

Northern California Institute for Research and Education, Inc.

(A California Nonprofit Public Benefit Corporation)

Financial Statements as of and for the Years Ended
September 30, 2011 and 2010, Independent Auditors'
Report, and OMB Circular A-133 Audit Reports for the
Year Ended September 30, 2011

**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.**
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITORS' REPORT

To the Audit and Risk Management Committee
Northern California Institute for
Research and Education, Inc.
San Francisco, California

We have audited the accompanying statements of financial position of Northern California Institute for Research and Education, Inc. (a California nonprofit public benefit corporation) (the "Institute") as of September 30, 2011 and 2010, and the related statements of activities and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2011, is presented for the purpose of additional analysis as required by OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Institute. Such information has been subjected to the auditing procedures applied in the audit of the 2011 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2011 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

January 30, 2012

**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.**
(A California Nonprofit Public Benefit Corporation)

**STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2011 AND 2010**

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 5,565,098	\$ 6,047,719
RECEIVABLES	6,521,882	8,764,280
PREPAID EXPENSES AND OTHER ASSETS	117,787	108,850
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>3,089,935</u>	<u>3,443,841</u>
TOTAL	<u>\$ 15,294,702</u>	<u>\$ 18,364,690</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 2,627,599	\$ 4,200,196
Accrued expenses	2,822,569	2,467,386
Due to federal government	1,579,723	1,752,343
Unearned revenue	5,858,500	6,481,244
Capital lease obligation	<u>8,611</u>	<u>28,354</u>
Total liabilities	<u>12,897,002</u>	<u>14,929,523</u>
NET ASSETS:		
Unrestricted	2,045,801	3,020,247
Temporarily restricted	<u>351,899</u>	<u>414,920</u>
Total net assets	<u>2,397,700</u>	<u>3,435,167</u>
TOTAL	<u>\$ 15,294,702</u>	<u>\$ 18,364,690</u>

See notes to financial statements.

**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.**
(A California Nonprofit Public Benefit Corporation)

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:						
Federal contracts and grants	\$ 46,990,497	\$ -	\$ 46,990,497	\$ 46,871,248	\$ -	\$ 46,871,248
Clinical research revenue	661,695		661,695	1,230,799		1,230,799
Foundation and other grants	927,934		927,934	1,009,535		1,009,535
Contributions	312,688	51,388	364,076	195,272	4,667	199,939
Service revenue	190,255		190,255	260,018		260,018
Interest income	4,515		4,515	6,549		6,549
Other income	17,098		17,098	20,154		20,154
Net assets released from restrictions	114,409	(114,409)	-	67,900	(67,900)	-
Total revenues and other support	<u>49,219,091</u>	<u>(63,021)</u>	<u>49,156,070</u>	<u>49,661,475</u>	<u>(63,233)</u>	<u>49,598,242</u>
OPERATING EXPENSES:						
Research program expenses	37,892,184		37,892,184	37,744,204		37,744,204
Management and general expenses	12,218,678		12,218,678	13,283,333		13,283,333
Fund-raising expenses	82,675		82,675	94,655		94,655
Total operating expenses	<u>50,193,537</u>	<u>-</u>	<u>50,193,537</u>	<u>51,122,192</u>	<u>-</u>	<u>51,122,192</u>
DISTRIBUTIONS UPON TRANSFER OF INVESTIGATORS				(12,732)		(12,732)
DECREASE IN NET ASSETS	(974,446)	(63,021)	(1,037,467)	(1,473,449)	(63,233)	(1,536,682)
NET ASSETS — Beginning of year	<u>3,020,247</u>	<u>414,920</u>	<u>3,435,167</u>	<u>4,493,696</u>	<u>478,153</u>	<u>4,971,849</u>
NET ASSETS — End of year	<u>\$ 2,045,801</u>	<u>\$ 351,899</u>	<u>\$ 2,397,700</u>	<u>\$ 3,020,247</u>	<u>\$ 414,920</u>	<u>\$ 3,435,167</u>

See notes to financial statements.

