

HASKINS LABORATORIES, INC.
Reports on Federally Assisted Research
and Development Grants
December 31, 2016

HASKINS LABORATORIES, INC.
December 31, 2016

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SEWARD AND MONDE

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INDEPENDENT AUDITORS' COMBINED REPORT ON THE BASIC FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Directors

Haskins Laboratories, Inc.

New Haven, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of Haskins Laboratories, Inc. (a nonprofit organization), which comprise the statements of financial position - modified cash basis as of December 31, 2016 and 2015 and the related statements of activities - modified cash basis and cash flows - modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards 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 Haskins Laboratories, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to that matter.

Other Matters

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2017, on our consideration of Haskins Laboratories, 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 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 Haskins Laboratories, Inc.'s internal control over financial reporting and compliance.

Seward and Monde

North Haven, Connecticut
June 14, 2017

HASKINS LABORATORIES, INC.
STATEMENTS of FINANCIAL POSITION -
MODIFIED CASH BASIS
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 244,460	\$ 229,890
Unreimbursed expenditures due	39,951	56,998
Investments, at market value	1,681,550	2,268,252
Other assets	219,422	183,644
Leasehold improvements and equipment, net of accumulated depreciation and amortization	<u>783,442</u>	<u>848,613</u>
Total assets	<u><u>\$ 2,968,825</u></u>	<u><u>\$ 3,587,397</u></u>
LIABILITIES and NET ASSETS		
Loan payable	<u>\$ 937,694</u>	<u>\$ 1,025,043</u>
Total liabilities	<u>937,694</u>	<u>1,025,043</u>
Net assets:		
Unrestricted	1,961,574	2,493,330
Temporarily restricted	<u>69,557</u>	<u>69,024</u>
Total net assets	<u>2,031,131</u>	<u>2,562,354</u>
Total liabilities and net assets	<u><u>\$ 2,968,825</u></u>	<u><u>\$ 3,587,397</u></u>

See notes to financial statements.

HASKINS LABORATORIES, INC.
STATEMENTS of ACTIVITIES -
MODIFIED CASH BASIS
Years ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:						
Research grants and contracts	\$ 6,416,409	\$ -	\$ 6,416,409	\$ 6,815,454	\$ -	\$ 6,815,454
Contributions	35,600	-	35,600	6,800	-	6,800
Net realized and unrealized gains (losses) on investments	87,557	(152)	87,405	117,669	639	118,308
Interest and dividends, net of fees	25,341	2,043	27,384	7,815	1,246	9,061
Miscellaneous income	1,235	-	1,235	1,586	-	1,586
Net assets released from restrictions	1,358	(1,358)	-	923	(923)	-
Total revenues, gains, and other support	6,567,500	533	6,568,033	6,950,247	962	6,951,209
Expenses and losses:						
Research expenses	6,358,022	-	6,358,022	6,815,454	-	6,815,454
Development expenses	1,358	-	1,358	923	-	923
Administrative and general expenses, net of recovery	610,116	-	610,116	264,515	-	264,515
Leasehold improvements and equipment additions (for use in tax exempt activities):						
From research grants and contracts	58,387	-	58,387	-	-	-
From lab support	6,202	-	6,202	-	-	-
Depreciation and amortization expense	129,760	-	129,760	150,002	-	150,002
Total expenses and losses	7,163,845	-	7,163,845	7,230,894	-	7,230,894
Increase (decrease) in net assets before transfers	(596,345)	533	(595,812)	(280,647)	962	(279,685)
Transfer of funds:						
Additions to leasehold improvements and equipment	64,589	-	64,589	-	-	-
Increase (decrease) in net assets	(531,756)	533	(531,223)	(280,647)	962	(279,685)
Net assets, beginning of year	2,493,330	69,024	2,562,354	2,773,977	68,062	2,842,039
Net assets, end of year	\$ 1,961,574	\$ 69,557	\$ 2,031,131	\$ 2,493,330	\$ 69,024	\$ 2,562,354

See notes to financial statements.

