

**McLAUGHLIN RESEARCH INSTITUTE
FOR BIOMEDICAL SCIENCES, INC.**

GREAT FALLS, MONTANA

**FINANCIAL STATEMENT
AS OF
JUNE 30, 2017**

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Douglas Wilson & Company, P.C.

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Douglas **WILSON**
and Company, PC

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Great Falls, Montana

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INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of McLaughlin Research Institute for Biomedical Sciences, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows, for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

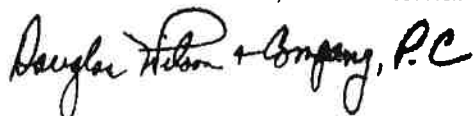
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McLaughlin Research Institute for Biomedical Sciences, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018, on our consideration of McLaughlin Research Institute for Biomedical Sciences, Inc.'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 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 McLaughlin Research Institute for Biomedical Sciences, Inc.'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 McLaughlin Research Institute for Biomedical Sciences, Inc.'s internal control over financial reporting and compliance.



Great Falls, Montana
September 17, 2018

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Cash Equivalents	\$ 499,760	\$ 169,798
Grants and Accounts Receivable	198,385	200,104
Prepaid Expenses and Supply Inventories	64,159	58,130
Investments	4,738,231	5,038,843
Contributions Receivable	76,213	79,546
Other Assets	1,618	1,698
Property and Equipment, Net	<u>7,388,009</u>	<u>7,900,882</u>
TOTAL ASSETS	<u>\$ 12,966,375</u>	<u>\$ 13,449,001</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 28,555	\$ 53,834
Accrued Liabilities	31,661	39,377
Grants Received in Advance	97,295	136,370
Note Payable	166,380	166,380
Capital Lease Obligation	4,235	5,419
Gift Annuity Obligations	<u>197,118</u>	<u>193,826</u>
TOTAL LIABILITIES	<u>525,244</u>	<u>595,206</u>
NET ASSETS		
Unrestricted		
Undesignated	8,239,413	8,805,270
Board Designated	742,968	672,398
Temporarily Restricted	201,324	128,914
Permanently Restricted	<u>3,257,426</u>	<u>3,247,213</u>
TOTAL NET ASSETS	<u>12,441,131</u>	<u>12,853,795</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,966,375</u>	<u>\$ 13,449,001</u>

See accompanying notes to financial statements

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS AND SUPPORT				
Grants and Research Revenues	\$ 425,297	\$ -	\$ -	\$ 425,297
Contributions	1,173,119	61,533	547	1,235,199
Investment Income	26,376	111,241	3,097	140,714
Net Realized and Unrealized Gains (Losses) on Investments	76,818	260,446	13,563	350,827
Change in Value of Split-Interest Agreements	(6,563)	-	(6,994)	(13,557)
Miscellaneous Income	34,545	-	-	34,545
Net Assets Released From Restrictions	360,810	(360,810)	-	-
Total Revenues, Gains and Support	2,090,402	72,410	10,213	2,173,025
EXPENSES				
Scientific Research	1,830,943	-	-	1,830,943
Management and General	587,856	-	-	587,856
Fundraising	166,890	-	-	166,890
Total Expenses	2,585,689	-	-	2,585,689
Change in Net Assets	(495,287)	72,410	10,213	(412,664)
Net Assets, Beginning of Year	9,477,668	128,914	3,247,213	12,853,795
NET ASSETS, END OF YEAR	\$ 8,982,381	\$ 201,324	\$ 3,257,426	\$ 12,441,131