**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.**
(A California Nonprofit Public Benefit Corporation)

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$(1,037,467)	\$(1,536,682)
Adjustment to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	906,940	836,733
Loss on write-off of equipment		1,661
Changes in:		
Receivables	2,242,398	(2,956,220)
Prepaid expenses and other assets	(8,937)	60,684
Accounts payable	(1,547,738)	2,228,304
Accrued expenses and due to federal government	182,563	(383,481)
Unearned revenue	<u>(622,744)</u>	<u>567,761</u>
Net cash provided by (used in) operating activities	115,015	(1,181,240)
CASH FLOWS FROM INVESTING ACTIVITIES — Purchases of property, plant, and equipment	(577,893)	(418,040)
CASH FLOWS FROM FINANCING ACTIVITIES — Payments on capital lease	<u>(19,743)</u>	<u>(18,503)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(482,621)	(1,617,783)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>6,047,719</u>	<u>7,665,502</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 5,565,098</u>	<u>\$ 6,047,719</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES — Accrued purchases of property, plant, and equipment	<u>\$ -</u>	<u>\$ 24,859</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Interest paid	<u>\$ 1,149</u>	<u>\$ 2,388</u>

See notes to financial statements.

**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.**
(A California Nonprofit Public Benefit Corporation)

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — Northern California Institute for Research and Education, Inc. (a California nonprofit public benefit corporation) (the “Institute”), was formed in 1988 as a research institute affiliated with the San Francisco Veterans Affairs Medical Center (VA). The Institute works with sponsors and the VA in administering funds for conducting research to find new and improved ways to combat human disease and impairments of man.

Basis of Accounting — The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Institute reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets — Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or otherwise limited by contractual arrangements with outside parties.

Temporarily Restricted Net Assets — Net assets that are subject to donor-imposed restrictions that can be fulfilled either by actions of the Institute pursuant to those restrictions and/or expire with the passage of time.

Permanently Restricted Net Assets — Net assets that are subject to donor-imposed restrictions that are required to be retained in perpetuity by the Institute.

During the reporting period, the Institute had only unrestricted and temporarily restricted net assets. Temporarily restricted net assets at September 30, 2011 and 2010, related primarily to contributions for which the research funds had not yet been spent for the purpose designated by the donor.

Revenue Recognition — The Institute administers several different types of research agreements, including those that are reciprocal and nonreciprocal (charitable) in nature.

Reciprocal agreements are either on a cost-reimbursement basis or on a per-patient payment schedule. Revenues under such agreements are recognized as the services are conducted, using the percentage-of-completion method, measured by per-patient studies. Grant revenue is recognized when earned, generally in proportion to the expenses incurred. Advance payments and signed agreements from sponsors are classified as unearned revenue and recognized as revenue upon the expenditure of allowable costs or completion of the various stages of the studies.

Nonreciprocal revenues or contributions are reported as increases in unrestricted net assets, unless their use is limited by donor-imposed restrictions or conditions. Expirations of donor-imposed restrictions (i.e., the donor-stipulated purpose or time restriction has been satisfied) are reported as net assets released from restrictions.

The Institute's policy is that if a restriction is fulfilled in the same fiscal year in which the contribution is received, the Institute records it as temporarily restricted revenue and as net assets released from restrictions.

Foundation and other grants are not included as support until all conditions are substantially met. At September 30, 2011 and 2010, the Institute had received in advance conditional contributions of \$10,630 and \$348,834, respectively, which are reported in unearned revenue in the statements of financial position. At September 30, 2011 and 2010, the Institute had received notification of \$564,742 and \$1,924,205, respectively, of conditional commitments from foundations to fund research. These amounts will not be recorded by the Institute until the donor-imposed conditions (incurring allowable costs to be reimbursed) are met or an advance is received.

Program Income — Program income earned from fees related to services provided on a grant sponsored activity amounted to \$86,460 and \$42,010 for the years ended September 30, 2011 and 2010, respectively, and is included within service revenue in the statements of activities and changes in net assets. Such funds are required to be expended on the grant sponsored activity.

Cash and Cash Equivalents — Cash and cash equivalents consist of cash held in checking, money market accounts, and investments in a publicly traded money market fund.

Fair Value Measurements — In accordance with GAAP, the Institute classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Institute's investment in a government securities backed money market fund, Bank of America Treasury Reserves, included in cash and cash equivalents is valued at the traded net asset value ("NAV") of the fund. These instruments are classified as Level 1 and amounted to \$3,283,954 and \$3,783,954 at September 30, 2011 and 2010, respectively.

There were no unfunded commitments, normal course of business redemption restrictions, including redemption periods, or other redemption restrictions at September 30, 2011 and 2010.

