CONSOLIDATED FINANCIAL STATEMENTS

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

OCTOBER 31, 2019

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hauptman-Woodward Medical Research Institute, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hauptman-Woodward Medical Research Institute, Inc. (the Institute), which comprise the consolidated statements of financial position as of October 31, 2019 and 2018, the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 account estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

As discussed in Note 1 to the consolidated financial statements, the Institute is a majority owner and has a controlling interest in HWI Corporation. The Institute has not consolidated the financial statements of HWI Corporation into these consolidated financial statement as required by accounting principles generally accepted in the United States of America (US GAAP). US GAAP requires that when a company has majority ownership over another company, the financial results of the majority-owned company should be consolidated. This investment is accounted for on the cost basis in the financial statements, which is a departure from US GAAP.

Qualified Opinion

In our opinion, except for the effects of not consolidating a majority-owned subsidiary, as described in the basis for qualified opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Institute as of October 31, 2019 and 2018, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards on page 21 as required Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying supplementary information on pages 20 through 22 are also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the accompanying information on pages 5 and 6 of the qualified opinion on the financial statements described above, the information is fairly stated, in all material respects, in relation to the consolidated 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 February 25, 2020 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Buffalo, New York
February 25, 2020

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

October 31,

ASSETS	**2019**	**2018**
Current assets:		
Cash	$ 87,164	$ 81,605
Pledges receivable, net	697,757	718,690
Grants receivable - science	367,369	238,774
Other receivables	454,882	223,062
Prepaid expense - current	36,673	30,573
Total current assets	1,643,845	1,292,704
Investments:		
Science	774,025	885,583
Endowment	2,315,369	2,315,294
Other	6,967,868	6,585,808
	10,057,262	9,786,685
Cash surrender value of life insurance policies	211,283	209,226
Total investments	10,268,545	9,995,911
Fixed assets:		
Land, building and equipment, net	13,127,671	11,482,562
Other assets:		
Pledges receivable, net	125,266	332,341
Investment in subsidiary, at cost	-	1,250,000
	125,266	1,582,341
Total assets	$ 25,165,327	$ 24,353,518
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - operating	$ 186,350	$ 197,427
Accrued payroll and related taxes	88,015	77,471
Refundable advances	593,837	399,108
Loan and mortgage payables - current portion	1,415,515	133,159
Total current liabilities	2,283,717	807,165
Long term liabilities:		
Loan payable, net	1,172,736	-
Mortgage payable, net	3,480,729	3,622,796
Total long term liabilities	4,653,465	3,622,796
Total liabilities	6,937,182	4,429,961
Net assets:		
Without donor restrictions	14,511,965	15,678,279
With donor restrictions	3,716,180	4,245,278
Total net assets	18,228,145	19,923,557
Total liabilities and net assets	$ 25,165,327	$ 24,353,518

See accompanying notes.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended October 31,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Research grants and contributions	**$ 2,248,295**	**$ 615,604**	**$ 2,863,899**	$ 3,466,478	$ 1,360,989	$ 4,827,467
Contract/fee for service revenue	**1,879,106**	**-**	**1,879,106**	2,301,039	-	2,301,039
Contributions	**985,841**	**75**	**985,916**	223,026	1,100	224,126
Other income	**501,824**	**-**	**501,824**	795,099	-	795,099
Total revenues	**5,615,066**	**615,679**	**6,230,745**	6,785,642	1,362,089	8,147,731
Net assets released from restrictions:						
Satisfaction of restricted activity - recruitment	**-**	**-**	**-**	8,433	(8,433)	-
Satisfaction of restricted activity - science	**735,564**	**(735,564)**	**-**	351,633	(351,633)	-
Total net assets released from restrictions	**735,564**	**(735,564)**	**-**	360,066	(360,066)	-
Total revenues	**6,350,630**	**(119,885)**	**6,230,745**	7,145,708	1,002,023	8,147,731
Expenses:						
Research administration and science	**5,303,562**	**-**	**5,303,562**	6,546,340	-	6,546,340
General and administration	**2,062,310**	**-**	**2,062,310**	1,068,920	-	1,068,920
Public relations and development	**294,785**	**-**	**294,785**	250,442	-	250,442
Total expenses	**7,660,657**	**-**	**7,660,657**	7,865,702	-	7,865,702
Change in net assets before non-operating (loss) income	**(1,310,027)**	**(119,885)**	**(1,429,912)**	(719,994)	1,002,023	282,029
Non-operating income (loss):						
Income and dividends	**205,513**	**28,142**	**233,655**	170,160	22,202	192,362
Realized gain on sale of investments	**660**	**-**	**660**	149,887	-	149,887
Unrealized gain (loss) on investments	**750,185**	**-**	**750,185**	(275,110)	-	(275,110)
Realized loss on investment in subsidiary	**(1,250,000)**	**-**	**(1,250,000)**	-	-	-
	(293,642)	**28,142**	**(265,500)**	44,937	22,202	67,139
Net asset transfer	**437,355**	**(437,355)**	**-**	-	-	-
Change in net assets	**(1,166,314)**	**(529,098)**	**(1,695,412)**	(675,057)	1,024,225	349,168
Net assets - beginning of year	**15,678,279**	**4,245,278**	**19,923,557**	16,353,336	3,221,053	19,574,389
Net assets - end of year	**$ 14,511,965**	**$ 3,716,180**	**$18,228,145**	$ 15,678,279	$ 4,245,278	$ 19,923,557

