



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
FEDERAL AWARDS SUPPLEMENTARY INFORMATION

OREGON RESEARCH INSTITUTE

December 31, 2018 and 2017

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Report of Independent Auditors

The Board of Directors
Oregon Research Institute

Report on the Financial Statements

We have audited the accompanying financial statements of Oregon Research Institute, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Oregon Research Institute as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, on our consideration of Oregon Research Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Oregon Research 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 Oregon Research Institute's internal control over financial reporting and compliance.

Moss Adams LLP

Eugene, Oregon
March 20, 2019

Oregon Research Institute
Statements of Financial Position

ASSETS

	December 31,	
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 417,765	\$ 493,856
Grants and contracts receivable	808,232	905,642
Prepaid expenses and deposits	119,373	289,876
Total current assets	1,345,370	1,689,374
PROPERTY AND EQUIPMENT, less		
accumulated depreciation and amortization	248,288	275,087
OTHER ASSETS		
Investment in OR-BIS	93,272	61,946
Beneficial interest in assets held by others	279,227	272,368
Total assets	\$ 1,966,157	\$ 2,298,775

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 358,306	\$ 539,475
Accrued payroll and related expenses	472,447	607,600
Accrued leave payable, current portion	121,166	121,166
Long-term debt, current portion	14,910	25,383
Total current liabilities	966,829	1,293,624
LONG-TERM LIABILITIES		
Accrued leave payable	127,083	167,640
Long-term debt	17,001	-
TOTAL LIABILITIES	1,110,913	1,461,264
NET ASSETS		
Without donor restrictions	855,244	837,511
Total net assets	855,244	837,511
Total liabilities and net assets	\$ 1,966,157	\$ 2,298,775

Oregon Research Institute

Statements of Activities

	Year Ended December 31,	
	2018	2017
	Without Donor Restrictions	Without Donor Restrictions
REVENUES, GAINS AND OTHER SUPPORT		
Grants and contracts	\$ 12,611,148	\$ 14,234,413
Interest income	2,802	2,369
Contributions and donations	3,211	3,647
Other income	46,321	66,130
	<u>12,663,482</u>	<u>14,306,559</u>
EXPENSES		
Program services:		
Healthy Child Development	2,645,317	2,844,076
Physical Health	1,282,244	1,245,527
Psychological Health	2,461,812	2,084,431
Prevention and Treatment	2,225,276	3,414,767
	<u>8,614,649</u>	<u>9,588,801</u>
Total program services		
Support services	3,918,654	4,574,444
Depreciation and amortization	112,446	88,822
	<u>4,031,100</u>	<u>4,663,266</u>
Total support services		
Total expenses	<u>12,645,749</u>	<u>14,252,067</u>
CHANGE IN NET ASSETS	17,733	54,492
NET ASSETS, beginning of year	<u>837,511</u>	<u>783,019</u>
NET ASSETS, end of year	<u>\$ 855,244</u>	<u>\$ 837,511</u>

Oregon Research Institute
Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018 Program Services				2018 Support Services	2018 Total Expenses	
	Healthy Child Development	Physical Health	Psychological Health	Prevention and Treatment			Total
Personnel	\$ 1,789,080	\$ 539,638	\$ 1,540,154	\$ 1,913,653	\$ 5,782,525	\$ 1,930,717	\$ 7,713,242
Subcontracts/Consultants	707,674	688,823	727,142	174,618	2,298,257	67,473	2,365,730
Participant fees and similar incentives	34,119	22,815	93,818	76,503	227,255	10,025	237,280
Meetings, travel, and training	69,792	21,040	37,267	41,128	169,227	40,321	209,548
Occupancy	34,310	9,828	42,541	19,644	106,323	1,452,744	1,559,067
Financing and investment costs	-	-	-	-	-	2,351	2,351
Equipment, below \$5,000	10,342	100	20,890	(270)	31,062	415,023	446,085
Depreciation and amortization	-	-	-	-	-	112,446	112,446
Total expenses	\$ 2,645,317	\$ 1,282,244	\$ 2,461,812	\$ 2,225,276	\$ 8,614,649	\$ 4,031,100	\$ 12,645,749