Property, Plant, and Equipment — Property, plant, and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of assets which range from three to 30 years.

Income Taxes — The Institute is a nonprofit corporation and is generally exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and state tax under California Revenue and Taxation Code Section 23701(d).

Concentrations of Risk — The Institute maintains cash balances at various financial institutions which, at times, may exceed federally insured limits.

The Institute is funded primarily by government agencies. During the years ended September 30, 2011 and 2010, the Department of Health and Human Services ("DHHS") accounted for 81% of federal contract and grant revenue.

Use of Estimates — The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events — The Institute evaluated events subsequent to September 30, 2011 through January 30, 2012 (the date the financial statements were available for issuance) and did not identify any significant events that warrant additional disclosure.

2. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at September 30, 2011 and 2010, consisted of the following:

	2011	2010
Building	\$ 999,680	\$ 999,680
Furniture and office equipment	1,110,947	817,310
Medical and research equipment	<u>5,928,924</u>	<u>5,822,429</u>
Total	8,039,551	7,639,419
Less accumulated depreciation	<u>(4,949,616)</u>	<u>(4,195,578)</u>
Property, plant, and equipment — net	<u>\$ 3,089,935</u>	<u>\$ 3,443,841</u>

At September 30, 2011 and 2010, equipment under a capital lease totaled \$35,163 and \$43,278, respectively.

3. RETIREMENT PLANS

403(b) Savings Plan — The Institute’s employees participate in a 403(b) savings plan (the “Plan”). The Plan is open to all employees beginning at the date of hire. The Plan allows contributions by participants of amounts ranging from 0% to 15% of compensation based on limits defined by the Internal Revenue Code. The Institute does not contribute to the Plan.

Defined Contribution Plan — The Institute’s employees participate in a 401(a) defined contribution plan (the “401(a) Plan”). The 401(a) Plan is open to employees that meet certain eligibility requirements. The Institute makes annual contributions of 10% of eligible employee compensation. The Institute contributed \$988,969 and \$898,970 to the 401(a) Plan for the years ended September 30, 2011 and 2010, respectively.

4. RELATED-PARTY TRANSACTIONS

The majority of the Institute’s board of directors are employed or affiliated with the VA and/or the University of California, San Francisco (UCSF). All of the principal investigators hold academic positions at UCSF. The Institute pays the VA for various research-related services, including pharmacy, animal care, and other services, as well as certain personnel costs, in which the employee performs services for both entities. The Institute, the VA, and UCSF reimburse one another for costs associated with these activities. During the years ended September 30, 2011 and 2010, the Institute incurred such costs in the amount of \$9,252,672 and \$10,529,751, respectively, and was reimbursed \$3,027,182 and \$2,189,542, respectively, in relation to these types of services. At September 30, 2011 and 2010, the

Institute had payables due to the VA and/or UCSF in the amounts of \$695,747 and \$1,062,013, respectively, for these services. These amounts are reported within accounts payable and accrued expenses. At September 30, 2011 and 2010, the Institute had receivables due from the VA and/or UCSF in the amounts of \$650,319 and \$356,746, respectively. These amounts are reported within receivables.

5. COMMITMENTS AND CONTINGENCIES

Research Agreements — Certain research agreements require fulfillment of various procedures. Failure to fulfill those procedures could result in the return of funds to the sponsor(s). In addition, all federal awards are subject to audit under the U.S. Office of Management and Budget Circular A-133 and by various federal agencies. To date, there have not been any significant adjustments related to research agreements.

Indirect Costs — The Institute negotiates its indirect cost agreement with the DHHS. The negotiations resulted in a provisional rate of 48.2% and 48.2% for fiscal years 2011 and 2010, respectively. The rates were determined using estimated indirect costs as a function of estimated direct costs. If actual costs are lower than these estimates, the Institute will make a downward adjustment to its draw of federal funds in order to appropriately reflect actual indirect costs for the period.

Based on the final indirect rate of 48.1% issued by DHHS for fiscal year 2009, the Institute made an adjustment to the billing rate which resulted in a payable at September 30, 2011, to the federal government in the amount of \$588,319. The estimated final indirect rate of 46.7% for fiscal year 2010 resulted in a payable due to the federal government at September 30, 2011, in the amount \$219,881.