HASKINS LABORATORIES, INC.
STATEMENTS of CASH FLOWS -
MODIFIED CASH BASIS
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets before transfer of funds	(\$ 595,812)	(\$ 279,685)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Transfer of funds:		
Additions to leasehold improvements and equipment	64,589	-
Net realized and unrealized gains on investments	(87,405)	(118,308)
Depreciation and amortization	129,760	150,002
Decrease (increase) in assets:		
Unreimbursed expenditures due	17,047	29,548
Other assets	(35,778)	40,661
Net cash used by operating activities	<u>(507,599)</u>	<u>(177,782)</u>
Cash flows from investing activities:		
Purchases of equipment	(64,589)	-
Purchases of investments	(148,845)	(2,399,826)
Proceeds from sales of investments	<u>822,952</u>	<u>1,979,680</u>
Net cash provided (used) by investing activities	<u>609,518</u>	<u>(420,146)</u>
Cash flows from financing activities:		
Principal payments on loan payable	<u>(87,349)</u>	<u>(81,782)</u>
Net cash used by financing activities	<u>(87,349)</u>	<u>(81,782)</u>
Net increase (decrease) in cash and cash equivalents	14,570	(679,710)
Cash and cash equivalents, beginning of year	<u>229,890</u>	<u>909,600</u>
Cash and cash equivalents, end of year	<u><u>\$ 244,460</u></u>	<u><u>\$ 229,890</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u><u>\$ 65,042</u></u>	<u><u>70,608</u></u>

See notes to financial statements.

HASKINS LABORATORIES, INC.
NOTES to FINANCIAL STATEMENTS
December 31, 2016 and 2015

1 - Summary of Significant Accounting Policies

Nature of Activities

The Haskins Laboratories, Inc. is a not-for-profit organization located in New Haven, Connecticut. Its stated purpose is to conduct and promote research in the field of human communications. The Organization's main source of revenue is grants received from the U.S. Department of Health and Human Services.

Basis of Accounting

The accompanying financial statements are prepared on the modified cash basis of accounting. That basis differs from U.S. generally accepted accounting principles primarily because the Organization recognizes expenses when paid rather than when incurred and recognizes revenue and related assets when earned based on expenses paid. Also, a liability for post-retirement benefits, and their related effects on the change in net assets is not recognized.

Unreimbursed Expenditures Due

Unreimbursed expenditures due consist of certain program expenses that were paid as of year-end and are eligible for reimbursement from the funding entity, but remain unreimbursed as of year end.

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, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at market value in the statement of financial position. Realized and unrealized gains and losses on these investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Leasehold Improvements and Equipment

Acquisitions of leasehold improvements and equipment greater than or equal to five thousand dollars are capitalized.

Leasehold improvements and equipment are carried at cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of individual assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Tax Status

The Organization is exempt from Federal income taxes under Internal Revenue Code section 501(c)(3) and is not considered a private foundation because it is an organization described in sections 170(b)(1)(A)(vi) and 509(a)(1) of the Code.

The Organization evaluates all significant tax positions as required by U.S. generally accepted accounting principles. As of December 31, 2016, the Organization does not believe that it has taken any positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year. It is the Organization's policy to recognize any interest and penalties in the provision for taxes.

The tax returns of the Organization for 2013, 2014, 2015, and 2016 are subject to examination by federal and state authorities generally for three years after they were filed.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Subsequent Events

The Organization has evaluated subsequent events for the period after December 31, 2016 through June 14, 2017, the date the financial statements were available to be issued.

2 - Investments

The Organization's investments at December 31 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Investments held in Merrill Lynch accounts	<u>\$ 1,681,550</u>	<u>\$ 2,268,252</u>

During 2015, the Organization liquidated its investment fund at the Community Foundation for Greater New Haven, Inc. and transferred all of the proceeds to Merrill Lynch accounts.

Investments held in the Merrill Lynch accounts consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Government Securities	15%	18%
Corporate Bonds	8%	10%
Equities	55%	52%
Mutual Funds	<u>22%</u>	<u>20%</u>
Total	<u>100%</u>	<u>100%</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees, for the years ended December 31, 2016 and 2015 amounted to \$21,518 and \$22,475, respectively and have been netted against revenues in the statement of activities.

As the financial markets experience volatility, the Organization's investment portfolio will change in value. In light of the volatility in the markets, any decisions based upon these financial statements must take into consideration current information along with calendar year end information.

3 - Fair Value Measurements

The Organization utilizes the market approach as the valuation technique to measure fair value of its financial instruments. U.S. generally accepted accounting principles, establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value of financial instruments into three levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities where the organization has the ability to access at the measurement date;

Level 2 - Significant other observable inputs other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly (i.e. quoted prices in inactive markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency);

Level 3 - Unobservable inputs are used to the extent that observable inputs are unavailable due to little, if any, market activity for the asset or liability. Unobservable inputs are developed based on the best information available, which might include the organization's own data that reflects assumptions that market participants would use in pricing the asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis at December 31, 2016 are as follows:

Description	Total Fair Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government Securities	\$ 259,822	\$ 159,871	\$ 99,951	\$ -
Corporate Bonds	141,691	-	141,691	-
Equities	915,541	915,541	-	-
Mutual funds	364,496	364,496	-	-
Total	<u>\$ 1,681,550</u>	<u>\$ 1,439,908</u>	<u>\$ 241,642</u>	<u>\$ -</u>

Assets measured at fair value on a recurring basis at December 31, 2015 are as follows:

Description	Total Fair Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government Securities	\$ 397,744	\$ 279,468	\$ 118,276	\$ -
Corporate Bonds	230,355	-	230,355	-
Equities	1,183,332	1,183,332	-	-
Mutual funds	456,821	456,821	-	-
Total	<u>\$ 2,268,252</u>	<u>\$ 1,919,621</u>	<u>\$ 348,631</u>	<u>\$ -</u>

The Organization's policy is to recognize transfers in and transfers out of each level as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between each level during the years ended December 31, 2016 and 2015.

4 - Leasehold Improvements and Equipment

Details of leasehold improvements and equipment at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 1,581,895	\$ 1,575,693
Laboratory equipment - government funded	892,346	839,600
Furniture and office equipment	326,078	326,078
Computers and peripherals	<u>4,868</u>	<u>7,547</u>
	2,805,187	2,748,918
Less, Accumulated depreciation and amortization	<u>(2,021,745)</u>	<u>(1,900,305)</u>
Net	<u>\$ 783,442</u>	<u>\$ 848,613</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was \$129,760 and \$150,002, respectively.

5 - Loan Payable

In July 2004 the Organization entered into a loan agreement with Yale University for the purpose of financing certain leasehold improvements to its office and laboratory space for an amount up to \$2,000,000. The total actual borrowings on the loan were \$1,667,550.

The significant terms and conditions of the loan are as follows:

Maturity Date - November 1, 2024

Interest rate - fixed rate of 6.60%

Security - all furniture, fixtures, equipment, general intangibles, and right title and interest into and under the lease.

Maturity of the loan payable is as follows as of December 31, 2016:

2017	\$ 93,291
2018	99,639
2019	106,416
2020	113,657
2021	121,390
Thereafter	<u>403,301</u>
	<u>\$ 937,694</u>

6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Graduate student scholarship	\$ 27,390	\$ 26,636
Young investigator award	30,574	29,728
Conference	11,593	11,302
The LEARN Center at Haskins	<u>-</u>	<u>1,358</u>
	<u>\$ 69,557</u>	<u>\$ 69,024</u>

7 - Net Assets Released from Restrictions

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
The LEARN Center at Haskins	<u>\$ 1,358</u>	<u>\$ 923</u>

8 - Leases

The Organization entered into an operating lease, which expires in March 2025, for its office facility. The agreement calls for a monthly base rent of \$46,484, subject to a consumer price index increase every third year of the lease, plus a pro rata share for utilities, real estate taxes, and building operating expenses. The lease may be extended, at the option of the Organization, for one additional period of ten years, with the same terms and conditions. The Organization has entered into various other operating leases for office equipment and parking lot rental that expire over various periods through 2020. Rent expense, net of sub-lease income, for the years ended December 31, 2016 and 2015 was approximately \$689,000 and \$716,000, respectively.

The Organization began sub-leasing office space in January 2013. The initial lease term expired in October 2015 and was extended to October 31, 2017, and calls for a current monthly rental of \$5,114. The rental income received on this lease for 2016 and 2015 was \$61,373 and \$58,452, respectively, and is netted against rent expense. The future annual minimum rentals to be received subsequent to December 31, 2016 are netted in the table below.

Future minimum lease payments on the above leases for the five years subsequent to December 31, 2016 are approximately as follows:

2017	\$ 749,000
2018	791,000
2019	761,000
2020	736,000
2021	728,000

9 - Retirement Plans

The Organization maintains a contributory pension plan provided through the Teachers Insurance and Annuity Association of America - College Retirement Equities Fund which covers all eligible employees who have completed twelve months of service. Participation in the plan is voluntary and allows employees to defer a portion of their salary on a pre-tax basis. The plan allows for the Organization to make discretionary contributions. Pension expense for 2016 and 2015 amounted to \$421,522 and \$400,858, respectively.

The Organization maintains a separate defined contribution retirement plan in which there are no minimum service requirements and all contributions are made exclusively by the employee.

