

RANCHO RESEARCH INSTITUTE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS
SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2018**

VASIN, HEYN & COMPANY

ABOVE THE BRIGHT LINE

AN ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
TABLE OF CONTENTS

Page

FINANCIAL SECTION

Independent Auditors' Report	1-1
Financial Statements:	
Statement of Financial Position	1-3
Statement of Activities	1-4
Statement of Functional Expenses	1-5
Statement of Cash Flows	1-6
Notes to Financial Statements	1-7

GOVERNMENT AUDIT INFORMATION SECTION

Independent Auditors' Report on Internal Control Over Financial Reporting on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-1
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	2-3
Schedule of Expenditures of Federal and State Awards	2-5
Notes to Schedule of Expenditures of Federal and State Awards	2-7
Schedule of Findings and Questioned Costs	2-8
Findings and Questioned Costs	2-9



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AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Rancho Research Institute
(A California Non-Profit Corporation)
Downey, California

Report on the Financial Statements

We have audited the accompanying financial statements of Rancho Research Institute (A California Non-Profit Corporation) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rancho Research Institute as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited Rancho Research Institute's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 3, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

The summary financial statements do not contain all the disclosures required by accounting principles generally accepted in the United States of America. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Rancho Research Institute.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019, on our consideration of Rancho Research 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 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 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 Rancho Research Institute's internal control over financial reporting and compliance.

Vorlein, Hagen + Co.

Calabasas, California
March 28, 2019

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,374,472	\$ 1,093,795
Investments	4,935,645	4,718,537
Grants, awards and contracts receivable	1,327,916	845,258
Accounts receivable, sales and service	945,483	988,493
Inventories	98,970	136,423
Deposits and prepaid expenses	41,272	39,492
Property and equipment, net	<u>330,657</u>	<u>418,661</u>
 Total assets	 <u>\$ 9,054,415</u>	 <u>\$ 8,240,659</u>
 LIABILITIES		
Accounts payable	\$ 2,339	\$ 17,188
Accrued retirement plan benefits	55,233	32,930
Accrued vacation and sick pay	207,252	180,572
Accrued payroll and related liabilities	445,351	362,056
Government funded assets	<u>9,413</u>	<u>21,964</u>
 Total liabilities	 719,588	 614,710
 COMMITMENTS AND CONTINGENCIES		
 NET ASSETS		
Unrestricted	7,452,684	6,697,784
Temporarily restricted	<u>882,143</u>	<u>928,165</u>
 Total net assets	 <u>8,334,827</u>	 <u>7,625,949</u>
 Total liabilities and net assets	 <u>\$ 9,054,415</u>	 <u>\$ 8,240,659</u>

See accompanying auditors' reports and notes to financial statements.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT					
Grants, awards and contracts	3,597,111	\$ 55,566	\$ -	\$ 3,652,677	3,093,613
Sales and service	4,034,858	-	-	4,034,858	3,630,369
Investment and dividend income	132,624	60,445	-	193,069	126,859
Interest income	199	-	-	199	192
Net realized and unrealized gain (loss) on investments	77,498	-	-	77,498	278,603
Other income	1,925	-	-	1,925	859
Restrictions released	<u>162,033</u>	<u>(162,033)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total revenue and support	 8,006,248	 (46,022)	 -	 7,960,226	 7,130,495
EXPENSES					
Program services	5,994,183	-	-	5,994,183	5,276,790
Support services	<u>1,257,165</u>	<u>-</u>	<u>-</u>	<u>1,257,165</u>	<u>1,106,742</u>
 Total expenses	 <u>7,251,348</u>	 <u>-</u>	 <u>-</u>	 <u>7,251,348</u>	 <u>6,383,532</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 754,900	 (46,022)	 -	 708,878	 746,963
 NET ASSETS - beginning of year	 <u>6,697,784</u>	 <u>928,165</u>	 <u>-</u>	 <u>7,625,949</u>	 <u>6,878,986</u>
 NET ASSETS - end of year	 <u>\$ 7,452,684</u>	 <u>\$ 882,143</u>	 <u>\$ -</u>	 <u>\$ 8,334,827</u>	 <u>\$ 7,625,949</u>