	2017 Program Services				2017 Support Services	2017 Total Expenses	
	Healthy Child Development	Physical Health	Psychological Health	Prevention and Treatment			Total
Personnel	\$ 1,851,406	\$ 779,700	\$ 1,348,663	\$ 2,756,112	\$ 6,735,881	\$ 2,303,456	\$ 9,039,337
Subcontracts/Consultants	787,518	407,905	551,272	286,994	2,033,689	85,457	2,119,146
Participant fees and similar incentives	70,683	9,600	40,631	269,767	390,681	3,762	394,443
Meetings, travel, and training	60,835	33,168	46,046	52,221	192,270	94,355	286,625
Occupancy	71,966	13,406	28,385	33,991	147,748	1,658,951	1,806,699
Financing and investment costs	-	-	-	-	-	2,728	2,728
Equipment, below \$5,000	1,668	1,748	69,434	15,682	88,532	425,735	514,267
Depreciation and amortization	-	-	-	-	-	88,822	88,822
Total expenses	\$ 2,844,076	\$ 1,245,527	\$ 2,084,431	\$ 3,414,767	\$ 9,588,801	\$ 4,663,266	\$ 14,252,067

Oregon Research Institute

Statements of Cash Flows

	Years Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 17,733	\$ 54,492
Adjustments to reconcile excess of revenues over expenses to net cash from operating activities:		
Depreciation and amortization	112,446	88,822
Unrealized gain	(33,980)	(55,994)
Changes in assets and liabilities:		
Grants and contracts receivable	97,410	183,344
Prepaid expenses and deposits	170,503	(147,363)
Accounts payable	(181,169)	1,427
Accrued payroll and related expenses	(135,153)	(28,757)
Accrued leave payable	(40,557)	(32,075)
Net cash from operating activities	<u>7,233</u>	<u>63,896</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to beneficial interest in assets held by others	(4,205)	(5,121)
Disbursements from beneficial interest in assets held by others	-	8,000
Additions to property and equipment	<u>(85,647)</u>	<u>(47,757)</u>
Net cash used by investing activities	<u>(89,852)</u>	<u>(44,878)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuance	45,000	-
Principal payments on long-term debt	<u>(38,472)</u>	<u>(64,370)</u>
Net cash from (used by) financing activities	<u>6,528</u>	<u>(64,370)</u>
NET DECREASE IN CASH	(76,091)	(45,352)
CASH AND CASH EQUIVALENTS, beginning of year	<u>493,856</u>	<u>539,208</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 417,765</u>	<u>\$ 493,856</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	<u>\$ 2,351</u>	<u>\$ 2,728</u>

Note 1 – Nature of Organization and Summary of Significant Accounting Policies

Nature of organization – Oregon Research Institute (ORI or the Institute) was incorporated under the laws of the State of Oregon, with the purpose of providing charitable, scientific and educational research. The Institute is supported primarily by research grants from the U.S. Department of Health and Human Services and the U.S. Department of Education. The Institute’s primary facilities are located in Eugene, Oregon, with branch offices in Portland, Oregon; Albuquerque, New Mexico; Seattle, Washington; and Laredo, Texas.

Functional expenses – Expenses for the Institute are summarized according to the functional classification of program services and support services. The activities are segregated as follows:

Program Services:

Promoting Healthy Child Development: Researchers in this area examine the role that families, schools, friends, neighborhoods, and communities play in promoting the positive development of children, teens, and young adults. The research teams study what leads to social and academic success as well as what leads to problem behaviors, such as substance use and school failure. ORI scientists work with schools and parents to refine and adapt evidence-based programs such as literacy strengthening, social skills programs, and parent training programs.

