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, 2017

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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
Calverton, Maryland

Report on the Consolidating Financial Statements

We have audited the accompanying 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, 2017, and the related consolidating statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidating 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 consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating financial statements.

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

Opinion

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial positions of **Pacific Institute for Research and Evaluation and Affiliates** as of December 31, 2017, 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.

Other Matters

Report on 2016 Summarized Comparative Information

We have previously audited the Institute's 2016 consolidating financial statements, and we expressed an unmodified audit opinion on those audited consolidating financial statements in our report dated April 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidating financial statements from which it has been derived.

Other 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. The 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 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 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 24, 2018 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 24, 2018

Consolidating Financial Statements

Pacific Institute for Research and Evaluation and Affiliates

Consolidating Statements of Financial Position

December 31, 2017 (With summarized financial information for 2016)

	2017			2016
	PIRE	**HBSA**	**Total**	Total
Assets				
Current assets				
Cash and cash equivalents	**$ 953,530**	**$ 10,607**	**$ 964,137**	$ 385,235
Cash and cash equivalents - restricted	**457,749**	**-**	**457,749**	454,068
Short-term investments	**2,554,740**	**-**	**2,554,740**	2,954,107
Receivable on grants and contracts	**2,347,348**	**919,553**	**3,266,901**	3,783,413
Other accounts receivable	**44,398**	**-**	**44,398**	65,678
Due (to) from affiliate	**(1,600,895)**	**1,600,895**	**-**	-
Prepaid expenses	**330,030**	**-**	**330,030**	358,951
Total current assets	**5,086,900**	**2,531,055**	**7,617,955**	8,001,452
Noncurrent assets				
Property and equipment, net	**210,419**	**-**	**210,419**	201,808
Investments	**3,708,247**	**-**	**3,708,247**	2,740,137
Investments - deferred compensation plan	**928,216**	**-**	**928,216**	963,783
Rent deposits	**59,851**	**-**	**59,851**	70,021
Total noncurrent assets	**4,906,733**	**-**	**4,906,733**	3,975,749
Total assets	**$ 9,993,633**	**$ 2,531,055**	**$ 12,524,688**	$ 11,977,201
Liabilities and Net Assets				
Current liabilities				
Accounts payable	**$ 609,027**	**$ -**	**$ 609,027**	$ 784,328
Accrued expenses	**3,027,622**	**-**	**3,027,622**	2,996,425
Deferred grants and contracts revenue	**238,431**	**1,256,864**	**1,495,295**	1,351,735
Total current liabilities	**3,875,080**	**1,256,864**	**5,131,944**	5,132,488
Noncurrent liabilities				
Deferred compensation plan	**928,216**	**-**	**928,216**	963,783
Deferred rent liability	**177,936**	**-**	**177,936**	214,775
Total noncurrent liabilities	**1,106,152**	**-**	**1,106,152**	1,178,558
Total liabilities	**4,981,232**	**1,256,864**	**6,238,096**	6,311,046
Commitments and contingencies				
Net assets				
Unrestricted	**4,554,652**	**1,274,191**	**5,828,843**	5,212,087
Temporarily restricted	**457,749**	**-**	**457,749**	454,068
Total net assets	**5,012,401**	**1,274,191**	**6,286,592**	5,666,155
Total liabilities and net assets	**$ 9,993,633**	**$ 2,531,055**	**$ 12,524,688**	$ 11,977,201

See accompanying notes to consolidating financial statements.

Pacific Institute for Research and Evaluation and Affiliates

Consolidating Statements of Activities

Year ended December 31, 2017 (With summarized financial information for 2016)