See accompanying auditors' reports and notes to financial statements.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	Program Services			2018	2017
	<u>Research</u>	<u>Community Service</u>	<u>Support Services</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
Salaries and related expenses					
Salaries and wages	\$ 1,821,953	\$ 1,213,983	\$ 629,302	\$ 3,665,238	\$ 3,107,348
Payroll taxes and benefits	<u>434,928</u>	<u>345,640</u>	<u>183,728</u>	<u>964,296</u>	<u>842,202</u>
	2,256,881	1,559,623	813,030	4,629,534	3,949,550
Other expenses					
Advertising	-	-	750	750	750
Bank and payroll service charges	-	-	5,871	5,871	6,722
Consulting fees	4,964	-	-	4,964	-
Equipment rental, maintenance, and purchase	1,763	3,042	20,299	25,104	23,577
Indirect costs (note 10)	572,972	454,179	-	1,027,151	869,639
Insurance	-	32,654	90,181	122,835	112,088
Legal and accounting fees	(176)	-	61,961	61,785	57,291
Maintenance and repairs	8	272	-	280	1,487
Materials and supplies	56,035	272,214	24,948	353,197	421,139
Other expenses	9,786	11,586	50,384	71,756	100,616
Outside production work and services	-	150,349	-	150,349	120,941
Outside services	74,871	28,041	166,838	269,750	236,564
Patient cost and testing	5,258	-	-	5,258	2,225
Subcontract fees	66,498	-	-	66,498	71,545
Subject costs	183,963	40,082	(80)	223,965	147,134
Telephone and utilities	16,151	10,270	13,280	39,701	32,486
Travel and training	30,179	54,304	5,290	89,773	127,213
Workshop and conference costs	<u>4,368</u>	<u>10,425</u>	<u>30</u>	<u>14,823</u>	<u>14,439</u>
	3,283,521	2,627,041	1,252,782	7,163,344	6,295,406
Depreciation	<u>62,360</u>	<u>21,261</u>	<u>4,383</u>	<u>88,004</u>	<u>88,126</u>
Total Expenses	<u>\$ 3,345,881</u>	<u>\$ 2,648,302</u>	<u>\$ 1,257,165</u>	<u>\$ 7,251,348</u>	<u>\$ 6,383,532</u>

See accompanying auditors' reports and notes to financial statements.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	\$ 708,878	\$ 746,963
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	88,004	88,126
Net realized and unrealized (gain) loss on investments	(77,498)	(278,603)
(Increase) decrease in:		
Grants, awards and contracts receivable	(482,658)	(309,203)
Accounts receivable, sales and service	43,010	(572,002)
Inventories	37,453	5,959
Deposits and prepaid expenses	(1,780)	(765)
Increase (decrease) in:		
Accounts payable	(14,849)	10,119
Accrued retirement plan benefits	22,303	20,086
Accrued vacation and sick pay	26,680	(322)
Accrued payroll and related liabilities	83,295	67,267
Government funded assets	<u>(12,551)</u>	<u>(12,551)</u>
Total adjustments	<u>(288,591)</u>	<u>(981,889)</u>
Net Cash Provided (Used) by Operating Activities	420,287	(234,926)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments	1,385,250	61,510
Purchase of investments	<u>(1,524,860)</u>	<u>(35,401)</u>
Net Cash Provided (Used) by Investing Activities	<u>(139,610)</u>	<u>26,109</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	280,677	(208,817)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,093,795</u>	<u>1,302,612</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,374,472</u>	<u>\$ 1,093,795</u>

See accompanying auditors' reports and notes to financial statements.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. ORGANIZATION

Rancho Research Institute is a Non-Profit Organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Rancho Research Institute was established in 1956 as a non-profit organization to administer medical research and educational programs at Rancho Los Amigos National Rehabilitation Center (Rancho). In addition, Rancho Research Institute serves as a resource and information center and sponsors seminars and conferences.

