Pacific Institute for Research and Evaluation and Affiliates

Consolidating Financial Statements, Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance
Year Ended December 31, 2022

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

Pacific Institute for Research and Evaluation and Affiliates

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the Uniform Guidance
Year Ended December 31, 2022

Pacific Institute for Research and Evaluation and Affiliates

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Independent Auditor's Report

To the Board of Directors
Pacific Institute for Research and Evaluation and Affiliates
Beltsville, Maryland

Report on the Audit of the Consolidating Financial Statements

Opinion

We have audited the consolidating financial statements of **Pacific Institute for Research and Evaluation and Affiliates** (the "Institute"), which comprise the consolidating statement of financial position as of December 31, 2022, and the related consolidating statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidating financial statements.

In our opinion, the accompanying consolidating financial statements present fairly, in all material respects, the consolidating financial position of the Institute as of December 31, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidating 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.

Emphasis of Matter

As discussed in Note 1 to the consolidating financial statements, effective January 1, 2022, the Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of the consolidating 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 consolidating financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidating 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 within one year after the date that the consolidating financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidating Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidating 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 consolidating 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 consolidating 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 consolidating 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 consolidating 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.

Other Matters

Report on 2021 Summarized Comparative Information

We have previously audited the Institute's 2021 consolidating financial statements, and we expressed an unmodified audit opinion on those audited consolidating financial statements in our report dated April 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited consolidating financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidating 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 consolidating financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidating 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 April 25, 2023 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 the 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 the Institute's internal control over financial reporting and compliance.

BDO USA, LLP

April 25, 2023

Consolidating Financial Statements

Pacific Institute for Research and Evaluation and Affiliates

Consolidating Statements of Financial Position

December 31, 2022 (With summarized financial information for 2021)

	2022				2021
	PIRE	PIRE Programs NF	PIRE CA	Total	Total
Assets					
Current assets					
Cash and cash equivalents	$ 928,404	$ 10,009	$ 10,000	$ 948,413	$ 2,140,564
Cash and cash equivalents - restricted	462,369	-	-	462,369	455,302
Short-term investments	3,495,655	-	-	3,495,655	1,335,170
Receivable on grants and contracts	1,875,875	855,263	-	2,731,138	3,237,262
Other accounts receivable	55,267	-	-	55,267	28,771
Due (to) from affiliate	(3,851,409)	1,190,059	2,661,350	-	-
Prepaid expenses	169,072	-	-	169,072	277,060
Total current assets	3,135,233	2,055,331	2,671,350	7,861,914	7,474,129
Noncurrent assets					
Property and equipment, net	20,965	-	-	20,965	38,317
Operating lease right-of-use assets	1,339,600	-	-	1,339,600	-
Investments	4,655,981	-	-	4,655,981	3,891,616
Investments - deferred compensation plan	687,636	-	-	687,636	843,877
Rent deposits	35,345	-	-	35,345	50,743
Total noncurrent assets	6,739,527	-	-	6,739,527	4,824,553
Total assets	$ 9,874,760	$2,055,331	$ 2,671,350	$ 14,601,441	$ 12,298,682
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$ 686,624	$ -	$ -	$ 686,624	$ 536,378
Accrued expenses	2,798,896	-	-	2,798,896	2,863,852
Operating lease liabilities, current	408,602	-	-	408,602	-
Refundable advances	1,009,754	191,843	2,653,859	3,855,456	2,021,364
Total current liabilities	4,903,876	191,843	2,653,859	7,749,578	5,421,594
Noncurrent liabilities					
Deferred compensation plan	687,636	-	-	687,636	843,877
Operating lease liabilities, noncurrent	974,742	-	-	974,742	-
Deferred rent liability	-	-	-	-	85,317
Total noncurrent liabilities	1,662,378	-	-	1,662,378	929,194
Total liabilities	6,566,254	191,843	2,653,859	9,411,956	6,350,788
Commitments and contingencies					
Net assets					
Without donor restrictions	2,846,137	1,863,488	17,491	4,727,116	5,492,592
With donor restrictions	462,369	-	-	462,369	455,302
Total net assets	3,308,506	1,863,488	17,491	5,189,485	5,947,894
Total liabilities and net assets	$ 9,874,760	$2,055,331	$ 2,671,350	$ 14,601,441	$ 12,298,682

See accompanying notes to consolidating financial statements.

Pacific Institute for Research and Evaluation and Affiliates

Consolidating Statements of Activities

Year ended December 31, 2022 (With summarized financial information for 2021)

	2022				2021
	PIRE	PIRE Programs NF	PIRE CA	Total	Total
Changes in Net Assets Without Donor Restrictions					
Revenue					
Grants and contracts	$ 14,126,982	$ 4,644,954	$ 704,306	$ 19,476,242	$ 19,828,333
Investment return, net	(301,109)	27	-	(301,082)	173,315
Gain from Paycheck Protection Program loan forgiveness	-	-	-	-	360,000
Miscellaneous	20,050	-	-	20,050	15,468
Total revenue without donor restrictions	13,845,923	4,644,981	704,306	19,195,210	20,377,116
Expenses					
Grants and contracts	10,034,358	3,609,071	517,587	14,161,016	14,514,500
Administrative	4,677,734	935,151	186,785	5,799,670	5,792,486
Total expenses	14,712,092	4,544,222	704,372	19,960,686	20,306,986
(Decrease) increase in net assets without donor restrictions	(866,169)	100,759	(66)	(765,476)	70,130
Changes in Net Assets With Donor Restrictions					
Investment return, net	7,067	-	-	7,067	47
Increase in net assets with donor restrictions	7,067	-	-	7,067	47
Change in net assets	$ (859,102)	$ 100,759	$ (66)	$ (758,409)	$ 70,177

See accompanying notes to consolidating financial statements.

Pacific Institute for Research and Evaluation

Consolidating Statements of Functional Expenses

Year ended December 31, 2022 (With summarized financial information for 2021)

