7,490,000	1,077,000	211,000	8,778,000
Occupancy	7,185,000	612,000	32,000	7,829,000
Depreciation and amortization	4,931,000	275,000	-	5,206,000
Professional fees	1,925,000	1,888,000	153,000	3,966,000
Minor equipment and repairs	2,826,000	15,000	1,000	2,842,000
Office and computer supplies	2,074,000	463,000	35,000	2,572,000
Meetings and conferences	1,088,000	303,000	107,000	1,498,000
Other	368,000	671,000	54,000	1,093,000
	$ 80,835,000	$ 10,119,000	$ 1,342,000	$ 92,296,000

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, 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

Note 11 – Liquidity

The following table reflects the Institute's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general expenditures within one year due to contractual or donor-imposed restrictions.

	2022	2021
Financial assets		
Grants and contracts receivable	$ 15,138,000	$ 11,962,000
Investments	20,582,000	23,116,000
Cash and cash equivalents	10,293,000	12,069,000
Pledges receivable, net	750,000	1,159,000
Total financial assets	46,763,000	48,306,000
Less: amounts not available to be used within one year		
Investments held for 457(b) deferred compensation plan	(1,958,000)	(2,225,000)
Endowment assets	(1,887,000)	(2,000,000)
Cash held for employee flexible spending account	(73,000)	(106,000)
Current pledges receivable, net – with purpose restriction	(144,000)	(283,000)
Pledges receivable, net – due after one year	(606,000)	(657,000)
Financial assets not available to be used within one year	(4,668,000)	(5,271,000)
Financial assets available to meet general expenditures within one year	$ 42,095,000	$ 43,035,000

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, 2022

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		$ 256,156	$ 873,493
Cancer Cause and Prevention Research	93.393		-	990,124
Cancer Detection and Diagnosis Research	93.394		123,125	762,566
Cancer Treatment Research	93.395		251,054	899,225
Cancer Biology Research	93.396		141,499	1,909,801
Cancer Research Manpower	93.398		-	702
Cardiovascular Diseases Research	93.837		424,663	2,260,450
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		-	1,024,907
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		17,990	118,819
Allergy and Infectious Diseases Research	93.855		9,353,982	30,208,252
Biomedical Research and Research Training	93.859		-	687,942
Trans-NIH Research Support	93.310		-	85,079
Total direct programs			10,568,469	39,821,360
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	-	217,240
Specialized Cancer Center Core support grant	93.397	CA023100	-	66,359
A Rational Systematic Approach to Find Combinations of Pharmacologic and Immune Therapies that Target Identifiable Oncogenic States	93.393	CA217885	-	16,286
Combining Irreversible Electroporation with Immunotherapy for the Systemic Treatment of Pancreatic Cancer	93.395	CA254268	-	38,737
San Diego Team Asthma Management using Phenotypes (STAMP)	93.838	HL139117	-	22,545
Cell Adhesion Mechanisms in Vascular Disease & Thrombosis	93.839	HL151433	-	353,309
Molecular basis of Zika-induced microcephaly	93.853	NS106387	-	(27,533)
Airway inflammation and airway remodeling	93.855	AI070535	-	866,570
Identifying individuals at risk of progression to activate tuberculosis	93.855	AI137681	-	22,093
Regents of the University of California, Berkeley				
Protective immunity following dengue virus natural infections and vaccination	93.855	AI106695	-	265,150
Cincinnati Children's Hospital Medical Center				
Genetics Linkage in Lupus	93.855	AI024717	-	111,910
The Washington University				
The Development and Evaluation of Pan-Coronavirus Vaccines	93.855	AI168347	-	58,268
Emerging infections: surveillance, epidemiology and pathogenesis	93.855	AI151810	-	101,537
Benaroya Research Institute at Virginia Mason				
Histamine-releasing factor in LEAP peanut allergy	93.855	AI109565	-	18,451
Emory University				
B and T Cell Biology of Protection from and Eradication of SIV/SHIV Infection	93.855	AI169662	-	42,059
B and T Cell Biology of Protection from and Eradication of SIV/SHIV Infection	93.855	AI124436	-	89,224
Regents of University of Wisconsin-Madison				
Childhood Asthma in Urban Settings Clinical Research Network (CAUSE) – Leadership Center	93.855	AI160040	-	284,357
Albert Einstein College of Medicine				
Structural, functional, and mechanistic analysis of autoreactive CD8 T cells	93.855	AI123730	-	24,851
Immunophenotyping for Precision Medicine for Cardiovascular Disease in People Living with HIV	93.837	HL148094	-	731,372
Chicago BioSolutions, Inc				
4-(Aminomethyl) benzamides as novel anti-Ebola Agents	93.855	AI126971	-	(32,104)
Integrated Biotherapeutics, Inc.				
Rationally Designed Pan-Ebolavirus Vaccine	93.855	AI132204	-	164,637
Tulane University				
Structure-based Design of Novel Lassa Virus Glycoproteins for Vaccine Development	93.855	AI132244	-	57,116
Zalgen Labs, LLC				
Structure-Guided Design of Broadly neutralizing Lassa Virus BiSpecific Antibodies	93.855	AI141251	-	371,593
The Scripps Research Institute				
Consortium for HIV/AIDS Vaccine Development	93.855	AI144462	-	2,002,573
Fusion peptide directed immunogens that elicit neutralizing and protective antibodies in non-human primates	93.855	AI145629	-	172,935
Design and testing of germline-targeting and boosting immunogens to elicit 10E8-like broadly neutralizing antibodies against HIV	93.855	AI147826	-	73,055
Neutrophil lineage in inflammation	93.839	HL152958	-	697,027
The Regents of the University of California, Irvine				
AIDS Clinical Trials Group for Research on Therapeutics for HIV and Related Infections	93.855	AI068636	-	407,475
Massachusetts Institute of Technology				
Immune engineering of optimized sequential immunization strategies for HIV vaccines	93.855	AI161297	-	404,154