Rancho Research Institute Programs:

Research - The research program supports furthering technology and techniques in the rehabilitation of the disabled. Rancho Research Institute administers research in the areas of spinal cord injuries, strokes, epilepsy, developmental disorders, robotics as an aid for the disabled, and pain management associated with musculoskeletal, neuropathic, and psychic pain.

Community Service - The community support program furthers advancements in the medical field by providing various opportunities for education to the medical practitioners of the Rancho Los Amigos Rehabilitation Hospital as well as other medical practitioners and medical students. The education provided is in the form of seminars, conferences, and workshops. In addition, Rancho Research Institute provides community support through its wellness programs such as driver's training for the disabled, access to exercise programs, and other health promoting services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rancho Research Institute prepares its financial statements in accordance with generally accepted accounting principles (GAAP) promulgated in the United States of America. The significant accounting and reporting policies used by Rancho Research Institute are described below to enhance the usefulness and understandability of the financial statements.

Financial Statement Presentation

The financial statements are presented based on ASC Topic 958, *Not-for-Profit Entities*. ASC Topic 958, Sections 210 and 225 requires classification of Rancho Research Institute's net assets, revenues as well as expenses based on the existence or absence of donor-imposed restrictions. The statement requires presentation of the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – in the statement of financial position and the amounts of change in each of those classes of net assets in the statement of activities.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- *Unrestricted net assets.* Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- *Temporarily restricted net assets.* Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Rancho Research Institute's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by Rancho Research Institute, unless the donor provides more specific directions about the period of its use.
- *Permanently restricted net assets.* Permanently restricted net assets are resources whose use by Rancho Research Institute is limited by donor-imposed restrictions that neither expires by being used in accordance with a donor's restriction nor by the passage of time. Rancho Research Institute did not have any permanently restricted net assets at June 30, 2018.

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature.

Investments

Investments are composed of corporate, treasury and mutual funds invested in debt and equity securities and are carried at fair market value.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Grants, Awards, Contracts Receivable, Accounts Receivable, and Sales and Service

Receivables consist of contracts, grants and sales receivables due from orthotic sales and are primarily unsecured amounts due from grantors on cost reimbursement or performance grants. Any amount that is denied for reimbursement is written off when Rancho Research Institute receives notification from the grantor agency. Rancho Research Institute uses the allowance method of accounting for receivables determined to be potentially uncollectable. In management's opinion, all grants, awards, contracts receivable, accounts receivable, and sales and service receivables were collectible at year-end. No allowance for doubtful accounts for grants, awards, contracts receivable and accounts receivable, sales and service receivables was considered necessary at June 30, 2018.

Inventories

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

Deposits and Prepaid Expenses

Prepaid deposits, insurance and other costs are expensed ratably over their respective terms of agreement.

Property and Equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All property is capitalized. Equipment is capitalized if it has a cost of \$5,000 or more and a useful life when acquired of more than 1 year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Equipment	5 years
Leasehold improvements	10 to 15 years

Equipment purchased for grantors, which is the property of the grantor, is recorded as revenue and corresponding expense when acquired. Depreciation is not recorded for such equipment. Upon grant termination such property is disposed of at the discretion of the grantor. Government funded assets are recorded as an asset and an offsetting liability. The related assets are depreciated over their estimated useful lives.

Property and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Vacation Policy

Vacation benefits are accrued on a monthly basis. Full-time employees accrue vacation time based upon years of service to Rancho Research Institute as follows:

<u>Years Employed</u>	<u>Maximum Accrual</u>
1 – 4 years	10 days
5 – 9 years	15 days
10 years	16 days
11 years	17 days
12 years	18 days
13 years	19 days
14+ years	20 days

Regular part-time employees are entitled to annual vacation leave on a pro rata basis directly proportionate to the percent of time worked each month are compared to a full-time monthly schedule.

Unused vacation leave will be paid at the time of termination. Total accrued vacation at June 30, 2018, was \$207,252.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Contributed Goods and Services

Contributions of goods received that are measurable are recorded as revenue at their estimated fair value when received. Contributions of services are recognized if the services received meet any of these criteria: (1) if they create or enhance nonfinancial assets and (2) if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No contributed goods and services qualified for recognition during the year ended June 30, 2018.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition

Revenues from government agencies, program orthotic sales and service fees, and other third-party payors for services provided under such contracts are recognized when earned by Rancho Research Institute. All gifts, bequests, and other public support are included in unrestricted net assets unless specifically restricted by the donor or the terms of the gift or grant instrument. Revenue received where the restriction is met in the same fiscal year is reported under unrestricted net assets. Amounts received in excess of balances earned are recognized as liabilities.