	2022												2021
	Grants and Contracts				Administrative				Total				
	PIRE	PIRE Programs NF	PIRE CA	Total	PIRE	PIRE Programs NF	PIRE CA	Total	PIRE	PIRE Programs NF	PIRE CA	Total	Total
Salaries and wages, and fringe benefits	$ 6,518,888	$ 2,103,752	$ 316,063	$ 8,938,703	$ 3,537,320	$ 886,969	$ 140,627	$ 4,564,916	$ 10,056,208	$ 2,990,721	$ 456,690	$ 13,503,619	$ 13,475,196
Subcontractors	2,266,004	59,944	155,177	2,481,125	-	-	-	-	2,266,004	59,944	155,177	2,481,125	3,612,463
Professional fees	530,015	1,274,457	3,861	1,808,333	149,958	5,096	715	155,769	679,973	1,279,553	4,576	1,964,102	1,026,444
Occupancy and rent	300,001	5,985	808	306,794	162,788	2,523	359	165,670	462,789	8,508	1,167	472,464	817,789
Dues and licenses	63,257	6,387	524	70,168	295,323	10,881	769	306,973	358,580	17,268	1,293	377,141	429,080
Consultants	34,207	93,377	14,700	142,284	46,541	-	-	46,541	80,748	93,377	14,700	188,825	196,173
Library	37,850	-	-	37,850	142,370	57	-	142,427	180,220	57	-	180,277	183,797
Liability insurance	-	-	127	127	98,530	21,326	3,084	122,940	98,530	21,326	3,211	123,067	128,134
Supplies	4,927	1,494	1,480	7,901	72,694	1,454	39,594	113,742	77,621	2,948	41,074	121,643	70,097
Meetings and conferences	58,455	9,655	3,832	71,942	40,519	41	-	40,560	98,974	9,696	3,832	112,502	31,595
Recruiting	94,216	8,125	-	102,341	5,388	-	-	5,388	99,604	8,125	-	107,729	7,681
Respondent fees	22,623	24,968	18,141	65,732	-	-	-	-	22,623	24,968	18,141	65,732	69,840
Communications	31,063	4,070	118	35,251	16,855	1,716	52	18,623	47,918	5,786	170	53,874	38,118
Travel	33,247	8,854	2,632	44,733	3,278	-	-	3,278	36,525	8,854	2,632	48,011	6,352
Bank fees	540	802	-	1,342	41,116	7	1	41,124	41,656	809	1	42,466	36,664
Depreciation and amortization	18,765	-	-	18,765	10,183	-	-	10,183	28,948	-	-	28,948	43,440
Board meetings and allowances	-	-	-	-	16,747	30	1,505	18,282	16,747	30	1,505	18,282	21,857
Duplication and printing	4,201	6,436	-	10,637	4,931	487	66	5,484	9,132	6,923	66	16,121	7,685
Workshops	3,116	-	-	3,116	12,748	225	-	12,973	15,864	225	-	16,089	32,914
Miscellaneous	10,559	-	-	10,559	-	4,010	-	4,010	10,559	4,010	-	14,569	23,882
Repairs and maintenance	-	-	-	-	9,494	-	-	9,494	9,494	-	-	9,494	3,843
Postage and shipping	2,524	765	124	3,413	3,472	329	13	3,814	5,996	1,094	137	7,227	7,155
Relocation	-	-	-	-	4,047	-	-	4,047	4,047	-	-	4,047	27,226
Tuition reimbursement	(100)	-	-	(100)	2,016	-	-	2,016	1,916	-	-	1,916	7,411
Equipment rental	-	-	-	-	1,316	-	-	1,316	1,316	-	-	1,316	1,900
Institutional review board	-	-	-	-	100	-	-	100	100	-	-	100	250
	$ 10,034,358	$ 3,609,071	$ 517,587	$ 14,161,016	$ 4,677,734	$ 935,151	$ 186,785	$ 5,799,670	$ 14,712,092	$ 4,544,222	$ 704,372	$ 19,960,686	$ 20,306,986

See accompanying notes to consolidating financial statements.

Pacific Institute for Research and Evaluation and Affiliates

Consolidating Statements of Changes in Net Assets

Year ended December 31, 2022

	Without Donor Restrictions				With Donor Restrictions	
	PIRE	PIRE Programs NF	PIRE CA	Total	PIRE	Total
Net assets, December 31, 2021	$ 3,712,306	$ 1,762,729	$ 17,557	$ 5,492,592	$ 455,302	$ 5,947,894
Change in net assets	(866,169)	100,759	(66)	(765,476)	7,067	(758,409)
Net assets, December 31, 2022	$ 2,846,137	$ 1,863,488	$ 17,491	$ 4,727,116	$ 462,369	$ 5,189,485

See accompanying notes to consolidating financial statements.

Pacific Institute for Research and Evaluation and Affiliates

Consolidating Statements of Cash Flows

Year ended December 31, 2022 (With summarized financial information for 2021)

	2022				2021
	PIRE	PIRE Programs NF	PIRE CA	Total	Total
Cash flows from operating activities					
Change in net assets	$ (859,102)	$ 100,759	$ (66)	$ (758,409)	$ 70,177
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation and amortization	28,948	-	-	28,948	43,440
Noncash lease expense	496,613	-	-	496,613	-
Unrealized loss (gain) on investments	401,391	-	-	401,391	(57,103)
Gain from Paycheck Protection Program loan forgiveness	-	-	-	-	(360,000)
(Increase) decrease in assets					
Receivable on grants and contracts	461,501	44,623	-	506,124	94,568
Other accounts receivable	(26,496)	-	-	(26,496)	28,350
Due (to) from affiliate	1,628,164	205,820	(1,833,984)	-	-
Prepaid expenses	107,988	-	-	107,988	50,079
Rent deposits	15,398	-	-	15,398	(7,961)
Increase (decrease) in liabilities					
Accounts payable	150,246	-	-	150,246	160,419
Accrued expenses	(64,397)	-	(559)	(64,956)	(273,253)
Refundable advances	351,176	(351,193)	1,834,109	1,834,092	(529,515)
Principal reduction in operating lease liabilities	(538,186)	-	-	(538,186)	-
Deferred rent liability	-	-	-	-	(20,374)
Net cash provided by (used in) operating activities	2,153,244	9	(500)	2,152,753	(801,173)
Cash flows from investing activities					
Acquisitions of property and equipment	(11,596)	-	-	(11,596)	(13,674)
Proceeds from sale of investments	3,279,585	-	-	3,279,585	4,567,583
Purchases of investments	(6,605,826)	-	-	(6,605,826)	(3,046,802)
Net cash (used in) provided by investing activities	(3,337,837)	-	-	(3,337,837)	1,507,107
(Decrease) increase in cash and cash equivalents and restricted cash	(1,184,593)	9	(500)	(1,185,084)	705,934
Cash and cash equivalents and restricted cash, beginning of year	2,575,366	10,000	10,500	2,595,866	1,889,932
Cash and cash equivalents and restricted cash, end of year	$ 1,390,773	$ 10,009	$ 10,000	$ 1,410,782	$ 2,595,866
Supplemental disclosure of cash flow information:					
Recognition of operating lease right-of-use assets and operating lease liabilities upon adoption:					
Operating lease right-of-use assets	$ 1,247,253	$ -	$ -	$ 1,247,253	$ -
Operating lease liabilities	$ 1,332,570	$ -	$ -	$ 1,332,570	$ -
Derecognition of deferred rent liability	$ 85,317	$ -	$ -	$ 85,317	$ -
Net recognition of operating lease right-of-use assets and operating lease liabilities for new and terminated leases during 2022:					
Operating lease right-of-use assets	$ 588,960	$ -	$ -	$ 588,960	$ -
Operating lease liabilities	$ 555,163	$ -	$ -	$ 555,163	$ -

See accompanying notes to consolidating financial statements.

1. Summary of Accounting Policies

Organization

Pacific Institute for Research and Evaluation ("PIRE") was organized to conduct research, evaluate programs, develop policy and deliver training and technical assistance in the broad area of human service. The primary fields of endeavor to date have been alcohol, drug abuse, HIV, violence prevention, intervention and evaluation (including high risk youth), technical assistance in providing juvenile justice programs and traffic safety.

National Center for the Advancement of Prevention, doing business as "PIRE Programs NF" (formerly "HBSA"), was organized to provide systems design, consulting and support services in the health and community service areas to other nonprofit organizations and other organizations or individuals working on programs or projects furthering the health and welfare of citizens.

PIRE California, Inc. ("PIRE CA") was organized in the State of California primarily to support PIRE's State of California funded research programs and support activities or otherwise benefit the exempt purposes of PIRE.

The three entities are collectively referred to as the Institute in these consolidating financial statements.

