

**MASONIC MEDICAL RESEARCH
INSTITUTE**

FINANCIAL STATEMENTS

DECEMBER 31, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors

Masonic Medical Research Laboratory, dba Masonic Medical Research Institute

We have audited the accompanying balance sheets of Masonic Medical Research Laboratory, dba Masonic Medical Research Institute (the Institute) 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards 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.

The accompanying schedule of expenditures of federal awards 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. Such 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 April 1, 2019 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

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April 1, 2019

MASONIC MEDICAL RESEARCH INSTITUTE

Balance Sheets

December 31,	2018	2017
Assets		
Current assets:		
Cash	\$ 264,304	\$ 142,199
Receivables (Note 2)	1,333,006	38,608
Prepaid expenses and other assets	78,784	46,735
	<u>1,676,094</u>	<u>227,542</u>
Investments (Note 3)	30,877,489	32,582,073
Charitable gift annuities (Note 4)	326,742	333,808
Property and equipment, net (Note 5)	13,485,082	6,570,749
Cash value of life insurance	975,345	938,765
	<u>\$ 47,340,752</u>	<u>\$ 40,652,937</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 419,332	\$ 132,877
Accrued expenses	85,971	62,485
	<u>505,303</u>	<u>195,362</u>
Long-term debt (Note 6)	10,402,248	4,599,625
Charitable gift annuities (Note 4)	162,933	165,452
Net assets:		
Without donor restriction	29,895,641	28,791,733
With donor restrictions (Note 7):		
Temporarily restricted	3,054,989	3,581,127
Permanently restricted	3,319,638	3,319,638
	<u>36,270,268</u>	<u>35,692,498</u>
	<u>\$ 47,340,752</u>	<u>\$ 40,652,937</u>

See accompanying notes.

Statements of Activities

For the years ended December 31,	2018	2017
Net assets without donor restrictions:		
Revenues, gains and support:		
Masonic Brotherhood Foundation, Inc.	\$ 108,712	\$ 90,942
Contributions - legacies and bequests	4,945,399	1,032,377
Other contributions	224,133	151,638
Grants	1,464,340	45,100
Investment earnings (losses), net	(1,434,581)	2,190,970
Other income	547,295	13,216
Net assets released from restrictions	190,635	204,078
Total revenues, gains, and support	6,045,933	3,728,321
Expenses:		
Program services - research and education	3,374,495	1,826,234
Management and general	1,194,317	1,058,523
Public relations and development	373,213	305,360
Total expenses	4,942,025	3,190,117
Change in net assets without donor restrictions	1,103,908	538,204
Net assets with donor restrictions:		
Contributions	875	1,260
Investment earnings (losses), net	(336,378)	565,847
Net assets released from restrictions	(190,635)	(204,078)
Change in net assets with donor restrictions	(526,138)	363,029
Change in net assets	577,770	901,233
Net assets - beginning	35,692,498	34,791,265
Net assets - ending	\$ 36,270,268	\$ 35,692,498

MASONIC MEDICAL RESEARCH INSTITUTE

Statements of Functional Expenses

For the years ended December 31,

2018

	Program Services			Total
	Research and Education	Supporting Services		
		Management and General	Public Relations and Development	
Salaries	\$ 1,684,330	\$ 465,824	\$ 118,054	\$ 2,268,208
Payroll taxes	99,605	34,468	8,857	142,930
Fringe benefits	347,576	65,696	18,291	431,563
Total salaries and related expenses	2,131,511	565,988	145,202	2,842,701
Bad debts	-	-	-	-
Consultants	37,361	63,134	62,802	163,297
Depreciation	403,338	75,553	3,251	482,142
Insurance	26,833	30,740	2,189	59,762
Lab materials and supplies	183,557	-	-	183,557
Licenses, dues and subscriptions	10,726	6,663	8,640	26,029
Outside services	116,521	22,352	3,619	142,492
Postage	2,255	2,166	14,804	19,225
Professional fees	124,223	196,186	3,152	323,561
Publicity/development/marketing	3,317	731	49,080	53,128
Publication and printing	1,932	6,065	37,791	45,788
Repairs and maintenance	17,452	4,008	95	21,555
Summer fellow scholarships	-	-	-	-
Supplies and other	194,835	28,926	3,169	226,930
Telephone and internet	5,776	3,229	956	9,961
Travel	64,279	42,107	37,746	144,132
Interest	-	117,664	-	117,664
Utilities	50,579	28,805	717	80,101
	\$ 3,374,495	\$ 1,194,317	\$ 373,213	\$ 4,942,025