Government Revenue

Government revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Government revenue from federal agencies is subject to independent audit required by the Uniform Guidance and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, Rancho Research Institute's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of Rancho Research Institute.

Expense Recognition and Allocation

The cost of providing Rancho Research Institute's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of Rancho Research Institute.

Indirect Costs

Costs that benefit the operations of the entire organization are allocated according to an indirect cost allocation plan.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, Rancho Research Institute's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Rancho Research Institute's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

Rancho Research Institute is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California income taxes under section 23701(d) of the California Revenue and Taxation Code. The IRS classified the organization as one that is not a private foundation within the meaning of section 509(a) of the Code because it is an organization described in section(s) 509(a)(1) and 170(b)(1)(A)(vi).

Rancho Research Institute has adopted Financial Accounting Standards Board Accounting Standards Codification (ASC) Section 740-10, which clarifies the accounting for uncertainty in income taxes. ASC Section 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Section 740-10 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2018, Rancho Research Institute had no material unrecognized tax benefits, tax penalties or interest.

Rancho Research Institute Forms 990, *Return of Organization Exempt from Income Tax*, for each of the tax years ended June 30; 2017, 2016, 2015, are subject to examination by the IRS, generally for 3 years after they were filed.

Reclassifications

Certain amounts in the 2017 comparative totals have been reclassified to conform with the 2018 reporting format.

Comparative Totals

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Rancho Research Institute's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

Rancho Research Institute reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. 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. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1* - Quoted prices for identical assets or liabilities in active markets to which Rancho Research Institute has access at the measurement date.
- *Level 2* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3* - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the terms and relatively short maturity of these financial instruments. The mutual funds, exchange traded funds, and other assets are valued at quoted market prices, which represent the net asset value of shares held by Rancho Research Institute at year end.

The carrying amounts of liabilities, approximate fair value because of the relatively short maturity of these financial instruments

When available, Rancho Research Institute measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(CONTINUED)

3. INVESTMENTS

Rancho Research Institute measures fair value in accordance with FASB ASC 820-10. FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels; Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs, other than the quoted prices in active markets, are observable either directly or indirectly, and Level 3 unobservable inputs in which there is little or no market data, which requires Rancho Research Institute to develop its own assumptions. Rancho Research Institute uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, Rancho Research Institute measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. All assets reported at fair value at June 30, 2018, are Level 1 inputs.

Investments consist of the following at June 30, 2018:

	<u>Total</u>	<u>Level 1</u>
Mutual funds:		
Bond funds	\$ 1,550,891	\$ 1,550,891
Equity funds	2,446,136	2,446,136
Exchange traded funds	671,361	671,361
Other assets	<u>267,257</u>	<u>267,257</u>
Total investments	<u>\$ 4,935,645</u>	<u>\$ 4,935,645</u>

At June 30, 2018, Rancho Research Institute does not have any investments measured using Level 2 or Level 3 inputs.

The composition of the investment return reported in the statement of activities at June 30, 2018 is as follows:

Investment and dividend income	\$ 193,069
Realized gain (loss) on investments	168,264
Unrealized gain (loss) on investments	<u>(90,766)</u>
Total investment return	<u>\$ 270,567</u>

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(CONTINUED)

4. INVENTORIES

Inventories consist of orthotics material stated at the lower of cost (approximating first-in first-out) or market. The components are as follows as of June 30, 2018:

Cafe	\$ 3,530
Merchandise (gift shop)	3,314
Raw material	30,371
Work-in-process	<u>61,755</u>
Total inventories	<u>\$ 98,970</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2018 consists of the following:

	Government <u>Funded</u>	Agency <u>Owned</u>	<u>Total</u>
Equipment and furniture	\$ 62,754	\$ 1,160,974	\$ 1,223,728
Facility renovation	<u>-</u>	<u>119,348</u>	<u>119,348</u>
	62,754	1,280,322	1,343,076
Less: Accumulated depreciation	<u>(53,341)</u>	<u>(959,078)</u>	<u>(1,012,419)</u>
Total property and equipment, net	<u>\$ 9,413</u>	<u>\$ 321,244</u>	<u>\$ 330,657</u>

Total depreciation expense for the year ended June 30, 2018 was \$88,004.