Consolidation Policy

The consolidating financial statements include the accounts of PIRE and its affiliates, PIRE Programs NF and PIRE CA. All significant transactions between the organizations, including all interorganization balances, have been eliminated on consolidation.

Basis of Accounting

The accompanying consolidating financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and are presented on the accrual basis of accounting.

Cash and Cash Equivalents

For purposes of these consolidating financial statements, the Institute considers cash on hand, deposits in banks and highly liquid debt instruments with an original maturity of three months or less to be cash and cash equivalents. Restricted cash and cash equivalents at December 31, 2022 consist of money market accounts restricted by the donors for various corporate development initiatives of the Institute's Albuquerque and Louisville offices, or to provide general support for the Albuquerque and Louisville offices' general operations, that have not been recovered under grant awards and contracts.

Short-term Investments

Short-term investments consist of certificates of deposit and corporate bonds invested in securities of short-term duration. Net investment income is reported in the consolidating statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

Receivable on Grants and Contracts

Receivable on grants and contracts consists of amounts due from federal agencies and non-federal sources resulting from allowable expenditures incurred, which have not been recovered from the relevant federal agencies and non-federal sources, as of the end of the year. The allowance method is used to determine the uncollectible amounts, if any. The allowance is based upon prior years' experience and management's analysis of subsequent collections.

Management considers all receivables on grants and contracts to be fully collectible, therefore, no allowance for doubtful accounts has been established. Receivables are written off if reasonable collection efforts prove unsuccessful.

Property and Equipment

Furniture, equipment and leasehold improvement acquisitions are recorded at cost. These assets are depreciated using the straight-line method over their estimated useful lives or the anticipated term of the lease, if shorter, for leasehold improvements.

The Institute capitalizes assets with an original cost of $5,000 or greater. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, with any gain or loss reflected in current operations. Expenditures for repairs and maintenance are charged to expense, when incurred.

Impairment of long-lived assets

The Institute reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, through a nonoperating charge to its current fair value. There were no impairment losses in 2022.

Investments

Investments consist of corporate bonds, mutual funds and certificates of deposit held on long-term duration and are reported at fair value. Net investment return is reported in the consolidating statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

Investments – Deferred Compensation Plan

Investments in mutual funds associated with the deferred compensation plan are reported at fair value. Investment gains and losses from the mutual funds are recorded directly to the asset account, and the corresponding liability account, for deferred compensation.

Refundable Advances

A transfer of assets (i.e., cash received) that is related to a conditional contribution is accounted for as a refundable advance in the accompanying consolidating statements of financial position until the conditions have been substantially met or explicitly waived by the donor.

Leases

The Institute adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, effective January 1, 2022, and elected the optional transition approach to not apply Topic 842 in the comparative period presented. The Institute elected the package of practical expedients offered by the new standard in the year of adoption including to (1) not reassess whether any expired or existing contracts are considered or contain leases; (2) not reassess the lease classification for any expired or existing leases; and (3) not reassess the initial direct costs for any existing leases. The Institute does not have leases that contain land easements; therefore, this optional practice expedient was not elected. The adoption of Topic 842 resulted in the recognition of operating lease right-of-use assets of $1,649,471 and operating lease liabilities of $1,688,683, and the derecognition of $85,317 in deferred rent as of January 1, 2022.

Leases arise from contractual obligations that convey the right to control the use of identified property and equipment for a period of time in exchange for consideration. At the inception of the contract, the Institute determines if an arrangement contains a lease based on whether there is an identified asset and whether the Institute controls the use of the identified asset. The Institute also determines whether the lease classification is an operating or financing lease at the commencement date.

A right-of-use asset represents the Institute’s right to use an underlying asset and a lease liability represents the Institute’s obligation to make payments during the lease term. Right-of-use assets are recorded and recognized at commencement for the lease liability amount, adjusted for initial direct costs incurred and lease incentives received. Lease liabilities are recorded at the present value of the future lease payments over the lease term at commencement. The implicit rate for the Institute’s leases is not readily determinable; therefore, the Institute has elected to use a risk-free discount rate at the lease commencement date for all new leases and at the adoption date for all leases existing as of the adoption of Topic 842, to determine the present value of lease payments.

The Institute’s operating leases typically include non-lease components such as common-area maintenance costs, utilities, and other maintenance costs. The Institute has elected to not include non-lease components for the purpose of calculating lease right-of-use assets and liabilities as they are neither fixed nor variable based on an index or rate and are expensed as incurred as variable lease payments.

The Institute’s lease terms may include options to extend or terminate the lease. The Institute generally uses the base, non-cancellable, lease term when recognizing the right-of-use assets and liabilities, unless it is reasonably certain that the Institute will exercise those options. The Institute’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As a matter of policy, the Institute elected to exclude leases with terms of 12 months or less from the consolidating statement of financial position date. Lease expense for these short-term leases is recognized on a straight-line basis over the expected term of the lease.

See recently adopted authoritative guidance section for further information regarding the adoption of ASU 2016-02.

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use in general operating purposes and are not subject to donor (or certain grantor) restrictions. From time to time, the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. The Institute did not have board designated net assets as of December 31, 2022.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets and the related income whose use is limited by donor-imposed, time and/or purpose restrictions.

The Institute reports gifts of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the consolidating statements of activities as net assets released from restrictions.

At December 31, 2022, these net assets were restricted for various corporate development initiatives of the Institute's Albuquerque and Louisville offices, or to provide general support for the Albuquerque and Louisville offices' general operations, that have not been recovered under grant awards and contracts. These net assets are the result of unsolicited contributions from two organizations, and there were no fundraising expenses incurred related to these contributions.

Revenue Recognition

Grants and contracts revenue awarded by federal agencies or passed through to the Institute from another donor that received funding from the U.S. federal government or awarded from foundations and other private institutions are generally considered nonreciprocal transactions restricted by the awarding agency/entity for certain purposes. Revenue is recognized when qualifying expenditures are incurred and conditions under the grant agreements are met. Grants and contracts revenue totaled $19,476,242 for the year ended December 31, 2022. All Institute government grants and contracts are subject to audit by its awarding agencies. Such audits have been performed in the past and did not result in material adjustments to previously reported revenue.

Funds received in advance of satisfying grants and contractual performance obligations are recorded as refundable advances in the consolidating statements of financial position. As of December 31, 2022, the Institute has refundable advances of $3,855,456 in the consolidating statements of financial position.

At December 31, 2022, the Institute had remaining award balances on federal and non-federal conditional grants and contracts for sponsored projects of $31,562,077 and $3,322,257, respectively. These conditional award balances are not recognized as assets and will be recognized as revenue as the projects progress and conditions are met, generally as expenses are incurred. The Institute has awarded conditional grants to subrecipients related to the performance of the federal and non-federal conditional grants and contracts for sponsored projects, which have outstanding commitments of up to $1,285,152 and $175,164, respectively, as of December 31, 2022.

Description of Program and Supporting Services

Grants and Contracts

Grants and contracts represent the costs of conducting research, evaluating programs, developing policy and delivering training and technical assistance in the area of human service, including safety and health, through federal and non-federal grants and contracts.

Administrative

Administrative expenses include the functions necessary to provide an adequate working environment, maintain competent legal services for program administration and manage the financial and budgetary responsibilities of the Institute.