See accompanying notes.

2017

2017			
Program Services	Supporting Services		
Research and Education	Management and General	Public Relations and Development	Total
\$ 843,513	\$ 456,876	\$ 101,455	\$ 1,401,844
63,932	34,636	7,640	106,208
195,451	70,218	39,319	304,988
1,102,896	561,730	148,414	1,813,040
98,800	-	-	98,800
27,004	35,080	61,532	123,616
230,974	43,357	2,391	276,722
29,695	28,084	1,794	59,573
104,581	-	-	104,581
6,802	6,575	1,309	14,686
85,014	22,198	969	108,181
204	1,560	8,332	10,096
17,164	285,766	12,342	315,272
2,398	151	20,766	23,315
1,622	2,534	24,988	29,144
9,305	4,061	96	13,462
8,100	-	-	8,100
18,786	17,778	2,332	38,896
8,273	4,175	431	12,879
40,084	26,151	19,204	85,439
-	-	-	-
34,532	19,323	460	54,315
\$ 1,826,234	\$ 1,058,523	\$ 305,360	\$ 3,190,117

MASONIC MEDICAL RESEARCH INSTITUTE

Statements of Cash Flows

For the years ended December 31,	2018	2017
Operating activities:		
Change in net assets	\$ 577,770	\$ 901,233
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	482,142	276,722
Gain on sale of property and equipment	(4,279)	(13,216)
Net realized and unrealized (gains) losses on investments	2,880,673	(1,945,617)
Increase in cash value of life insurance	(36,580)	(46,000)
Charitable gift annuities	4,547	11,497
Changes in other operating assets and liabilities:		
Receivables	(1,294,398)	265,849
Prepaid expenses and other assets	(32,049)	10,168
Accounts payable	286,455	57,277
Accrued expenses	23,486	(36,064)
Net operating activities	2,887,767	(518,151)
Investing activities:		
Property and equipment	(7,396,475)	(4,684,777)
Proceeds from sale of property and equipment	4,279	13,216
Proceeds from sales of investments	1,231,754	5,729,250
Purchases of investments	(2,407,843)	(5,355,555)
Net investing activities	(8,568,285)	(4,297,866)
Financing activities:		
Proceeds from issuance of long-term debt	5,802,623	4,599,625
Net change in cash	122,105	(216,392)
Cash - beginning	142,199	358,591
Cash - ending	\$ 264,304	\$ 142,199

See accompanying notes.

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization:

Masonic Medical Research Laboratory, dba Masonic Medical Research Institute (the Institute), located in Utica, New York, is dedicated to improving the health and quality of life for all humankind. The Institute's primary mission is to conduct high-quality, basic biomedical research aimed at generating knowledge and information necessary for development of the medical cures and treatments of tomorrow.

Subsequent Events:

The Institute has evaluated events and transactions for potential recognition or disclosure through April 1, 2019, the date the financial statements were available to be issued.

Basis of Presentation:

The Institute reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions include those whose use has been limited by donors to a specific time period or purpose and those that are permanently restricted to be maintained by the Institute in perpetuity, the earnings from which can be used for unrestricted or specified purposes.

Reclassifications:

The 2017 financial statements have been reclassified to conform with the presentation adopted in 2018.