6. GOVERNMENT FUNDED ASSETS

During the year ended June 30, 2018, the balance representing accountability for government funded assets was \$9,413.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(CONTINUED)

7. CONTINGENCIES

Governmental Funding

Rancho Research Institute receives a portion of its revenues from government grants and contracts, all of which are subject to governmental audit. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Rancho Research Institute believes that no material liability will result from such audits.

Litigation

From time to time, Rancho Research Institute may have certain contingent liabilities, including the results of on-going litigation that arise in the ordinary course of its business activities. Rancho Research Institute accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. In the opinion of management there are no pending claims of which the outcome is expected to result in a material adverse effect on the financial position, results of operations or cash flows of Rancho Research Institute.

8. LEASE COMMITMENTS

Rancho Research Institute leases certain office equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more consist of the following:

Year Ended June 30,

2019	\$ 17,622
2020	6,448
2021	2,355
2022	<u>1,079</u>
Total Minimum Lease Payments	<u>\$ 27,504</u>

Equipment rental expense under operating leases and other agreements for the year ended June 30, 2018 was \$25,104.

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(CONTINUED)

9. RETIREMENT PLAN

Rancho Research Institute has a 401K retirement plan covering substantially all of its employees. Under the provisions of the plan, Rancho Research Institute contributes monthly to each participant's account a minimum of 3% of the participant's annual compensation. Rancho Research Institute may additionally contribute a discretionary amount. Rancho Research Institute funds current accrued retirement costs. Vested benefits are immediate and limited to plan assets. Plan contributions for the year ended June 30, 2018 were \$249,829.

10. NATURAL CLASSIFICATIONS

Rancho Research Institute's general and administrative costs are reimbursed by and allocated among the other divisions based on approved indirect cost rates. Natural classifications of expenses are as follows:

Salaries and wages	\$ 526,047
Payroll taxes and benefits	153,582
Advertising	627
Bank and payroll service charges	4,908
Depreciation	3,664
Dues, subscriptions, and registration	6,008
Employee physicals	8,344
Equipment rental, maintenance, and purchase	16,969
Insurance	75,385
Legal and accounting fees	51,647
Materials and supplies	20,855
Outside services	139,464
Shipping expense	1,227
Taxes, licenses and fees	368
Telephone and utilities	11,101
Travel and training	6,930
Workshop and conference costs	<u>25</u>
Total Indirect Costs	<u>\$ 1,027,151</u>

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(CONTINUED)

11. RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 consist of amounts restricted by donor-imposed stipulations, and are available for the following purposes:

Grant	Balance at 6/30/17	Income	Expenditures	Balance at 6/30/18
Tyler Dykes Robotic Center	\$ 14,307	\$ -	\$ (14,307)	\$ -
Robotics Summer Camp	51,526	54,050	(43,259)	62,317
Pathokinesiology Grant Fund	<u>862,332</u>	<u>61,961</u>	<u>(104,467)</u>	<u>819,826</u>
Total temporarily restricted net assets	<u>\$ 928,165</u>	<u>\$ 116,011</u>	<u>\$ (162,033)</u>	<u>\$ 882,143</u>

Rancho Research Institute did not have any permanently restricted net assets at June 30, 2018.

12. CONCENTRATION RISK

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. Rancho Research Institute deposits its cash with high quality financial institutions, and management believes the organization is not exposed to significant credit risk on those amounts.

The majority of Rancho Research Institute's contributions and grants are received from corporations and foundations located in the greater Los Angeles metropolitan area, and from agencies of the Federal government and state of California. As such, Rancho Research Institute's ability to generate resources via contributions and grants is dependent upon the economic health of that area and of the state of California. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for Rancho Research Institute's services.