Promoting Physical Health: ORI researchers are studying ways to keep people of all ages physically healthy. ORI’s work in chronic illness prevention began in the 1980’s with research to find ways to help people with diabetes manage their illness. The study and promotion of physical activity began in the 1990s with important longitudinal research on the factors which influence children and youth to become and remain physically active and with important clinical trials of the benefits of Tai Chi exercise for the elderly.

Promoting Psychological Health: ORI scientists study emotional and behavioral disorders as well as normative development and personality, in order to better understand factors that make people vulnerable to serious mental health disorders as well as factors that increase resilience, that is, that help people cope with daily challenges. An important component of research in this area is developing and evaluating interventions for the prevention and treatment of disorders.

Treating Tobacco, Alcohol and Illegal Drug Use: ORI’s work in this area dates from research funding obtained in the late 1970’s to study tobacco use in young people. Since then, research interests have broadened to include research on the prevention of alcohol and other drug use among youth. Two important ORI longitudinal studies – one on peer and family influences on youth drug use, and the other on young children’s knowledge of and intent to use alcohol and drugs – have provided valuable guidance in the development of substance abuse prevention programs.

Support services: These expenses relate to the administration, fiscal, personnel, and organization-wide functions necessary for the Institute to operate.

Oregon Research Institute

Notes to Financial Statements

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of presentation – The Institute, as a not-for-profit organization, follows the accounting guidance prescribed by the Financial Accounting Standards Board (FASB) for not-for-profit organizations. As discussed below under Recently Adopted Standards, as of December 31, 2018 the Institute adopted Accounting Standards Update No. 2016-14 – Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. This standard changed the terminology for unrestricted net assets to use the term “net assets without donor restrictions.” Historically, the Institute does not receive contributions with donor restrictions and therefore does not have any net assets with donor restrictions; however, the terminology has been updated throughout these financial statements from “unrestricted net assets” to “net assets without donor restrictions” as required in accordance with FASB guidance.

The accompanying consolidated 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 revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions.

Property and equipment – Purchased properties are recorded at cost. Donated properties are recorded at their estimated fair market value on the date of gift. Expenditures for maintenance and repairs are expensed, while renewals and betterments are capitalized. Assets purchased with a cost of less than \$5,000 are not accounted for as property; however, the Institute maintains records for federal grant and insurance purposes. The cost and accumulated depreciation of property sold or otherwise disposed of are eliminated from the accounts and the resulting gains or losses are reflected in revenue and expenses. Depreciation and amortization are computed using straight-line methods over the estimated lives of the related assets ranging from 2 to 15 years. Depreciation and amortization expense \$112,446 and \$88,822 for the years ended December 31, 2018 and 2017, respectively.

Revenue recognition – The Institute recognizes revenue as qualified expenses are incurred, subject to the amount authorized in the grant agreement. Unreimbursed grant expenses due from grantor agencies are reflected in the financial statements as receivables and revenues.

Grants and contracts receivable – Grants and contracts receivable include amounts billed and unbilled on grants and other agreements through December 31. As of December 31, 2018 and 2017, no allowance for uncollectible receivables was deemed necessary by management, as all amounts are considered collectible. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

Income taxes – The Institute is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, the Institute qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

The Institute follows the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC) 740-10, Income Taxes, relating to accounting for uncertain tax positions and there is no financial statement impact to the Institute. The Institute recognizes the tax benefit from uncertain tax position only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Institute recognizes interest and penalties related to income tax matters in support expenses. The Institute had no uncertain tax positions at December 31, 2018.

Cash and cash equivalents – For purposes of the statement of cash flows, the Institute considers all highly liquid investments and debt instruments purchased with a maturity of three months or less to be cash equivalents. The balances at December 31, 2018 and 2017 are composed of regional banks’ demand deposit and money sweep accounts.

Grants and contracts – Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed costs could become a liability of the Institute. Management believes that unallowable costs, if any, would not be significant and would not have a material adverse effect on the Institute’s financial position.

