

**VETERANS RESEARCH FOUNDATION  
OF PITTSBURGH**

Financial Statements

December 31, 2015 and 2014

## **VETERANS RESEARCH FOUNDATION OF PITTSBURGH**

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catanese group

## INDEPENDENT AUDITOR'S REPORT

To the Members of  
**Veterans Research Foundation of Pittsburgh**  
Pittsburgh, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Veterans Research Foundation of Pittsburgh, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years 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.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Veterans Research Foundation of Pittsburgh, as of December 31, 2015 and 2014, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Catanese Group".

Catanese Group  
Johnstown, PA  
April 11, 2016

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## STATEMENTS OF FINANCIAL POSITION

**DECEMBER 31**

	<b><u>2015</u></b>	<b><u>2014</u></b>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 451,239	\$ 537,049
Restricted cash	281,800	204,774
Short-term certificates of deposit	199,922	-
Accounts receivable - net	452,247	744,127
Accounts receivable - related party	46,351	63,080
Accrued investment income	5,856	4,018
Prepaid expenses	<u>8,324</u>	<u>5,692</u>
 Total Current Assets	 <u>1,445,739</u>	 1,558,740
Investments	1,912,795	1,731,639
Property and equipment - net	<u>38,434</u>	<u>44,075</u>
 Total Assets	 <u>\$ 3,396,968</u>	 <u>\$ 3,334,454</u>
 <b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable	\$ 48,496	\$ 28,788
Accounts payable - related party	63,507	74,820
Accrued payroll liabilities	20,928	60,320
Deferred revenue	<u>304,725</u>	<u>344,916</u>
 Total Current and Total Liabilities	 <u>437,656</u>	 508,844
Net Assets		
Unrestricted - undesignated	2,129,042	2,327,628
Unrestricted - board designated	747,482	421,465
Temporarily restricted	<u>82,788</u>	<u>76,517</u>
 Total Net Assets	 <u>2,959,312</u>	 2,825,610
Total Liabilities and Total Net Assets	<u>\$ 3,396,968</u>	<u>\$ 3,334,454</u>

See independent auditor's report and accompanying notes.

**VETERANS RESEARCH FOUNDATION OF PITTSBURGH**

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Reclassifications</b>			
Pharmaceutical revenue	\$ 1,257,249	\$ -	\$ 1,257,249
VA revenue	281,502	-	281,502
Federal subawards	-	237,877	237,877
Contracted revenue	171,444	-	171,444
Nursing conference registration	17,707	-	17,707
Donated facilities	26,460	-	26,460
Contributions	26,801	-	26,801
Investment income (loss)	12,675	-	12,675
Net assets released from restrictions	<u>231,606</u>	<u>(231,606)</u>	<u>-</u>
 Total Support and Reclassifications	 <u>2,025,444</u>	 <u>6,271</u>	 <u>2,031,715</u>
 <b>Expenses</b>			
Project expenses	1,661,786	-	1,661,786
Administrative expenses	<u>236,227</u>	<u>-</u>	<u>236,227</u>
 Total Expenses	 <u>1,898,013</u>	 <u>-</u>	 <u>1,898,013</u>
 Changes in Net Assets	 127,431	 6,271	 133,702
 <b>Net Assets - Beginning of Year</b>	 <u>2,749,093</u>	 <u>76,517</u>	 <u>2,825,610</u>
 <b>Net Assets - End of Year</b>	 <u>\$ 2,876,524</u>	 <u>\$ 82,788</u>	 <u>\$ 2,959,312</u>

See independent auditor's report and accompanying notes.