	2017			2016
	PIRE	**HBSA**	**Total**	Total
Changes in Unrestricted Net Assets				
Revenue				
Grants and contracts	**$ 20,905,942**	**$ 3,290,760**	**$ 24,196,702**	$ 22,788,400
Unrealized loss on investments	**(14,688)**	**-**	**(14,688)**	(14,785)
Interest and dividends	**74,816**	**8**	**74,824**	65,937
Miscellaneous	**14,578**	**-**	**14,578**	16,328
Total unrestricted revenue	**20,980,648**	**3,290,768**	**24,271,416**	22,855,880
Expenses				
Grants and contracts	**14,474,244**	**2,422,917**	**16,897,161**	15,968,184
Administrative	**5,987,421**	**770,078**	**6,757,499**	7,205,846
Total expenses	**20,461,665**	**3,192,995**	**23,654,660**	23,174,030
Increase (decrease) in unrestricted net assets	**518,983**	**97,773**	**616,756**	(318,150)
Changes in Temporarily Restricted Net Assets				
Interest	**3,681**	**-**	**3,681**	1,749
Increase in temporarily restricted net assets	**3,681**	**-**	**3,681**	1,749
Change in net assets	**$ 522,664**	**$ 97,773**	**$ 620,437**	$ (316,401)

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, 2017

	Unrestricted			Temporarily Restricted	
	PIRE	**HBSA**	**Total**	**PIRE**	**Total**
Net assets, December 31, 2016	$ 4,035,669	$ 1,176,418	$ 5,212,087	$ 454,068	$ 5,666,155
Change in net assets	518,983	97,773	616,756	3,681	620,437
Net assets, December 31, 2017	$ 4,554,652	$ 1,274,191	$ 5,828,843	$ 457,749	$ 6,286,592

See accompanying notes to consolidating financial statements.

Pacific Institute for Research and Evaluation and Affiliates

Consolidating Statements of Cash Flows

Year ended December 31, 2017 (With summarized financial information for 2016)

	2017			2016
	PIRE	**HBSA**	**Total**	Total
Cash flows from operating activities				
Change in net assets	$ 522,664	$ 97,773	$ 620,437	$ (316,401)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	74,755	-	74,755	57,900
Unrealized loss on investments	(14,688)	-	(14,688)	(14,785)
(Increase) decrease in assets				
Receivable on grants and contracts	1,171,631	(655,119)	516,512	217,493
Other accounts receivable	21,280	-	21,280	(37,187)
Due (to) from affiliate	(322,989)	322,989	-	-
Prepaid expenses	28,921	-	28,921	(17,476)
Rent deposits	10,170	-	10,170	(7,999)
Increase (decrease) in liabilities				
Accounts payable	(175,301)	-	(175,301)	(75,105)
Accrued expenses	31,197	-	31,197	8,469
Deferred grants and contracts revenue	(78,906)	222,466	143,560	(47,785)
Deferred rent liability	(36,839)	-	(36,839)	(69,634)
Net cash provided by (used in) operating activities	1,231,895	(11,891)	1,220,004	(302,510)
Cash flows from investing activities				
Acquisitions of property and equipment	(83,366)	-	(83,366)	-
Proceeds from sale of investments	3,003,459	-	3,003,459	3,467,076
Purchases of investments	(3,557,514)	-	(3,557,514)	(3,939,056)
Net cash used in investing activities	(637,421)	-	(637,421)	(471,980)
Increase (decrease) in cash and cash equivalents	594,474	(11,891)	582,583	(774,490)
Cash and cash equivalents, beginning of year	816,805	22,498	839,303	1,613,793
Cash and cash equivalents, end of year	$ 1,411,279	$ 10,607	$ 1,421,886	$ 839,303

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 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.

On May 25, 2017, PIRE California, Inc. (PIRE CA) was organized in the State of California primarily to support PIRE's State of California funded research program and support activities or otherwise benefit the exempt purposes of PIRE. PIRE CA did not have activities for the year ended December 31, 2017.

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, HBSA 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 (GAAP) and are presented on an 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, 2017 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. Unrealized and realized gains and losses are included in the consolidating statements of activities.

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.

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

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.

Investments

Investments consist of certificates of deposit and corporate bonds held on long-term duration, and are reported at fair value. Unrealized and realized gains and losses are included in the consolidating statements of activities.

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.

Deferred Rent Liability

Deferred rent liability reflects the difference between rent expense, which is recognized on a straight-line basis over the term of the Institute's various leases, and cash payments.

Temporarily Restricted Net Assets

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statements of activities as net assets released from restrictions.

