



MEDSTAR HEALTH RESEARCH INSTITUTE

Financial Statements and Supplementary Schedule of
Expenditures of Federal Awards and Reports
under the Uniform Guidance

June 30, 2019 and 2018

(With Independent Auditors' Reports Thereon)

MEDSTAR HEALTH RESEARCH INSTITUTE

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KPMG LLP
750 East Pratt Street, 18th Floor
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Independent Auditors' Report

The Board of Directors
MedStar Health Research Institute:

Report on the Financial Statements

We have audited the accompanying financial statements of MedStar Health Research Institute (the Institute), a wholly owned subsidiary of MedStar Health, Inc. (MedStar), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, 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 U.S. generally accepted accounting principles; 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 audits 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 MedStar Health Research Institute as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(k) to the consolidated financial statements, the Institute adopted *Accounting Standards Update* (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of the Financial Statements of Not-for-Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers*, and ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, during the year ended June 30, 2019. Our opinion is not modified with respect to these matters.

Other Matter

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 is presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 schedule of expenditures of federal awards 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 13, 2020 on our consideration of MedStar Health 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 the Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MedStar Health Research Institute's internal control over financial reporting and compliance.

KPMG LLP

March 13, 2020

MEDSTAR HEALTH RESEARCH INSTITUTE

Balance Sheets

June 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 5,300	5,300
Grants and contributions receivable, net	11,021,744	8,082,600
Prepays and other current assets	48,918	29,461
Total current assets	11,075,962	8,117,361
Assets whose use is limited or restricted	5,961,463	5,828,923
Property and equipment:		
Building and building improvements	4,258,119	4,146,962
Equipment and leasehold improvements	16,058,920	15,331,892
	20,317,039	19,478,854
Less accumulated depreciation and amortization	(13,931,833)	(12,180,588)
Property and equipment, net	6,385,206	7,298,266
Other assets	66,165	66,165
Total assets	\$ 23,488,796	21,310,715
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,280,767	847,157
Accrued salaries and benefits, and payroll taxes	2,601,309	2,338,674
Deferred grant revenue and other current liabilities	1,532,666	1,194,673
Total current liabilities	5,414,742	4,380,504
Other long-term liabilities	59,527	147,465
Total liabilities	5,474,269	4,527,969
Net assets:		
Without donor restrictions	15,382,930	13,578,498
With donor restrictions	2,631,597	3,204,248
Total net assets	18,014,527	16,782,746
Total liabilities and net assets	\$ 23,488,796	21,310,715

See accompanying notes to financial statements.

MEDSTAR HEALTH RESEARCH INSTITUTE
Statements of Activities and Changes in Net Assets
Years ended June 30, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions:		
Revenues and gains:		
Grant and contract revenue	\$ 20,276,481	31,400,332
Contribution revenue	14,211,735	—
Investments gains, net	127,839	403,027
Net assets released from restrictions and other revenue	2,038,207	3,717,691
Total revenues and gains	36,654,262	35,521,050
Transfers from parent, net	10,136,890	5,669,372
Program expenses:		
Personnel	21,617,046	19,916,075
Purchased services	5,307,160	4,166,279
Supplies	481,899	335,018
Facilities	204,661	157,369
Other operating expenses	918,247	826,593
Applied overhead	8,120,000	7,242,337
Total program expenses	36,649,013	32,643,671
General and administrative expenses:		
Unapplied overhead	8,347,107	8,208,561
Increase in net assets without donor restrictions	1,795,032	338,190
Change in net assets with donor restrictions:		
Restricted gifts	707,341	965,730
Net assets released from restrictions	(1,285,246)	(3,108,566)
Net gains on investments and investment income	14,654	50,992
Decrease in net assets with donor restrictions	(563,251)	(2,091,844)
Increase (decrease) in net assets	1,231,781	(1,753,654)
Net assets at beginning of year	16,782,746	18,536,400
Net assets at end of year	\$ 18,014,527	16,782,746

See accompanying notes to financial statements.

MEDSTAR HEALTH RESEARCH INSTITUTE

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,231,781	(1,753,654)
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:		
Depreciation expense	1,849,043	1,670,520
Unrealized losses (gains) on investments	26,155	(262,600)
Realized losses (gains) on investments	116,338	(140,433)
Donor restricted contributions	—	(965,730)
Transfers from parent, net	(10,136,890)	(5,669,372)
Changes in operating assets and liabilities:		
Grants receivable, net	(2,939,144)	2,941,375
Prepays and other current assets	(19,457)	(27,159)
Accounts payable and accrued expenses	433,610	68,669
Accrued salaries and benefits	262,635	25,898
Deferred grant revenue and other current liabilities	337,993	(169,750)
Other long-term liabilities	(87,938)	(54,296)
Net cash used in operating activities	<u>(8,925,874)</u>	<u>(4,336,532)</u>
Cash flows from investing activities:		
Purchases of assets whose use is limited or restricted, net	(275,033)	(48,290)
Purchases of property and equipment	(935,983)	(2,250,280)
Net cash used in investing activities	<u>(1,211,016)</u>	<u>(2,298,570)</u>
Cash flows from financing activities:		
Contributions from parent, net	10,136,890	5,669,372
Donor restricted contributions	—	965,730
Net cash provided by financing activities	<u>10,136,890</u>	<u>6,635,102</u>
Net decrease in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of year	<u>5,300</u>	<u>5,300</u>
Cash and cash equivalents, end of year	\$ <u><u>5,300</u></u>	\$ <u><u>5,300</u></u>

See accompanying notes to financial statements.

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

(1) Description of Organization and Summary of Significant Accounting Policies

(a) Organization

The MedStar Health Research Institute (the Institute or MHRI) is organized for the purpose of conducting scientific research in all fields of medicine, surgery, pharmaceuticals, health care delivery and all other sciences related to the healing and the curing of human ills. The Institute is a controlled entity of MedStar Health, Inc. (MedStar), a not-for-profit corporation.