**VETERANS RESEARCH FOUNDATION OF PITTSBURGH**

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	Unrestricted	Temporarily Restricted	Total
<b>Support and Reclassifications</b>			
Pharmaceutical revenue	\$ 940,740	\$ -	\$ 940,740
VA revenue	375,687	-	375,687
Federal subawards	-	137,104	137,104
Contracted revenue	251,830	-	251,830
Nursing conference registration	969	-	969
Donated facilities	23,100	-	23,100
Contributions	12,306	-	12,306
Investment income	31,021	-	31,021
Net assets released from restrictions	<u>117,585</u>	<u>(117,585)</u>	<u>-</u>
Total Support and Reclassifications	<u>1,753,238</u>	<u>19,519</u>	<u>1,772,757</u>
<b>Expenses</b>			
Project expenses	1,602,761	-	1,602,761
Administrative expenses	<u>252,971</u>	<u>-</u>	<u>252,971</u>
Total Expenses	<u>1,855,732</u>	<u>-</u>	<u>1,855,732</u>
Changes in Net Assets	(102,494)	19,519	(82,975)
<b>Net Assets - Beginning of Year</b>	<u>2,851,587</u>	<u>56,998</u>	<u>2,908,585</u>
<b>Net Assets - End of Year</b>	<u>\$ 2,749,093</u>	<u>\$ 76,517</u>	<u>\$ 2,825,610</u>

See independent auditor's report and accompanying notes.

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

	<u>2015</u>	2014
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 133,702	\$ (82,975)
Adjustments to reconcile change in net assets to net cash operating activities:		
Depreciation	12,476	12,300
Bad debt (recovery) expense	(7,914)	(9,600)
Realized (gain) on investments	(1,108)	(156)
Unrealized loss on investments	19,834	849
(Increase) decrease in assets:		
Accounts receivable - net	299,794	(262,707)
Accounts receivable - related party	16,729	58,532
Accrued investment income	(1,838)	427
Prepaid expenses	(2,632)	(2,114)
Increase (decrease) in liabilities:		
Accounts payable	19,708	7,421
Accounts payable - related party	(11,313)	74,820
Accrued payroll liabilities	(39,392)	2,954
Deferred revenue	<u>(40,191)</u>	<u>321,353</u>
Net Cash Provided by Operating Activities	<u>397,855</u>	<u>121,104</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(6,834)	-
Investment purchases and reinvestments	(1,404,031)	(444,741)
Investment redemptions and sales	<u>1,004,227</u>	<u>674,296</u>
Net Cash (Used in) Provided by Investing Activities	<u>(406,638)</u>	<u>229,555</u>
<b>Cash Flows From Financing Activities</b>		
(Transfers to) restricted cash and cash equivalents	<u>(77,026)</u>	<u>(130,111)</u>
Net Cash Used in Financing Activities	<u>(77,026)</u>	<u>(130,111)</u>
<b>Net (Decrease) Increase in Cash</b>	<b>(85,809)</b>	220,548
Beginning Cash and Cash Equivalents	<u>537,049</u>	316,501
Ending Cash and Cash Equivalents	<u>\$ 451,240</u>	<u>\$ 537,049</u>
<b>Non-Cash Investing and Financing Activities</b>		
Unrealized loss on investments	<u>\$ 19,834</u>	<u>\$ 849</u>

See independent auditor's report and accompany notes.

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### Note 1 – Summary of Significant Accounting Policies

#### Nature of Activities

Veterans Research Foundation of Pittsburgh (“the Foundation”) is a nonprofit Corporation whose purpose is to encourage the performance of medical research which will result in improved medical care and treatment for veterans. The Foundation was organized to provide a flexible mechanism to facilitate the conduct of approved medical research at, and in conjunction with, the VA Pittsburgh Healthcare System.

#### Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and support, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The financial statement presentation follows the criteria in FASB ASC 958 *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

**Unrestricted** – Net assets not subject to donor-imposed stipulations. The board has designated a portion of the unrestricted net assets for administrative special projects, endowment funds, administrative functions, and Human Research Protection Program.

**Temporarily Restricted** – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Permanently Restricted** – Net assets subject to donor-imposed stipulations require the assets to be maintained permanently by the Foundation. At December 31, 2015 and 2014, there were no permanently restricted net assets.

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### Note 1 – Summary of Significant Accounting Policies (continued)

#### Eliminations

In preparing the financial statements, the Foundation eliminates intercompany service revenues and expenses. The intercompany service revenues and expenses that have been eliminated consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Administrative Assessment	\$ 337,805	\$ 233,611
CTC Participation Assessment	497,985	511,418
HRPP IRB Revenue	42,753	48,349
MEPS Research Grants	40,000	19,478
Young Investigators Award	<u>1,250</u>	-
	<u>\$ 919,793</u>	<u>\$ 812,856</u>

#### Use of Estimates

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

#### Contributions

Under FASB ASC 958 *Contributions Received*, contributions, including unconditional promises to give, are recorded as made to unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

The Foundation reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designed as support for future periods. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restrictions have been accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Gifts of long-lived assets and donated services are recorded at fair value.