Functional Allocation of Expenses

The costs of providing various programs of the Institute have been summarized on a functional basis in the consolidating statements of activities. The consolidating financial statements report certain categories of expenses that are attributed to more than one program or supporting function of the Institute. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Fringe benefits which includes medical insurance, pension, and payroll taxes, are allocated on the basis of actual time and effort. Occupancy and rent, communications, depreciation and amortization expenses are allocated based on a percentage of salaries and wages and fringe benefits.

Use of Estimates

The preparation of consolidating financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidating financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments and Credit Risk

Financial instruments that potentially subject the Institute to concentrations of credit risk consist principally of cash and investments held at creditworthy financial institutions. By policy, these amounts are kept within limits designed to prevent risks caused by concentration. The Institute has historically not experienced losses related to these accounts.

Credit risk with respect to accounts receivable is limited to amounts receivable on grants and contracts for services rendered mainly to the federal government. The Institute has not experienced significant losses related to these receivables, and therefore, believes the credit risk related to receivables is minimal.

Recently Adopted Authoritative Guidance

In February 2016, the FASB issued ASU 2016-02. This update, along with related ASU's, establishes a comprehensive leasing standard. These updates require the recognition of lease assets and lease liabilities on the consolidating statement of financial position and disclosure of key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The guidance also expands the required quantitative and qualitative lease disclosures as well as provides entities with an additional (and optional) transition method to adopt the new standard. The Institute adopted this ASU effective January 1, 2022, using the modified retrospective transition method, under which the amounts in prior periods presented were not restated. For contracts existing at the time of adoption, management elected the practical expedient and did not reassess (1) whether any are or contain leases, (2) lease classification, and (3) initial direct costs.

The adoption resulted in the following:

Recognition of:		
Operating lease right-of-use assets	$	1,247,253
Operating lease liabilities	$	1,332,570
Derecognition of:		
Deferred rent liability (2021)	$	85,317

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The Institute adopted this ASU effective January 1, 2022, and the adoption did not have impact to the consolidating financial statements. The adoption did not have effect on the change in net assets reported at December 31, 2021.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets and requires additional disclosures related to contributed nonfinancial assets. The update enhances the presentation and disclosure of such contributed nonfinancial assets without changing existing recognition and measurement requirements. Effective January 1, 2022, the Institute adopted this standard retrospectively. The adoption did not have significant impact to the consolidating financial statements and did not have effect on the change in net assets reported at December 31, 2021.

Recently Issued Accounting Standards but Not Yet Adopted

In June 2022, FASB issued ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (Topic 820)*. This ASU was issued to clarify the guidance in Topic 820, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security. The amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. This amendment also requires the following disclosures for equity securities subject to contractual sale restrictions: (1) the fair value of equity securities subject to contractual sale restrictions reflected in the statement of financial position; (2) the nature and remaining duration of the restriction(s); and (3) the circumstances that could cause a lapse in the restriction(s). ASU 2022-03 is effective date is for fiscal year ends beginning after December 15, 2024. The ASU should be applied prospectively and any adjustments from adoption should be recognized in earnings and disclosed on the date of adoption. Management is currently evaluating the impact of this ASU on the consolidating financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which it clarified and updated through the following ASUs (collectively, "ASC Topic 326"):

- ASU No. 2018-19, *Codification Improvements* to Topic 326, *Financial Instruments—Credit Losses*
- ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*
- ASU No. 2019-05, *Financial Instruments—Credit Losses* (Topic 326): *Targeted Transition Relief*
- ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*
- ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*
- ASU No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*

ASC Topic 326 changes the impairment model for most financial assets measured at amortized cost, as well as certain other instruments, from an incurred loss model to an expected loss model. As a result, entities will be required to recognize credit losses on financing receivables and other financial assets earlier than previously stipulated and for the entire contractual term of an instrument. The update applies to financial assets recorded at amortized cost basis (e.g., loan receivables, trade and certain other receivables, off-balance sheet credit exposures such as loan commitments and financial guarantees) but does not apply to financial assets measured at fair value (e.g., promises to give/pledges receivable; loans and receivables between entities under common control). ASC Topic 326 is effective for the Institute's calendar year 2023. Management continues to evaluate the potential impact of this update.

2. Income Tax Status

PIRE has been granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC) and by the California Franchise Tax Board. In addition, the Internal Revenue Service (IRS) has determined that the organization is not a private foundation, as defined in Section 509(a) of the IRC. PIRE is licensed to do business in the state of Maryland as a foreign nonprofit corporation. PIRE is also registered with the Registry of Charitable Trusts of the Office of Attorney General of the state of California.

PIRE Programs NF has been granted tax exempt status under Section 501(c)(3) of the IRC and is licensed to do business as a nonprofit corporation in the state of Maryland. In addition, the IRS has determined that the organization is not a private foundation, as defined in Section 509(a) of the IRC.

PIRE CA has been granted tax exempt status under Section 501(c)(3) of the IRC and is licensed to do business as a nonprofit corporation in the state of California. In addition, the IRS has determined that the organization is a public charity, as defined in Section 509(a)(3) of the IRC.

In accordance with U.S. GAAP, the Institute must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained on examination. The Institute does not believe there are any unrecognized tax benefits that should be recorded.

For the year ended December 31, 2022, there were no interest or penalties related to income taxes included in the consolidating statements of activities. The Institute is still open to examination by taxing authorities from year 2019 forward.

3. Liquidity and Availability

The Institute maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Institute has a committed line-of-credit of $1,500,000, which it could draw upon. The Institute did not have an outstanding balance on this line-of-credit as of December 31, 2022.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidating statement of financial position date, are comprised of the following at December 31, 2022:

	PIRE	PIRE Programs NF	PIRE CA	Total
Cash and cash equivalents	$ 928,404	$ 10,009	$ 10,000	$ 948,413
Short-term investments	3,495,655	-	-	3,495,655
Receivable on grants and contracts	1,875,875	855,263	-	2,731,138
Other accounts receivable	55,267	-	-	55,267
	$ 6,355,201	$ 865,272	$ 10,000	$ 7,230,473

As part of the liquidity management plan, the Institute invests cash in excess of daily requirements in short-term investments and money market funds included in cash and cash equivalents.

4. Comparative Financial Information

The consolidating financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Institute's consolidating financial statements for the year ended December 31, 2021, from which the summarized information was derived.

5. Investments

Investments, at fair value, consist of the following at December 31, 2022:

	PIRE	PIRE Programs NF	PIRE CA	Total
Corporate bonds	$ 6,305,779	$ -	$ -	$ 6,305,779
Certificates of deposit	1,051,877	-	-	1,051,877
Mutual funds	793,980	-	-	793,980
Mutual funds - deferred compensation plan	687,636	-	-	687,636
	8,839,272	-	-	8,839,272
Less investment - deferred compensation plan	687,636	-	-	687,636
Less short-term investments	3,495,655	-	-	3,495,655
Noncurrent investments	$ 4,655,981	$ -	$ -	$ 4,655,981

Investment gains and losses from mutual funds associated with the deferred compensation plan are recorded directly to the asset account, and the corresponding liability account, for deferred compensation.

6. Fair Value Measurements

As defined in FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

Level 3 - Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects the Institute's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Investments – Deferred Compensation Plan

The Institute's investments in CREF are registered investments which are valued based on market quotations or independent pricing services. The CREF fund consists of several investment portfolios which include money market accounts, growth funds, stock funds, global equities funds, social choice funds, and fixed income bond funds.