See accompanying notes to financial statements

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS AND SUPPORT				
Grants and Research Revenues	\$ 1,013,883	\$ -	\$ -	\$ 1,013,883
Contributions	986,221	110,425	577,662	1,674,308
Investment Income	156,562	-	6,276	162,838
Net Realized and Unrealized Gains (Losses) on Investments	(232,952)	-	(8,064)	(241,016)
Change in Value of Split-Interest Agreements	(6,504)	-	(7,563)	(14,067)
Miscellaneous Income	11,586	-	-	11,586
Net Assets Released From Restrictions	19,190	(19,190)	-	-
Total Revenues, Gains and Support	1,947,986	91,235	568,311	2,607,532
EXPENSES				
Scientific Research	2,096,564	-	-	2,096,564
Management and General	389,819	-	-	389,819
Fundraising	129,819	-	-	129,819
Total Expenses	2,616,202	-	-	2,616,202
Change in Net Assets	(668,216)	91,235	568,311	(8,670)
Net Assets, Beginning of Year	10,145,884	37,679	2,678,902	12,862,465
NET ASSETS, END OF YEAR	<u>\$ 9,477,668</u>	<u>\$ 128,914</u>	<u>\$ 3,247,213</u>	<u>\$ 12,853,795</u>

See accompanying notes to financial statements

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (412,664)	\$ (8,670)
Adjustments to Reconcile Change in Net Assets To Net Cash Provided by Operating Activities:		
Depreciation	519,025	519,432
Net Realized and Unrealized (Gains)		
Losses on Investments	(350,827)	241,016
Change in Value of Split-Interest Agreements	13,557	14,067
Permanently and Temporarily Restricted Contributions	(40,642)	(688,087)
Changes In Operating Assets and Liabilities:		
Grants and Accounts Receivable	1,719	16,691
Contributions Receivable	3,333	6,557
Prepaid Expenses, Supply Inventories & Other Assets	(5,949)	7,743
Accounts Payable and Accrued Liabilities	(32,995)	23,687
Grants Received in Advance	(39,075)	(145,469)
	(344,518)	(13,033)
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(6,152)	-
Payment of Annuity Obligations	(10,265)	(9,890)
Purchase of Investments	(1,112,174)	(2,538,007)
Proceeds from Sales of Investments	1,763,613	1,938,222
	635,022	(609,675)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of Principal on Capital Lease	(1,184)	(1,101)
Payments of Principal on Note Payable	-	(21,960)
Collections of Permanently and Temporarily Restricted Contributions	40,642	688,087
	39,458	665,026
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Net Increase in Cash and Cash Equivalents	329,962	42,318
Cash and Cash Equivalents, Beginning of Year	169,798	127,480
	\$ 499,760	\$ 169,798
CASH AND CASH EQUIVALENTS, END OF YEAR		
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 351	\$ 4,199

See accompanying notes to financial statements

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	2017			
	Scientific Research	Management and General	Fundraising	Total
Salaries and Wages	\$ 518,298	\$ 253,300	\$ 87,052	\$ 858,650
Payroll Taxes and Staff Benefits	164,606	43,163	28,057	235,826
	<u>682,904</u>	<u>296,463</u>	<u>115,109</u>	<u>1,094,476</u>
Advertising	-	-	8,282	8,282
Animal Care Services	135,121	-	-	135,121
Bid and Proposal	-	278	-	278
Board of Trustees and Committees	-	6,318	-	6,318
Conferences and Seminars	-	460	-	460
Contracted Personnel	-	14,316	15,907	30,223
Depreciation	-	519,025	-	519,025
Dues	-	10,958	875	11,833
Fundraising Expenses	-	-	8,635	8,635
Hazardous Waste/Radiation Safety	-	4,895	-	4,895
Insurance	-	34,483	-	34,483
Interest	-	3,680	-	3,680
Laundry and Cleaning	-	7,000	-	7,000
Legal and Accounting	-	10,705	-	10,705
Library (Including Periodicals)	-	4,151	-	4,151
Licenses and Fees	-	409	-	409
Liquid Nitrogen and Other Gases	-	15,728	-	15,728
Miscellaneous Expenses	1,141	4,450	1,297	6,888
Office Expenses	-	13,516	101	13,617
Postage and Freight	11,469	1,381	2,155	15,005
Recruiting and Relocating	-	5,636	-	5,636
Repairs and Maintenance - Building	-	73,803	-	73,803
Repairs and Maintenance - Equipment	-	70,177	-	70,177
Scholarships	9,500	-	-	9,500
Small Equipment	1,549	5,137	-	6,686
Sub-grant Expenditures	50,654	-	-	50,654
Supplies - Lab	17,798	-	-	17,798
Telephone	-	16,006	3,912	19,918
Travel	245	4,062	769	5,076
Unallowed Expenses	-	156,885	9,848	166,733
Utilities	-	228,496	-	228,496
Indirect Cost Allocation	920,562	(920,562)	-	-
	<u>\$ 1,830,943</u>	<u>\$ 587,856</u>	<u>\$ 166,890</u>	<u>\$ 2,585,689</u>