MedStar is a tax-exempt, Maryland membership corporation which, through its controlled entities and other affiliates, provides and manages healthcare services in the region encompassing Maryland, Washington D.C. and Northern Virginia. MedStar became operational on June 30, 1998 by the transfer of the membership interests of Helix Health, Inc. (Helix – a not-for-profit Maryland Corporation) and Medlantic Healthcare Group, Inc. (Medlantic – a not-for-profit Delaware Corporation) in exchange for the guarantee of the debt of both Helix and Medlantic by MedStar. The trade names of the principal tax-exempt and taxable entities of MedStar are:

(i) Tax-Exempt

- MedStar Ambulatory Services
- MedStar Franklin Square Medical Center
- MedStar Georgetown University Hospital
- MedStar Good Samaritan Hospital
- MedStar Harbor Hospital
- MedStar Health Research Institute
- MedStar Health Visiting Nurse Association, Inc.
- MedStar Medical Group, LLC
- MedStar Montgomery Medical Center
- MedStar National Rehabilitation Network
- MedStar Southern Maryland Hospital Center
- MedStar St. Mary's Hospital
- MedStar Surgery Center, Inc.
- MedStar Union Memorial Hospital
- MedStar Washington Hospital Center
- HH MedStar Health, Inc.

(ii) Taxable

- Greenspring Financial Insurance, LTD.
- MedStar Enterprises, Inc. and Subsidiaries
- MedStar Family Choice, Inc.

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- MedStar Physician Partners, Inc.
- Parkway Ventures, Inc. and Subsidiaries
- RadAmerica II, LLC

(b) Basis of Presentation

The financial statements of the Institute are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Programs for the purpose of scientific research as described in note 1(a) are combined into one program for purposes of reporting on the statements of activities and changes in net assets.

(c) Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future results could differ from those estimates.

(d) Cash Equivalents

All highly liquid investments with an original maturity date of three months or less are considered to be cash equivalents.

(e) Revenue Recognition

The Institute has been awarded various cost-reimbursable grants by the federal government and private sources. The Institute has also been awarded various grants from pharmaceutical and device companies, the funding of which is on a per-unit basis.

The Institute recognizes grants from government, private foundations and commercial sponsors as either contributions or exchange transactions, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional. Typically, grant agreements contain a right of return or right of release from obligation provision and the Institute has limited discretion over how funds transferred should be spent. As such, the Institute recognizes revenue for these conditional contributions when the related barrier has been overcome.

Expenses incurred in excess of amounts received are recorded as grants and contributions receivable, to the extent allowed under the grants. The carrying value of grants and contributions receivable approximates their fair value. Grants and contributions receivable, net consisted of \$7,534,973 of billed receivables and \$3,486,771 of unbilled receivables as of June 30, 2019. Grants and contributions receivable, net consisted of \$5,718,129 of billed receivables and \$2,364,471 of unbilled receivables as of June 30, 2018.

(i) Grant and Contract Revenue

For grants treated as exchange transactions, the Institute has a right to consideration from the sponsoring organization in an amount that corresponds directly with the value to the sponsoring organization of the Institute's performance completed to date. For these agreements, the Institute

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recognizes revenue in the amount to which the Institute has the right to invoice. For exchange contracts and grants, which are recognized based on the right to invoice, the Institute has elected the practical expedient and not to disclose information about unsatisfied performance obligations.

Grants are generally invoiced monthly or quarterly, depending upon the terms of the individual agreement, for recoverable costs incurred in the previous period. As of June 30, 2019 and 2018, the Institute has receivables related to exchange grants and contracts of \$6,062,542 and \$4,311,399, respectively, which is reported in grants and contributions receivable, net in the accompanying balance sheets.

(ii) *Contribution revenue*

Unconditional promises to give cash and other assets to the Institute are reported at fair value on the date the promise is received. Conditional promises to give, with the exception of grants recognized as exchange transactions, are reported at fair value on the date the condition is met. The gifts are reported as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these donor restricted assets are reclassified as assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Such amounts are classified as net assets released from restrictions and other revenue. Donor restricted contributions whose restrictions are satisfied within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements. As of June 30, 2019 and 2018, the Institute has receivables related to contributions of \$4,959,202 and \$3,771,201, respectively, which is reported in grants and contributions receivable, net in the accompanying balance sheets.

Amounts received in excess of incurred expenses on grants are recorded as deferred grant revenue. As of June 30, 2019 and 2018, the Institute has deferred revenue related to exchange grants and contracts of \$33,855 and \$410,842, respectively, and deferred revenue related to contributions of \$1,139,709 and \$645,140, respectively, which is reported in deferred grant revenue and other current liabilities in the accompanying balance sheets.

Allowances are recorded for estimated uncollectible grants and contributions based upon past collection experience, management's judgment, and other relevant factors. As of June 30, 2019 and 2018, the Institute has an allowance for estimated uncollectible exchange grants and contracts of \$673,417 and \$631,559, respectively, and uncollectible contributions of \$97,417 and \$162,711, respectively.

The Institute is reimbursed for a portion of its general and administrative expenses as an overhead component of the awarded grants. Total general and administrative expenses were \$16,467,107 and \$15,450,898 for the years ended June 30, 2019 and 2018, respectively. The Institute allocated \$8,120,000 and \$7,242,337 for the years ended June 30, 2019 and 2018, respectively, to applied overhead based on the amounts that are reimbursable under the grant agreements. The remaining overhead of \$8,347,107 and \$8,208,561 for the years ended June 30, 2019 and 2018, respectively, is included in unapplied overhead in the statement of activities and changes in net assets.

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(f) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted are held in MedStar's pooled investment funds, and include assets restricted by donors, and assets designated by the Board of Directors for future capital improvements and other purposes over which it retains control and may, at its discretion, use for other purposes.

Investment income (interest and dividends), realized gains and losses on investment sales, and unrealized gains and losses are included in net assets without donor restrictions in the accompanying statements of activities and changes in net assets unless the income or loss is restricted by the donor. Investment returns that are restricted by the donor are recorded as a component of changes in net assets with donor restrictions, in accordance with donor imposed restrictions. Realized gains and losses are determined based on the specific security's original purchase price.

(g) Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated or amortized over the estimated useful lives of the assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation expense is computed on a straight-line basis and is included in unapplied overhead as a component of general and administrative expenses in the statements of activities and changes in net assets. The Institute recognized depreciation expense of \$1,849,043 and \$1,670,520 for the years ended June 30, 2019 and 2018, respectively. Major classes and estimated useful lives of property and equipment are as follows:

Leasehold improvements	Lease term
Buildings and improvements	10–40 years
Equipment	3–20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as increases in net assets without donor restrictions, and are excluded from the increase in net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Management routinely evaluates the carrying value of its long-lived assets for impairment. No impairment charges were recorded against the carrying value of the Institute's long-lived assets during the years ended June 30, 2019 and 2018.

(h) Income Taxes

The principal operations of the Institute are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia. The Institute accounts for uncertain tax positions in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*.

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On December 22, 2017, the President of the United States signed into law H.R.1, originally known as the Tax Cuts and Jobs Act of 2017. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Institute has reviewed these provisions and the potential impact and concluded the enactment of H.R.1 did not have a material effect on the operations of the organization.

