

INSTITUTE FOR SYSTEMS BIOLOGY

Single Audit Reports

For the Year Ended December 31, 2015

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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***

Independent Auditor's Report

**To the Board of Directors
Institute for Systems Biology
Seattle, Washington**

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 the Institute for Systems Biology (the Institute), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 15, 2016.

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.

We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.



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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*.

INSTITUTE FOR SYSTEMS BIOLOGY'S RESPONSE TO FINDINGS

The Institute's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Institute's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
June 15, 2016

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

Independent Auditor's Report

**To the Board of Directors
Institute for Systems Biology
Seattle, Washington**

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the Institute for Systems Biology's (the Institute's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2015. 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 the requirements of laws, regulations, contracts, and grants 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



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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 December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the Institute as of and for the year ended December 31, 2015, and have issued our report thereon dated June 15, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Clark Nuber P.S.

Certified Public Accountants
June 15, 2016

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Program Title / Federal Grantor / Pass-Through Grantor	Federal CFDA Number	Pass-Through Number	Passed Through to Subrecipients	Fiscal Year Expenditures
Research and Development Cluster:				
U.S Department of Health and Human Services-				
National Institutes of Health:				
Cancer Genomics Cloud	93.HHSN261201400007C		\$ 1,289,824	\$ 2,994,369
Systems Biology of Influenza	93.HHSN272201501403P			32,996
Human Genome Research	93.172			425,290
Trans-NIH Research Support-				
Passed through Pacific Northwest Research Insitute	93.310	126496-S01		67,233
Cancer Cause and Prevention Research -				
Passed through University of Washington	93.393	UWSC7980		17,010
Passed through University of Washington	93.393	UWSC8481		21,444
Total for CFDA 93.393				38,454
Cancer Detection and Diagnosis Research	93.394		147,732	1,444,560
Cancer Treatment Research	93.395		52,612	376,678
Cancer Biology Research-				
Direct	93.396		122	62,850
Passed through University of Southern California	93.396	56883310		540,946
Total for CFDA 93.396			122	603,796
Diabetes, Digestive, and Kidney Diseases Extramural Research -				
Direct	93.847		85,250	324,086
Passed through University of Washington	93.847	UWSC8377		100,869
Total for CFDA 93.847			85,250	424,955
Child Health and Human Development Extramural Research	93.865			523,579
Systems Approach to Immunity and Inflammation-				
Passed through OriGene Technologies, Inc.	93.HHSN261201500049C	ISB-1359		9,399
Aging Research-				
Passed through University of Florida	93.866	UF13201		323,488
Passed through PreCyte	93.866	AG2015-01-ISB-001		39,644
Total for CFDA 93.866				363,132
Cancer Centers Support Grants-				
Passed through Cal Tech	93.397	68-1090127		302,237
Biomedical Research and Research Training-				
Direct	93.859		533,776	3,161,817
Passed through Rockefeller University	93.859	U01GM098256-01		99,410
Passed through Rockefeller University	93.859	1R01GM112108-01A1		85,534
Passed through Rockefeller University	93.859	P41GM109824-01		238,219
Total for CFDA 93.859			533,776	3,584,980
Allergy, Immunology, and Transplantation Research-				
Direct	93.855			62,705
Passed through University of California, San Diego	93.855	66400420		26,999
Passed through Seattle Biomedical Research Institute	93.855	ISB-10135		469,708
Passed through Seattle Biomedical Research Institute	93.855	ISB-10135DC		156,525
Passed through Seattle Biomedical Research Institute	93.855	ISBpilot-10135		27,836
Passed through Seattle Biomedical Research Institute	93.855	ISB-10127		4,745
Passed through Seattle Biomedical Research Institute	93.855	ISB-13534		14,414
Passed through Seattle Biomedical Research Institute	93.855	ISB-15038		6,164
Passed through Seattle Biomedical Research Institute	93.855	ISB-12001		28,784
Passed through University of Washington	93.855	UWSC8312		63,339
Total for CFDA 93.855				861,219
Total U.S. Department of Health and Human Services			2,109,316	12,052,877

See notes to schedule of expenditures of federal awards and independent auditor's report.