See accompanying notes to financial statements

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	2016			
	Scientific Research	Management and General	Fundraising	Total
Salaries and Wages	\$ 620,799	\$ 291,759	\$ 61,826	\$ 974,384
Payroll Taxes and Staff Benefits	179,693	101,292	18,567	299,552
	800,492	393,051	80,393	1,273,936
Advertising	-	-	12,016	12,016
Animal Care Services	127,745	-	-	127,745
Board of Trustees and Committees	-	13,947	430	14,377
Conferences and Seminars	-	2,716	-	2,716
Contracted Personnel	-	729	15,274	16,003
Depreciation	-	519,432	-	519,432
Dues	-	9,844	675	10,519
Fundraising Expenses	-	-	13,575	13,575
Hazardous Waste/Radiation Safety	-	3,241	-	3,241
Insurance	-	35,296	-	35,296
Interest	-	4,199	-	4,199
Laundry and Cleaning	-	3,383	-	3,383
Legal and Accounting	-	11,492	-	11,492
Library (Including Periodicals)	-	5,684	-	5,684
Licenses and Fees	-	457	-	457
Liquid Nitrogen and Other Gases	-	19,086	-	19,086
Miscellaneous Expenses	38	3,743	1,793	5,574
Office Expenses	-	14,074	255	14,329
Postage and Freight	10,772	1,425	999	13,196
Recruiting and Relocating	-	4,471	-	4,471
Repairs and Maintenance - Building	-	62,965	-	62,965
Repairs and Maintenance - Equipment	-	64,957	-	64,957
Scholarships	9,531	-	-	9,531
Small Equipment	193	2,115	-	2,308
Supplies - Lab	40,741	-	-	40,741
Telephone	-	17,074	4,057	21,131
Travel	577	5,367	352	6,296
Unallowed Expenses	-	57,651	-	57,651
Utilities	-	239,895	-	239,895
Indirect Cost Allocation	1,106,475	(1,106,475)	-	-
	<u>\$ 2,096,564</u>	<u>\$ 389,819</u>	<u>\$ 129,819</u>	<u>\$ 2,616,202</u>

See accompanying notes to financial statements

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: THE INSTITUTE AND ITS SIGNIFICANT ACCOUNTING POLICIES:

The Institute

McLaughlin Research Institute for Biomedical Sciences, Inc. (the "Institute") began in 1954 to improve human health through innovative genetic research and education. Research at the Institute focuses on understanding the genetic control of normal development and susceptibility to neurological diseases using the mouse as the model system. The Institute's biomedical research program is highly interactive and creative and has led to improvements in human health and well-being through increased knowledge and understanding of the genetic basis of susceptibility to disease. Research at the Institute currently focuses on neurodegenerative diseases including Parkinson's, Alzheimer's, prion diseases and multiple sclerosis. The Institute is supported primarily through federal grants and donor contributions.

The Institute also conducts an education program offering research internships for high school students and teachers enabling them to work and learn in the laboratory with experienced scientists. Interns are active participants in research programs and they learn, as no textbook can teach, the questioning process by which new knowledge is obtained. The Institute's education program is designed to inspire future scientists. Many participants in the program have gone on to productive careers in science or medicine and several have achieved national and international recognition in their fields.

The Institute is a section 501(c)(3) nonprofit corporation exempt from Federal income tax under Section 501(a) of the Internal Revenue Code. The Institute is also exempt from state and local income taxes.