(i) Net Assets

The Institute classifies net assets based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent amounts that arise as the result of operations or contributions, gifts, and grants that have no donor-imposed restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose, passage of time and/or to be maintained by the Institute in perpetuity. Net assets with donor restrictions primarily consist of pledges and funds received for the purposes of research, providing health education, and purchasing property and equipment, are released as donor or other restrictions are satisfied.

(j) Fair Value of Financial Instruments

The carrying amount reported in the balance sheet for cash and cash equivalents, grants receivables, other current assets, other assets, current liabilities and other long-term liabilities approximates their fair value.

The fair value of assets whose use is limited or restricted is discussed in note 4.

(k) New Accounting Pronouncements

Effective July 1, 2018, the Institute adopted the FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the modified retrospective method of adoption. The core principle of Topic 606 is that an entity should recognize revenue in an amount that the entity ultimately expects to receive for the services provided. The adoption of Topic 606 did not have a material impact on the results of operations for the years ended June 30, 2019 and 2018, and the Institute does not expect it to have a material impact on its results of operations going forward.

Effective July 1, 2018, the Institute adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using the prospective method of adoption, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. As a result of the adoption of this standard, the Institute recorded \$14,211,735 of contribution revenue that had previously been recorded as grant and contract revenue. Other than this change in presentation, the adoption of ASU 2018-08 did not have a material impact on the results of operations for the years ended June 30, 2019 and 2018, and the Institute does not expect it to have a material impact on its results of operations going forward.

In February 2016 and modified through subsequent ASUs, the FASB issued *Leases* (Topic 842), the primary impact of which requires lessees to recognize right-of-use assets and liabilities for most operating leases. ASU 2016-02 is effective for fiscal year and interim periods beginning after December 15, 2018. The Institute adopted Topic 842 effective July 1, 2019 applying the modified

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retrospective approach in which the Institute did not adjust comparable prior period information and disclosures. The Institute is utilizing the practical expedients being made available, including the package of practical expedients to not reassess whether a contract is or contains a lease, the lease classification and initial direct costs. The Institute determined the amount of right-of-use assets and obligations resulting from the adoption of ASU 2016-02 to be \$716,072.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which requires not-for-profit entities to revise the financial presentation of net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk, as discussed in note 5, and expand disclosures on functional expenses, as discussed in note 11. The Institute adopted the new standard on June 30, 2019 on a retrospective basis. There were no material changes to the balance sheets, statements of activities and changes in net assets or cash flows because of the adoption. Periods prior to adoption, which previously presented temporarily restricted net assets of \$2,944,233 and permanently restricted net assets of \$260,015, have been revised to conform to the new presentation of a single classification of net assets with donor restrictions.

From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Institute as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Institute has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on our financial position, results of operations, or cash flows.

(l) Going Concern

ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* requires management to perform an annual assessment of an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). The Institute has incurred net losses and negative cash flows for the last several years requiring capital contributions from its parent, MedStar, for its operating and capital purchases. MedStar has committed to fund the continued operations of the Institute to March 14, 2021 by funding operating cash deficits and capital expenditures.

(m) Reclassifications

Certain prior year amounts have been reclassified to conform with current period presentation, the effects of which are not material.

(2) Related-Party Transactions

The Institute's Board of Directors is comprised of members of the community, physicians, and certain members of the board of trustees of MedStar and its subsidiaries.

The Institute provides and receives various management and support services from MedStar and its subsidiaries. Charges for services received by the Institute in 2019 and 2018 are \$3,445,816 and \$3,123,804, respectively and are included in unapplied overhead in the accompanying statement of activities and changes in net assets.

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June 30, 2019 and 2018

As of June 30, 2019 and 2018, the Institute had \$0 and \$285,998 due from/(to) MedStar, respectively. Such amounts are reflected in deferred grant revenue and other current liabilities as of June 30, 2019 and 2018, respectively. The amount of transfers received from MedStar during the years ended June 30, 2019 and 2018 were \$10,136,890 and \$5,669,372, respectively. These amounts correspond to cash needs for the Institute during the years ended June 30, 2019 and 2018, respectively.

(3) Assets Whose Use is Limited or Restricted

The Institute pools its portfolio of securities with other MedStar securities to centralize investment management and custody. The Institute's interest in the pooled investment funds and related investment income is accounted for on a percentage basis. Investment income earned from the Institute's ownership of interests in the pooled investment funds reflect its proportionate share of the interest, dividends, realized gains and losses and unrealized appreciation and depreciation of the securities held in the pool. The Institute's proportionate share of the pool's investment income from the underlying securities is reported as such in the Institute's statements of activities and changes in net assets.

MedStar's investments and assets whose use is limited or restricted, in the MedStar Corporate Investment Pool, as of June 30, 2019 and 2018, at fair value consist of the following (in millions):

	2019	2018
Cash and cash equivalents	\$ 41.6	35.9
Fixed income securities and funds	232.8	222.1
Equity securities	563.7	547.6
Institutional funds with RDFV	10.4	7.3
Alternative investments:		
Commingled equity funds	265.7	266.7
Inflation hedging, commodity, fixed income fund	71.3	76.3
Hedge fund of funds and private equity	343.1	337.1
Total investments and assets whose use is limited or restricted	\$ 1,528.6	1,493.0

The Institute has \$5,961,463 and \$5,828,923 of investable assets included in the MedStar Corporate Investment Pool above representing approximately 0.4% of the total shares at June 30, 2019 and 2018, respectively. The Institute's assets whose use is limited or restricted as of June 30, 2019 and 2018, at fair value, identified by restriction is as follows:

	2019	2018
Funds designated by board	\$ 3,612,986	2,985,299
Self-insurance funds	20,766	31,164
Funds restricted by donors for specific purposes	2,327,711	2,812,460
	\$ 5,961,463	5,828,923

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Notes to Financial Statements

June 30, 2019 and 2018

The Institute's investment income and realized and unrealized gains (losses) for assets whose use is limited or restricted, cash equivalents and other investments are comprised of the following for the year ending June 30, 2019 and 2018:

	2019	2018
Changes in net assets without donor restrictions:		
Investment income, net	\$ 57,178	50,986
Net realized gains on investments	50,314	119,583
Changes in unrealized gains on investments, net	20,347	232,458
	127,839	403,027
Changes in net assets with donor restrictions:		
Realized net gains on restricted net assets	8,846	20,850
Changes in unrealized gains on net assets with donor restrictions	5,808	30,142
Total investment gain	\$ 142,493	454,019

(4) Fair Value of Financial Instruments

MedStar follows the guidance within FASB ASC Topic 820, *Fair Value Measurement* (ASC 820), which defines fair value and establishes methods used to measure fair value. The fair value 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 value hierarchy under ASC 820 are described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 – Observable inputs other than quoted prices for the asset, either directly or indirectly observable, that reflect assumptions market participants would use to price the asset based on market data obtained from sources independent of MedStar;
- Level 3 – Unobservable inputs that reflect MedStar's own assumptions about the assumptions market participants would use to price an asset based on the best information available in the circumstances.