Cash:

Cash in financial institutions may exceed insured limits at various times during the year and subject the Institute to concentrations of credit risk.

Investments:

Investments represent marketable securities stated at fair value on a recurring basis as determined by quoted prices in active markets.

Property and Equipment:

Property and equipment is stated at cost or fair market value at the date of donation, net of accumulated depreciation. Depreciation is computed by the straight-line method over estimated service lives.

Grant Revenue:

The Institute receives grants from governments, pharmaceutical companies, and other nonprofit organizations. Revenues from grants are recognized when the related expenditures have been incurred. The grant awards and reimbursements are subject to various compliance and financial audits by the funding source. Management believes no significant adjustments to recognized amounts are necessary.

Contributions:

Contributions, including unconditioned promises to give, are reported at fair value at the date received. Gifts received with donor stipulations that limit their use are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying statements of activities.

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

Functional Expense Allocation:

The Institute's costs of providing its various programs and activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those costs include depreciation, which is allocated on an estimated square footage basis, and certain other expenses based on employee time and effort.

Tax Status:

The Institute is a 501(c)(3) corporation generally exempt from income taxes under Section 501(a) of the Internal Revenue Code.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Receivables:

	2018	2017
Contributions	\$ 336,545	\$ -
Grants	965,324	-
Accrued interest	31,137	38,608
	<u>\$ 1,333,006</u>	<u>\$ 38,608</u>

3. Investments:

	2018	2017
Cash and cash equivalents	\$ 3,628,099	\$ 1,386,754
Mutual funds	5,794,330	7,310,643
Equity securities	19,854,858	22,271,170
U.S. government securities	1,600,202	1,613,506
	<u>\$ 30,877,489</u>	<u>\$ 32,582,073</u>

The following summarizes investment return and its classification in the statements of activities:

	2018	
	Without Donor Restrictions	With Donor Restrictions
Dividends and interest, net of custodial fees of \$68,816	\$ 881,269	\$ 228,445
Net realized gains (losses)	34,734	(3,663)
Net unrealized losses	(2,350,584)	(561,160)
	<u>\$ (1,434,581)</u>	<u>\$ (336,378)</u>

	2017	
	Without Donor Restrictions	With Donor Restrictions
Dividends and interest, net of custodial fees of \$63,548	\$ 648,486	\$ 162,714
Net realized losses	(166,415)	(41,098)
Net unrealized gains	1,708,899	444,231
	<u>\$ 2,190,970</u>	<u>\$ 565,847</u>

4. Charitable Gift Annuities:

The Institute is the sole sponsor of a gift annuity program. In accordance with New York State regulations, the Institute maintains a certain balance in order to underwrite the gift annuity program. At December 31, 2018 and 2017, the balance in the gift annuity reserve was \$326,742 and \$333,808.

The Institute also established a charitable gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed dollar annual return during their lifetimes. A portion of contributed assets is considered to be a charitable contribution for income tax purposes. The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as a contribution without donor restrictions at the date of the gift unless the gift portion is restricted. Upon the death of the annuitant (or last joint annuitant), income distributions cease.

The assets and liabilities of the planned giving program as of December 31, 2018 are \$326,742 and \$162,933. The assets and liabilities of the planned giving program as of December 31, 2017 were \$333,808 and \$165,452.

Charitable gift annuity activity in 2018 and 2017 was:

	<u>2018</u>	2017
Investment earnings	\$ 12,594	\$ 8,695
Administrative fees	(2,086)	(2,894)
Payments to income beneficiaries	(17,466)	(8,296)
Withdrawals	(108)	(5,301)
	<u>\$ (7,066)</u>	<u>\$ (7,796)</u>

5. Property and Equipment:

	<u>2018</u>	2017
Buildings and improvements	\$ 12,056,699	\$ 4,863,242
Equipment	8,630,823	4,490,953
Furniture and fixtures	314,969	296,880
Vehicles	136,114	128,127
Construction in progress (Note 6)	496,163	4,635,455
	<u>21,634,768</u>	<u>14,414,657</u>
Less accumulated depreciation	8,149,686	7,843,908
	<u>\$ 13,485,082</u>	<u>\$ 6,570,749</u>