Investments in TIAA Real Estate Account (TIAA REA) are investments in a pooled separate account of TIAA. The value of the units held in the pooled separate account is based on the market value of the underlying real estate holdings which are valued principally utilizing external appraisals and involve significant judgment.

Investments in TIAA Traditional Annuity are investments in fixed annuity contracts that are fully and unconditionally guaranteed by TIAA. The contracts, consisting of fixed return contracts, are included in the financial statements at fair value as reported by TIAA. Fair value represents contributions made under the contract, plus earnings less withdrawals and administrative expenses. The fixed annuity contract buys a contractual or guaranteed amount of future benefits. The fixed annuity contract is subject to certain withdrawal limitations.

Other Investments

Investments in corporate bonds and mutual funds are held by an investment manager. The fair market value of these investments is determined based on market quotations or by independent pricing services.

The following table presents the Institute's investments that are measured at fair value on a recurring basis:

	Fair value measurement at reporting date using			
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Balance as of December 31, 2022
Corporate bonds	$ 6,305,779	$ -	$ -	$ 6,305,779
Certificates of deposit	1,051,877	-	-	1,051,877
Mutual funds	793,980	-	-	793,980
CREF Fund				
Growth	111,567	-	-	111,567
Stocks	225,573	-	-	225,573
Equities	110,975	-	-	110,975
Social choice	119,527	-	-	119,527
Bonds	65,569	-	-	65,569
TIAA Real Estate	-	-	15,839	15,839
TIAA Traditional Annuity	-	-	38,586	38,586
	$ 8,784,847	$ -	$ 54,425	$ 8,839,272

See Note 5 for the reconciliation of the fair value measurement disclosures of the Institute's investments to the line items in the consolidating statements of financial position.

The following table summarizes the Institute's activities for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2022.

	TIAA Real Estate	TIAA Traditional Annuity	Total
Net appreciation in fair value	$ 1,218	$ 1,407	$ 2,625

During the year ended December 31, 2022, the Institute did not have additional contributions, transfers, and/or distributions in Level 3 investments, other than the activity noted above.

Quantitative information as of December 31, 2022, with respect to assets measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) follows:

Description	Fair Value	Principal Valuation Techniques	Unobservable Inputs	Weighted Average
TIAA Real Estate	$ 15,839	Appraisals	Values of underlying real estate holdings/ investments	N/A
TIAA Traditional Annuity	38,586	Contract value	Accumulated cash contributions, interest credited and transfers	N/A
	$ 54,425			

7. Property and Equipment

Property and equipment consists of the following at December 31, 2022:

Leasehold improvements	$ 104,399
Furniture and equipment	898,823
	1,003,222
Less: accumulated depreciation and amortization	982,257
	$ 20,965

Depreciation and amortization expense charged to operations was $28,948 for 2022.

8. Line-of-Credit

The Institute maintains a revolving line-of-credit with Sandy Spring Bank. Any outstanding principal is due on demand by August 31, 2025, the maturity date. The maximum borrowing amount was $1,500,000 and no principal was outstanding at December 31, 2022. Interest is calculated at 0.5% over the Sandy Spring Bank Prime Rate. The interest rate was 8.25% at December 31, 2022. The line-of-credit is secured by a perfected first lien security interest in all collateral of the Institute, including all grants and contracts, other accounts receivable, and property and equipment.

The line-of-credit carries certain covenants, which, if not met, would make the loan in default, and due upon demand. At December 31, 2022, the Institute met all covenants.

9. Commitments and Contingencies

Operating Leases

The Institute has non-cancellable lease arrangements for corporate headquarters, as well as field offices and various office equipment which expire at various dates from fiscal year 2023 to 2027. Effective January 1, 2022, all lease agreements are accounted for under Topic 842; for the year ended December 31, 2021, all leases were accounted for under the previous lease standard, ASC 840.

Under adoption of Topic 842, and as discussed in Note 1, the Institute elected numerous practical expedients with respect to leases existing as of January 1, 2022.

Rental payments under these leases include base rental amounts for the terms of each lease unless the lease contains variable costs based (e.g., utilities, real estate taxes, operating expenses such as common area maintenance, water, and insurance) on an index or rate. If a lease does include indexed or variable costs at a specific rate, the Institute includes those costs as part of operating lease expense.

Other leases contain variable costs for expenses which are not based on an index or rate. These variable lease payments are determined based on actual expenses incurred by the lessor and passed to the Institute on a periodic basis. The Institute expenses these non-lease components as incurred.

For leases that contain an option to extend to an additional period, management evaluated whether it is reasonably certain that the Institute would, in fact, extend the lease. If the Institute was not reasonably certain that a lease would be extended, the additional term was not included in the determination of the right-of-use asset and lease liability. If the Institute was reasonably certain that a lease would be extended, the additional term was included in the determination of right-of-use asset and liability.

For the year ended December 31, 2022, the Institute recognized operating lease expense of $472,464.

The weighted-average remaining lease term and discount rate related to the Institute's lease liabilities as of December 31, 2022 are:

Cash paid for amounts included in the measurement of lease liabilities	$ 488,693
Weighted average remaining lease term	2.13 years
Discount rate	3.5%

Aggregate remaining maturities of lease liabilities as of December 31, 2022, are as follows:

Year ending December 31,		
2023	$	450,812
2024		345,829
2025		284,929
2026		284,929
2027		116,986
		1,483,485
Less: Imputed interest		(100,141)
	$	1,383,344

Grants and Contracts Backlog

As of December 31, 2022, the Institute had a backlog of approximately $34.9 million in grants and contracts to be used in future years.

10. Retirement Plans

Profit Sharing Plan and Trust

In May 2002, the Institute amended and restated the Pacific Institute for Research and Evaluation Employees Supplemental Retirement Plan, a discretionary defined contribution plan. The new plan, Pacific Institute for Research and Evaluation, Inc. Profit Sharing Plan and Trust, is subject to the guidelines of the IRC and ERISA (Employee Retirement Income Security Act of 1974).

Employees classified as full-time employees, who work at least 60 percent of the full time equivalent, are eligible to participate in the Plan. Part-time employees who work in excess of 1,000 hours per year are also eligible to participate in the Plan. It is the intention of the Institute to contribute an amount equal to at least ten percent of an eligible employee's gross compensation, subject to availability of resources.

Retirement expense under the amended and restated Profit-Sharing Plan and Trust for the year ended December 31, 2022 was $928,009.

Deferred Compensation 457(f) Plan

In December 1998, the Institute established a nonqualified deferred compensation plan under §457(f) of the IRC (the 457(f) Plan). Eligibility for the 457(f) Plan is restricted to level 7 and 8 employees of the Institute, who hold jobs at the senior manager and executive management levels. Employees vest in the 457(f) Plan at a rate of 10% for each year of service. Contributions to the 457(f) Plan are made annually, at the discretion of the Board, and are based on performance evaluations. There was no retirement expense under the 457(f) Plan for the year ended December 31, 2022.

11. Major Sources of Funding

The Institute received a substantial portion of revenues from research and development grants and contracts from the U.S. Department of Health and Human Services. Revenue recognized from this source for 2022 was as follows:

U.S. Department of Health and Human Services	$	11,383,876	59%
Other sources		7,811,334	41%
	$	19,195,210	100%

12. Subsequent Events

The Institute has evaluated subsequent events through April 25, 2023, which is the date the consolidating financial statements were available to be issued. There were no events noted that required adjustments to, or disclosure in, these consolidating financial statements.