MedStar has incorporated an Investment Policy Statement (IPS) into the investment program. The IPS, which has been formally adopted by MedStar's Board of Directors, contains numerous standards designed to ensure adequate diversification by asset class and geography. The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program. At June 30, 2019 and 2018, management believes that all investments were being managed in a manner consistent with the IPS.

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Notes to Financial Statements

June 30, 2019 and 2018

The following table illustrates the actual allocations of MedStar's primary long-term investment portfolio as of June 30:

	Actual allocation June 30, 2019	Actual allocation June 30, 2018
Cash	3 %	2 %
Publicly traded equities – domestic	28	27
Publicly traded equities – international	9	10
Fixed income securities	15	15
Institutional Funds with RDFV	1	1
Alternative investments:		
Commingled equity funds	17	18
Inflation hedging equity, commodity, fixed income fund	5	5
Hedge funds	21	21
Private equities	<u>1</u>	<u>1</u>
Total	<u>100 %</u>	<u>100 %</u>

The table below presents the MedStar Corporate Investment Pool investable assets as of June 30, 2019, aggregated by the three-level valuation hierarchy (in millions):

	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Cash and cash equivalents	\$ 41.5	—	—	—	41.5
U.S. Treasury bonds	74.3	—	—	—	74.3
U.S. agency mortgage backed securities	49.0	—	—	—	49.0
Corporate bonds	—	89.2	—	—	89.2
Fixed income mutual funds	—	—	—	—	—
All other fixed income securities	3.5	16.8	—	—	20.3
Equity mutual funds and ETF's	240.1	—	—	—	240.1
Institutional Funds with RDFV	—	10.4	—	—	10.4
Common stocks	323.6	—	—	—	323.6

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Alternative investments:					
Commingled equity funds	\$ —	—	—	265.7	265.7
Inflation hedging equity, commodity, fixed income fund	—	—	—	71.3	71.3
Private equity	—	—	—	20.3	20.3
Hedge funds:					
Custom hedge fund	—	—	—	65.5	65.5
Other hedge funds	—	—	—	257.4	257.4
	<u>\$ 732.0</u>	<u>116.4</u>	<u>—</u>	<u>680.2</u>	<u>1,528.6</u>

The table below presents the MedStar Corporate Investment Pool investable assets as of June 30, 2018, aggregated by the three level valuation hierarchy (in millions):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Assets:					
Cash and cash equivalents	\$ 35.9	—	—	—	35.9
U.S. Treasury bonds	70.2	—	—	—	70.2
U.S. agency mortgage backed securities	43.4	—	—	—	43.4
Corporate bonds	—	88.3	—	—	88.3
Fixed income mutual funds	—	—	—	—	—
All other fixed income securities	4.9	15.4	—	—	20.3
Equity mutual funds and ETF's	239.4	—	—	—	239.4
Institutional Funds with RDFV	—	7.3	—	—	7.3
Common stocks	308.1	—	—	—	308.1
Alternative investments:					
Commingled equity funds	—	—	—	266.7	266.7
Inflation hedging equity, commodity, fixed income fund	—	—	—	76.3	76.3
Private equity	—	—	—	17.8	17.8
Hedge funds:					
Custom hedge fund	—	—	—	64.3	64.3
Other hedge funds	—	—	—	255.0	255.0
	<u>\$ 701.9</u>	<u>111.0</u>	<u>—</u>	<u>680.1</u>	<u>1,493.0</u>

The Institute's investable assets in the MedStar Corporate Investment Pool would approximate MedStar's allocation in the above three level valuation hierarchies. For the years ended June 30, 2019 and 2018, there were no significant transfers between Levels 1 and 2.

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2019:

	Custom hedge fund			
	Fund 1	Fund 2	Fund 3	Fund 4
Redemption timing:				
Redemption frequency	Quarterly	67% monthly – quarterly 33% quarterly – annually	Quarterly	Quarterly
Required notice	70 days	within 95 days	90 days	65 days
Audit reserve:				
Percentage held back for audit reserve	10 %	up to 10%	10 %	10 %

The hedge funds include three hedge funds-of-funds and one custom hedge fund. The custom fund is structured as a multi-strategy hedge fund with MedStar as the sole investor. The investment objective and strategies used by the hedge funds-of-funds and custom hedge fund are similar. The investment objective is to achieve positive absolute returns with low volatility, achieved through investments with multiple underlying managers who are investing across various strategies. Strategies utilized within these hedge funds include, but are not limited to:

- *Credit/Distressed* includes investment companies that focus mainly on opportunities in corporate fixed income securities of companies that are in financial distress, or perceived financial distress, or going through a restructuring or re-organization.
- *Event Driven* includes investment companies that focus on identifying securities that would benefit from the occurrence of a major corporate event.
- *Global Macro* includes investment companies that employ broad mandates to invest globally across all asset classes, including interest rates, currencies, commodities, and equities, in order to benefit from market movements within various countries.
- *Equity Long/Short* includes investment companies that maintain long and short positions in publicly traded equities in order to capture opportunities driven by their perception of securities or industries being overvalued or undervalued.
- *Relative Value* includes investment companies that seek to identify valuation discrepancies between related securities, utilizing fundamental and quantitative techniques to establish equities, fixed income, and derivative positions.

Investments in hedge funds are carried at estimated fair value. Fair value is based on the NAV as a practical expedient of the shares in each investment company or partnership. Such investment companies or partnerships mark-to-market or mark-to-fair value the underlying assets and liabilities in accordance with U.S. GAAP. Realized and unrealized gains and losses of the investment companies and partnerships are included in their respective operations in the current year. Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the investment at the beginning of the year, as adjusted for contributions and redemptions made during the year and certain lock-up provisions. Generally, no dividends or other distributions are paid.