At December 31, 2017, 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

Grant and contract revenue is recognized as earned. Funds received under contracts and grants in advance of expenditures being made are deferred until earned. All of the Institute's 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.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with 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 never 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 losses related to these receivables, and therefore, believes the credit risk related to receivables is minimal.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries under GAAP, including those that previously followed industry-specific guidance. For non-public entities, the new standard is effective for annual periods beginning after December 15, 2017. In August 2015, FASB issued ASU 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date,* which defers the effective date of the new revenue accounting standard to fiscal years beginning after December 15, 2018. In December 2016, FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,* which amends the new revenue standard. The amendments do not alter the core principle of the standard, but clarify certain narrow aspects of the standard including contract cost accounting, disclosures, illustrative examples, and other matters. The effective date and transition requirements for ASU 2016-20 are the same as the effective date and transition requirements of Topic 606 which is fiscal years beginning after December 15, 2018. Management is currently evaluating the impact this update will have on the consolidating financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which is the leasing standard for both lessees and lessors. Under this update, a lessee will recognize lease assets and liabilities on the statement of financial position for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. This ASU is effective for the Institute's consolidating financial statements for the year ending December 31, 2020. Early adoption is permitted. Management is currently evaluating the impact this update will have on the consolidating financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for the Institute's consolidating financial statements for the year ending December 31, 2018. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact this update will have on the consolidating financial statements.

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.

HBSA 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.

Under the Accounting Standards Codification (ASC) 740-10, *Accounting for Uncertainty in Income Taxes,* 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, 2017, there was no interest or penalties recorded or included in the consolidating statements of activities. The Institute is still open to examination by taxing authorities from year 2014 forward.

3. 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 GAAP. Accordingly, such information should be read in conjunction with the Institute's consolidating financial statements for the year ended December 31, 2016, from which the summarized information was derived.

4. Investments

Investments, at market value, consist of the following at December 31, 2017:

	PIRE	HBSA	Total
Certificates of deposit	$ 1,615,845	$ -	$ 1,615,845
Corporate bonds	4,647,142		4,647,142
Mutual funds - deferred compensation plan	928,216	-	928,216
	7,191,203		7,191,203
Less investment - deferred compensation plan	928,216	-	928,216
Less short-term investments	2,554,740	-	2,554,740
Noncurrent investments	$ 3,708,247	$ -	$ 3,708,247

Investment and interest income consist of the following at December 31, 2017:

	PIRE	HBSA	Total
Unrealized loss on investments	$ (14,688)	$ -	$ (14,688)
Interest and dividend income	74,816	8	74,824
Interest income – temporarily restricted	3,681	-	3,681
	$ 63,809	$ 8	$ 63,817

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.

5. Fair Value Measurements

ASC 820, *Fair Value Measurement*, 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 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.

Following is a description of the valuation methodologies used for assets measured at fair value. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, although the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments – Deferred Compensation Plan

The Institute's investments in the College Retirement Equities Fund (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 Teachers Insurance and Annuity Association 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.

Level 3 Valuation Process

The TIAA REA is an insurance company separate account of TIAA investing mainly in real estate and real estate-related investments. The TIAA REA's value is principally derived from the market value of the underlying real estate holdings or other real estate-related investments. Real estate holdings are valued principally using external appraisals, which are estimates of property values based on a professional's opinion. The TIAA REA sometimes holds securities as well. These are generally priced using values obtained from independent pricing sources. Unit values are calculated each day and are posted at TIAA's website.

The TIAA Traditional Annuity is reported at contract value. The contract value of the TIAA Traditional Annuity equals the accumulated cash contributions, interest credited to the plan's contracts, and transfers, if any, less any withdrawals and transfers, if any. The TIAA Traditional Annuity is not available for sale or transfer on any securities exchange. Accordingly, transactions in similar investment instruments are not observable. While transactions involving the purchases/sales of individual TIAA Traditional contracts are not observable in a public marketplace, contract value may provide a good approximation of fair value as supported by the following:

- New contributions represent current transactions between willing buyers and sellers as prescribed in the relevant generally accepted accounting principles guidance. Participants have the option to allocate their contributions between the TIAA Traditional Annuity and a number of investment choices for which fair values are readily observable.
- Participants typically allocate contributions between several investment choices and all transactions are executed at current market value with the assumption being that objective, unbiased transactions regularly occur and participants deem the value of the TIAA Traditional Annuity contract to be no less than the participant's accumulation balance and that each investment purchase is made at fair value since these purchases are not distressed and are conducted between willing buyers and sellers in open market conditions where a participant has a variety of investment choices.
- When participants change employers, they oftentimes enroll in a new plan with very similar investment options, including the TIAA Traditional Annuity. Because these transactions continue to occur with continued participant contributions at current stated contract values, the market-observable presumption is that the contract value of current funding represents a good approximation of fair value based on the willingness of the participant to continue to contribute. For each contribution, TIAA continues to record a contractual liability for the current contribution and does not consider such liability to have any embedded gain or loss.
- Upon a distributable event, the participant surrenders the future accumulation benefits in exchange for a cash payout based on the contract value, demonstrating the contract value can be monetized when a distributable event occurs.
- The crediting rate is supported by the investment performance of a large, diversified portfolio, is correlated with the highest quality debt security yields, and is adjusted for contract liquidity. A twenty-year analysis of crediting rates for TIAA Traditional Annuity contracts suggests a rate of return that is representative of a risk adjusted market rate for this type product; thus application of observed rates would yield a discounted cash flow which approximates contract value.

There were no changes in the valuation techniques used for these funds during the year ended December 31, 2017.

Level 3 Sensitivity of Fair Value Measurements and Changes in Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the Institute's investments in TIAA REA and TIAA Traditional Annuity are subject to market risks resulting from changes in the market value of its investments.

Other Investments

Investments in certificates of deposit and corporate bonds 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, 2017
Certificates of deposit	$ 1,615,845	$ -	$ -	$ 1,615,845
Corporate bonds	4,647,142	-	-	4,647,142
CREF Fund				
Growth	78,779	-	-	78,779
Stocks	196,146	-	-	196,146
Equities	102,180	-	-	102,180
Social choice	88,750	-	-	88,750
Bonds	148,337	-	-	148,337
TIAA Real Estate	-	-	18,574	18,574
TIAA Traditional Annuity	-	-	295,450	295,450
	$ 6,877,179	$ -	$ 314,024	$ 7,191,203

See Note 4 for the reconciliation of the fair value measurement disclosures of the Institute's investments to the line items in the consolidating statement of financial position.

The following table summarizes the change in the fair values for Level 3 items for the year ended December 31, 2017:

	Fair value measurement at reporting date using unobservable inputs (Level 3)		
	Real Estate	Others	Total
Balance, beginning of year	$ 19,426	$ 307,334	$ 326,760
Net (depreciation) appreciation in fair value	(1,192)	4,236	3,044
Transfers from/(to) other investments	340	(16,120)	(15,780)
Balance, end of year	$ 18,574	$ 295,450	$ 314,024

Transfers from other investments are made under the direction of plan participants and not the Institute.

Quantitative information as of December 31, 2017, 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	$ 18,574	Appraisals	Values of underlying real estate holdings/ investments	N/A
TIAA Traditional Annuity	$ 295,450	Contract value	Accumulated cash contributions, interest credited and transfers	N/A

6. Property and Equipment

Property and equipment consists of the following at December 31, 2017:

Leasehold improvements	$ 909,161
Furniture and equipment	1,024,943
	1,934,104
Less: accumulated depreciation and amortization	1,723,685
	$ 210,419

Depreciation and amortization expense charged to operations was $74,755 for 2017.

7. 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, 2019, the maturity date. The maximum borrowing amount was $1,500,000 and no principal was outstanding at December 31, 2017.

Interest is calculated at 0.5% over the Sandy Spring Bank Prime Rate. The interest rate was 5.00% at December 31, 2017. The line-of-credit is secured by a perfected first lien security interest in all collateral of the Institute, including all grants and 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, 2017, the Institute met all covenants.