Basis of Accounting

The Institute's financial statements have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit entities.

Net Assets

The net assets of the Institute and the changes therein are classified and reported as follows:

Unrestricted net assets are categorized as either board designated or other and represent funds that are fully available, at the discretion of management and the Board of the Institute, for the Institute to utilize in any of its programs or supporting services.

Temporarily restricted net assets are amounts that have been restricted in use by either donor or time specification. The Institute has established a policy whereby donor-restricted contributions whose restrictions are met in the same reporting period that the funds are received are reported as unrestricted support.

Permanently restricted net assets represent those resources that are subject to donor-imposed stipulations that they be maintained permanently by the Institute. The income earned on the underlying investments is to be used for either general or specific purposes, depending on the wishes of the donors.

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Institute considers all highly liquid investments with a maturity of no more than three months to be cash equivalents, except for cash equivalents classified as investments.

Fair Value Measurement

The Institute reports a fair value measurement for all applicable assets and liabilities.

Contributions

The Institute reports contributions received as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Institute that is, in substance, unconditional. The Institute classifies contributions that are restricted by the donor for core programs as unrestricted designated contributions if the restrictions expire in the fiscal year in which the contribution is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted contributions contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Institute to expend part or all of the income derived from the donated assets for either specified or unspecified purposes. Contributions of property and equipment are recorded at their estimated fair value at the date of contribution. Contributions of services are recognized in accordance with generally accepted accounting principles (GAAP).

Accounts, Grants and Pledges Receivable

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to change in net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts, grants or pledges receivable.

Investments

Investments are measured at fair value in the accompanying statement of financial position. The following methods and assumptions were used by the Institute in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amounts reported in the accompanying statement of financial position for cash and cash equivalents approximate fair value.

Equity securities, fixed income and U. S. Government obligations: Fair values of equities and all debt securities are based on quoted market prices.

Mutual funds: Fair values of mutual funds are based on published unit values.

The Institute's investments are managed by outside investment managers who operate within the guidelines established by the Finance Committee of the Board of Trustees. Restricted gains and investment income are reported as unrestricted revenues when restrictions are met in the same reporting period.

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Property and Equipment

Property and equipment is recorded at cost, less depreciation and amortization. The Institute's policy is to expense property and equipment with initial costs of less than \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives vary from three to fifteen years for equipment and from five to thirty-five years for the building and building improvements, and forty years for the land improvements.

Use of Estimates

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

Grants and Contracts

Revenue from grants and contracts is recognized as the related costs are incurred under the grant or contract agreement.

Allocation of Expenses

Expenses pertaining to more than one function are allocated based on employee time estimates or management's estimates of the benefits derived.

Advertising Costs

The Institute advertises to promote its programs. Advertising costs are expensed as incurred. During the years ended June 30, 2017 and 2016, advertising costs totaled \$8,282 and \$12,016 respectively.

Split-Interest Agreements

Gift annuity obligations result from annuity contracts whereby donors receive life-time income in exchange for a payment that constitutes part charitable contribution and part purchase of an annuity. Under the terms of the agreements, the assets associated with these investments are either unrestricted or permanently restricted, depending upon the donor's wishes. Assets received are recorded at fair value on the date the agreement is recognized. The asset values at June 30, 2017 and 2016 are \$424,709 and \$384,997, respectively, and are shown as investments on the Statement of Financial Position. On an annual basis, the Institute revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$197,118 and \$193,826 at June 30, 2017 and 2016, respectively) are calculated using discount rates between 1.2% - 6.2% and applicable mortality tables.

Actuarial gains and losses are reflected in the accompanying statement of activities as change in value of split-interest agreements. There were no contribution revenues from charitable gift annuities for the years ended June 30, 2017 and 2016.