Schedule of Expenditures of Federal Awards

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	*Federal Assistance Listing/Contract Number*	*Pass-Through Entity or Other Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
Pacific Institute for Research and Evaluation				
Research and Development Cluster				
Department of Health and Human Services				
National Institutes of Health				
Alcohol Research Program - Direct	93.273	Various	$ 1,103,038	$ 3,518,027
Alcohol Research Program - Pass-through	93.273	Various	-	211,143
Drug Abuse Research Programs - Direct	93.279	Various	-	160,221
Drug Abuse Research Programs - Pass-through	93.279	Various	-	60,191
Mental Health Research Grant - Pass-through	93.242	Various	-	35,704
Other National Institutes of Health				
Pass-through from University of Louisville Research Foundation	93.121	ULRF 15-1506	-	108,530
Improving Native American Elder Access to and Use of Healthcare through Effective Health System Navigation	93.307	R01 MD010292	5,726	252,837
Place-based Strengths and Vulnerabilities for Mental Wellness Among Rural Minority Seniors	93.307	K99 MD015765	-	142,860
Pass-through from University of Texas Southwestern	93.350	GM0210806	-	66,101
Pass-through from Health Research, Inc.	93.361	403-01	-	11,802
Pass-through from Western Carolina University	93.361	A21-0030-S001	-	43,488
Pass through from University of New Mexico	93.397	3RLK6	-	1,038
Pass-through from University of New Mexico	93.838	32-312-0217571-66401L	-	8,472
Pass-through from University of Colorado - Denver	93.847	FY22.001.027	-	8,595
Implementing School Nursing Strategies to Reduce LGBTI Adolescent Suicide	93.865	R01 HD083399	14,189	358,771
Pass-through from Women & Infants Hospital	93.865	5001521	-	579
Pass through from Johns Hopkins University	93.866	2005675061	-	5,824
Development of a Digital Intervention to Address Stigma Among Pregnant unmarried Adolescents Living with HIV	93.989	R21TW011788	102,099	233,683
Pass-through from the CDM Group, Inc.	93.RD	HHSN275201800002I-01	-	239,449
Substance Abuse and Mental Health Service Administration				
Pass-through from Little Traverse Bay Band of Odawas	93.243	SP022101	-	6,966
Pass-through from Governor's Institute	93.243	SP022087	-	19,094
Pass-through from Association of American Indian Physicians	93.243	SP080999	-	11,929
Pass-through from South Dakota Department of Education	93.243	2019C-379	-	69,620
Pass-through from Idaho Office of Drug Policy	93.243	CPO19200364	-	69,032
Pass-through from Indiana Department of Education	93.243	33834	45,880	242,794
Pass-through from Indiana Department of Education	93.243	66741	14,280	203,234
Pass-through from South Carolina Department of Education	93.243	4400021574	-	130,657
Pass-through from Hazel Pittman Center	93.243	SP081714	-	38,581
Pass-through from Youth Environmental Services Inc.	93.243	SP081365	-	34,383
Pass-through from the Phoenix Center	93.243	SP081588	-	69,391

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	*Federal Assistance Listing/Contract Number*	*Pass-Through Entity or Other Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
Pacific Institute for Research and Evaluation				
Research and Development Cluster - (continued)				
Department of Health and Human Services - (continued)				
Substance Abuse and Mental Health Service Administration - (continued)				
Albuquerque-Bernalillo County Youth Underage Drinking & RX Opioid Misuse Prevention Partnership (ABC Prevent)	93.243	H79SP081613	186,385	284,240
Pass-through from United Way of Addison County	93.243	SP081663	-	14,905
Pass-through from Little Traverse Bay Band of Odawas	93.243	SP081753	-	72,455
Pass-through from Burlington Partnership	93.243	SP081658	-	24,051
Pass-through from Falling Colors for New Mexico OSAP-BHSD	93.243	TI082506	-	82,619
Pass-through from National Center for Frontier Communities	93.243	SP082535	-	44,710
Pass-through from Howard University	93.243	GRT0009950 - 10001187	-	22,503
Pass-through from Falling Colors for New Mexico OSAP-BHSD	93.243	SP082761	-	77,355
Pass-through from Falling Colors for New Mexico OSAP-BHSD	93.243	SP082728	-	139,394
Pass-through from Vermont Department of Health	93.243	State Contract #43131	-	80,205
Pass-through from Wichita and Affiliated Tribes	93.243	SP082220	-	22,592
Pass-through from Health Equity Council	93.243	SP082761	-	34,140
Pass-through from Community Impact NC, Inc.	93.243	SP082744	-	10,570
Pass-through from Ohio State University	93.243	SPC-1000006734/GR12834[illegible]	-	42,963
Pass-through from Ohio Mental Health and Addiction Svcs. (OHMHAS)	93.243	2300334	-	55,403
Pass-through from PreventionFIRST!	93.243	2300548	-	7,508
Pass-through from Ohio Mental Health and Addiction Svcs. (OHMHAS)	93.243	2300391	-	41,808
Pass-through from Community Impact NC, Inc.	93.243	SP022087	-	43,626
Pass-through from United Way Addison County	93.276	SP081953	-	5,747
COVID-19 - Pass-through from North Dakota Dept. of Human Services	93.665	510-11739	6,794	118,031
Pass-through from North Dakota Dept. of Human Services	93.788	510-11739B	-	67,155
Pass-through from North Dakota Dept. of Human Services	93.788	510-11739H	-	1,933
Pass-through from United Way of Northwest Vermont	93.788	TI081694	-	9,507
Pass-through from Northeastern Vermont Regional Hospital	93.788	342008687	-	6,654
Pass-through from Baltimore County, MD	93.788	Master #00004286	-	16,243
Pass-through from Community Impact NC, Inc.	93.788	TI080257	-	100,000
Pass-through from Ohio University	93.958	UT21576	-	65,797
Pass-through from Ohio University	93.958	UT21685	-	21,525
Pass-through from Ohio Mental Health and Addiction Svcs. (OHMHAS)	93.958	2200593	-	98,210
Pass-through from Falling Colors for New Mexico OSAP-BHSD	93.958	SM083818	-	46,116
Pass-through from Falling Colors for New Mexico OSAP-BHSD	93.959	TI083510	-	46,116
Pass-through from Rocky Mountain Youth Corps	93.959	TI010037	-	23,162
Pass-through from Falling Colors for New Mexico OSAP-BHSD	93.959	TI010037	-	218,942
Pass-through from Idaho Office of Drug Policy	93.959	CPO19200364	-	26,347
Pass-through from South Carolina Dept. of Alcohol & Other Drugs	93.959	TI010048	-	6,138
Pass-through from Gloucester Police Dept.	93.959	TI083046	-	10,044
Pass-through from Growth Partners, LLC	93.959	TI083041	-	10
Pass-through from Baltimore County, MD	93.959	Master #00004286	-	64,913