The Institute also maintains one letter of credit issued by Sandy Spring Bank to a landlord. The amount of the letter of credit is $65,698. There were no amounts drawn on the letter of credit at December 31, 2017.

8. Commitments and Contingencies

Operating Leases

The Institute leases facilities to conduct its operations under operating lease agreements expiring at various times through July 2023.

The Institute leases space in California, Maryland, Rhode Island, Kentucky, New Mexico and North Carolina. Several of the operating lease commitments provide for increased annual rent, based on increases in real estate taxes and building operating expenses. Occupancy expenses, including month-to-month rentals, were $1,105,552, for the year ended December 31, 2017.

Additionally, the Institute generates rental income from subleasing office space on its facilities under leases that expire in 2021. Total lease income was $198,673 for year ended December 31, 2017, and was netted against rental expense in the consolidating statements of activities.

Minimum future lease payments and receipts are as follows:

Year Ending December 31,	Lease Payments	Lease Receipts
2018	$ 1,137,614	$ 159,961
2019	729,592	122,961
2020	658,749	122,961
2021	409,627	71,727
2022	65,657	-
Thereafter	22,065	-
	$ 3,023,304	$ 477,610

Grants and Contracts Backlog

As of December 31, 2017, the Institute had a backlog of approximately $56.0 million in grants and contracts to be used in future years.

9. 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.

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, 2017 was $1,142,383.

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, 2017.

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 2017 was as follows:

U.S. Department of Health and Human Services	$ 14,540,187	60%
Other sources	9,731,229	40%
	$ 24,271,416	100%

12. Subsequent Events

The Institute has evaluated subsequent events through April 24, 2018, 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, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	*Federal CFDA Number/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	$ 1,261,567	$ 5,166,219
Alcohol Research Program - Pass-through	93.273	Various	-	428,975
Drug Abuse Research Programs - Direct	93.279	Various	156,944	976,265
Drug Abuse Research Programs - Pass-through	93.279	Various	-	441,353
Mental Health Research Grant - Direct	93.242	Various	278,664	1,176,519
Mental Health Research Grant - Pass-through	93.242	Various	-	210,068
Other National Institutes of Health				
Youth E-Cig and Tobacco Use: Ecological Momentary Assessment	93.077	R03 DA041899	-	73,521
Pass-through from University of Louisville Research Foundation	93.121	ULRF 15-1506	-	210,273
Improving Native American Elder Access to and Use of Healthcare through Effective Health System Navigation	93.307	R01 MD010292	53,511	265,361
Pass-through from Michigan State University	93.307	RC106388D	-	46,941
Pass-through from University of Texas Southwestern	93.350	GMO 150119	-	35,537
LGBT Adults and Tobacco Stigma: A Qualitative Study	93.393	R01 CA190238	-	435,800
Pass-through from Henry Ford Health Services	93.393	B11148PIRE	-	73,668
Pass through from Yale University	93.393	GK000216 (CON-0000565)	-	338
Pass through from Yale University	93.837	M13A11506 (A08969)	-	90,291
School-based Health Clinics: Effects on Youth and Young Adult Sexual Behavior	93.865	R01 HD073386	13,865	404,012
Changing Environmental Influences on Adolescent Alcohol Use and Risk Behaviors	93.865	R01 HD078415	69,010	492,878
Implementing School Nursing Strategies to Reduce LGBTI Adolescent Suicide	93.865	R01 HD083399	127,593	500,451
Pass-through from ICF International	93	12KBSK0007	-	55,667
Pass-through from CDM Group, Inc.	93	HHSN275201300002C	-	276,266
Pass-through from Campbell & Company	93	PICS TORP-08417-1046	-	18,624
Substance Abuse and Mental Health Service Administration				
Pass-through from SC Dept. of Alcohol and Other Drug Services	93.243	PIRE-EVAL-17	-	23,564
Pass-through from North Dakota Dept. of Human Services	93.243	810-09542	-	8,537
Pass-through from Vermont Dept. of Health	93.243	30491	-	478,970
Pass-through from Nevada Dept. of Health & Human Services	93.243	15826	-	182,107
Pass-through from Alabama Dept. of Mental Health	93.243	C5-061-859917	-	136,720
Pass-through from California Little Traverse Bay Band of Odawa	93.243	SP020700	-	52,006
Pass-through from Ohio University	93.243	UT18952	-	148,458