The Organization maintains a defined benefit postretirement health plan, that covers certain eligible employees, to provide a health benefit allowance to be applied toward the purchase of retiree health benefits under the Organization's group health plan. The health benefit allowance is adjusted by an annual indexing procedure based on the medical care component of the consumer price index. To be eligible for the plan, a participant must have been employed after January 1, 1995 and must meet certain age and years of service requirements. The Organization pays 100% of the total annual premium cost of the plan. The Organization has not adopted certain U.S. generally accepted accounting principles, which requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders the necessary service and the recording of the funded status of such plan. In accordance with the Organization's modified cash basis of accounting, the postretirement benefits are recorded on a pay-as-you-go (cash) basis. The total postretirement benefit expense for the years ended December 31, 2016 and 2015 amounted to \$10,308 and \$12,598, respectively.

10 - Contingencies

Federally funded research programs are subject to special audit. Such audits could result in claims against the resources of the Organization. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

11 - Concentration of Credit Risk

The Organization maintains cash deposits in bank deposit accounts which at times may exceed FDIC insured limits. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

12 - Details of Functional Expenses

Details of functional expenses at December 31, 2016 are as follows:

	Research Expenses	Development Expenses	Administrative and General Expenses, Net of Recovery	Total Expenses
Salaries	\$ 2,185,651	\$ -	\$ 874,347	\$ 3,059,998
Fringe benefits	928,903	-	323,890	1,252,793
Professional fees, consultants and subcontractors	1,202,161	-	163,188	1,365,349
Occupancy	98	-	794,936	795,034
Travel	159,829	-	4,109	163,938
Supplies	143,401	1,358	50,655	195,414
Interest	-	-	65,042	65,042
Miscellaneous	20,213	-	51,715	71,928
Sub-total	4,640,256	1,358	2,327,882	6,969,496
Overhead charged (applied)	1,717,766	-	(1,717,766)	-
Total	<u>\$ 6,358,022</u>	<u>\$ 1,358</u>	<u>\$ 610,116</u>	<u>\$ 6,969,496</u>

Details of functional expenses at December 31, 2015 are as follows:

	Research Expenses	Development Expenses	Administrative and General Expenses, Net of Recovery	Total Expenses
Salaries	\$ 2,128,409	\$ 465	\$ 806,540	\$ 2,935,414
Fringe benefits	1,218,564	268	(25,719)	1,193,113
Professional fees, consultants and subcontractors	1,343,892	(35)	193,981	1,537,838
Occupancy	98	-	842,915	843,013
Travel	209,263	-	12,400	221,663
Supplies	145,344	-	36,471	181,815
Interest	-	-	70,608	70,608
Miscellaneous	32,516	225	64,687	97,428
Sub-total	5,078,086	923	2,001,883	7,080,892
Overhead charged (applied)	1,737,368	-	(1,737,368)	-
Total	<u>\$ 6,815,454</u>	<u>\$ 923</u>	<u>\$ 264,515</u>	<u>\$ 7,080,892</u>

HASKINS LABORATORIES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Expenditures to Subrecipient
Major (All Research and Development):			
U.S. Department of Health and Human Services: National Institutes of Health:	93.865		
Nature and Acquisition of the Speech Code and Reading			
5P01HD001994-49		\$ 643,436	\$ 9,125
5P01HD001994-50		1,004,216	12,719
Neurobiological Predictors of Spoken and Written Language Learning			
5R01HD065794-05		179,853	39,021
Neurocognitive Determinants of Second Language Literacy Development in Adolescent			
5R01HD067364-05		336,184	70,655
Individual Differences in Learning Potential for Language and Literacy			
5R01HD071988-03		111,604	-
5R01HD071988-04		408,055	-
Training-Induced Plasticity in Human Motor and Sensory Items			
1R01HD075740-03		225,702	82,847
5R01HD075740-04		393,347	71,074
Retrieval Interference in Skilled and Unskilled Reading Comprehension			
5R01HD073288-04		508,516	32,607
5R01HD073288-05		60,877	-
Retrieval Dynamics and Interference in Anaphoric Resolution: Skilled and Unskilled Readers			
5F32HD080331-02		36,482	-
Sub-Total		<u>3,908,272</u>	<u>318,048</u>
National Institutes of Health:	93.173		
Links Between Production and Perception in Speech			
5R01DC002717-17		356,853	89,916
5R01DC002717-18		306,582	24,353

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HASKINS LABORATORIES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2016
...Continued...