See accompanying notes.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended October 31, 2019

	Program					
	Science	Research Administration	General and Administration	Public Relations	Development	Total
Salaries	$ 872,344	$ 387,446	$ 264,139	$ 12,394	$ 61,750	$ 1,598,073
IMCA	1,281,412	-	-	-	-	1,281,412
Depreciation and amortization	-	1,246,847	-	-	-	1,246,847
Bad debt	-	-	1,210,185	-	-	1,210,185
Utilities	-	283,073	16,698	-	-	299,771
Subcontracts	282,784	-	-	-	-	282,784
Supplies	166,861	69,960	11,313	2,833	3,055	254,022
Service contracts	83,455	124,291	27,343	1,033	443	236,565
Group insurance	121,004	43,069	18,192	335	9,155	191,755
Interest	-	-	164,105	-	-	164,105
Payroll tax	77,793	35,130	24,081	1,718	6,523	145,245
Purchased services	1,262	-	16,579	70,862	20,577	109,280
Consultant	3,700	250	80,000	-	-	83,950
Conferences & meetings	69,785	4,888	1,603	270	1,565	78,111
Pension	37,226	20,434	15,848	-	2,374	75,882
Legal fees	-	-	66,454	-	-	66,454
Investment fees	-	-	61,057	-	-	61,057
Donor/events	-	-	-	1,476	48,996	50,472
Insurance - general	-	37,680	10,662	-	-	48,342
Professional and accounting fees	-	-	41,372	-	-	41,372
Dues, permits & publications	1,433	3,795	25,178	6,805	2,952	40,163
Series & programs	-	-	-	-	19,741	19,741
Travel	18,777	-	-	-	-	18,777
Newsletter/appeals	-	-	-	10,240	5,727	15,967
Postage & shipping	2,848	10,307	638	-	-	13,793
Miscellaneous	4,247	2,403	-	-	-	6,650
Rental/usage services	-	4,900	-	-	-	4,900
Educational expense	4,158	-	-	-	-	4,158
Hauptman society	-	-	-	-	3,961	3,961
Property/other tax	-	-	3,577	-	-	3,577
Interest on written off deferred financing fees	-	-	3,286	-	-	3,286
	$ 3,029,089	$ 2,274,473	$ 2,062,310	$ 107,966	$ 186,819	$ 7,660,657

See accompanying notes.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended October 31, 2018

	Program					
	Science	Research Administration	General and Administration	Public Relations	Development	Total
IMCA	$ 1,794,914	$ -	$ -	$ -	$ -	$ 1,794,914
Salaries	999,531	362,722	251,222	23,368	56,469	1,693,312
Depreciation and amortization	-	1,236,182	-	-	-	1,236,182
Subcontracts	554,134	-	-	-	-	554,134
Supplies	188,012	182,640	22,553	637	223	394,065
Utilities	-	286,869	15,886	-	-	302,755
Bad debt	-	-	264,842	-	1,870	266,712
Group insurance	154,888	54,180	17,986	3,695	7,981	238,730
Service contracts	88,776	120,198	22,422	1,033	443	232,872
Conferences & meetings	203,129	4,325	1,918	211	1,837	211,420
Interest	-	-	169,203	-	-	169,203
Payroll tax	93,117	38,306	23,436	2,163	5,444	162,466
Legal fees	8,630	14,172	83,416	-	-	106,218
Pension	46,392	19,876	15,293	215	1,237	83,013
Investment fees	-	-	60,983	-	-	60,983
Events	-	-	-	-	53,211	53,211
Purchased services	-	-	18,380	13,987	17,770	50,137
Insurance - general	-	37,895	9,153	-	-	47,048
Dues, permits & publications	4,531	3,933	24,693	3,275	2,272	38,704
Professional and accounting fees	-	-	38,545	-	-	38,545
Consultant	4,209	-	15,910	9,216	3,019	32,354
Travel	17,275	1,399	1,233	21	603	20,531
Series & programs	-	-	-	-	17,655	17,655
Postage & shipping	601	11,879	16	-	-	12,496
Newsletter/appeals	-	-	-	858	10,630	11,488
Property tax	-	-	8,484	-	-	8,484
Donor/events	-	-	-	3,254	3,845	7,099
Rental/usage services	-	5,660	-	-	-	5,660
Educational expense	4,996	-	-	-	-	4,996
Hauptman society	-	-	-	-	3,913	3,913
Interest on written off deferred financing fees	-	-	3,286	-	-	3,286
Miscellaneous	2,010	959	60	87	-	3,116
	$ 4,165,145	$ 2,381,195	$ 1,068,920	$ 62,020	$ 188,422	$ 7,865,702