## **VETERANS RESEARCH FOUNDATION OF PITTSBURGH**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014**

#### **Note 1 – Summary of Significant Accounting Policies (continued)**

##### Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts, excluding those amounts that are restricted as to use by donor stipulations or Board action.

##### Restricted Cash

Restricted cash consists of monies designated by the Board and designated for federal programs, which are invested in a money market account.

##### Short-Term Certificates of Deposit

Short-term certificates of deposit consist of certificates of deposit maturing between 30 and 90 days. Interest earned is included in investment income in the statements of activities.

##### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are related to contracts and are recorded at the invoiced amount net of provisions for doubtful accounts. Receivables are recorded when services are provided and invoices are issued. An account is classified as past due when payment has not been made in accordance with the related study agreement. Past due balances (the timing of which may vary based upon each study's related agreement) as well as potentially high risk amounts are reviewed individually for collectability. The Foundation maintains an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on its contracts. The calculation of the allowance is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that the estimate of the allowance for doubtful accounts will change. Based on management's assessment, the Foundation provides for estimated uncollectible amounts through a charge to expense and a credit to a valuation allowance. Balances that remained after the Foundation has used reasonable collection efforts and the potential for recovery is considered remote are written off through a charge to the valuation allowance and a credit to accounts receivable. The Foundation does not recognize interest income on receivables.

##### Accrued Investment Income

Investment income from the Foundation's investments that have been earned by year end but not yet paid to the Foundation is recorded as accrued investment income on the statements of financial position.

## **VETERANS RESEARCH FOUNDATION OF PITTSBURGH**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014**

#### **Note 1 – Summary of Significant Accounting Policies (continued)**

##### Prepaid Expenses

Prepaid expenses include amounts paid in advance for insurances and study-related expenses.

##### Investments and Investment Income

Investments are reported at fair value on the statements of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements. Investment income, including interest and dividend income, realized gains and losses and unrealized gains and losses determined by the actual cost method, is included in unrestricted net assets and restricted net assets.

The Foundation continually reviews investments with the assistance of investment managers for impairment conditions that indicate an other than temporary decline in market value has occurred. Included in this review is the monitoring of these investment advisors and their compliance with the current investment policy. Based upon this review, only adjustments to fair value were recorded in the years ended December 31, 2015 and 2014.

##### Property and Equipment

Property and equipment are recorded at cost. Expenditures for major renewals and betterments are capitalized, while maintenance and repair costs are charged to expense as incurred. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Expenditures in excess of \$1,500 are capitalized in accordance with the Foundation's capitalization policy. Planned maintenance activities are accounted for in accordance with FASB ASC 360, Planned Major Maintenance Activities, and in accordance with the laws, regulations and agreements under which the Foundation operates. The cost and related accumulated depreciation of property and equipment sold or otherwise disposed of are removed from the accounts with any resulting gain or loss reported as current year's income and expense. Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any write-downs due to impairment are charged to operations at the time impairment is identified. No such write-downs or impairments occurred during 2015 or 2014.

## VETERANS RESEARCH FOUNDATION OF PITTSBURGH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### Note 1 – Summary of Significant Accounting Policies (continued)

##### Deferred Revenue

Deferred revenue is composed of the following:

- 1) Amounts that have been invoiced to study sponsors but which are retained by that sponsor until the conclusion of the study. When all criteria have been met and the study is concluded, these retained amounts will become due and payable to the Foundation and will no longer be included in deferred revenue.
- 2) Amounts which have been invoiced in accordance with an agreement, but were unearned at year end. When criteria have been met and revenue has been earned, these amounts will no longer be included in deferred revenue.

##### Support and Revenues

The Foundation's revenues and support generated from medical research and research-related education are categorized as follows:

*Pharmaceutical revenue* represents income from pharmaceutical companies to cover project and administrative expenses related to conducting research at the Foundation.

*VA revenue* represents income from the VA Pittsburgh Healthcare System for salary support and associated costs related to conducting research at the Foundation.

*Federal subawards* represents income generally received from a university as a subrecipient of a federal research award.