Rancho Research Institute's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to Rancho Research Institute's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

13. SUBSEQUENT EVENTS

Rancho Research Institute has evaluated events subsequent to June 30, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 28, 2019, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

GOVERNMENT AUDIT INFORMATION SECTION



VASIN, HEYN & COMPANY

ABOVE THE BRIGHT LINE

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

**INDEPENDENT AUDITORS' 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 of
Rancho Research Institute
(A California Non-Profit Corporation)
Downey, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rancho Research Institute (A California Non-Profit Corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rancho Research Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rancho Research Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Rancho Research Institute's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rancho Research Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vorwin, Hryn + Co.

Calabasas, California
March 28, 2019



VASIN, HEYN & COMPANY

ABOVE THE BRIGHT LINE



AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

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

To the Board of Directors of
Rancho Research Institute
(A California Non-Profit Corporation)
Downey, California

Report on Compliance for Each Major Federal Program

We have audited Rancho Research Institute (A California Non-Profit Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Rancho Research Institute's major federal programs for the year ended June 30, 2018. Rancho Research Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Rancho Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Rancho Research Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rancho Research Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rancho Research Institute's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Vorlein, Hagen + Co.

Calabasas, California
March 28, 2019

**RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
FEIN: 95-1911180**

Project Title	CFDA	Grantor Number	(D)irect (P)ass	Contracting Agency	Number	Term	Expenditures	Payments to Subrecipients
Research and Development Cluster:								
U.S. Department of Health and Human Services								
Live Well After Stroke: A community-based, life management intervention								
Minority Health and Health Disparities Research	93.307	5K99MD010471-02	D	National Institutes of Health	2197000	2/23/16-11/30/17	\$ 69,890	\$ -
Spinal Cord Injury Model System of Southern California	93.433	90SI501801	D	Department of Health and Human Services	2202001	9/30/17-9/29/18	470,722	-
Spinal Cord Injury Model System of Southern California	93.433	90SI501002	D	Department of Health and Human Services	2138000	9/30/2016-9/29/2017	<u>35</u>	<u>-</u>
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433						470,757	-
Passed Through Icahn School of Medicine at Mount Sinai								
Succeed	93.853	7U54NS08176405	P	National Institute of Neurological Disorders and Stroke Through Mt. Sinai	2157000	9/01/17-08/31/18	480,276	-
Passed Through Northwestern University								
Designing Brain Machine Interfaces to Drive Plasticity and Enhance Recovery after Brain Injury	93.853	5R01NS094748-03	P	National Institute of Neurological Disorders and Stroke/NIH	2196000	7/01/17-6/30/18	26,620	-
Passed Through University of Southern California								
Dexterous BMIs for tetraplegic humans utilizing somatosensory cortex stimulation	93.853	1U01NS098975-01 (21B-1097571)	P	National Institute of Neurological Disorders and Stroke (California Institute of Technology)	2212000	9/1/2017-8/31/2018	<u>27,852</u>	<u>-</u>
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853						534,748	-
Passed Through Flint Rehabilitation Devices, LLC								
Lever Actuated Rehabilitation of the Arm using Wheelchair Propulsion and Computer Gaming	93.865	5R44HD082882-03	P	National Institutes of Health	2207000	2/1/2017-8/31/2018	77,044	-
Passed Through the University of Southern California								
USC-Long Term Nicotine Treatment of Mild Cognitive Impairment	93.866	6R01AG047992-02	P	National Institutes of Health	2213000	6/1/17-5/31/18	5,236	-
Passed Through BioSensics LLC								
Interactive Telehealth and Auto Biofeedback Sensor System for Individuals Who Use a Wheelchair	93.866	9R44AG059275-03A1	P	National Institutes of Health	2215000	9/15/17-4/30/19	<u>145,081</u>	<u>-</u>
Aging Research	93.866						150,317	-
Total U.S. Department of Health and Human Services							\$ 1,302,756	\$ -
U.S. Department of Defense								
Passed Through University of Southern California								
Evaluating the Integration of Low-cost Emerging Technology in Wheelchair Prescription	12.420	W81XWH-14-1-0560	P	U.S. Army Medical Research Acquisition Activity	2184000	9/29/16-9/29/17	44,775	-
Total U.S. Department of Defense							\$ 44,775	\$ -
Total Research and Development Cluster							\$ 1,347,531	\$ -

**RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
FEIN: 95-1911180
(CONTINUED)**

Project Title	CFDA	Grantor Number	(Direct (P)ass	Contracting Agency	Number	Term	Expenditures	Payments to Subrecipients
National Science Foundation								
Passed Through the University of Southern California NCS-FO: Integrating neural interfaces and machine intelligence for advances neural prosthetics								
Engineering Grants	47.041	ECCS-1533689	P	National Science Foundation	2191000	8/01/16-7/31/18	\$ 10,751	\$ -
Passed Through the Regents of the University of California Human Implantable Brain Computer to Restore Walking								
Computer and Information Science and Engineering	47.070	1446908	P	National Science Foundation	2183000	10/01/14-9/30/18	<u>14,312</u>	<u>-</u>
Total National Science Foundation							\$ 25,063	\$ -
Defense Advanced Research Projects Agency								
Passed Through the Wake Forest University Health Sciences Follow-on REMIND Project for Development of a Human Memory Prosthetic								
Research Technology	12.U01	N66001-14-C-4016	P	DARPA/DSO and SSC Pacific	2219000	12/21/2017-12/20/2018	<u>\$ 8,477</u>	<u>\$ -</u>
Total Defense Advanced Research Projects Agency							<u>\$ 8,477</u>	<u>\$ -</u>
TOTAL FEDERAL EXPENDITURES							<u>\$ 1,381,071</u>	<u>\$ -</u>
STATE AWARDS								
State of California - Health and Human Services Agency - California Department of Public Health								
Passed Through the State of California Alzheimer's Disease Program	N/A	16-10295	P	State of California, Department of Public Health	1751000	7/01/17-6/30/18	\$ 281,800	\$ -
Alzheimer's Disease Program	N/A	16-10832	P	State of California, Department of Public Health	1751001	7/01/17-6/30/18	<u>107,938</u>	<u>-</u>
							<u>389,738</u>	<u>-</u>
TOTAL STATE EXPENDITURES							<u>\$ 389,738</u>	<u>\$ -</u>
TOTAL FEDERAL AND STATE AWARD EXPENDITURES							<u>\$ 1,770,809</u>	<u>\$ -</u>

RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards (the "Schedule") includes the federal grant activity of Rancho Research Institute under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of Rancho Research Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of Rancho Research 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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. Pass-through entity identifying numbers are presented where available.

3. DE MINIMIS INDIRECT COST RATE

Rancho Research Institute did not elect to use the 10% de minimis indirect cost rate for the year ended June 30, 2018.

4. LOAN AND LOAN GUARANTEE

Rancho Research Institute did not have any balances of loan and loan guarantee programs outstanding at June 30, 2018 for loans described in 2 CFR section 200.50(b).

**RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the 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? _____ Yes X None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None Reported

Type of auditors' report issued on compliance for major federal programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

- 93.307
- 93.433
- 93.853
- 93.865
- 93.866
- 12.420

Research and Development Cluster:
 Minority Health and Health Disparities Research
 ACL National Institute on Disability, Independent Living,
 and Rehabilitation Research
 Extramural Research Programs in the Neurosciences and
 Neurological Disorders
 Child Health and Human Development Extramural Research
 Aging Research
 Military Medical Research and Development

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

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

**RANCHO RESEARCH INSTITUTE
(A California Non-Profit Corporation)
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

CURRENT YEAR FINDINGS:

2018 Findings:

There were no 2018 findings noted.

2018 Questioned Costs:

There were no 2018 questioned costs noted.

PRIOR YEARS FINDINGS:

2017 Findings:

There were no 2017 findings noted.

2017 Questioned Costs:

There were no 2017 questioned costs noted.

2016 Findings:

There were no 2016 findings noted.

2016 Questioned Costs:

There were no 2016 questioned costs noted.