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	*Federal CFDA Number/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 OptumHealth New Mexico	93.243	SP020769	-	154,931
Pass-through from COPES	93.243	SP021309	-	44,597
Pass-through from Antioch University New England	93.243	SM061512	-	104
Pass-through from Research Foundation for Mental Hygiene	93.243	1011806-26000	-	80,076
Pass-through from Indian Health Council	93.243	SM063511	-	31,096
Pass-through from Little Traverse Bay Band of Odawa	93.243	SP022101	-	85,743
Pass-through from OptumHealth New Mexico	93.243	SP022114	-	94,011
Pass-through from OptumHealth New Mexico	93.243	SP022084	-	54,988
Pass-through from Falling Colors for New Mexico BHSD	93.243	SP022114	-	53,050
Pass-through from Falling Colors for New Mexico BHSD	93.243	SP022084	-	33,656
Pass-through from Falling Colors for New Mexico BHSD	93.243	SP020769	-	112,686
Pass-through from South Carolina Dept. of Alcohol & Other Drug	93.243	4400014066	-	173,862
Pass-through from Governor's Institute	93.243	SP022087	-	10,468
Pass-through from City of Portales, New Mexico	93.243	SP020769	-	2,725
Pass-through from Bernalillo County Community Health Council	93.243	SP022084	-	6,065
Pass-through from Alabama Department of Health	93.243	C8-061-859917	-	21,713
Pass-through from Riverhead Community Awareness Program	93.243	SP0221950	-	2,201
Pass-through from ACTION	93.276	SP020576	-	101
Pass-through from Coffee County Anti-Drug Coalition	93.276	SP020569	-	19,294
Pass-through from South Carolina Dept. of Alcohol & Other Drug	93.959	PIRE-EVAL-17	-	153,897
Pass-through from South Carolina Dept. of Alcohol & Other Drug	93.959	PIRE-EVAL-18	-	113,175
Pass-through from Iowa Department of Public Health	93.959	SERV588 8 CP01	-	4,488
Pass-through from OptumHealth New Mexico	93.959	TI010037	-	102,408
Pass-through from Falling Colors for New Mexico BHSD	93.959	TI010037	-	91,511
Pass-through from Rocky Mountain Youth Corps	93.959	TI010037	-	24,198
Pass-through from Southwest Center for Health Innovation	93.959	TI010037	-	9,775
Pass-through from Town of Silver City	93.959	TI010037	-	11,181
Pass-through from County of Luna	93.959	TI010037	-	10,999
Pass-through from Alabama Dept. of Mental Health	93.959	C5-061-859917	-	96,613
Pass-through from Alabama Dept. of Mental Health	93.959	C8-061-859917	-	17,214
Pass-through from Vermont Dept. of Health	93.959	31844	-	7,679
Pass-through from Ohio University	93.788	1800552	-	11,167
Pass-through from Ohio University	93.788	1800520	-	82