See accompanying notes.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended October 31,

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (1,695,412)	$ 349,168
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,246,848	1,236,182
Realized loss on investment in subsidiary	1,250,000	-
Interest - amortization on deferred financing fees	3,286	3,286
Decrease (increase) in allowance for doubtful accounts	15,185	(172)
Bad debt on loans to subsidiary	621,453	-
Contributions for endowment and other activities	(651,343)	(1,314,496)
Grants for equipment	(46,745)	-
Realized gain on investments	(660)	(149,887)
Unrealized (gain) loss on investments	(750,185)	275,110
Increase (decrease) in pledges receivable	212,823	(797,484)
(Increase) decrease in grants receivable - science	(128,595)	59,179
(Increase) decrease in other receivable	(231,820)	12,062
(Increase) decrease in prepaid expenses	(6,100)	2,185
Decrease in accounts payable - operating and accrued payroll and related taxes	(533)	(102,975)
Increase in refundable advances	194,729	72,230
Net cash provided by (used in) operating activities	32,931	(355,612)
Cash flows from investing activities:		
Purchase of land, building and equipment	(2,891,959)	(120,205)
Purchases of investments	(273,039)	(760,319)
Sales of investments	753,310	60,940
Loans to subsidiary	(621,453)	-
Increase in cash surrender value of life insurance policies	(2,057)	(2,434)
Net cash used in investing activities	(3,035,198)	(822,018)
Cash flows from financing activities:		
Proceeds received from gifts & grants for:		
Endowment	75	1,100
Science	698,013	1,313,396
Proceeds from loan payable	2,446,183	-
Repayment of mortgage payable	(136,445)	(130,634)
Net cash provided by financing activities	3,007,826	1,183,862
Net increase in cash	5,559	6,232
Cash - beginning of year	81,605	75,373
Cash - end of year	$ 87,164	$ 81,605
Supplemental cash flow information:		
Fixed assets acquired through grant funding	$ 46,745	$ -
Cash paid for interest	$ 164,431	$ 173,697

See accompanying notes.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Founded in 1956, Hauptman-Woodward Medical Research Institute, Inc. (the Institute), located in the medical corridor in downtown Buffalo, NY, is a not-for-profit organization classified within the meaning of the Internal Revenue Code Section 509(a)(1). The Institute is an independent research institute performing basic biomedical research that promotes a greater understanding of disease by studying the proteins related to disease at their basic molecular level. By determining the structure and function of proteins, scientists are better able to understand what causes diseases and design new ways to treat, prevent or possibly cure them. The Institute's collaborative partners are both domestic and international; nonetheless, a majority of the research is conducted in the Western New York lab facility.

During the year ended October 31, 2014, the Institute formed HWI Corporation (HWI or the Corporation), a C-Corporation which is 100% owned by the Institute. The Corporation was created to invest in Harker Holding Company, LLC, which is a limited liability company, of which the Corporation holds the majority of the membership units. Harker Holding Company, LLC is the primary investor in Harker BIO, LLC, a start-up company whose purpose is to expand HWI's basic research into commercial products and services. During 2019 Harker BIO, LLC ceased operations resulting in a realized loss of $1,250,000 representing the Institute's investment (see Note 6).

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Hauptman-Woodward Medical Research Institute, Inc. and Hauptman-Woodward Foundation (hereinafter referred to as "the Institute"). All significant intercompany accounts and transactions have been eliminated upon consolidation. HWI Corporation is not consolidated in these financial statements.

Had HWI Corporation been consolidated as of October 31, 2019 and 2018, the consolidated change in net assets would have included an approximate $871,000 loss from the wholly owned subsidiary and an additional $1,250,000 negative equity (approximate loss of $418,000 - 2018).

Basis of Accounting: The accompanying consolidated financial statements of the Institute have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP), except for not consolidating a majority owned subsidiary. This investment is accounted for on the cost basis in the financial statements, which is a departure from US GAAP.

Net Assets: The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions: Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Institute, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions: Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Institute must continue to use the resources in accordance with the donor's instructions.

The Institute's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds.

Classification of Transactions: All revenues are reported as increases in net assets without donor restrictions in the consolidated statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment and Long-term Investments: Endowment investments consist of investments purchased with the following resources:

- Donor-restricted perpetual endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the Institute's activities.