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

The following summarizes the status of contributions to the private equity vehicles held as of June 30, 2019 (in millions):

	Total commitment	Percentage of commitment contributed	Percentage of commitment remaining
Fund-of-funds	\$ 30.2	94.8 %	5.2 %
Direct funds	31.5	26.4	73.6
Total	\$ 61.7		

Investments in private equity funds, typically structured as limited partnership interests, are carried at estimated fair value using NAV, as a practical expedient, or equivalent as determined by the General Partner in the absence of readily determinable fair market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. It is expected to take up to ten years to fully distribute the proceeds of those assets. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges, or quoted on NASDAQ, are based upon the last reported sales price on the valuation date. Security values of companies traded over the counter, but not quoted on NASDAQ, and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third-party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third-party transactions, the General Partner may use other information to develop a good faith determination of value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates, and salvage value assumptions.

The valuation of both marketable and nonmarketable securities may include discounts to reflect a lack of liquidity or extraordinary risks, which may be associated with the investment. Determination of fair value is performed on a quarterly basis by the General Partner. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market for those investments existed.

Institutional funds with RDFV are commingled equity and fixed income funds, structured similarly to mutual funds, whose fair value is considered to be readily determinable. These funds' shares can be redeemed on any trading day at the relevant NAV per share on that day, as reported by the funds. There are no significant restrictions on redemption or redemption penalties.

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

(5) Liquidity and Availability of Resources

Financial assets available within one year of the balance sheet date for general expenditures such as operating expenses as of June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 5,300	5,300
Grant and contributions receivable, net	11,021,744	8,082,600
Less: Pledges and other receivable	<u>(666,094)</u>	<u>(476,968)</u>
	<u>\$ 10,360,950</u>	<u>7,610,932</u>

The Institute has certain board-designated assets whose use is limited which are available for general expenditures within one year in the normal course of operations, pending board approval. These board-designated assets were \$3,612,986 and \$2,985,299 as of June 30, 2019 and 2018, respectively, and are not included in the table above. The Institute has other assets whose use is limited for donor restricted purposes and for the self-insurance programs for professional and general liability risks, employee health and workers' compensation. These assets whose use is limited are not available for general expenditures within the next year and are not included in the table above.

As part of the MedStar's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

(6) Retirement Plans

The Institute participates in the MedStar Health, Inc. Cash Balance Retirement Plan (the Plan), a contributory defined benefit pension plan administered by MedStar, which covers substantially all employees of the Institute who have completed all service and age vesting requirements. Participation in the plan has been closed to new entrants and frozen to future benefit accruals.

Benefits under the plan are primarily based on years of service and the employees' career earnings. The Institute contributes to the plan based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, and Internal Revenue Service regulations. Pension benefit of \$32,494 and \$58,250 was allocated to the Institute by MedStar during the years ended June 30, 2019 and 2018, respectively. At June 30, 2019, the Plan's zone status was considered to be yellow as the Plan was funded greater than 65% but less than 80%. Additional disclosures are not included in this report, as separate information on pension assets and liabilities for the Institute's employees is not available.

(7) Business and Credit Concentrations

The Institute has been awarded various cost-reimbursable grants by the federal government and private sources. The Institute has also been awarded various grants from pharmaceutical and device companies, the funding of which is on a per-unit basis.

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

A summary of grant and contract revenue that falls under the scope of ASC 606 by major category for the years ended June 30 is as follows:

	2019
Federal and private foundations	22 %
Commercial sponsors	78
	100 %

A summary of grant receivables that falls under the scope of ASC 606 by major category for the years ended June 30 is as follows:

	2019	2018
Federal and private foundations	42 %	14 %
Commercial sponsors	58	86
	100 %	100 %

(8) Self-Insurance Programs

MedStar maintains self-insurance programs for professional and general liability risks, employee health and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. MedStar indemnifies the Institute for all reported self-insurance liability claims and for incurred but not reported claims. No premiums were allocated to the Institute in either 2019 or 2018.

The Institute has an accrued liability for workers' compensation of \$132,895 and \$99,403 as of June 30, 2019 and 2018, respectively, which is included in deferred grant revenue and other current liabilities on the balance sheet.

(9) Leases

The Institute leases office space at a number of locations and several pieces of equipment under noncancelable operating leases expiring through 2021. Rent expense for office space and equipment for the years ended June 30, 2019 and 2018 was \$1,175,428 and \$1,149,748, and is included on the statement of activities and changes in net assets, respectively.

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

Future minimum lease payments existing as of June 30, 2019 are as follows:

2020		\$	992,919
2021			815,741
2022			836,333
2023			828,669
2024			839,845
2025 and thereafter			496,981
		\$	4,810,488

(10) Certain Significant Risks and Uncertainties

MedStar and the Institute, in the normal course of business, are parties to a number of legal and regulatory proceedings. Management does not expect that the results of these proceedings will have a material adverse effect on the financial position or results of operations of the Institute.

(11) Functional Expenses

The Institute considers research and management and general to be its primary functional categories for purposes of expense classification. Research represents the expenses incurred directly on the Institute's grants contracts, including allocated overhead which is spread ratably across the various program expense categories. Management and general include information systems, general management, advertising and marketing. The functional breakdown of expenses incurred by the Institute for the years ended June 30, 2019 and 2018 are as follows:

	2019	Research	Management and general	Total
Personnel	\$	27,769,744	3,250,817	31,020,561
Purchased services		6,817,697	317,796	7,135,493
Supplies		619,058	176,470	795,528
Facilities		262,912	691,658	954,570
Other		2,170,012	2,919,954	5,089,966
		\$ 37,639,423	7,356,695	44,996,118

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

2018	Research	Management and general	Total
Personnel	\$ 25,594,475	3,148,851	28,743,326
Purchased services	5,354,153	809,574	6,163,727
Supplies	430,537	184,949	615,486
Facilities	202,238	685,350	887,588
Other	2,040,576	2,401,528	4,442,104
	<u>\$ 33,621,979</u>	<u>7,230,252</u>	<u>40,852,231</u>

(12) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2019 and through March 13, 2020. The Institute did not have any subsequent events that were required to be recognized or disclosed.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MEDSTAR HEALTH RESEARCH INSTITUTE
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2019