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Program Title / Federal Grantor / Pass-Through Grantor	Federal CFDA Number	Pass-Through Number		Fiscal Year Expenditures
National Science Foundation:				
Engineering Grants -				
Passed through University of Washington	47.041	UWSC8578		3,402
Biological Sciences	47.074		110,752	1,593,755
Polar Programs	47.078			31,257
			110,752	1,628,414
Total National Science Foundation				
U.S. Department of Defense:				
U.S. Army Medical Command-				
Systems Approach to Immunity and Inflammation	12.HDTRA1-13-C-0055		265,239	2,138,763
Military Medical Research and Development -				
Direct	12.420			283,144
Passed through Seattle Biomedical Research Institute	12.420	W81XWH-15-1-0249		868
				284,012
Total for CFDA 12.420				
Basic Scientific Research-				
Passed through University of California, Santa Barbara	12.431	W911NF-10-2-0111		401,629
Passed through University of Washington	12.431	W911-15-2-0127		1,308
				402,937
Total for CFDA 12.431				
Total U.S. Department of Defense			265,239	2,825,712
U.S. Department of Energy:				
Renewable Energy Research and Development -				
Passed through Sapphire Energy, Inc.	81.087	DE-EE0006315		447,928
Advanced Research Projects Agency - Energy -				
Passed through University of Michigan	81.135	DE-AR0000426		107,387
Experimental Design, Implementation-				
Passed through Lawrence Berkeley National Lab	81.DE-AC01-CH11231	6953601		195,936
Passed through Lawrence Berkeley National Lab	81.DE-AC02-05CH11231	6953601		856,742
				1,607,993
Total U.S. Department of Energy			1,607,993	1,607,993
Total Research and Development Cluster/Expenditures of Federal Awards			\$ 2,485,307	\$ 18,114,996

See notes to schedule of expenditures of federal awards and independent auditor's report.

INSTITUTE FOR SYSTEMS BIOLOGY

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Note 1 - Method of Accounting

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Institute for Systems Biology (the Institute) under programs of the federal government for the year ended December 31, 2015. 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 - Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Institute has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?

Yes

No

- Significant deficiencies identified?

Yes

None reported.

Noncompliance material to financial statements noted?

Yes

No

Federal Awards

Internal control over major programs:

- Material weaknesses identified?

Yes

No

- Significant deficiencies identified?

Yes

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 2 CFR
200.516(a)?

Yes

No

Identification of Major Programs

CFDA Numbers

Name of Federal Program or Cluster

12.420 12.431 81.087 81.135
 47.041 47.074 47.078 93.172
 93.393 93.394 93.395 93.396
 93.310 93.847 93.865 93.866
 93.397 93.859 93.855 12.HDTRA1-13-C-0055
 93.HHSN261201400007C 93.HHSN272201501403P
 93.HHSN261201500049C 81.DE-AC02-05CH11231
 81.DE-AC01-CH11231

Research and Development Cluster

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

Yes

No

INSTITUTE FOR SYSTEMS BIOLOGY

**Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2015**

Section II - Financial Statement Findings

Finding 2015-001

Internal controls over financial reporting.

Criteria

Financial statement transactions should be recognized in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Condition/Context for Evaluation

Under U.S. GAAP, temporarily restricted net assets can only be released to the extent of the balance in the restricted net asset. During 2015, management over released temporarily restricted net assets for one program due to program expense exceeding program income. This resulted in a negative \$272,575 temporarily restricted net asset balance. An audit adjustment was recorded to increase temporarily restricted net assets and reduce unrestricted net assets by \$272,575.

Effect or Potential Effect

As a result, financial information produced throughout the year may have been misstated. An audit adjustment was required for the financial statements to be in accordance with U.S. GAAP.

Repeat Finding

Not applicable, as no similar finding was noted in the prior year audit for the Institute.

Cause

Management did not properly cut off releases when expenses exceed income in the program.

Recommendation

We recommend that management ensure that temporarily restricted net assets are not over released by developing a new methodology for tracking income and expenses for programs.

View of Responsible Officials of the Auditee

Management agrees with the finding and has posted the related entry.

Section III - Findings and Questioned Costs for Federal Awards

No matters reported.

INSTITUTE FOR SYSTEMS BIOLOGY

**Corrective Action Plan
For the Year Ended December 31, 2015**

Finding Number

2015-001

Contact Person(s)

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Explanation and Specific Reasons for Disagreement With the Audit Finding or That Corrective Action is not Required (if Applicable)

No disagreement.

Corrective Action Planned

The Institute's Finance team will revise its monthly closing process to include a more robust review of cumulative releases from temporarily-restricted (TR) net assets in comparison to contributed funds. Monthly journal entry processes for such releases will be revised so that the constraint of available contributed funds is specifically used to limit the TR releases. No TR releases will exceed available contributed funds.

Anticipated Completion Date

The Institute implemented this change in connection with closing its books for May 2016. This closing was done June 15, 2016.

INSTITUTE FOR SYSTEMS BIOLOGY

**Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2015**

No such matters were reported.