*Contracted revenue* represents income from outside sources, typically universities, to cover project and administrative expenses related to conducting research at the Foundation.

*Nursing conference revenue* represents sponsorship and attendance fees received from outside sources through participation in the annual nursing research conference, and covers project and administrative expenses related to conducting research at the Foundation.

The Foundation had one unrelated customer who individually represented 10% or more of the Foundation's total revenue during 2015. The customer represented 16% of total revenue for the year ended December 31, 2015.

## **VETERANS RESEARCH FOUNDATION OF PITTSBURGH**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014**

#### **Note 1 – Summary of Significant Accounting Policies (continued)**

##### Advertising Costs

Advertising costs are expensed as incurred and are included in project expenses. Advertising expense for the years ended December 31, 2015 and 2014 were \$1,018 and \$1,497, respectively.

##### Net Assets Released From Restrictions

Net assets released from restrictions are used to report reclassifications of net assets resulting from the expiration of time or purpose restrictions and includes disbursements of expenses under funding contracts. The use of restricted assets is reported as an increase in unrestricted net assets when the restrictions are met (either stipulated time period ends or purpose restriction is accomplished).

##### Functional Allocation of Expenses

The costs of providing various research projects and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the projects and administrative functions benefited while directly identifiable expenses are charged to project expenses.

##### Contingencies

The Foundation receives significant financial assistance from governmental agencies in the form of contracts, grants, and other entitlements. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in the contract agreements and are subject to audit by grantor agencies. Any disallowed costs resulting from such audits could become a liability of the Foundation. Management expects such amounts, if any, to be immaterial. The Foundation has not been informed by any granting agencies of the existence of any disallowed expenditures.

##### Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Additionally, the Foundation has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

## VETERANS RESEARCH FOUNDATION OF PITTSBURGH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### Note 1 – Summary of Significant Accounting Policies (continued)

##### Tax Status (continued)

In accordance with FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes*, the Foundation must determine and assess any material positions taken in any income tax return as of the date they adopt the standard, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. A benefit related to an uncertain tax position will be sustained on its technical merits. Management of the Foundation believes that for all the years subject to audit by the relevant taxing authorities, no material uncertain tax positions should be recognized in the financial statements. The Foundation believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. With few exceptions, the Foundation is no longer subject to the U.S. federal, state or local income tax examinations by tax authorities before 2012. Management believes its non-profit status would be upheld upon examination.

##### Related Party

The term “related party” is used to refer to the VA Pittsburgh Healthcare System.

##### Reclassification

Certain amounts in the financial statements have been reclassified for clarification purposes when compared to the prior year presentation.

##### Subsequent Event

Management has reviewed subsequent events and transactions that occurred after the statements of financial position date through the auditor’s report date, April 11, 2016. The financial statements include all events or transactions including estimates, required to be recognized in accordance with generally accepted accounting principles in the United States of America. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

##### Adoption of New Accounting Standards

In March 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-06 “*Technical Corrections and Improvements Related to Glossary Terms*,” which updates glossary terms that cover a range of topics in the accounting codification. The adoption of the guidance did not have a material effect on the Foundation’s business, financial position, results of operations or liquidity.

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### Note 2 – Accounts Receivable

Accounts receivable related to service contracts consists of the following amounts at December 31:

	<u>2015</u>	<u>2014</u>
Pharmaceutical	\$ 327,780	\$ 664,716
VA support	46,351	63,080
Federal subawards	95,941	23,506
Outside contracts	<u>42,513</u>	<u>78,777</u>
	<u>512,585</u>	830,079
Less: Allowance for doubtful accounts	<u>(13,987)</u>	<u>(22,872)</u>
Total Accounts Receivable	<b>498,598</b>	807,207
Less: Accounts receivable – related party	<u>(46,351)</u>	(63,080)
Total Accounts Receivable – Net	<b>\$ 452,247</b>	<b>\$ 744,127</b>

Bad debt (recovery) expense for the years ended December 31, 2015 and 2014 was (\$7,914) and (\$9,600), respectively.

### Note 3 – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

## VETERANS RESEARCH FOUNDATION OF PITTSBURGH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### Note 3 – Fair Value Measurements (continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement and can be based on a variety of valuation techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurement at fair value. There have been no changes in the methodology used at December 31, 2015 and 2014.