Agency/CFDA	CFDA Description/title	Direct/ pass	Sub agency/passthrough entity	Reference awd #	Pass through ID	Passed through to subrecipients	Total expenditures
Research and Development Cluster:							
Centers for Disease Control Prevention:							
93.27	Adult Viral Hepatitis Prevention and Control	Pass	District of Columbia Department of Health	FO-HAUSTA-PG-00010-002	19C200	\$ —	12,154
93.27 Total						—	12,154
Centers for Disease Control Prevention Total						—	12,154
Department of Defense:							
12.420	Military Medical Research and Development	Pass	Charles River Analytics, Inc.	W81XWH-16-C-0212	SC1420401	—	140,517
12.420	Military Medical Research and Development	Pass	Johns Hopkins University	W81XWH-16-C-0188	2003981125	—	19,749
12.420	Military Medical Research and Development	Pass	Jackson (Henry M.) Foundation	W81XWH-15-2-0026	4160	—	161,315
12.420 Total						—	321,581
12.431	Basic Scientific Research	Direct	Department of Defense	W911NF-17-1-0594		—	301,832
12.431	Basic Scientific Research	Pass	Johns Hopkins University	W911NF-14-1-0490	146971	—	11,354
12.431 Total						—	313,186
12.RD	U Miami-SPC-000344_Grosh	Pass	University of Miami	SPC-000344	W81XWH-1410613	—	27,282
12.RD	Aptima-Subcontract 1146-1960	Pass	APTIMA, Inc.	W81XWH-16-1-0654	1146-1960	—	98,560
12.RD Total						—	125,842
12.000	Department of Defense	Pass	Charles River Analytics, Inc.	W81XWH-18-C-0008	SC1706701	—	21,540
12.00 Total						—	21,540
Department of Defense Total						—	782,149
Department of Health and Human Services (DHHS):							
93.113	Environmental Health	Pass	Johns Hopkins University	R01ES025135	2002688549	—	41,916
93.113	Environmental Health	Pass	Columbia University Medical Center	R01ES025216-03	2(GG013113-01)SAPO:G13069	—	29,575
93.113 Total						—	71,491
93.153	Coordinated Services and Access to Research for WICY	Direct	Department of Health and Human Services	2 H12HA248750600		80,461	298,846
93.153 Total						80,461	298,846
93.226	Research on Healthcare Costs, Quality and Outcomes	Pass	Univ of Massachusetts Medical School	WA00405157/OSP201604	5-R18-HS022757-02	—	48,748
93.226	Research on Healthcare Costs, Quality and Outcomes	Pass	Virginia Commonwealth University	7R21HS024350-02	FP00006702_SA001	—	14,940
93.226	Research on Healthcare Costs, Quality and Outcomes	Direct	Department of Health and Human Services	5R01HS022542-05		159,663	486,085
93.226	Research on Healthcare Costs, Quality and Outcomes	Direct	Department of Health and Human Services	5R01HS023701-04		—	243,487
93.226	Research on Healthcare Costs, Quality and Outcomes	Direct	Department of Health and Human Services	5R21HS024755-02		—	152,429
93.226	Research on Healthcare Costs, Quality and Outcomes	Direct	Department of Health and Human Services	5R18HS023493-05		180,453	269,259
93.226	Research on Healthcare Costs, Quality and Outcomes	Direct	Department of Health and Human Services	1R01HS025136-01A1		70,455	393,296
93.226 Total						410,571	1,608,254
93.242	Mental Health Research Grants	Direct	Department of Health and Human Services	1K23MH116814-01		—	138,123
93.242 Total						—	138,123
93.307	Minority Health and Health Disparities Research	Pass	Johns Hopkins University	U54MD000214	2003837463	—	43,952
93.307	Minority Health and Health Disparities Research	Pass	Drexel University	R01MD013558	800174	—	13,313
93.307	Minority Health and Health Disparities Research	Pass	George Washington University	1R21MD011652-01	17-M99	—	31,929
93.307	Minority Health and Health Disparities Research	Pass	Berlten Technologies, Inc.	R41MD012294	41MD012294	—	9,654
93.307	Minority Health and Health Disparities Research	Pass	University of Washington	1R01MD011596-01A1	UWSC10422	—	7,299
93.307	Minority Health and Health Disparities Research	Pass	Washington State University	5US4MD011240-02	127687 G003736	—	20,007
93.307	Minority Health and Health Disparities Research	Pass	Boston Medical Center	1R01MD007705-01	1R01MD007705-01	—	(1,227)
93.307 Total						—	125,127
93.345	Leading Edge Acceleration Projects (LEAP) in Health Information Technology	Direct	Department of Health and Human Services	90AX0023 / 01-01		—	285,435
93.345 Total						—	285,435
93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	1 UL1 TR001 409 01	413522_GR412895MHRIPWCP	—	30,117
93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	1 UL1 TR001409-1	412996_GR412894-MHRI-REM	—	230,477
93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	1 UL1 TR001409 01	412997_GR412896-MHRI-NRO	—	273,176
93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	1KL2-TR001432-01	413009_GR412898-MHRI-KL2	—	165,244
93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	UL1TR001409-01	772568/93.350	—	10,367
93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	UL1TR001409	413094_GR413080-MHRI-Mete	—	11,236
93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	UL1TR001409	413414_GR413109-MHRI-Shara	—	329,340
93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	KL2 TR001432	413076_GR412901-MHRI-KL2-	—	36,701
93.35	National Center for Advancing Translational Sciences	Pass	Howard University	5 UL1 TR000101-05	410809_GR410785_MHRI	—	(54)
93.35 Total						—	1,086,604
93.393	Cancer Cause and Prevention Research	Pass	Georgetown University	5R01CA1160671	412754_GR412135-MHRI	—	10,156
93.393 Total						—	10,156