Concentration of credit risk – Financial instruments that potentially subject the Institute to credit risk consist of cash and receivables. The Institute’s cash balances are with federally insured banks and periodically the Institute’s deposits exceed insured limits. At December 31, 2018 and 2017, balances exceeded insured limits by \$417,765 and \$493,856, respectively. The Institute’s receivables are primarily from governmental entities.

Oregon Research Institute

Notes to Financial Statements

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

Fair value of financial instruments – The Institute has adopted FASB authoritative guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Finance staff determine fair value measurement policies and procedures under the supervision of the Finance Committee and Director of Finance and Administration. These policies and procedures are reassessed annually to determine if current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income and cost approaches. Unobservable inputs used in fair value measurements are evaluated and adjusted on an annual basis, or as necessary based on current market conditions and other third party information.

The fair values of the Institute's financial instruments have generally been determined to fall within Level 1 of the valuation hierarchy, with the exception of funds held by The Oregon Community Foundation and the Investment in OR-BIS which are considered Level 3 investments. See Note 5 – Other Assets.

Support concentration – The U.S. Department of Health and Human Services funded \$7,962,202 and \$8,979,107 in the years ended December 31, 2018 and 2017, respectively. The U.S. Department of Education funded \$2,240,080 and \$2,104,006 in the years ended December 31, 2018 and 2017 respectively. This is 62.9% and 17.7% (62.8% and 14.7% for 2017), respectively, of the total revenue received. These grants cover project periods expiring at various dates through July 2023.

Advertising costs – The Institute expenses advertising costs as incurred. Advertising expense was \$10,957 and \$22,147 for the years ended December 31, 2018 and 2017, respectively.

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

Recently adopted standards – As of December 31, 2018, the Institute adopted Accounting Standards Update No. 2016-14 – Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and function classification.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Institute recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Institute's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

The Institute has evaluated subsequent events through March 20, 2019, which is the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following for the year ending December 31, 2018:

Cash and cash equivalents	\$ 417,765
Grants and contracts receivable	<u>808,232</u>
Total	<u>\$ 1,225,997</u>

ORI's cash flows follow the cycle of monthly reimbursement from Federal Funders for expenses incurred on research grants. ORI maintains a \$500,000 line of credit with a bank that can be drawn upon as needed during the year to manage cash flows.

Oregon Research Institute

Notes to Financial Statements

Note 3 – Grants and Contracts Receivable

Grants and contracts receivable consist of the following:

	December 31,	
	2018	2017
U.S. Department of Education	\$ 88,493	\$ 157,812
U.S. Department of Health and Human Services	278,734	323,912
Pass-through grants	430,057	399,924
Other	10,948	23,994
	<u>\$ 808,232</u>	<u>\$ 905,642</u>

Note 4 – Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2018	2017
Facilities equipment	\$ 412,455	\$ 364,944
Technology equipment and software	463,531	425,394
Research equipment	166,258	166,258
	1,042,244	956,596
Less accumulated depreciation and amortization	<u>(793,956)</u>	<u>(681,509)</u>
	<u>\$ 248,288</u>	<u>\$ 275,087</u>

Note 5 – Other Assets

Investment in OR-BIS (DBA Influents Innovations) – On January 19, 2016, Oregon Research Behavioral Intervention Strategies, Inc. (OR-BIS) was incorporated in the State of Oregon as a C-Corporation. OR-BIS applies behavioral sciences to the improvement of human well-being through the development and commercialization of evidence-based products and programs directed at health care and education. ORI purchased one hundred shares of ordinary stock at no par value for \$2,500, resulting in 48% ownership in the Corporation. ORI recognizes an investment in OR-BIS on the statement of financial position under the equity method. An unrealized gain of \$31,325 and \$10,253 was recognized for the years ended December 31, 2018 and 2017, respectively.