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2: CONTRIBUTIONS RECEIVABLE:

At June 30, 2017 and 2016, contributions receivable are estimated to be received as follows:

	<u>2017</u>	<u>2016</u>
Gross amounts due in:		
Less than one year	\$ 28,333	\$ 14,924
After one to five years	38,333	59,698
After five years	9,547	4,924
	<u>\$ 76,213</u>	<u>\$ 79,546</u>

Discounting contributions to present value using the Federal Funds Rate was determined not to result in a significant amount and, as a result, the carrying amount of contributions receivable approximates fair value.

Based on its prior experience with donors and grantors, management expects all receivables to be fully collectible and no allowance for doubtful amounts was deemed necessary.

NOTE 3: INVESTMENTS:

Investments consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash and Cash Equivalents	\$ 460,879	\$ 460,879	\$ 1,381,435	\$ 1,381,435
U. S. Government Obligations	532,441	537,166	459,075	453,319
Canadian Provincial Obligations	-	-	5,068	4,798
Municipal Bonds	25,419	25,561	-	-
Corporate Obligations	632,525	631,132	615,317	605,442
Mutual Funds	3,086,967	2,330,936	2,577,948	2,194,920
	<u>\$ 4,738,231</u>	<u>\$ 3,985,674</u>	<u>\$ 5,038,843</u>	<u>\$ 4,639,914</u>

The net investment returns included in the statement of activities were as follows:

	<u>2017</u>	<u>2016</u>
Interest, Dividends and Mutual Fund Distributions	\$ 166,242	\$ 186,333
Investment Advisory Fees	(25,528)	(23,495)
Net Realized and Unrealized Gains (Losses)	350,827	(241,016)
	<u>\$ 491,541</u>	<u>\$ (78,178)</u>

Substantially all investments were held by one custodian at June 30, 2017. The custodian maintains investment protection coverage provided by the Securities Investor Protection Corporation ("SIPC") in the amount of \$500,000.

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4: FAIR VALUE MEASUREMENTS:

The Institute determined the fair value of its marketable securities through the application of Accounting Standards Codification (ASC) No. 820. The Institute carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position.

As required by ASC No. 820, which provides a framework for measuring fair value under GAAP, investments are classified within the level of lowest significant input considered in determining fair value. ASC No. 820 also establishes a fair value hierarchy, which prioritizes the valuation of inputs into three broad levels as described below:

- Level 1 – quoted prices in active markets as of the measurement date.
- Level 2 – quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability.
- Level 3 – significant unobservable prices or inputs where there is little or no market activity for the asset or liability at the measurement date.

Fair values of assets measured on a recurring basis at 2017 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	\$ 460,879	\$ 460,879	\$ -	\$ -
U. S. Government Obligations	532,441	532,441	-	-
Municipal Bonds	25,419	25,419	-	-
Corporate Obligations	632,525	632,525	-	-
Mutual Funds	3,086,967	3,086,967	-	-
	\$ 4,738,231	\$ 4,738,231	\$ -	\$ -

Fair values of assets measured on a recurring basis at 2016 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	\$ 1,381,435	\$ 1,381,435	\$ -	\$ -
U. S. Government Obligations	459,075	459,075	-	-
Canadian Provincial Obligations	5,068	5,068	-	-
Corporate Obligations	615,317	615,317	-	-
Mutual Funds	2,577,948	2,577,948	-	-
	\$ 5,038,843	\$ 5,038,843	\$ -	\$ -

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5: PROPERTY AND EQUIPMENT:

Property and Equipment consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land and Improvements	\$ 50,431	\$ 50,431
Building	6,730,000	6,730,000
Building Improvements	5,143,708	5,143,708
Equipment	3,804,586	3,809,954
	<u>15,728,725</u>	<u>15,734,093</u>
Less: Accumulated Depreciation and Amortization	(8,340,716)	(7,833,211)
	<u>\$ 7,388,009</u>	<u>\$ 7,900,882</u>

NOTE 6: NOTE PAYABLE:

Note Payable consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Note Payable to Montana Board of Investments, 2% Interest, Due in Annual Installments of \$25,727, including interest, until June, 2023	<u>\$ 166,380</u>	<u>\$ 166,380</u>

Future maturities of the note payable are as follows:

<u>Year Ended June 30,</u>	
2018	\$ 45,246
2019	23,304
2020	23,770
2021	24,246
2022	24,731
Thereafter	25,083
	<u>\$ 166,380</u>

NOTE 7: LINE OF CREDIT:

The Institute renewed its \$250,000 revolving line of credit with a financial institution on March 18, 2016. Borrowings under the line of credit bear interest at the Wall Street Journal Prime rate plus 1.25%. The line of credit expired on March 20, 2017.