MEDSTAR HEALTH RESEARCH INSTITUTE

Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

Agency/CFDA	CFDA Description/Title	Direct/ pass	Sub agency/passthrough entity	Reference awd #	Pass through ID	Passed through to subrecipients	Total expenditures
93.397	Cancer Centers Support Grants	Pass	Georgetown University	P30CA051008	413125_GR413087-MHRI-CHAN	—	20,046
93.397 Total						—	20,046
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation	Pass	Catholic University of America	90REGE0004-01-00	407261Sub1	—	100,889
93.433 Total						—	100,889
93.788	Opioid STR	Pass	DCHA	1H79T081707-01	RK110035	—	55,869
93.788 Total						—	55,869
93.837	Cardiovascular Diseases Research	Pass	University of Washington	R01 HL130880	UWSC8790	—	97,508
93.837	Cardiovascular Diseases Research	Pass	Columbia University Medical Center	R01HL139837	6(GG011659-02)	—	119,435
93.837	Cardiovascular Diseases Research	Pass	University of Virginia	U01HL117206	GB10255.157471	35,400	117,827
93.837	Cardiovascular Diseases Research	Direct	Department of Health and Human Services	R01HL103319		—	641,655
93.837 Total						35,400	976,425
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	Pass	Yale University	1R01AR070851-01A1	1R01AR070851-01A1	—	8,927
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	Pass	University of North Carolina Chapel Hill	5R01AR060852-03	5-33636	—	249
93.846 Total						—	9,176
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	George Washington University	5U01DK098246-02	S-GRD1314-EA13	—	882
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	George Washington University	U01DK098246	S-GRD1819-LL13	—	1,260,906
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	University of Washington	1R01DK103657-01	UWSC8273	—	8,105
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	Texas BioMedical Research Institute	1R01DK110096-01	75NS2019D00030	—	70,875
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	Texas BioMedical Research Institute	1R01DK110096	75NS2019D00030	—	111,552
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	Children's Hospital Medical Center	R01DK108956	139294_PO # 3100621689	—	6,208
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	Tufts Medical Center	U01DK098245-02	5010860-SERV	—	(78)
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	Tufts Medical Center	2U01DK098245-06	5015657-SERV	—	162,775
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Pass	Tufts Medical Center	2U01DK098245-06	5015667-SERV	—	130,667
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Direct	Department of Health and Human Services	U01DK0982485-01		—	16
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Direct	Department of Health and Human Services	U01DK048387		—	467,261
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Direct	Department of Health and Human Services	R34DK109503		—	9,948
93.847 Total						—	2,229,117
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Pass	Department of Health and Human Services	U24NS107222	1U24NS107222-01	67,864	365,639
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Pass	Soterix Medical, Inc.	R44NS092144	CNMH4118	—	57,503
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Direct	Department of Health and Human Services	U10NS086513		72,898	111,122
93.853 Total						140,762	534,264
93.855	Allergy and Infectious Diseases Research	Pass	Georgetown University	P30AI087714	411813-GR411759-MHRI	—	143
93.855	Allergy and Infectious Diseases Research	Pass	Georgetown University	5U01AI034994-24	412752_GR412597-MHRI	—	115,844
93.855	Allergy and Infectious Diseases Research	Pass	George Washington University	SUM1AI069503	16-M11R	—	68,485
93.855 Total						—	184,472
93.865	Child Health and Human Development	Pass	Georgetown University	K128HD093427	413577_GR412554-MHRI	—	41,624
93.865	Child Health and Human Development	Pass	George Washington University	R21HD098936	17-M30	—	65,723
93.865	Child Health and Human Development	Pass	Bentley Technologies, Inc.	2R44HD072823	2R44HD072823	—	31,790
93.865	Child Health and Human Development	Pass	Children's Research Institute	1R01HD094213-01A1	30004942-08	—	36,400
93.865 Total						—	175,537
93.866	Aging Research	Pass	Rutgers, The State University of New Jer	5R03AG052117-02	825604	—	(3,866)
93.866	Aging Research	Pass	Rutgers, The State University of New Jer	5R03AG052117-02	825604	—	9,314
93.866	Aging Research	Pass	Johns Hopkins University	R61AG061882	2004046584	—	62,523
93.866	Aging Research	Pass	Regents of the University of New Mexico	R01AG049084	765335-87X5	—	56,949
93.866	Aging Research	Pass	University of Washington	R01AG049084	UWSC9556	—	142,338
93.866 Total						—	267,258
93.879	Medical Library Assistance	Direct	Department of Health and Human Services	7R01LM012300-02		188,103	637,556
93.879 Total						188,103	637,556
93.918	Ryan White HIV/AIDS Program RWHAP Part C	Direct	Department of Health and Human Services	H76HA007021202		3,000	3,000
93.918	Ryan White HIV/AIDS Program RWHAP Part C	Direct	Department of Health and Human Services	2 H76HA00702-17-00		19,950	499,107
93.918 Total						22,950	502,107
93.933	Demonstration Projects for Indian Health	Pass	Alaska Native Tribal Health Consortium	U261HNS0084	ANTHC-15-U-60075	—	16,284
93.933 Total						—	16,284
93.RD	Ryan White Part A	Pass	District of Columbia Department of Health	H89HA00012	188014	—	282,485
93.RD	STROKE: Clinical Support Services for the Clinical & Res	Direct	Natl Inst Neuro Disorders and Stroke	HHSN271201400063C		—	653,487
93.RD	DHMH MedStar Family Choice Grant	Pass	Maryland Department of Health and Mental	5U38OT000225-03	DPP MCO	—	1,191
93.RD	DHMH MedStar Family Choice Grant	Pass	Maryland Department of Health and Mental		DPP MCO	—	20,130
93.RD Total						—	957,293
Department of Health and Human Services Total						878,247	10,290,329

MEDSTAR HEALTH RESEARCH INSTITUTE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2019

Agency/CFDA	CFDA Description/Title	Direct/ Pass	Sub agency/passthrough entity	Reference Awd #	Pass through ID	Passed through to subrecipients	Total expenditures
Department of Justice: 16.582	Crime Victim Assistance/Discretionary Grants	Pass	Office of Victim Services and Justice	2015-VF-GX-K032	2019-SMSV-02	\$ —	185,412
16.582 Total						—	185,412
Department of Justice Total						—	185,412
Department of Veterans Affairs: 93.35	National Center for Advancing Translational Sciences	Pass	Georgetown University	1 ULI TR001409 01	412997_GR412896-MHRI-NRO	—	1,117
93.35 Total						—	1,117
64.RD	Dr. Mete Providence VA IPA Agreement	Direct	Department of Veterans Affairs	IPA_METE		—	10,610
64.RD	Dr. Vijay DC VA IPA	Direct	Department of Veterans Affairs	IPA_VIJAY		—	33,730
64.RD Total						—	44,340
Department of Veterans Affairs Total						—	45,457
District of Columbia Department of Health 10.557	WIC	Pass	Children's National Medical Center	181DC700W1003	3003214-01	—	15,164
10.557 Total						—	15,164
District of Columbia Department of Health Total						—	15,164
National Heart Lung and Blood Institute 93.RD	Lung Diseases Research	Pass	Univ of Oklahoma Health Sciences Center	RS20180873-04	75N92019D00027	—	10,146
93.RD	Lung Diseases Research	Direct	Natl Heart Lung and Blood Institute	75N92019F00074	—	13,200	106,004
93.RD	Lung Diseases Research	Direct	Natl Heart Lung and Blood Institute	75N92019D00030	—	—	10,295
93.RD	Lung Diseases Research	Direct	National Institutes of Health	HHSN268201800208P	—	—	111,000
93.RD Total						13,200	237,445
National Heart Lung and Blood Institute Total						13,200	237,445
National Science Foundation 47.07	Computer and Information Science and Engineering	Pass	Drexel University	1833538	820163	—	8,338
47.07 Total						—	8,338
National Science Foundation Total						—	8,338
Total research and development						\$ 891,447	11,576,448

See accompanying notes to schedule of expenditures of federal awards.