Endowment investments also include investments purchased with unspent investment income and net gains on these resources. Endowment investments are reported at fair value with changes to fair value reported as investment return in the statement of activities and changes in net assets. Purchases and sales of investments are reported on the trade date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The investment and spending policies for the Endowment Fund are discussed in Note 11.

Expense recognition and allocation: The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, Industrial Macromolecular Crystallography Association (IMCA), office and occupancy, which are allocated on a square footage basis, as well as salaries and benefits, external consultants, marketing, travel, and professional fees which are allocated on the basis of estimates of time and effort. Every year the basis on which costs are allocated are evaluated.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Institute.

Pledges Receivable: Unconditional pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable at the date of gift, which did not yield a material difference when compared to the use of a risk-adjusted interest rate. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially satisfied.

Grants Receivable - Science: The Institute receives a substantial portion of its funding from governmental sources, both directly and as a sub-recipient. Although most cash is drawn electronically on a reimbursement basis, certain timing differences occur resulting in grants receivable at the balance sheet date. Grants receivable - science represent monies owed to the Institute for research expenditures incurred, but which have not yet been received. Grants receivable - science amounted to $367,369 at October 31, 2019 ($238,774 - 2018).

Investments and Investment Income: Investments in equity securities with readily determinable fair values and all investments in debt securities are presented in the financial statements at fair value. Investment income or loss (including realized gains on investments, interest and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law. Dividend and interest income earned on permanently restricted net assets are available for unrestricted purposes as appropriated by the board unless restricted by the donor and are reported as investment income in the respective net asset category in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

Fair Value: Financial Account Standard Board (FASB) *Accounting Standards Codification* (ASC) 820: *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of fair value hierarchy under FASB ASC 820 are described as follows:

Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan as the ability to access.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level II: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- If the asset or liability has a specified (contractual) term, the Level II input must be observable for substantially the fully term of the asset or liability.

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at October 31, 2019 and 2018.

Money Market Funds: The fair value of money market funds are classified as Level I as these financial instruments are highly liquid and are stated at cost which approximates fair value.

Mutual Funds and Exchange Traded Funds (ETFs): Valued at the net asset value (NAV) of shares held at year end. The NAV is the closing price reported on the active market on which the securities are traded. Mutual funds and ETFs are classified as Level I.

Corporate, Government and Agency Bonds: Valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under an approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. Corporate and Government and Agency bonds are classified as Level II.

Common Stock and Equity Securities: Valued at the closing price reported on the active market on which the individual securities are traded. Common stock and equity securities are classified as Level I.

Fixed Assets: The Institute records fixed assets at acquisition cost, or if donated, at fair value at the date of donation. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated lives of fixed assets are generally as follows:

Buildings and improvements	up to 39 years
Equipment, furniture & fixtures	5 - 10 years

Depreciation expense for the year ended October 31, 2019 was $1,246,848 ($1,236,182 - 2018).

Accounting Standards require that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Institute had no impairment for the years ended October 31, 2019 and 2018.

Revenue Recognition: The Institute's revenue is principally derived from research grants sponsored by the Federal government and contributions from foundations and other private institutions.

Grants: The terms of the research grants generally require the Institute to provide progress and final reports and to satisfy other specific terms and conditions related to the research. Accordingly, the Institute has determined that the appropriate accounting is to treat these grants as exchange transactions. Such revenue is therefore accounted for as without donor restrictions. Revenue is recognized as 1) the project expenses are incurred, including applicable indirect costs, which are based primarily on negotiated indirect cost recovery rates based on prior year actual costs, and 2) completion of specific contract conditions.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions: All contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Gifts of stock are recorded at fair value at the date of donation. Conditional contributions are recorded as revenue when the condition is met.

Contract/Fee For Service Revenue: The Institute entered into a contract arrangement with IMCA to manage an x-ray beamline located at the Argonne National Laboratory in Lemont, IL. The contract is renewed annually unless written notice of termination of agreement is requested by either party. Contract revenue is recognized when earned. Any amounts received that are designated for future periods are recorded as a refundable advance.

Other Income: Primarily consist of rental income the Institute receives from various unrelated entities for the use of space at the Institute under the terms of their annual lease agreements.

Income Taxes: The Institute is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been reflected in the accompanying consolidated financial statements.

US GAAP provides guidance on the financial statement recognition and measurement for income tax positions that the Institute has taken or expects to take in the Institute's income tax returns. Organizations take many tax positions relative to tax laws, including those taken in determining whether tax is due, a refund is owed, a tax return needs to be filed, or the characterization of income as taxable (for example, unrelated business income) or nontaxable. The Institute has not recorded any liabilities relating to uncertain tax positions.

The Institute files its Return of Organization Exempt from Income Tax in the U.S. federal jurisdiction and its Annual Filing of Charitable Organizations in New York State.