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
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NOTE 8: EMPLOYEE BENEFIT PLAN:

The Institute has a section 403(b) defined contribution retirement plan allowing the Institute to make monthly contributions of 10% of the compensation of eligible employees. The plan allows participants to make voluntary contributions up to limited amounts. Retirement expense amounted to \$78,989 and \$88,615 during the years ended June 30, 2017 and 2016, respectively.

NOTE 9: CAPITAL LEASE:

The Institute entered into a lease agreement for a copy machine during the year ended June 30, 2015. The lease calls for 63 monthly payments of \$128, which includes principal and interest of 7.18%. The Institute shall have the option to purchase the property at the end of the initial term or any renewal term for \$1. The copy machine cost of \$6,698 is included in property and equipment on the Statements of Financial Position, net of related accumulated depreciation of \$2,902 and \$1,563 at June 30, 2017 and 2016, respectively.

The following is a schedule by years of future minimum payments required under the lease as of June 30, 2017:

Year Ended June 30,	
2018	\$ 1,535
2019	1,535
2020	1,535
2021	128
Total Minimum Lease Payments	<u>4,733</u>
Less: Amount Representing Interest	(498)
Present Value of Minimum Lease Payments	<u><u>\$ 4,235</u></u>

NOTE 10: CONCENTRATIONS:

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Institute maintains cash and cash equivalents at various financial institutions. Cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At June 30, 2017, the Institute's uninsured cash balances total \$278,001.

Concentrations of Credit Risk

The credit risk for grants receivable is concentrated because the 36% of the Institute's balance is due from the National Institutes of Health ("NIH"). However, grants receivable are typically collected within a short period of time, and, based on its assessment of current conditions, management believes realization losses on amounts outstanding at the end of 2017 will be immaterial, as they were in 2016. Accordingly, grants receivable are reported at the gross amount of the grant to be received.

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11: ENDOWMENT FUNDS:

The Institute's donor-restricted endowment fund was established to support the Institute's mission. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Institute's Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the gift (as of the date of gift) of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (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 the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the various funds; (b) the purposes of the donor-restricted endowment funds; (c) general economic conditions; (d) the possible effect of inflation and deflation; (e) the expected total return from income and appreciation of investments; (f) other resources of the Institute; and, (g) the Institute's investment policies.

The Institute has adopted investment and spending policies for endowment assets that are intended to provide greater independence, to increase financial stability and to provide support for the Institute's program goals. The Institute's spending policy is to appropriate for distribution each year an amount equal to 5% of the endowment fund's average investment market value over the previous 3 years. The intent of the policy is to maintain the purchasing power of the endowment fund into perpetuity.

From time to time, the fair value of assets associated with a donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires an organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, the Institute has reported deficiencies of this nature in unrestricted net assets as of June 30, 2016. These deficiencies resulted from unfavorable market fluctuations and continued program appropriation that was deemed prudent by the Board of Directors.

The composition of endowment net assets as of June 30, 2017 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	<u>\$ -</u>	<u>\$ 144,629</u>	<u>\$ 3,257,426</u>	<u>\$ 3,402,055</u>

The composition of endowment net assets as of June 30, 2016 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	<u>\$ (110,756)</u>	<u>\$ -</u>	<u>\$ 3,247,213</u>	<u>\$ 3,136,457</u>