MEDSTAR HEALTH RESEARCH INSTITUTE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes federal grant activity of the MedStar Health Research Institute (the Institute) and is presented on the accrual basis of accounting. 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*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Indirect Costs

The Institute operates under predetermined fixed indirect cost rates. The indirect cost rate effective at the grant award date was effective throughout the grant period. The indirect rate for eligible nonpayroll costs during the year ended June 30, 2019 for on-site programs ranged from 10% to 58% for most studies and was 44% for all off-site programs. The indirect rate used for fringe benefits during the year ended June 30, 2019 was 19.4% of payroll costs. The Institute has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



KPMG LLP
750 East Pratt Street, 18th Floor
Baltimore, MD 21202

**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
MedStar Health 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 MedStar Health Research Institute (the Institute), which comprise the balance sheet as of June 30, 2019, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2020.

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 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.

KPMG LLP

Baltimore, Maryland
March 13, 2020



KPMG LLP
750 East Pratt Street, 18th Floor
Baltimore, MD 21202

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

The Board of Directors
MedStar Health Research Institute:

Report on Compliance for Each Major Federal Program

We have audited MedStar Health 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 the Institute's major federal program for the year ended June 30, 2019. The Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

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 the major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.



The Institute's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Institute is also responsible for preparing a corrective action plan to address the audit finding included in our auditors' report. The Institute's response and corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or corrective action plan.

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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

The Institute's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Institute is also responsible for preparing a corrective action plan to address the audit finding included in our auditors' report. The Institute's response and corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or corrective action plan.

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.

KPMG LLP

Baltimore, Maryland
March 13, 2020

MEDSTAR HEALTH RESEARCH INSTITUTE

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

(1) Summary of Auditor's Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **Yes – 2019-001**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes – 2019-001**
- (g) Major programs:
 - Research and Development Cluster – various CFDA numbers
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2019-001

Federal Program:	Research and Development Cluster
Federal Agency:	Department of Health and Human Services
Federal Award Number:	1R01DK110096; 90AX0023/01-01
CFDA Number:	Diabetes, Digestive, and Kidney Diseases Extramural Research, CFDA No. 93.847; Leading Edge Acceleration Projects (LEAP) in Health Information Technology, CFDA No. 93.345
Pass-through Entity:	Texas BioMedical Research Institute; N/A

Federal Award Year: 9/15/2016-8/31/2020; 9/18/2018-9/18/2023

Area

Cash Management

Criteria or Requirement

Per Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Subpart D, Section 200.305(b)(3)), reimbursement is the preferred method when the requirements in 2 CFR 200.305(b) cannot be met, when the Federal awarding agency sets a specific condition per 2 CFR 200.207 Specific conditions, or when the non-Federal entity requests payment by reimbursement. The non-Federal entity must disburse funds for program purposes before requesting payment from the Federal awarding agency or pass-through entity as a reimbursement.

Condition Found, Including Perspective

MHRI finance staff (General Accounting and Federal Grant Billing manager) review requests for reimbursement and draw down requests prior to their submission to ensure that all costs included on the request for reimbursement have been paid by MHRI. In our sample of 40 expenses included on requests for reimbursements, two of the items included in the request had not yet been paid at the date the request was made. While the review by MHRI finance staff was conducted, it did not identify that the invoices included within the request for reimbursement were unpaid, and therefore was not an effective control. Our sample of 40 invoices included on requests for reimbursement totaled \$147,282. One item with a value of \$34 was requested for reimbursement on September 24, 2018, four days prior to the Institute payment date of September 28, 2018. One item with a value of \$10,460 was requested for reimbursement March 29, 2019, 14 days prior to the Institute payment date of April 12, 2019.

Possible Asserted Cause and Effect

The Institute did not maintain a proper level of review to ensure that expenditures related to awards that are funded on a reimbursement basis are paid prior to a reimbursement request. As a result, failure to maintain appropriate review over requests for reimbursement could result in a violation of the Uniform Guidance cash management compliance requirements (2 CFR section 200.305(b)(3)).

Questioned Costs

There were no questioned costs associated with this finding.

Statistical Validity

The sample was not intended to be, and was not, a statistically valid sample.

Identification of whether the audit finding is a repeat of a finding in the immediately prior audit and if so, the applicable prior year finding number

The audit finding is not a repeat of a finding in the prior year.

Recommendation

We recommend that the Institute establish internal controls to ensure that cash disbursements are being expended by the Institute prior to being requested for reimbursement from the respective grants, and that proper documentation is maintained in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200). *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Subpart D, Section 200.305(b)(3)).

Views of Responsible Officials

Management concurs with this finding. MedStar Health Research Institute (MHRI) is committed to ensuring the proper review of each reimbursement request, as well as verifying that the payment of expenditures that are funded on a reimbursement basis occurs prior to request for reimbursement.

While MHRI has controls in place for the approval of cash disbursements and reimbursement requests, we recognize that the current review which includes measures to ensure proper cash management requires consistent application and proper documentation to ensure its effectiveness. Currently, all invoices and drawdown requests are reconciled, reviewed and approved by departmental management prior to submission to Contracts and Grants Accounting for billing. The review process has included confirming payment date for transactions as part of the review by departmental staff; however, we will update procedures and documentation to more effectively ensure compliance.



MedStar Health Research Institute

February 20, 2020

Corrective Action Plan for Findings Related to the Fiscal Year Ending June 30, 2019

Finding 2019-001

Contact: Grant D. Gonzalez, Director Financial Operations

Anticipated Completion Date: July 1, 2020

While MHRI has controls in place for the approval of cash disbursements and reimbursement requests, we recognize that the current review, which includes measures to ensure proper cash management, requires consistent application and proper documentation to ensure its effectiveness. Currently, all invoices and drawdown requests are reconciled, reviewed and approved by departmental management prior to submission to Contracts and Grants Accounting for billing or drawdown. The review process has included confirming payment date in the financial system for transactions as part of the review by departmental staff; however, we will update procedures and documentation to more effectively ensure compliance.

MHRI will update the current project review dataset to include information on payment date while we explore modifications to our accounts payable or billing systems. The additional data point will increase the transparency of the review to ensure greater effectiveness. While this modification to our current procedures will ensure proper documentation of the review process, we will continue to work on a system solution to prevent the billing of transactions for reimbursement prior to actual payment by MHRI.