Continued on the following page.

La Jolla Institute for Immunology
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2022

Program Title/ Federal Grantor/ Pass-Through Grantor	Assistance Listing Number	Grant or Contract Number	Passed Through to Subrecipients	Total Federal Expenditures
The Brigham and Women's Hospital, Inc				
Discovering Durable Pan-Coronavirus Immunity	93.855	AI165072	-	572,669
University of Puerto Rico Medical Sciences Campus				
SARS-CoV-2 correlates of protection in a Latin-orgin population	93.394	CA260541	-	372,015
Cedars-Sinai Medical Center				
Diversity and Determinants of the Immune-inflammatory Response to SARS-COV-2	93.394	CA260591	-	72,705
Vaccine Induced Immune-Inflammatory Response and Cardiovascular Risk	93.837	HL151828	-	118,621
Vanderbilt University Medical Center				
Head and Neck Cancer Neoantigen characterization and Therapeutic Targeting	93.121	DE027749	-	104,014
Trustees of the University of Pennsylvania				
Non-destructive epigenetic sequencing with DNA deaminase enzymes	93.172	HG010646	-	96,392
Boston Children's Hospital				
Molecular regulation of atherosclerosis	93.837	HL146134	-	20,109
Northwestern University				
Immunologic, Inflammatory, and Clinical contributors to HIV-Related Heart Failure with Preserved Ejection Fraction (HEpEF)	93.837	HL156792	-	190,773
LCH Chicago				
Mechanisms regulating IncRNA short and long range signaling	93.242	MH111267	-	(3,630)
Yale University				
The role of TRIO signaling in neuronal development, synaptic function, and circuit connectivity	93.242	MH122449	-	74,187
Targeting of somatic hypermutation in the genome	93.855	AI127642	-	27,730
Mechanism and Regulation of V(D)J Recombination	93.855	AI032524	-	3,022
The J. David Gladstone Institutes				
Mechanisms of a Natural Bacterial Biosensor Using RT-DNA	47.074	2137692	-	72,693
Rector & Visitors of The University of Virginia				
IgE antibody responses to the oligosaccharide galactose-alpha-1,3-galactose (alphagal) in murine and human atherosclerosis	93.855	AI172112	-	15,728
Georgetown University				
Semantic integration of protein epitopes and functional features for infectious and autoimmune disease knowledge discovery	93.855	AI169243	-	136,015
Synbal, Inc				
Triple humanized ACE2-TMPRSS-FcGRT mouse models for COVID research in the C57BU6 and BALBIc backgrounds	93.855	AI157900	-	616,749
University of Florida				
Transcription factor regulation of CD4 and CD8 T cell effector and memory differentiation and function	93.855	AI145815	-	323,909
Trustees of Columbia University in the City of New York				
Autoimmune features of neurodegenerative disorders	93.853	NS095435	-	531,116
Total pass-through programs			-	10,966,063
Total research and development cluster program and expenditures of federal awards			$ 10,568,469	$ 50,787,423

See accompanying notes to the schedule of expenditures of federal awards.

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, 2022. 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, 2022, 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 22, 2023.

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 or significant deficiencies 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
May 22, 2023

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, 2022. 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, 2022.

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
May 22, 2023

La Jolla Institute for Immunology
Schedule of Findings and Questioned Costs
Year Ended December 31, 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:	$1,523,623	
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.

Summary Schedule of Prior Audit Findings

Name of Auditee: La Jolla Institute for Immunology

Period Covered by the Audit: January 1, 2022 – December 31, 2022

Name of Audit Firm: Moss Adams, LLP

There were no open findings from the prior audit report.