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Changes in endowment net assets for the year ended June 30, 2017 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, July 1, 2016	\$ (110,756)	\$ -	\$ 3,247,213	\$ 3,136,457
Contributions	-	-	547	547
Investment Income, Net of Fees	-	111,241	3,097	114,338
Change in Value Split-Interest Agreements	-	-	(6,994)	(6,994)
Net Appreciation (Depreciation)	-	260,446	13,563	274,009
Reclassification of Deficiency	110,756	(110,756)	-	-
Amount Appropriated for Expenditure	-	(116,302)	-	(116,302)
Endowment Net Assets, June 30, 2017	<u>\$ -</u>	<u>\$ 144,629</u>	<u>\$ 3,257,426</u>	<u>\$ 3,402,055</u>

Changes in endowment net assets for the year ended June 30, 2016 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, July 1, 2015	\$ 72,247	\$ -	\$ 2,678,902	\$ 2,751,149
Contributions	-	-	577,662	577,662
Investment Income, Net of Fees	122,243	-	6,276	128,519
Change in Value Split-Interest Agreements	-	-	(7,563)	(7,563)
Net Appreciation (Depreciation)	(207,522)	-	(8,064)	(215,586)
Amount Appropriated for Expenditure	(97,724)	-	-	(97,724)
Endowment Net Assets, June 30, 2016	<u>\$ (110,756)</u>	<u>\$ -</u>	<u>\$ 3,247,213</u>	<u>\$ 3,136,457</u>

The Institute is also the beneficiary of funds owned and administered by the Montana Community Foundation (the Foundation). Distributions from this fund shall be made according to the spending policy established by the Foundation's governing board. Distributions made to the Institute during the years ended June 30, 2017 and 2016 were minimal. The endowment fund balance at the Foundation at June 30, 2017 and 2016 was \$8,110 and \$7,963, respectively.

NOTE 12: RESTRICTIONS/DESIGNATIONS ON NET ASSETS:

The Board of Directors of the Institute has designated unrestricted net assets at June 30, 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
Designated for Genesis Fund (Reserve)	\$ 687,413	\$ 613,107
Designated for Renewals and Replacements	55,555	59,291
	<u>\$ 742,968</u>	<u>\$ 672,398</u>

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Temporarily restricted net assets were available for the following purposes at June 30, 2017 and 2016:

	2017	2016
Student Programs and Scholarships	\$ 26,811	\$ 28,914
New Director Fund	29,884	100,000
Endowment	144,629	-
	\$ 201,324	\$ 128,914

Permanently restricted net assets are the Institute's endowment, the earnings of which may be used for any purpose. Permanently restricted net assets amounted to the following at June 30, 2017 and 2016:

	2017	2016
Endowment	\$ 3,257,426	\$ 3,247,213

NOTE 13: RELATED PARTY TRANSACTIONS:

The Institute's Board of Directors voted to assume certain debts incurred by Montanans for Research and Cures, a separate organization founded by two of the Institute's board members. The debts totaling \$154,372 were incurred for signature gathering and consulting expenses related to a statewide ballot initiative effort seeking public support of brain research in Montana.

NOTE 14: SUBSEQUENT EVENTS:

Accounting Standards Codification (ASC) No.855: Subsequent Events establishes general standards of accounting for and disclosures of events that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Specifically, it sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the statement of financial position date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the statement of financial position date.

In accordance with ASC No. 855, the Institute evaluated subsequent events through September 17, 2018, the date these financial statements were available to be issued.



Douglas **WILSON**
and Company, PC

Board of Directors
McLaughlin Research Institute for Biomedical Sciences, Inc.
Great Falls, Montana

Randal J. Boysun, CPA
Gerard K. Schmltz, CPA
Myra L. Bakke, CPA
Melissa H. Soldano, CPA

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA

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

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 McLaughlin Research Institute for Biomedical Sciences, Inc. ("Institute") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 17, 2018.

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 black ink that reads "Douglas Wilson + Company, P.C." The signature is written in a cursive, flowing style.

Great Falls, Montana
September 17, 2018

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

There were no audit findings in the current year which required action be taken by
McLaughlin Research Institute for Biomedical Sciences, Inc.

MCLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.

**SCHEDULE OF PRIOR AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

There were no prior audit findings.