Oregon Research Institute Notes to Financial Statements

Note 5 – Other Assets (continued)

Beneficial interest in assets held by others – The Institute provides funds for the Oregon Research Institute Fund (the Fund) with the Oregon Community Foundation (OCF). OCF is the legal owner of the Fund. In accordance with a December 1999 agreement, OCF is required to make annual distributions of a portion of the value of the Fund to ORI. However, at the request of ORI, those distributions have been deferred until the fund reaches a specified level. Additionally, the agreement also grants to OCF the power to modify the restrictions and conditions of the Fund agreement to include the nature and timing of distributions as the OCF Board of Directors sees fit. This provision is considered variance power.

As of December 31, 2018, \$279,227 has been recognized in the Statement of Financial Position of the Institute, and is considered a beneficial interest in assets held by others (\$272,368 as of December 31, 2017). The beneficial interest is invested in the Boston Common Asset Management Fund, in a mix of United States equities, international equities, and fixed income instruments; all of which are traded in public markets. The fair value of the beneficial interest is recorded at current fair value.

The following schedule summarizes the activity in the Fund, stated at fair value, for the years ended December 31:

	2018	2017
Beginning balance	\$ 272,368	\$ 229,506
Increases:		
Transfers to OCF	3,211	3,616
Interest and dividend income on investments	2,295	2,068
Realized gain on investment	1,352	1,644
Unrealized gain on investment	2,653	45,741
Decreases:		
Transfers from OCF	-	(8,000)
OCF fees	(2,652)	(2,207)
	\$ 279,227	\$ 272,368

Note 6 – Short-Term Debt

The Organization maintains a line of credit for \$500,000 with a variable interest rate of 1.0 percentage point over the prime lending rate. However, under no circumstances will the interest rate on the line of credit be less than 5% per annum. The interest rate was 6.5% and 5.5% as of December 31, 2018 and 2017, respectively. The balance on the line of credit as of December 31, 2018 and 2017 was zero and the line of credit expires in July of 2019. The line of credit is collateralized with property and equipment.

Oregon Research Institute

Notes to Financial Statements

Note 7 – Long-Term Debt

	December 31,	
	<u>2018</u>	<u>2017</u>
On November 30, 2015, the Institute initiated an \$80,000 note payable. The note is secured by equipment and accounts receivable, and it is payable to Columbia Bank in monthly installments of \$2,365 at an annual fixed interest rate of 3.98%. The note was paid in full during 2018.	\$ -	\$ 25,383
On January 18, 2018 the Institute initiated an \$45,000 note payable. The note is secured by equipment and accounts receivable and payable to Columbia Bank in monthly installments of \$1,349 at an annual interest rate of 4.75%. The note matures in February 2021.	<u>31,911</u>	<u>-</u>
Less current portion	<u>31,911</u> <u>(14,910)</u>	<u>25,383</u> <u>(25,383)</u>
	<u>\$ 17,001</u>	<u>\$ -</u>

Principal maturity by year is as follows:

Year ended December 31, 2019	\$ 14,910
2020	15,642
2021	<u>1,359</u>
	<u>\$ 31,911</u>

Note 8 – Commitments and Contingencies

Operating leases – The Institute is obligated under non-cancelable operating leases for office space and equipment. The leases generally provide for renewals on substantially the same terms and conditions as those in effect during the initial term. The total annual rent expense under all agreements was \$1,676,555 and \$1,691,798 for 2018 and 2017, respectively. Approximate minimum annual rental commitments are as follows:

Years ended December 31, 2019	\$ 1,560,000
2020	1,700,000
2021	1,749,000
2022	1,727,000
2023	1,779,000
Thereafter	<u>13,855,000</u>
	<u>\$ 22,370,000</u>

Total minimum annual rental payments have not been reduced by minimum sublease rentals in the future under non-cancelable subleases, as of December 31, 2018.