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	*Federal Assistance Listing/Contract Number*	*Pass-Through Entity or Other Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
Pacific Institute for Research and Evaluation				
Research and Development Cluster - (continued)				
Department of Health and Human Services - (continued)				
Substance Abuse and Mental Health Service Administration - (continued)				
Pass-through from Ohio University	93.959	UT22313	-	76,953
Pass-through from Ohio University	93.959	UT22427	-	46,178
Pass-through from Montgomery County, PA	93.959	Contract #279	-	85,744
Pass-through from Community Impact NC, Inc.	93.959	TI083468	-	14,891
Pass-through from City of Lynn, MA	93.959	TI083455	-	29,225
Pass-through from Kentucky Coalition Against Domestic Violence (KCADV)	93.671	2201KYFTC6	-	19,185
Pass-through from North Dakota Dept. of Human Services	93.982	PTE #510-11739C	-	196,450
Pass-through from Advancement Strategy, LLC	93.RD	75S20120C00001-02	-	28,138
Pass-through from Synergy Enterprises, Inc.	93.RD	S-PIR-101126-01	-	23,976
Pass-through from Westat	93.RD	6520-00-S01	-	19,737
Pass-through from South Carolina Dept. of Alcohol and Other Drugs	93.RD	4400022017	-	135,906
Health Resources & Services Administration (HRSA)				
Pass-through from Education Development Center	93.110	11905	-	209,516
Rural Communities Opioid Response (Implementation)	93.211	GA1RH33532	150,258	200,707
Pass-through from Ohio University	93.211	UT21208	-	59,442
Pass-through from Purchase District Health Department	93.912	GA1RH39592	-	63,105
Pass through from Center for Health Innovation	93.912	GA1RH39543	-	127,087
Pass-through from Purchase District Health Department	93.912	D06RH37519	-	26,488
Pass-through from Purchase District Health Department	93.912	G20RH33275	-	19,829
Rural Communities Opioid Response Program-Psychostimulant Support	93.912	H7NRH42563	63,502	114,830
Pass-through from Ohio University	93.912	UT22624	-	843
Administration for Children and Families (ACF)				
Pass-through from Georgia State University	93.087	SP00014102-06	-	1,123
Pass-through from Central Susquehanna Intermediate Unit	93.093	90FX0033	-	4,140
Pass-through from Kentucky Coalition Against Domestic Violence (KCADV)	93.591	2201KYSTC6	-	12,677
Pass-through from Center for Women & Families	93.592	90EV0465	-	34,566
Pass-through from Center for Women & Families	93.592	90EV0465	-	156,038
Pass-through from University of North Carolina at Chapel Hill	93.596	2101NCCCDF	-	40,234
Other Agencies				
Pass-through from Center for Women & Families	93.088	ASTWH190075	-	1,187
Focus on Integrating Response, Screening, and Training (FIRST) for Women in Kentucky	93.088	ASTWH220123	-	30,692
Pass-through from Baltimore County, MD	93.136	Master 00004286	-	160,504
Pass-through from Northeastern Vermont Regional Hospital	93.136	03420-09019	-	11,738
Pass-through from City of Lynn, MA	93.136	NU17CE925012	-	11,530
Pass-through from Center for Health Innovation	93.137	CPIMP221337	-	2,498

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	*Federal Assistance Listing/Contract Number*	*Pass-Through Entity or Other Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
Pacific Institute for Research and Evaluation				
Research and Development Cluster - (continued)				
Department of Health and Human Services - (continued)				
Other Agencies - (continued)				
Pass-through from Northeastern Vermont Regional Hospital	93.276	NH28CE003107	-	11,094
Pass-through from Albuquerque Area Indian Health Board, Inc.	93.391	Agreement #20-20	-	20,291
Pass-through from Springfield Turning Point	93.421	NU38OT000306	-	18,701
Pass-through from Greater Falls Connections	93.799	NH28CE003317	-	7,910
Pass-through from Ohio Department of Health	93.991	CSP0000001633	13,512	77,030
Pass-through from Ketchum, Inc.	93.RD	75CMC18D0044	-	667,689
Pass-through from Ketchum, Inc.	93.RD	75FCMC22F0001	-	199,371
Total Department of Health and Human Services			1,705,663	11,383,876
Department of Justice				
Research on the Effect of an Anonymous Tip Line and Multidisciplinary Response Teams in Schools Across the State of Nevada	16.560	2016-CK-BX-0007	326,120	734,128
Pass-through from Vermont Department of Health	16.754	39044	-	17,539
Pass-through from Mansfield Urban Minority Alcoholism and Drug Abuse Outreach Program, Inc.	16.812	2020-CZ-BX-0007	-	6,213
Pass-through from Purchase District Health Department	16.838	2020-AR-BX-0139	-	107,408
Total Department of Justice			326,120	865,288
Department of Transportation				
National Highway Traffic Safety Administration				
Pass-through from Dunlap & Associates	20.RD	693JJ918F000192	-	26,079
Pass-through from Dunlap & Associates	20.RD	693JJ919F000202	-	10,669
Pass-through from Dunlap & Associates	20.RD	693JJ921F000047	-	13,330
Pass-through from Dunlap & Associates	20.RD	DTNH2217F00204	-	2,840
Pass-through from Dunlap & Associates	20.RD	693JJ918C000029	-	14,576
Pass-through from Dunlap & Associates	20.RD	693JJ922C000009	-	33,299
Update Cost of Motor Vehicle Crash Components	20.RD	693JJ920F000111	-	22,024
Pass-through from North Dakota Department of Human Services	20.616	810-12509	-	49,589
Total Department of Transportation			-	172,406
Department of Agriculture				
Pass-through from University of Alaska-Fairbanks	10.310	P0529157	-	33,475
Pass-through from University of Kentucky Research Foundation	10.RD	3200002889-20-244	-	2,443
Pass-through from Louisiana State University	10.310	2022-69015-36869	-	5,067
Total Department of Agriculture			-	40,985
Department of Education				
Pass-through from University of North Carolina-Chapel Hill	84.326P	5110486	-	125,854
Pass-through from University of North Carolina-Chapel Hill	84.326P	5126646	-	201
Pass-through from SRI International	84.373Z	44577	-	152,734
Pass-through from Nevada Department of Education	84.425U	99SWC-SI656-CETS	-	34,753
Total Department of Education			-	313,542

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	*Federal Assistance Listing/Contract Number*	*Pass-Through Entity or Other Identifying Number*	*Passed Through to Subrecipients*	*Total Federal Expenditures*
Pacific Institute for Research and Evaluation				
Research and Development Cluster - (continued)				
Consumer Product Safety Commission				
Update the Injury Cost Model to Account for Secondary Injuries in the NEISS Data*	87.RD	61320620F0085	-	51,769
Total Consumer Product Safety Commission			-	51,769
Department of Homeland Security				
Federal Emergency Management Agency				
Development and Testing of the Fire Service Drinking Toolkit	97.044	EMW-2018-FP-00593	234,220	291,120
Total Department of Homeland Security			234,220	291,120
Department of Defense				
Pass-through from Florida State University	12.420	R000002865	-	69,133
Total Department of Defense			-	69,133
Department of State/INL				
Pass-through from Columbo Plan Drug Advisory Commission	19.RD	IN25US03	-	126,958
Pass-through from Organization of American States	19.RD	USINL 20/303	-	384,378
Total Department of State/INL			-	511,336
Department of Treasury				
COVID-19 - Pass-through from Ohio University	21.019	UT22260	-	74,140
Total Department of Treasury			-	74,140
Total Research and Development Cluster			2,266,003	13,773,595
Total Expenditures of Federal Awards			$ 2,266,003	$ 13,773,595

The accompanying notes are an integral part of this schedule.