Operating Leases — In May 2011, an assignment of lease and assumption agreement was executed between NCIRE and New York School of Medicine, an administrative unit of New York University (NYU) related to NCIRE's lease of office space at 37 East 28th Street, New York, NY 10016. Under that agreement, effective as of August 1, 2010, NCIRE assigned its interest as tenant to NYU through the date of the lease expiration, July 31, 2012.

Total rental expense for the years ended September 30, 2011 and 2010, was \$0 and \$36,310, respectively.

Capital Lease — At September 30, 2011, the Institute leased equipment under a capital lease that will expire in February 2012. Future minimum lease payments are \$8,705 in 2012, of which \$93 represents interest.

Litigation — From time to time, the Institute is a party to legal actions that arise in the normal course of business. In the opinion of management of the Institute, such matters are not expected to have a material effect on the Institute's financial position and no provision has been made in the financial statements.

6. DISTRIBUTION UPON TRANSFERS OF INVESTIGATORS

Research projects may transfer to other nonprofit research facilities as a result of relocations or transfers of principal investigators. When this occurs, the remaining funds and equipment that are designated for that project are sent to the other research facility. The Institute treats transfers as a nonoperating distribution of net assets in its statements of activities and changes in net assets. Those distributions and equipment amounted to \$0 and \$12,732 for the years ended September 30, 2011 and 2010, respectively.

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**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.
(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
RESEARCH AND DEVELOPMENT:			
Department of Defense, U.S. Army Medical and Materiel Command:			
Military Medical Research and Development	12.420	Various	\$ 2,298,654
Basic Scientific Research	12.431		<u>3,235,439</u>
Total Department of Defense, U.S. Army Medical and Materiel Command			<u>5,534,093</u>
National Aeronautics and Space Administration — Aerospace Education Services Program	43.001	Various	<u>281,637</u>
Department of Health and Human Services, National Institutes of Health:			
Direct Awards:			
Oral Diseases and Disorders Research	93.121		183,492
Research and Training in Complementary and Alternative Medicine	93.213		2,994
Mental Health Research Grants	93.242		3,217,958
Alcohol Research Programs	93.273		559,732
Drug Abuse and Addiction Research Programs	93.279		3,416
National Center for Research Resources	93.389		974,542
Cancer Cause and Prevention Research	93.393		1,301,673
Cancer Detection and Diagnosis Research	93.394		588,377
Cancer Biology Research	93.396		39,714
Trans-NIH Recovery Act Research Support	93.701		15,329,063
Cardiovascular Diseases Research	93.837		2,255,384
Lung Diseases Research	93.838		380,491
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846		3,375,929
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		1,966,814
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		1,017,532
Allergy, Immunology, and Transplantation Research	93.855		1,504,845
Microbiology and Infectious Diseases Research	93.856		238,812
Biomedical Research and Research Training	93.859		395,332
Child Health and Human Development Extramural Research	93.865		216,740
Aging Research	93.866		<u>4,483,495</u>
Total Direct Awards			<u>38,036,335</u>

(Continued)