Recently Issued Accounting Pronouncements: In February 2016, the (FASB) issued Accounting Standard Updated (ASU) 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Institute is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in US GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Institute has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. The update also clarifies how to determine if a contribution is conditional. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Institute is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Estimates: The process of preparing financial statements in conformity with US GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Concentrations of Credit Risk: The Institute receives a significant amount of its funding from governmental sources, and the loss of any one of these sources would have a substantial effect on the Institute's results of operations and cash flow.

Financial instruments that potentially subject the Institute to credit risk consist principally of cash accounts in financial institutions. During the course of the year, cash balances exceed the federally insured deposit limit and management does not anticipate nonperformance by the institutions. Management reviews the financial viability of these institutions on a periodic basis.

Change in Accounting Principles: The Institute implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standard changes the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The consolidated financial statements include a disclosure about liquidity and availability of resources (see Note 2).

The changes have the following effect on net assets at October 31, 2018:

Net Asset Class	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	$ 15,678,279	$
Temporarily restricted net assets	1,929,984	-
Permanently restricted net assets	2,315,294	-
Net assets without donor restrictions	-	15,678,279
Net assets with donor restrictions	-	4,245,278
Total net assets	$ 19,923,557	$ 19,923,557

Subsequent Event: These consolidated financial statements have not been updated for subsequent events occurring after February 25, 2020, which is the date these consolidated financial statements were available to be issued.

NOTE 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of October 31, 2019 are:

Current financial assets:	
Cash	$ 87,164
Current portion of pledges receivable	697,757
Grants receivable – science	367,369
Other receivables	454,882
Total current financial assets	1,607,172
Less amounts not available to be used within one year:	
Net assets with purpose restrictions to be met in less than a year	1,116,227
Amount available for general expenditures within one year	$ 490,945

NOTE 2. LIQUIDITY AND AVAILABILITY (CONTINUED)

The Institute's endowment funds consist of donor endowments. Certain income from donor endowments is restricted for specific purposes and, therefore, is not available for general expenditure. In the case of need, the Board of Directors could appropriate resources from its designated endowment fund of $299,584. Note 11 provides more information about those funds and about the spending policies for all endowment funds.

As part of the Institute's liquidity management, it has a policy to structure its financial assets to be available for general expenditure, capital expenditure, liabilities and distributions in accordance with the investment policy statement. Quarterly meetings are held with the Institute's advisors to discuss the current needs. In general the Institute does not typically withdraw money from these investments. However, if the need arises a meeting is held and the advisors are given a time frame and amount of excess cash that should be maintained in the investments portfolio and actively managed by the investment manager until the amounts are withdraw.

The Institute also has access to a $300,000 line of credit and a $1,000,000 term loan through Bank of America (see Note 7).

The working capital needs related to non-core programs and capital expenditure of the Institute are funded primarily through the philanthropic efforts of the Institute. The Institute has seasonal variation with a primary concentration at year end.

NOTE 3. PLEDGES RECEIVABLE

Pledges, including unconditional promises to give, are recognized when received. Pledges receivable of $823,023 ($1,051,031 - 2018) represent the present value of future cash flows and are recorded as receivables at the statement of financial position date. An allowance for uncollectible accounts was recorded at October 31, 2019 in the amount of $19,028 ($3,843 - 2018). The allowance for uncollectible pledges receivable is determined based on a review of individual receivables, prior collection history, and the type of contribution.

Pledges receivable that are collectible more than one year from the statement of financial position date are discounted using an interest rate determined at the date the pledge is received. The interest rate used is generally a risk-free rate, which did not produce a materially different result from the use of a risk-adjusted rate. The discount rate used was 5.25%, commensurate with the prime rate as of the date of the gifts.

Pledges receivable, net of an allowance for uncollectible contributions and present value discount, are summarized as follows at October 31:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	**$ 697,757**	$ 718,690
One year to five years	**157,486**	355,700
	855,243	1,074,390
Less present value discount	**(13,192)**	(19,516)
Less allowance for uncollectible contributions	**(19,028)**	(3,843)
	$ 823,023	$ 1,051,031

The Institute was provided a conditional promise to give in the amount of $1,200,000 as of October 31, 2019 for the Cryo-Electron Microscopy Center project (the Project). The Institute has not recorded this conditional promise to give as of October 31, 2019 since the condition for the promise to give was contingent upon completion of the Project.

NOTE 4. INVESTMENTS

The following table presents information about assets that are measured at fair value on a recurring basis as of October 31, 2019 and 2018, and indicates the fair value hierarchy of the valuation techniques utilized to determine fair value.