6. Long-Term Debt:

The Institute obtained a \$12,000,000 bank credit facility to finance renovations of its building (the estimated cost of renovations is \$15,400,000 and is expected to be completed in 2020). The note carries interest at 2.15% above the one-month LIBOR rate and is secured by specific Institute investments valued at \$15,444,000 at December 31, 2018. Monthly interest-only payments are required during the disbursement period. Beginning in 2020, repayment terms include 59 monthly payments of principal and interest based on a 15 year amortization and one final balloon payment. Amounts outstanding at December 31, 2018 and 2017 totaled \$10,402,248 and \$4,599,625.

7. Net Assets with Donor Restrictions:

Net assets with donor restrictions are for the following purposes or periods:

	<u>2018</u>	2017
Subject to expenditure for research	\$ 1,657,801	\$ 1,742,600
Subject to the passage of time	163,809	168,356
Subject to the Institute's spending policy and appropriation:		
Investment in perpetuity (including amounts above original gift amount of \$3,319,638), which, once appropriated, is expendable to support research	4,553,017	4,989,809
Total net assets with donor restrictions	<u>\$ 6,374,627</u>	<u>\$ 6,900,765</u>

8. Endowment Investment Assets:

The Institute's restricted endowment assets arise from donor-restricted endowments invested in perpetuity and reported as permanently restricted net assets. The Institute has adopted investment and spending policies for endowment assets that attempt to provide returns sufficient to address the purposes of the assets over the long-term. The Institute seeks to distribute up to 5% of total endowment market value annually, while maintaining the purchasing power of the endowment assets over the long-term.

The Institute has interpreted the New York State Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor permanently restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of a donor gift instrument at the time the accumulation is added to the fund.

Investment earnings of donor-restricted endowment funds are monitored and appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Institute considers the following factors to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the Institute and the fund
- General economic conditions
- Possible effects of inflation and deflation
- Expected total return from income and appreciation of investments
- Other Institute resources
- Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Institute
- Investment policy of the Institute

Investment gains (losses) related to the donor-restricted endowment are reported as increases (decreases) to net assets with donor restrictions until appropriated and expended in accordance with the Institute's spending policy. The Institute's restricted endowment assets activity for the years ended December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Endowment assets – beginning balance	\$ 4,863,770	\$ 4,649,184
Investment gains (losses), net of custodian fees	(297,805)	404,742
Appropriations	(184,393)	(190,156)
Endowment assets – ending balance	<u>\$ 4,381,572</u>	<u>\$ 4,863,770</u>

9. Retirement Plan:

The Institute sponsors a defined-contribution retirement plan covering substantially all full-time employees. Employer contributions are based upon a percentage of the participant's salary. The Institute's contributions to the plan amounted to \$180,974 in 2018 and \$120,774 in 2017.

The Institute also maintains other defined contribution retirement plans for the benefit of essentially all full-time employees. Institute contributions are not required under the plans.

10. Related Party Transactions:

The Institute receives voluntary contributions of New York State Masons through the Masonic Brotherhood Foundation, Inc. In addition, other Masonic organizations throughout New York State contribute directly to the Institute. During the years ended December 31, 2018 and 2017, the Institute received contributions of \$94,483 and \$78,498 for operations through the Masonic Brotherhood Foundation, Inc.

In addition, at December 31, 2018 and 2017, Masonic Brotherhood Foundation, Inc. held in a custodial account \$464,392 and \$514,454 of bequests on behalf of the Institute. Pursuant to accounting guidance, the investments remain as part of the foundation's net assets with all investment income disbursed to the Institute for its operations. Accordingly, such bequests are not recorded in the Institute's financial statements. Disbursements of investment income made to the Institute for 2018 and 2017 were \$14,229 and \$12,444.