The Institute subleases office space under non-cancelable operating leases. Total annual rent and common area maintenance income under the agreement was \$633,856 and \$447,756 for 2018 and 2017, respectively. Sublease income has offset occupancy expense in the Statement of Functional Expenses. Approximate minimum sublease income commitments are as follows:

Years ended December 31, 2019	<u>\$ 422,000</u>
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Note 9 – Related Party Transactions

Service agreements – The Institute provides office space and certain administrative services for three companies, two of which are affiliated with ORI. All three companies are separately controlled companies, however, some employees of the companies are also employees of the Institute. For the years ended December 31, 2018 and 2017, service reimbursements under these agreements totaled \$168,162 and \$98,215, respectively. At December 31, 2018 and 2017, service reimbursements receivable totaled \$29,205 and \$20,205, respectively.

Oregon Research Institute

Notes to Financial Statements

Note 10 – Retirement Plan

The Institute makes contributions to tax sheltered annuities for all salaried employees who are one-half the full time equivalent or more. The annuities are established under Internal Revenue Code Section 403(b) which is available to certain tax exempt organizations. The Institute's contribution rate was 7.25% and 9.5% of the employee's salary in 2018 and 2017, respectively. For eligible employees who elect salary deferred contributions of at least 2% of their compensation, the Institute increases by 2% its contributions made on their behalf. Contributions to the plan were \$494,250 and \$699,006 in 2018 and 2017, respectively.

Note 11 – Contingencies

Grants – The Institute has grants with various organizations and government agencies which are subject to audit. Management believes that any liability which may result from these audits would not be material.

Legal – The Institute is a party to certain legal actions arising in the ordinary course of business. In the opinion of management, additional liabilities, if any, under these actions will not result in material charges against net assets.

Note 12 – Indirect Administrative Expenses

Indirect administrative expenses have been allocated to the various programs. For the years ended December 31, 2018 and 2017, the indirect rate to on-site programs was 58.7% and 58.9%, respectively. The provisional rate granted by the Federal Government is 58.6% in 2018 and 2017.

Supplementary Information

**Oregon Research Institute
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER				
DEPARTMENT OF EDUCATION				
<u>Direct Programs</u>				
Education Research - Education Research, Development and Dissemination	84.305		\$ 1,300,090	\$ 171,570
Special Education - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324		<u>939,990</u>	<u>345,092</u>
TOTAL DEPARTMENT OF EDUCATION DIRECT PROGRAMS			<u>2,240,080</u>	<u>516,662</u>
<u>Pass-Through Program From:</u>				
University of Texas Health Science Center at Houston-Education, Research, Development, Dissemination	84.305	R305A140386	60,586	-
IRIS Media - Education Research, Development and Dissemination	84.305	R305A150046	128,770	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Education, Research, Development, Dissemination	84.305	R305A170044	61,095	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Education, Research, Development, Dissemination	84.305	R305A170603	19,895	-
University of Florida - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A160158	29,669	-
Lehigh University - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A160070	54,751	-
University of Louisville - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A150179	174,522	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A160125	74,154	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A160046	75,787	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A170034	8,605	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A150138	30,467	-
Regents of the University of Minnesota - Drug Abuse Research Programs	84.324	R32A130161	3,565	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Special Education Educational Technology Media, and Materials for Individuals with Disabilities	84.327	H327S140019	<u>23,802</u>	<u>-</u>
TOTAL DEPARTMENT OF EDUCATION PASS-THROUGH PROGRAMS			<u>745,668</u>	<u>-</u>
TOTAL DEPARTMENT OF EDUCATION ALL PROGRAMS			<u>2,985,748</u>	<u>516,662</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS)				
<u>Direct Programs</u>				
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		31,622	-
Mental Health Research Grants	93.242		1,799,194	358,217
Alcohol Research Programs	93.273		1,080,381	153,683
Drug Abuse Research Programs	93.279		1,483,855	107,578
Cancer Cause and Prevention Research	93.393		195,610	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		765,887	-
Center for Research for Mothers and Children	93.865		954,075	173,809
Aging Research	93.866		<u>1,651,579</u>	<u>599,184</u>
TOTAL DHHS DIRECT PROGRAMS			<u>\$7,962,203</u>	<u>\$1,392,471</u>