	Assets at Fair Value as of October 31, 2019			
	Level I	Level II	Level III	Total
Money Market Funds	$ 967,757	$ -	$ -	$ 967,757
Bonds (Commercial Paper) & Fixed Income:				
Corporate Bonds	-	135,137	-	135,137
Municipal Bonds	-	1,040,675	-	1,040,675
Taxable Fixed Income Funds	-	436,176	-	436,176
Fixed Income – Other	-	210,642	-	210,642
Common Stock/Equity Securities:				
Commodity	641,863	-	-	641,863
Consumer Discretionary	197,873	-	-	197,873
Consumer Staples	70,911	-	-	70,911
Energy	68,732	-	-	68,732
Financials	223,589	-	-	223,589
Health Care	74,889	-	-	74,889
Industrials	171,032	-	-	171,032
Information Technology	447,096	-	-	447,096
Materials	44,662	-	-	44,662
Telecommunication Services	77,269	-	-	77,269
Business Products & Services	135,365	-	-	135,365
Alternative	308,075	-	-	308,075
Exchange Traded Funds				
Mutual Funds – Domestic	2,563,881	-	-	2,563,881
Mutual Funds – International	1,656,175	-	-	1,656,175
International Equities	585,463	-	-	585,463
Total Investments	**$ 8,234,632**	**$ 1,822,630**	**$ -**	**$ 10,057,262**

NOTE 4. INVESTMENTS (CONTINUED)

	Assets at Fair Value as of October 31, 2018			
	Level I	Level II	Level III	Total
Money Market Funds	$ 1,560,567	$ -	$ -	$ 1,560,567
Bonds (Commercial Paper) & Fixed Income:				
Corporate Bonds	114,350	-	-	114,350
Municipal Bonds	-	975,360	-	975,360
Taxable Fixed Income Funds	-	401,021	-	401,021
Fixed Income - Other	-	199,155	-	199,155
Common Stock/Equity Securities:				
Commodity	466,933	-	-	466,933
Consumer Discretionary	183,398	-	-	183,398
Consumer Staples	37,237	-	-	37,237
Energy	108,856	-	-	108,856
Financials	233,740	-	-	233,740
Health Care	119,864	-	-	119,864
Industrials	160,180	-	-	160,180
Information Technology	413,941	-	-	413,941
Materials	45,956	-	-	45,956
Telecommunication Services	67,747	-	-	67,747
Business Products & Services	16,566	-	-	16,566
Alternative	280,124	-	-	280,124
Exchange Traded Funds	1,103,811	-	-	1,103,811
Mutual Funds – Domestic	1,301,418	-	-	1,301,418
Mutual Funds – International	1,478,560	-	-	1,478,560
International Equities	517,901	-	-	517,901
Total Investments	$ 8,211,149	$ 1,575,536	$ -	$ 9,786,685

Net realized gains and losses from the sale of securities are included in the changes in net assets without donor restrictions and all gains are considered available for expenditure. The Institute's net realized gain from the sale of investments during the year ended October 31, 2019 amounted to $660 ($149,887 - 2018).

Net unrealized gains and losses on securities arising from unrealized changes in the fair value of investments are also included in the changes in net assets without donor restrictions. The Institute recognized a net unrealized gain amounting to $750,185 for the year ended October 31, 2019 (loss of $275,110 - 2018).

NOTE 5. FIXED ASSETS

Land, building and equipment are summarized as follows:

	2019	2018
Land and land improvements	**$ 306,557**	$ 306,557
Building	**23,356,328**	23,356,328
Equipment, furniture & fixtures	**12,736,663**	12,569,726
Construction in process	**2,725,018**	-
	39,124,566	36,232,611
Less accumulated depreciation	**(25,996,895)**	(24,750,049)
	$ 13,127,671	$ 11,482,562

NOTE 6. INVESTMENT IN SUBSIDIARY

During the year ended October 31, 2014, the Institute formed HWI Corporation, a C-Corporation which is 100% owned by the Hauptman Woodward Medical Research Institute. This Corporation was formed to provide a funding structure for the Institute to participate in Harker Bio, LLC. The corporation invested a total of $1,250,000 of capital into Harker Holdings, LLC for a majority of the LLC's membership units. In addition to the equity investment, the Institute had previously provided working capital and support and agreed to loan Harker Holdings, LLC up to $750,000 during the year ended October 31, 2019 to fund an anticipated operating deficit. Of the $750,000 approved, the Institute loaned $621,453 during the year ended October 31, 2019. The loan was to bridge the operating gap until additional capital could be raised. All the current investors opted not to invest any additional funds into the company.

Harker BIO, LLC was unable to sustain its operations and ceased operations on April 5, 2019. As of October 31, 2019, the Institute has fully written down their invested capital of $1,250,000 in Harker Holdings, LLC, recognizing a realized loss in the current period of $1,250,000. Additionally, the loan receivable of $621,453 has been written off to bad debt as of October 31, 2019. Harker BIO, LLC subsequently filed for Chapter 7 bankruptcy in 2020. HWI Corporation has not been consolidated into the financial statements (see note 1).

HWI Corporation has a direct investment of 1% in Harker BIO, LLC. This investment is recorded at cost. The Institute's share of the Harker BIO, LLC activity for the years ended October 31, 2019 and 2018 is immaterial and is not included in the consolidated financial statements of the Institute.