**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.
(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):			
Department of Health and Human Services (continued):			
Pass-Through Awards:			
The Trustees of Columbia University in the City of New York — Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	7U01NS043975	\$ 181,248
Children’s Hospital and Research — Blood Diseases and Resources Research	93.839	U54HL070583	97,008
Duke University — Discovery and Applied Research for Technological Innovations	93.286	R01 EB008387	264,231
Duke University — Allergy, Immunology and Transplantation Research	93.855	5U19AI056363	191,599
The University of California, Davis — Mental Health Research Grants	93.242	R24 MH081807	5,827
The Board of Trustees of the Leland Stanford Junior University:			
Aging Research	93.866	1P01 AG18784	60,498
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS14543	272,857
RHO Federal System Division — Blood Diseases and Resources Research	93.839	5U54 HL070587	(427)
California Pacific Medical Center Research Institute — Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5 R01 NS31966	149,752
Palo Alto Institute for Research and Education, Inc. — Aging Research	93.866	1R01 AG021632	5,008
The University of California, San Francisco:			
Lung Diseases Research	93.838	P01 HL024136	3,297
Aging Research	93.866	R01 AG032306	287,955
Mental Health Research Grants	93.242	R21MH087748	49,307
Military Medical Research and Development	12.420	W81XWH10-1-0021	53,794
Research and Training in Complementary and Alternative Medicine	93.213	R01AT004572	68,735
The University of California, San Diego — Cardiovascular Diseases Research	93.837	R21HL091217	4,745
University of Southern California — Aging Research	93.866	2P01AG12435	324,853
Emory University — Diabetes, Digestive and Kidney Diseases Extramural Research	93.847	N01DK75004	57,375
Jewish Home of San Francisco — Trans-NIH Recovery Act Research Support	93.701	1RC1AG036377	111,418
Medical University of Ohio — Cardiovascular Diseases Research	93.837	HL071556	686
National Space Biomedical — National Aeronautics and Space Administration	43.002	NCC9-58	51,042
New York University:			
Mental Health Research Grants	93.242	7R01MH056350	138,058
Military Medical Research and Development	12.420	W81XWH09-2-0044	173,829
Tufts — New England Medical Center Hospitals, Inc. — Aging Research	93.866	1R01AG027002	1,585
Washington University — Aging Research	93.866	U01AG032438	470
The University of California, Irvine			
National Center for Research Resources	93.389	1 U24 RR021992	196,301
Trans-NIH Recovery Act Research Support	93.701	U24RR021992	10,559
University of North Carolina — Allergy, Immunology and Transplantation Research	93.855	5U19AI031496	41,036
Yale University:			
Mental Health Research Grants	93.242	5 U01 MH082022	211,592
Cardiovascular Diseases Research	93.837	A06695	18,597
Albert Einstein College — Cardiovascular Diseases Research	93.937	5R01-HL095140	14,543
Vanderbilt Medical Center — Biomedical Research and Research Training	93.859	R01GM079419	49,702
The University of California, Berkeley — Drug Abuse and Addiction Research Programs	93.279	HHSN27120080005C	41,352
Total Pass-Through Awards			<u>3,138,432</u>
Total Department of Health and Human Services			<u>41,174,767</u>
TOTAL RESEARCH AND DEVELOPMENT			<u>\$46,990,497</u>

(Concluded)

**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is a summary of the Institute's federal awards on an accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. SUBRECIPIENTS

Of the federal awards presented in the schedule of expenditures of federal awards, the Institute passed federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Basic Scientific Research	12.431	\$ 46,878
Mental Health Research Grants	93.242	254,053
National Center For Research Resources	93.389	347,949
Cancer Cause and Prevention Research	93.393	83,613
Trans-NIH Recovery Act Research Support	93.701	12,219,376
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	5,767
Kidney Diseases, Urology and Hematology Research	93.849	107,617
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	65,596
Allergy, Immunology and Transplantation Research	93.855	111,471
Biomedical Research and Research Training	93.859	37,344
Child Health and Human Development Extramural Research	93.865	79,750
Aging Research	93.866	<u>2,212,309</u>
Total		<u>\$ 15,571,723</u>

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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

To the Audit and Risk Management Committee
Northern California Institute for
Research and Education, Inc.
San Francisco, California

We have audited the financial statements of Northern California Institute for Research and Education, Inc. (a California nonprofit public benefit corporation) (the "Institute"), as of and for the year ended September 30, 2011, and have issued our report thereon January 30, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the Institute is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Institute's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

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 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 Institute's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute'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*.

This report is intended solely for the information and use of the Audit and Risk Management Committee, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

January 30, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Audit and Risk Management Committee
Northern California Institute for
Research and Education, Inc.
San Francisco, California

Compliance

We have audited the compliance of Northern California Institute for Research and Education, Inc. (a California nonprofit public benefit corporation) (the "Institute"), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Institute's major federal program for the year ended September 30, 2011. The Institute's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each to its major federal program is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 provided a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

Internal Control over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test

and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the Audit and Risk Management Committee, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

January 30, 2012

**NORTHERN CALIFORNIA INSTITUTE FOR
RESEARCH AND EDUCATION, INC.
(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Part I — Summary of Auditors' Results

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. No material weaknesses or significant deficiencies in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No material weaknesses or significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Institute's major program was:

Name of the Federal Program

CFDA/Award Number

Research and development

Cluster

8. A threshold of \$1,410,000 was used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133.
9. The Institute did qualify as a low-risk auditee, as that term is defined in OMB Circular A-133.

Part II — Financial Statement Findings Section

No matters are reportable.

Part III — Federal Award Findings and Questioned Costs Section

No matters are reportable.