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Expenditures to Subrecipient
Major (All Research and Development) (continued):			
Speech and Motor Learning and Sensory Plasticity in Children and Adults			
5R01DC012502-04		\$ 175,559	\$ 55,544
5R01DC012502-05		255,816	129,743
Kinematic Patterns of Phonetic Convergence			
5R21DC012350-02		44,703	-
Somatosensory Function in Speech Perception			
5R21DC013915-02		184,324	-
Sign Language Acquisition, Annotation, Archiving and Sharing			
1R01DC013578-01A1		194,352	33,077
5R01DC013578-02		119,052	34,338
Neurochemistry as a Moderator of Brain Networks for Reading			
1R01HD086168-01A1		95,048	20,844
Sub-Total		1,732,289	387,815
National Science Foundation:			
RI: Medium Collaborative Research: Multilingual Gestural Models of Robust Language - Independent Speech Recognition	47.070		
IIS-1161962		10,476	-
A Common Prosody Platform for Testing Theories and Models of Speech Prosody	47.075		
BCS-1355479		102,244	36,659
Collaborative Proposal: Effects of Production Variability on the Acoustic Consequences of Coordinated Articulatory Gestures	47.075		
BCS-1435592		53,873	-
Collaborative Research: Prosodic Structure: An Integrated Empirical and Modeling Investigation	47.075		
BCS-1551428		6,515	-
Sub-Total		173,108	36,659

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HASKINS LABORATORIES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2016
...Continued...

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Expenditures to Subrecipient
Major (All Research and Development) (continued):			
Passed Through Other Organizations:			
Syracuse University - NIH Ultrasound Biofeedback for Therapy-Resistant Speech Sound Disorders in Children 7R03DC013152-02	93.173	15,628	-
Georgia State University - NIH Neurocognitive Bases of Treatment Resistance in Developmental Dyslexia under 1P01HD070837-01A1	93.865	208,987	-
Southern Connecticut State University - NIH Neurobiological Signatures of Perception and Imitation of AV Speech in Children with ASD under R15DC013864-01	93.173	71,716	-
Research Foundation of City University of New York - NIH Improving Clinical Speech Remediation with Ultrasound Technology under 1R01DC013668-01A1	93.173	171,195	-
Massachusetts General Hospital - NIH Effects of Age-Related Declines in Working Memory on Syntactic Comprehension under 1R56AG049733-01	93.866	71,704	-
Sub-Total		539,230	-
Total Federal Awards		\$ 6,352,899	\$ 742,522

See notes to schedule of expenditure of federal awards

HASKINS LABORATORIES, INC.
NOTES to SCHEDULE of EXPENDITURES
of FEDERAL AWARDS
For the year ended December 31, 2016

1. Basis of Accounting

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Haskins Laboratories, Inc., under programs of the federal government for the year ended December 31, 2016 and is presented on a modified cash basis of accounting. That basis differs from U.S. generally accepted accounting principles primarily because the Organization recognizes expenses when paid rather than when incurred and recognizes revenue and related assets when earned based on expenses paid. Also, a liability for postretirement benefits, and their related effects on the change in net assets is not recognized. 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 operation of The Haskins Laboratories, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Haskins Laboratories, Inc.

2. Summary of Significant Accounting Policies

- a. Expenditures reported on the Schedule are reported on a modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. The Haskins Laboratories, Inc. did not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SEWARD AND MONDE

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

The Board of Directors

Haskins Laboratories, Inc.

New Haven, Connecticut

We have audited, in accordance with U.S. generally accepted auditing standards 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 Haskins Laboratories, Inc. (a nonprofit organization), which comprise the statements of financial position-modified cash basis as of December 31, 2016 and 2015 and the related statements of activities-modified cash basis and cash flows-modified cash basis for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Haskins Laboratories, Inc.'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 Haskins Laboratories, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Haskins Laboratories, Inc.'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 Haskins Laboratories, Inc.'s financial statements are free of 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seward and Monde

North Haven, Connecticut
June 14, 2017

SEWARD AND MONDE

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

The Board of Directors

Haskins Laboratories, Inc.

New Haven, Connecticut

Report on Compliance for Each Major Federal Program

We have audited Haskins Laboratories, Inc.'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 Haskins Laboratories, Inc.'s major federal programs for the year ended December 31, 2016. Haskins Laboratories, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Haskins Laboratories, Inc.'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 U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Haskins Laboratories, Inc.'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 Haskins Laboratories, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Haskins Laboratories, Inc. 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, 2016.

Report on Internal Control Over Compliance

Management of Haskins Laboratories, Inc. 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 Haskins Laboratories, Inc.'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 Haskins Laboratories, Inc.'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.

Seward and Monde

North Haven, Connecticut
June 14, 2017

HASKINS LABORATORIES, INC.
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year ended December 31, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☐ yes ☒ none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance? ☐ yes ☒ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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? ☒ yes ☐ no

Section II - Financial Statement Findings

There are no findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings or questioned costs to report.