NOTE 7. LINE OF CREDIT AND TERM LOAN

The Institute has availability under a line of credit for $300,000 and a multiple disbursements term loan in the amount of $1,000,000 with Bank of America. Amounts drawn on the line of credit and term loan accrue interest at the bank's LIBOR daily floating rate plus 2.25 percentage points. The line of credit will expire May 31, 2020. Both obligations are secured by substantially all assets of the Institute. The term loan has an availability period in one or more disbursements through May 12, 2020. On June 12, 2020, the term loan converts to principal and interest in consecutive, even monthly installments over a period of 240 months ending May 12, 2027. There were no amounts outstanding at October 31, 2019 or 2018.

NOTE 8. NOTE PAYABLE

Note payable consists of the following at October 31:

	2019	2018
Note payable – financial institution, a note issued September 19, 2019 in the amount of $2,446,183; payable in monthly installments of $7,500 through April 2020, followed by one payment of $1,200,000 in May 2020, followed by monthly payments of $23,350 including interest at a fixed rate of 3.958% through April 2025. The mortgage is collateralized by real property and equipment.	**$ 2,446,183**	$ -

The aggregate amounts of the note payable maturing in each of the next five years are as follows:

2020	$ 1,273,447
2021	238,071
2022	247,667
2023	257,649
2024	268,034
Thereafter	161,315
	$ 2,446,183

NOTE 9. MORTGAGE PAYABLE

Mortgage payable consists of the following at October 31:

	2019	2018
Mortgage payable – financial institution, a mortgage issued May 12, 2017 in the amount of $4,000,000; payable in monthly installments of $25,012 including interest at a fixed rate of 4.30% through May 2027, where the remaining unpaid balance of approximately $2,450,000 will be amortized over ten years with a new rate that is subject to change. The mortgage is collateralized by real property and equipment and receivables.	**$ 3,680,580**	$ 3,817,025
Less: Unamortized mortgage acquisition costs	**(57,783)**	(61,070)
Total mortgage payable	**$ 3,622,797**	$ 3,755,955

The aggregate amounts of the mortgage payable maturing in each of the next five years are as follows:

	Gross	Mortgage Acquisition Costs	Net
2020	$ 142,068	$ (3,286)	$ 138,782
2021	148,833	(3,286)	145,547
2022	155,453	(3,286)	152,167
2023	162,367	(3,286)	159,081
2024	169,219	(3,286)	165,933
Thereafter	2,902,640	(41,353)	2,861,287
	$ 3,680,580	$ (57,783)	$ 3,622,797

Mortgage acquisition costs amortized for the years ended October 31, 2019 and 2018 amounted to $3,286, respectively.

NOTE 10. NET ASSETS

Net assets without donor restrictions consist primarily of building and investments which includes unrealized holdings gains or losses, when applicable. Net assets without donor restrictions amounted to $14,511,965 at October 31, 2019 ($15,678,279 - 2018).

Net assets with donor restrictions represent endowments funds, the income from which is expended for specific or general research activities. The amounts also include contributions which are restricted for the conduct of specified biomedical research, equipment, recruitment, operating losses and or time. Net assets with donor restrictions amounted to $3,716,180 ($4,245,278 - 2018).

NOTE 11. ENDOWMENT ASSETS

The Institute's endowment consists of eight individual funds established for a variety of purposes, which includes only donor-restricted endowment funds. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Board of Directors has interpreted New York State Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor instructions to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of the 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors.

In accordance with NYPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Institute and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Institute
(7) The investment policies of the Institute

The Institute's endowments consist of permanently restricted funds, the purpose for which is to provide investment income to support the Institution's mission as discussed above. There are no Board-designated endowments at October 31, 2019 or 2018.

The following is a summary of changes in the Institute's endowment net assets for the year ended October 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 2,315,294	$ 2,315,294
Investment return:			
Investment income	-	54,523	54,523
Net realized and unrealized gains on endowment funds	-	175,210	175,210
Total investment return	-	2,545,027	2,545,027
Contributions (net of transfer)	-	75	75
Appropriations for expenditure	-	(229,733)	(229,733)
Endowment net assets, end of year	$ -	$ 2,315,369	$ 2,315,369

NOTE 11. ENDOWMENT ASSETS (CONTINUED)

The following is a summary of changes in the Institute's endowment net assets for the year ended October 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 2,314,194	$ 2,314,194
Investment return:			
Investment income	-	46,863	46,863
Net realized and unrealized losses on endowment funds	-	(24,661)	(24,661)
Total investment return		2,336,396	2,336,396
Contributions (net of transfer)		1,100	1,100
Appropriations for expenditure	-	(22,202)	(22,202)
Endowment net assets, end of year	$ -	$ 2,315,294	$ 2,315,294

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of October 31, 2019 or 2018. Deficiencies would result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain science initiatives that are deemed prudent by the Institute.