*Certificate of Deposit:* Certificates of Deposit are classified as Level 2 assets. Level 2 assets are based on amortization of principal with a set duration and payment.

*Government Securities:* Government securities are classified as Level 1 and Level 2 assets. Level 1 assets are valued at the closing price reported in the active market in which the individual security is traded. Level 2 assets are based on amortization of principal with a set duration and payment.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation 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.

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### Note 3 – Fair Value Measurements (continued)

Management reviews for other than temporary decline in accordance with the requirements of fair value measurement. The Foundation invests in certificates of deposit and U.S. government securities. Certain individual investments may have fair values measured below cost. The severity of any impairment and the duration of any impairment correlate with current market conditions. Based upon the near-term prospects of the issuer of any of the securities in relation to the severity and duration of the impairment, and based upon the Foundation's ability and intent to hold those investments for a reasonable period of time sufficient for a forecast recovery of fair value, the Foundation does not consider those investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

The following tables provide information as of December 31, 2015 and 2014 about the Foundation's financial assets at fair value by FASB ASC Topic 820 hierarchy levels.

	<u>Assets at Fair Value as of December 31, 2015</u>				
	<u>Cost</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Recurring Fair Value Measurements</b>					
Certificates of Deposit	\$ 1,048,000	\$ -	\$ 1,042,452	\$ -	\$ 1,042,452
Government Securities					
Ginnie Mae	369,578		367,343	-	367,343
U.S. Treasury Notes	<u>705,557</u>	<u>702,922</u>	-	-	<u>702,922</u>
Total Investments at Fair Value	<u>\$ 2,123,135</u>	<u>\$ 702,922</u>	<u>\$ 1,409,795</u>	-	<u>\$ 2,112,717</u>
	<u>Assets at Fair Value as of December 31, 2014</u>				
	<u>Cost</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Recurring Fair Value Measurements</b>					
Certificates of Deposit	\$ 700,000	\$ -	\$ 695,319	\$ -	\$ 695,319
Government Securities					
Ginnie Mae	511,846	-	514,450	-	514,450
U.S. Treasury Notes	<u>522,482</u>	<u>521,870</u>	-	-	<u>521,870</u>
Total Investments at Fair Value	<u>\$ 1,734,328</u>	<u>\$ 521,870</u>	<u>\$ 1,209,769</u>	-	<u>\$ 1,731,639</u>

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### Note 3 – Fair Value Measurements (continued)

#### Transfers Between Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer. For the years ended December 31, 2015 and 2014, there were no significant transfers in or out of Levels 1, 2, or 3.

### Note 4 – Investments

The following summarizes investments as recorded on the statements of financial position:

	<u>2015</u>	<u>2014</u>
Short-term certificates of deposit	\$ 199,922	\$ -
Investments	<u>1,912,795</u>	<u>1,731,639</u>
Total	<u>\$ 2,112,717</u>	<u>\$ 1,731,639</u>

Investment income is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest income (including interest on bank accounts and accrued interest earned)	\$ 31,401	\$ 31,714
Net realized gain (loss)	1,108	156
Net unrealized (loss)	<u>(19,834)</u>	<u>(849)</u>
Total Investment Income (Loss)	<u>\$ 12,675</u>	<u>\$ 31,021</u>

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### Note 4 – Investments (continued)

The following summarizes investment activity for the year ending December 31:

	<u>2015</u>	<u>2014</u>
Beginning Balance	\$ 1,731,639	\$ 1,961,887
Purchases/reinvestments	1,404,031	444,741
Sales	(1,004,227)	(674,296)
Realized (loss) gain	1,108	156
Unrealized loss	(19,834)	(849)
Total investments	2,112,717	1,731,639
Less: Short-term certificates of deposit	(199,922)	-
Total Long-Term Investments	<u>\$ 1,912,795</u>	<u>\$ 1,731,639</u>

### Note 5 – Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Computer equipment	\$ 27,845	\$ 21,010
Computer software	6,098	6,098
Laboratory equipment	53,541	53,541
Less: Accumulated depreciation	87,484	80,649
	<u>(49,050)</u>	<u>(36,574)</u>
Total Property and Equipment - Net	<u>\$ 38,434</u>	<u>\$ 44,075</u>

Depreciation expense was \$12,476 and \$12,300 for the years ended December 31, 2015 and 2014, respectively.