Oregon Research Institute

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2018

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS) (continued)				
<u>Pass-Through Program From:</u>				
Oregon Research Behavioral Intervention Strategies, Inc. - Oral Diseases and Disorders Research	93.121	1R43DE027001	\$ 16,822	-
University of South Carolina - Mental Health Research	93.242	5RO1MH097699	238,603	-
behalf of the University of Oregon - Mental Health Research	93.242	R01MH108869	40,264	-
University of Pittsburg - Mental Health Research	93.242	2R01MH096951	37,680	-
DePaul University - Alcohol Research Programs	93.273	1RO1AA022763	46,706	-
Arizona State University - Alcohol Research Programs	93.273	7RO1AA022071	85,633	-
Brown University - Alcohol Research Programs	93.273	1RO1AA023522	17,819	-
BioRealm, Inc. - Alcohol Research Programs	93.273	9R44AA027675	26,270	-
University of Connecticut - Drug Abuse Research Programs	93.279	5RO1DA021898	8,951	-
LIFFT, Co. - Drug Abuse Research Programs	93.279	2R44DA041102	334,794	-
University of Pittsburgh - Drug Abuse Research Programs	93.279	3R01DA036832	118,624	-
Arizona State University - Drug Abuse Research Programs	93.279	5RO1DA036832	263,900	-
Texas A&M University - Cancer Cause and Prevention Research	93.393	R01CA214587	40,378	-
Oregon Health and Science University - Cancer Detection and Diagnosis Research	93.394	RO1CA222605	2,257	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	RO1 AR063713	13,253	-
University of Michigan - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1RO1DK102532	38,920	-
The Board of Regents of the University System of Georgia by and on behalf of Georgia State University - Child Health and Human Development Extramural Research	93.865	1RO1HD086894	246,362	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Aging Research	93.866	5RO1AG046401	24,654	-
TOTAL DHHS SUBRECIPIENT PROGRAMS			<u>1,601,890</u>	-
TOTAL DHHS ALL PROGRAMS			<u>9,564,093</u>	<u>1,392,471</u>
ENVIRONMENTAL PROTECTION AGENCY				
<u>Pass-Through Program From:</u>				
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Science To Achieve Results (STAR) Research Program	66.509	83575701	1,321	-
National Science Foundation				
<u>Pass-Through Program From:</u>				
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Education and Human Resources	47.076	1503161	52,661	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Education and Human Resources	47.076	1848954	7,326	-
TOTAL NSF SUBRECIPIENT PROGRAMS			<u>59,987</u>	-
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>12,611,149</u>	<u>1,909,133</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$12,611,149</u>	<u>\$1,909,133</u>

Oregon Research Institute
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of Oregon Research Institute under programs of the federal government for the year ended December 31, 2018. 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 Oregon Research Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of Oregon Research Institute.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Oregon Research Institute has elected not to use the 10-percent de minimis indirect rate allowed under the Uniform Guidance. Pass-through entity identifying numbers are presented where applicable.

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

The Board of Directors
Oregon Research Institute

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Oregon Research Institute, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Eugene, Oregon
March 20, 2019

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
Oregon Research Institute

Report on Compliance for Each Major Federal Program

We have audited Oregon Research Institute's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Oregon Research Institute's major federal programs for the year ended December 31, 2018. Oregon Research Institute's major federal programs are 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 each of Oregon Research Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Oregon Research Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Oregon Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the 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.

Moss Adams LLP

Eugene, Oregon
March 20, 2019

Oregon Research Institute
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

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 No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Major Federal Programs and Type of Auditor’s Report Issued on Compliance for Major Federal Programs:

CFDA Numbers	Name of Federal Program or Cluster	Type of Auditor’s Report Issued on Compliance for Major Federal Programs
Various	Research and Development Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