In summary, the Institute received a total of \$108,712 and \$90,942 from the Masonic Brotherhood Foundation, Inc. during the years ended December 31, 2018 and 2017.

The Institute also receives voluntary contributions from Florida Masons through the Grand Lodge of Florida. The Institute has received continuous support from the Grand Lodge and State of Florida since 1994. Since inception of the campaign, the Institute received \$1,137,972 from the Grand Lodge, special events and direct donations from Florida. During the years ended December 31, 2018 and 2017, the Institute received contributions of \$22,491 and \$20,598.

The Institute's facilities are located on land owned by the Masonic Hall and Home. The Institute pays a \$1 annual fee to the trustees of the Home for use of this land. Additionally, a liability existed as of December 31, 2018 and 2017 for \$18,369 and \$11,309 to the Masonic Care Community for utilities.

11. Conditional Bequests:

The Institute has been named the beneficiary of a trust estate with an estimated value of \$2,000,000. In accordance with generally accepted accounting principles, no amounts have yet been recognized in the accompanying financial statements.

12. Liquidity:

The Institute obtains financial assets generally through grants, contributions and fundraising efforts. The financial assets are acquired throughout the year to help meet the Institute's cash needs for general expenditures.

The Institute's financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consist of the following at December 31, 2018:

Cash	\$ 264,304
Receivables	1,333,006
Investments without donor and bank debt restrictions	<u>9,222,701</u>
	<u>\$ 10,820,011</u>

Supplementary Information
Schedule of Expenditures of Federal Awards

For the year ended December 31, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services:</u>			
Direct awards:			
Cardiovascular Diseases Research	93.837	122238	\$ 532,110
Cardiovascular Diseases Research	93.837	102368	80,349
Cardiovascular Diseases Research	93.837	138454	<u>108,864</u>
			721,323
Passed through The General Hospital Corporation:			
Cardiovascular Diseases Research	93.837	133153	79,394
Cardiovascular Diseases Research	93.837	122388	4,192
Cardiovascular Diseases Research	93.837	115141	7,646
Cardiovascular Diseases Research	93.837	190838	<u>19,784</u>
Total Expenditures of Federal Awards			\$ <u>832,339</u>

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of all federal award programs administered by Masonic Medical Research Laboratory, dba Masonic Medical Research Institute (the Institute), an entity defined in Note 1 to the Institute's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the SEFA.

Expenditures are calculated as required by the Uniform Guidance or the applicable program and do not constitute actual program disbursements.

Basis of Accounting:

The Institute uses the accrual basis of accounting for each federal program, consistent with the financial statements.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable programs and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the Institute's financial reporting system.

Indirect Costs:

The Institute has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. Rather, the Institute applies an indirect cost rate as permitted by the grant agreements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Masonic Medical Research Laboratory, dba Masonic Medical 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 balance sheet of Masonic Medical Research Laboratory, dba Masonic Medical Research Institute (the Institute) 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, which collectively comprise the Institute's basic financial statements, and have issued our report thereon dated April 1, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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 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 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 Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Lyman & McCormick, LLP". The signature is written in a cursive style with a large, stylized initial 'L'.

April 1, 2019

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

The Board of Directors
Masonic Medical Research Laboratory, dba Masonic Medical Research Institute

Report on Compliance for Each Major Federal Program

We have audited Masonic Medical Research Laboratory, dba Masonic Medical Research Institute's (the Institute) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2018. The Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 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 each 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 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 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 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 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.



April 1, 2019

Schedule of Findings and Questioned Costs

For the year ended December 31, 2018

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: *Unmodified*

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA #</u>	<u>Amount</u>
Cardiovascular Diseases Research	93.837	<u>\$ 832,339</u>

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

Auditee qualified as low-risk auditee? No

Section II. Financial Statement Findings

No findings were reported.

Section III. Federal Award Findings and Questioned Costs

No findings were reported.