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to emphasize total return.

The Institute expects its endowment funds, over time, to provide an average rate of return of approximately 5-7% annually, while maintaining purchasing power of the assets over a longer term. Actual returns in any given year may vary from this amount.

In order to meet their objective, management policies require that net realized and unrealized appreciation/depreciation be retained in an amount necessary to adjust to the historic dollar value of the original endowments by the weighted average gain/loss attributable to the endowment portfolio in relation to the total portfolio for any given year. The overall strategy is based on conservatism and is one of well-balanced growth.

Under the Institute's spending policy, 4% based on a three-year rolling average investment balance may be utilized from restricted funds. While this utilization is expected to be derived primarily from accumulated earnings, if deemed prudent by management, this amount may be utilized from restricted funds.

NOTE 12. RETIREMENT PLANS

The Institute has a defined contribution 403(b) retirement plan (the Plan) for its employees. All employees are eligible to participate once they meet the eligibility requirements of the Plan. The Institute contributes 6% of an employee's eligible gross compensation to the Plan. All amounts are immediately vested. The Institute contributed $117,222 at October 31, 2019 ($125,249 - 2018).

NOTE 13. FUTURE RENTAL PAYMENTS

At October 31, 2019, the future rental payments receivable under non cancelable leases are approximately $324,000 in 2020.

SCHEDULE OF ENDOWMENT FUNDS

As of October 31, 2019

The Stafford Fund	$ 890,656
W. Jackson Catt Trust	432,826
Don and Victoria Hess	302,387
Joseph T. and Sally K. Stewart	280,893
William Duax Crystallography Chair	220,370
Paul J. Koessler Foundation	125,000
Hauptman Endowed Chair	38,237
Jane F. and Richard F. Griffin	25,000
	$ 2,315,369

As of October 31, 2018

The Stafford Fund	$ 890,656
W. Jackson Catt Trust	432,826
Don and Victoria Hess	302,312
Joseph T. and Sally K. Stewart	280,893
William Duax Crystallography Chair	220,370
Paul J. Koessler Foundation	125,000
Hauptman Endowed Chair	38,237
Jane F. and Richard F. Griffin	25,000
	$ 2,315,294

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
For the Year Ended October 31, 2019

Federal Grantor / Program Title	CFD Number	Federal Entity Number	Passed through to Sub-recipients	Federal Expenditures
Research & Development Cluster				
Direct Federal Awards:				
Department of Health and Human Services/ National Institute of Health:				
Community Crystallization Resource for Biological Macromolecules	93.859	5R24 GM124135	$ -	$ 466,638
National Aeronautics and Space Administration:				
Research Opportunities in Complex Fluids and Macromolecular Biophysics	43.003	NNX14AD80G	-	52,014
Funds received as subrecipients under subcontracts:				
National Institute of Health Grant Subrecipient Of the University of South Carolina	93.396	1P01CA186866	-	501,561
National Science Foundation Grant Subrecipient Of the University of Buffalo	47.074	DBI 1231306	282,784	1,228,082
Total			**$ 282,784**	**$ 2,248,295**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended October 31, 2019

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Hauptman-Woodward Medical Research Institute, Inc. (the Institute) under programs of the federal government for the year ended October 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Institute.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Uniform Guidance. The 10% de minimis cost rate has not been used.

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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*

INDPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hauptman-Woodward Medical Research Institute, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America (US GAAP) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Hauptman-Woodward Medical Research Institute, Inc. (the Institute), which comprise the consolidated statements of financial position as of October 31, 2019, and the related consolidated 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 February 25, 2020. The consolidated financial statements do not include a wholly owned for-profit subsidiary as required by US GAAP which provides a basis for the qualified audit opinion.

Internal Control Over Financial Reporting

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

Purpose of this Report

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

Freed Maxick CPAs, P.C.

Buffalo, New York
February 25, 2020

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hauptman-Woodward Medical Research Institute, Inc.

Report on Compliance for Each Major Federal Program

We have audited Hauptman-Woodward Medical Research Institute, Inc.'s (the Institute) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended October 31, 2019. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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; the audit requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principals,* and *Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2019.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Buffalo, New York
February 25, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended October 31, 2019

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report issued on whether the financial statements were prepared in accordance with GAAP: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? _______ Yes ___X___ No
- Significant deficiency(ies) identified? _______ Yes ___X___ None Reported

Noncompliance material to financial statements noted? _________Yes ___X___ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _______ Yes ___X___ No
- Significant deficiency(ies) identified? _______ Yes ___X___ None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program of Cluster
Various	Research and Development Cluster

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

Auditee qualified as low-risk auditee? ___X___Yes _______ No

II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended October 31, 2018

There were no audit findings for the year ended October 31, 2018.