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number/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 CDM Group, Inc.	93	HHS277201500001C	-	47,403
Pass-through from JBS International	93	HHSS283201200002I	-	3,972
Prevention of Prescription Abuse in the Workplace Technical Assistance Center (PPAW)	93	HHSS2832007000121	(4,487)	(5,056)
Indian Health Service				
Pass-through from Indian Health Council	93.933	U261IHS0081	-	83,340
Administration for Children and Families (ACF)				
Pass-through from Social Capital Valuations	93.235	17 010HAEGP	-	1,335
Pass-through from Central Susquehanna Intermediate Unit	93.093	90FX0033	-	88,671
Other Agencies				
Pass-through from Education Development Center (HRSA)	93.110	11905	-	224,164
Pass-through from Lewin Group (HRSA)	93	TLG-14061-5619.01	-	52,342
Pass-through from Ohio University	93	5JL0 335639	-	(1,127)
Total Department of Health and Human Services			1,956,667	14,540,187
Department of Justice				
21st Century Policing: Cross-Site, Multi-Stakeholder Sentinel Event Review Project	16.560	2016-IJ-CX-K005	-	133,498
Cultivating Healing by Implementing Restorative Practices for Youth (CHIRPY)	16.560	2016-CK-BX-0008	202,664	363,050
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	51,888	146,003
Assessing the Impact of Parental Characteristics, Attitudes, and Engagement on Mentoring Relationship Outcomes	16.726	2013-JU-FX-0010	9,510	141,579
Total Department of Justice			264,062	784,130
Department of Transportation				
National Highway Traffic Safety Administration				
Pass-through from University of Michgan	20.600	3004244428	-	9,646
Pass-through from Project Extra Mile	20.616	405(d)-15-09-03	-	3,102
Pass-through from Network of Employers for Traffic Safety	20.910	DTNH22-16-H-00005	-	20,468
Strategies for Increasing Ignition Interlock Use Among DWI Offenders	20	DTNH22-14-C-00395	-	84,256
Strategies for Enforcement of Impaired Motorcycle Operation	20	DTNH22-14-C-00396	192,936	525,906
Feasibility of Building a Seat Belt Maintenance Model	20	DTNH22-11-D-00226L-TO0005	10,468	45,984
Building Community Support for Imparied Driving Enforcement	20	DTNH22-15-C-00023	-	80,388
Pass-through from Dunlap & Associates	20	DTNH22-11-D-00225L-TO0006	-	27,418
Pass-through from Acclaro Research Solution	20	DTNH22-D-16-00015-TO0001	-	5,948
Total Department of Transportation			203,404	803,116

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Expenditures of Federal Awards

Year ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	*Federal CFDA Number/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 Education				
Pass-through from Vermont Agency of Education	84.323A	25660	-	50,248
Pass-through from Central Susquehanna Intermediate Unit	84.366B	S366B130039	-	14,839
Pass-through from edCount Management, LLC	84.368A	S368A17003	-	26,673
Total Department of Education			-	91,760
Consumer Product Safety Commission				
Injury Cost Model (ICM) Documentation, QALY Report	87	CPSC-D-15-0013/0001-0003	-	75,425
Total Consumer Product Safety Commission			-	75,425
Department of Defense				
Economic Impact of Combat-Related Injuries	12.420	W81XWH-16-2-0005	-	68,497
Total Department of Defense			-	68,497
National Aeronautics and Space Administration				
Pass-through from Paragon TEC, Inc.	43	NNC13BA07B		102,957
Total National Aeronautics and Space Administration			-	102,957
Department of Veterans Affairs				
Treatment of Trauma-Related Anger in OEF/OIF/OND Veterans	64	VA241-15-C-0155	-	9,617
Education Services for Whole Heath	64	VA777-15-F-0330	891,934	3,619,694
Total Department of Veterans Affairs			891,934	3,629,311
Deparment of State/INL				
Pass-through from Columbo Plan Drug Advisory Commission	19	IN25AF0	-	100,941
Total Deparment of State/INL			-	100,941
Total Research and Development Cluster			3,316,067	20,196,324
Total Expenditures of Federal Awards			$ 3,316,067	$ 20,196,324

The accompanying notes are an integral part of this schedule.

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, 2017. 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, as applicable, either the cost principles in Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, or 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. Pass-through entity or other identifying numbers are presented where available.

3. Indirect Cost Rate

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

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
Calverton, 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 consolidating statement of financial position as of December 31, 2017, and the related consolidating statements of activities, 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 24, 2018.

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) to determine the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of consolidating 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

April 24, 2018

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Suite 800
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Independent Auditor's Report on Compliance For Each 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
Calverton, Maryland

Report on Compliance for Each Major Federal Program

We have audited **Pacific Institute for Research and Evaluation and Affiliates'** (the Institute) compliance with the types of compliance requirements described 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, 2017. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Institute's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 its major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the 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 the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the 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.

BDO USA, LLP

April 24, 2018

Pacific Institute for Research and Evaluation and Affiliates

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with 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 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:

CFDA/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

There were no findings related to the consolidating financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS).

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.