# VETERANS RESEARCH FOUNDATION OF PITTSBURGH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### Note 6 – Net Assets

*Unrestricted net assets* : Unrestricted net assets consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Board Designated Net Assets:		
Administrative special project funds	\$ 512,436	\$ 153,050
Administrative board designated funds	60,137	60,137
Human Research Protection Program	140,031	207,168
Board Designated MEPS Research Grants	34,128	1,110
Young Investigators Research Awards	<u>750</u>	-
Total Board Designated Net Assets	<b>747,482</b>	421,465
Undesignated Net Assets	<u>2,129,042</u>	<u>2,327,628</u>
Total Unrestricted Net Assets	<b><u>\$ 2,876,524</u></b>	<b><u>\$ 2,749,093</u></b>

During 2015 the Foundation transferred \$251,066 of net assets from undesignated to board designated for the purpose of administrative operations of the Foundation.

*Temporarily Restricted Net Assets*: Temporarily restricted net assets consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Federal programs	<u>\$ 82,788</u>	<u>\$ 76,517</u>
Total Temporarily Restricted Net Assets	<b><u>\$ 82,788</u></b>	<b><u>\$ 76,517</u></b>

Net assets were released from restrictions by incurring expenses satisfying the purpose or time restrictions specified as follows at December 31:

	<u>2015</u>	<u>2014</u>
Net Assets Released From Restrictions		
Federal programs	<u>\$ 231,606</u>	<u>\$ 117,585</u>
Net Assets Released From Restrictions	<b><u>\$ 231,606</u></b>	<b><u>\$ 117,585</u></b>

Federal programs utilizing temporarily restricted funds consisted of seven projects in 2015 and six projects in 2014.

## **VETERANS RESEARCH FOUNDATION OF PITTSBURGH**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014**

#### **Note 7 – Concentration of Credit Risk**

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist solely of investment securities.

The Foundation has significant investments in government bonds. Investment securities are exposed to various risks such as interest rate, market, and credit risks, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect the Foundation's investments and the amounts reported in the statement of financial position and the statements of activities. Investments are made by investment managers engaged by the Foundation, upon approval by the Foundation management. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes exposure is limited and the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

#### **Note 8 – Related Party Transactions**

The Foundation has a close working relationship with the VA Pittsburgh Healthcare System (“VA”). As part of this relationship, the VA appoints Foundation board members, contracts with the Foundation for research projects and provides research and administrative space free of charge.

During the years ended December 31, 2015 and 2014, the Foundation had revenue from the VA of \$281,502 and \$375,687, respectively. Accounts receivable from the VA were \$46,351 and \$63,080 at December 31, 2015 and 2014, respectively. The Foundation's revenue consists of 14% and 21% from the VA for each of the years ended December 31, 2015 and 2014, respectively.

The Foundation currently occupies research and administrative space located within the VA under an agreement with the Veterans Affairs office. The landlord has estimated the approximate fair value of the annual rental for the years ended December 31, 2015 and 2014 to be \$19,020 and \$17,820, respectively, for project research and \$7,440 and \$5,280, respectively, and for administrative areas, totaling \$26,460 and \$23,100, respectively. Donated facilities are included as support and project and administrative expenses.

## **VETERANS RESEARCH FOUNDATION OF PITTSBURGH**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014**

#### **Note 9 – Employee Benefits Plan**

The Foundation has a defined contribution salary deferral plan (401k plan) available to all employees. Under the plan, employees are eligible to contribute to the plan after six months of employment. Each year, participants may make elective contributions to the Plan in any amount up to the maximum percentage of pre-tax earnings and dollar amounts permissible under Code Section 402(g), not to exceed the limits of Code Sections 401(k), 404 and 415. The Foundation will match employee contributions up to a maximum of 5% of the employees' pre-tax earnings. Plan contributions made by the Foundation during the years ended December 31, 2015 and 2014, were \$31,965 and \$32,775, respectively.

#### **Note 10 – Subsequent Event**

In March 2016, the Foundation was awarded a subaward grant. The grant retroactively reimburses certain expenditures incurred and recorded by the Foundation in 2015. Grant income relating to these expenditures will be recorded in 2016.