**Firm-fixed price contracts*

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Pacific Institute for Research and Evaluation and Affiliates (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 the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the consolidating financial position, changes in net assets or cash flows of the Institute.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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.

3. Indirect Cost Rate

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

4. Assistance Listing Numbers

When assistance listing numbers are not available, awards are classified in the Schedule based on sponsor program description and agreement identification numbers, and clustered for major program determination as provided by the Uniform Guidance.

5. Reconciliation of Schedule of Expenditures of Federal Awards to the Consolidating Statement of Activities

The Institute records additional revenue from grants and contracts with the federal agencies which are not required to be recorded within the Schedule.

Year ended December 31, 2022		
Schedule of Expenditures of Federal Awards	$	13,773,595
Non-federal grants and contracts revenue		5,349,260
Additional revenue from grants and contracts in excess of expenditures recognized within the Schedule		353,387
Grants and contracts revenue, as reported in the consolidating financial statements	$	19,476,242

Independent Auditor's Reports Required by *Government Auditing Standards* and the Uniform Guidance

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

To the Board of Directors
Pacific Institute for Research and Evaluation and Affiliates
Beltsville, Maryland

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 consolidating financial statements of **Pacific Institute for Research and Evaluation and Affiliates** (the "Institute"), which comprise the Institute's consolidating statement of financial position as of December 31, 2022, and the related consolidating statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidating financial statements, and have issued our report thereon dated April 25, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidating 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 opinion on the consolidating 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 consolidating 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's consolidating 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 consolidating 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*.

The Institute's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Institute's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Institute's response was not subjected to the other auditing procedures applied in the audit of the consolidating financial statements and, accordingly, we express no opinion on the response.

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 Institute'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 Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

April 25, 2023

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Independent Auditor's Report on Compliance For the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Pacific Institute for Research and Evaluation and Affiliates
Beltsville, Maryland

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the **Pacific Institute for Research and Evaluation and Affiliates'** (the "Institute") 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; 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.

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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 program.

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 resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about 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.

BDO USA, LLP

April 25, 2023

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

Section I - Summary of Auditor's Results

Consolidating Financial Statements

Type of report the auditor issued on whether the consolidating financial statements audited were prepared in accordance with GAAP	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified?	X yes	___ none reported
Noncompliance material to financial statements noted?	___ yes	X no

Federal Awards

Internal control over major federal program:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified?	___ yes	X none reported
Type of auditor's report issued on compliance for major federal program:	Unmodified	
Any audit findings disclosed that are required to to be reported in accordance with 2 CFR 200.516(a)?	___ yes	X no

Identification of major federal program:

Federal Assistance Listing/Contract Number	Name of Federal Program or Cluster
Various	Research and Development

See Schedule of Expenditures of Federal Awards for detail by award.

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X yes	___ no

Section II - Financial Statement Findings

2022-001 Internal Control Over Check Payments

Criteria – Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* §200.303 Internal Controls requires the recipients of federal funds to maintain financial management systems that provide effective controls over accountability for all funds, property and other assets. These controls should be in compliance with the guidance in "Standards for Internal Control on the Federal Government" Issued by the Comptroller General of the United States or "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Further, these standards require the entity to take prompt action to address findings identified and to protect personal identifiable information and other information deemed sensitive.

Condition – In early March 2022, the Institute's management discovered that a check payment mailed to a vendor was stolen and falsified by fraudsters by altering the payee's name on the original check to a different person's name while leaving the same check number, check date and check amount. The fraudsters also created 4 fraudulent checks, using the Institute's bank account information. The altered and fraudulent checks, with a total amount of $213,100, were presented to the bank for payment and the altered check and 3 fraudulent checks with a total amount of $102,483 were processed and paid by the bank.

Although the Institute had a positive pay process in place with the bank, the control did not operate as designed which contributed to the bank processing the fraudulent checks for payment. At the time the altered check was presented for payment, the positive pay mechanism only validated three data points: check date, check number and check amount. The check with the altered payee name cleared the bank as this was not caught in the positive pay process. 3 out of the 4 fraudulent checks were flagged as exceptions in the positive pay process, however, they were accidentally approved by the Institute for release hence they were processed and paid by the bank. One fraudulent check was presented for payment but was not approved for release by the Institute.

Out of the total amount of $102,483 that were processed and paid by the bank to the fraudsters, $49,789 was returned to the Institute within one week and the remaining $52,694 was returned within 5 weeks. Even though the bank refunded the Institute all the amounts stolen by the fraudsters, these instances could have been prevented if the Institute had a stronger positive pay mechanism in place and proper review of positive pay exceptions had been conducted prior to the approval of release of funds.

Cause – The Institute's positive pay mechanism in place was deficient as it did not include payee name for verification. In addition, the Institute did not properly review the positive pay exceptions.

Effect or Potential Effect – This condition could result in a potential significant loss to the Institute.

Repeat Finding – This is not a repeat finding.

Recommendation – Subsequent to the incident, the Institute established additional policies and procedures to ensure adequate and appropriate internal controls over processing and mailing of check payments. The Institute added a fourth data point (i.e., payee name) to the Institute's positive pay process for validation prior to payment of the checks to ensure that any alterations of the payee's name on the checks will be caught. Moreover, the Institute started a process where all checks presented for payment the prior day are reviewed by the Senior Accountant and the Chief Financial Officer the next morning to ensure validity of the checks presented for payment and approved prior to release by the bank. Lastly, the Institute requires that all physical checks be mailed through a locked secure mailbox (either in a locked Postal Service mailbox in the lobby of the Institute's office building or at a U.S. post office). We recommend that the Institute strictly adhere to these new policies and procedures in order to prevent this incident from happening again in the future.

Views of Responsible Officials – Despite not incurring a loss as a result of this incident, the Institute subsequently put additional control measures in place to mitigate the risk of this type of occurrence from happening in the future. These additional controls that were implemented immediately after the incident are described in detail in the Management's Corrective Action Plan included as Appendix A of the attached Management Prepared Document Section.

Section III - Federal Award Findings and Questioned Costs

There were no findings and questioned costs for Federal awards (as defined in section 2 CFR 200.516(a)) that are required to be reported.

Management Prepared Documents

Appendix A – Management's Corrective Action Plan

Year Ended December 31, 2022

Finding 2022-001 Internal Control Over Check Payments

Contact - Gary Klig, Chief Financial Officer
Telephone Number – (301) 755-2753
Completion Date – March 8, 2022

Management's Corrective Action Plan:

Management discovered one altered and three fraudulent checks totaling $102,483 were processed by the Institute's bank within one week of the attempted fraud. Management immediately took the following steps to address the situation:

1. Fraud investigations were initiated with the bank the same day, resulting in $49,789 of the cleared funds being recovered within one week. The remaining $52,694 was recovered within five weeks.

2. Management contacted the bank to inquire about the availability of additional controls related to the existing positive pay mechanisms.

3. Management immediately implemented the following enhancements to its existing internal controls:

    a. In addition to the three validation data points already in place (check date, check number and check amount) a fourth validation data point (check payee) was added within 24 hours.
    b. All checks presented to the bank were now visually reviewed every morning by both the CFO and Senior Accountant.
    c. All checks are now mailed using a locked secure mailbox.

Since the immediate implementation of the enhanced controls above, no other fraudulent attempts have been perpetrated on the Institute's bank accounts.

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