

Northern California Institute for Research and Education, Inc.

(A California Nonprofit Public Benefit Corporation)

Financial Statements for the Years Ended
September 30, 2010 and 2009, Independent Auditors'
Report, and OMB Circular A 133 Audit Reports for the
Year Ended September 30, 2010

**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, 2010 and 2009, 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, 2010 and 2009, 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, 2010, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular 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 2010 financial statements and, in our opinion, is fairly stated in all material respects, in relation to the 2010 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2011, on our consideration of the Institute's internal control over financial reporting and 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

February 15, 2011

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

**STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2010 AND 2009**

| | 2010 | 2009 |
|---------------------------------------|----------------------|----------------------|
| ASSETS | | |
| CASH AND CASH EQUIVALENTS | \$ 6,047,719 | \$ 7,665,502 |
| RECEIVABLES | 8,764,280 | 5,808,060 |
| PREPAID EXPENSES AND OTHER ASSETS | 108,850 | 169,534 |
| PROPERTY, PLANT, AND EQUIPMENT — Net | <u>3,443,841</u> | <u>3,839,336</u> |
| TOTAL | <u>\$ 18,364,690</u> | <u>\$ 17,482,432</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts payable | \$ 4,200,196 | \$ 1,947,033 |
| Accrued expenses | 2,467,386 | 2,507,188 |
| Due to federal government | 1,752,343 | 2,096,022 |
| Unearned revenue | 6,481,244 | 5,913,483 |
| Capital lease obligation | <u>28,354</u> | <u>46,857</u> |
| Total liabilities | <u>14,929,523</u> | <u>12,510,583</u> |
| NET ASSETS: | | |
| Unrestricted | 3,020,247 | 4,493,696 |
| Temporarily restricted | <u>414,920</u> | <u>478,153</u> |
| Total net assets | <u>3,435,167</u> | <u>4,971,849</u> |
| TOTAL | <u>\$ 18,364,690</u> | <u>\$ 17,482,432</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, 2010 AND 2009**

| | 2010 | | | 2009 | | |
|--|---------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| REVENUES AND OTHER SUPPORT: | | | | | | |
| Federal contracts and grants | \$ 46,871,248 | \$ - | \$ 46,871,248 | \$ 39,711,843 | \$ - | \$ 39,711,843 |
| Clinical research revenue | 1,230,799 | | 1,230,799 | 1,285,365 | | 1,285,365 |
| Foundation and other grants | 1,009,535 | | 1,009,535 | 1,666,720 | | 1,666,720 |
| Contributions | 195,272 | 4,667 | 199,939 | 115,354 | 58,762 | 174,116 |
| Service revenue | 260,018 | | 260,018 | 331,962 | | 331,962 |
| Interest income | 6,549 | | 6,549 | 12,716 | | 12,716 |
| Other income | 20,154 | | 20,154 | 3,769 | | 3,769 |
| Net assets released from restrictions | 67,900 | (67,900) | | 54,010 | (54,010) | - |
| Total revenues and other support | <u>49,661,475</u> | <u>(63,233)</u> | <u>49,598,242</u> | <u>43,181,739</u> | <u>4,752</u> | <u>43,186,491</u> |
| OPERATING EXPENSES: | | | | | | |
| Research program expenses | 37,744,204 | | 37,744,204 | 31,590,745 | | 31,590,745 |
| Management and general expenses | 13,283,333 | | 13,283,333 | 13,567,549 | | 13,567,549 |
| Fundraising expenses | 94,655 | | 94,655 | 248,529 | | 248,529 |
| Total operating expenses | <u>51,122,192</u> | <u>-</u> | <u>51,122,192</u> | <u>45,406,823</u> | <u>-</u> | <u>45,406,823</u> |
| DISTRIBUTIONS UPON TRANSFER OF INVESTIGATORS | <u>(12,732)</u> | | <u>(12,732)</u> | <u>(72,431)</u> | | <u>(72,431)</u> |
| (DECREASE) INCREASE IN NET ASSETS | (1,473,449) | (63,233) | (1,536,682) | (2,297,515) | 4,752 | (2,292,763) |
| NET ASSETS — Beginning of year | <u>4,493,696</u> | <u>478,153</u> | <u>4,971,849</u> | <u>6,791,211</u> | <u>473,401</u> | <u>7,264,612</u> |
| NET ASSETS — End 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> |

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, 2010 AND 2009**

| | 2010 | 2009 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Decrease in net assets | \$(1,536,682) | \$(2,292,763) |
| Adjustment to reconcile decrease in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 836,733 | 815,485 |
| Transfer of equipment | | 72,431 |
| Loss on write-off of equipment | 1,661 | 5,470 |
| Changes in: | | |
| Receivables | (2,956,220) | 2,392,059 |
| Prepaid expenses and other assets | 60,684 | 12,547 |
| Accounts payable | 2,228,304 | (342,825) |
| Accrued expenses and due to federal government | (383,481) | (1,113,059) |
| Unearned revenue | <u>567,761</u> | <u>2,040,623</u> |
| Net cash provided by (used in) operating activities | (1,181,240) | 1,589,968 |
| CASH FLOWS FROM INVESTING ACTIVITIES — Purchases of property, plant, and equipment | (418,040) | (499,133) |
| CASH FLOWS FROM FINANCING ACTIVITIES — Payments on note payable | <u>(18,503)</u> | <u>(9,945)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,617,783) | 1,080,890 |
| CASH AND CASH EQUIVALENTS — Beginning of year | <u>7,665,502</u> | <u>6,584,612</u> |
| CASH AND CASH EQUIVALENTS — End of year | <u>\$ 6,047,719</u> | <u>\$ 7,665,502</u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES: | | |
| Accrued purchases of property, plant, and equipment | <u>\$ 24,859</u> | <u>\$ -</u> |
| Acquisition of equipment through a capital lease agreement | <u>\$ -</u> | <u>\$ 56,802</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Interest paid | <u>\$ 2,388</u> | <u>\$ 2,242</u> |

See notes to the 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, 2010 AND 2009**

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.

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, 2010 and 2009, 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, 2010 and 2009, the Institute had received in advance conditional contributions of \$348,834 and \$386,695, respectively, which are reported in unearned revenue in the statements of financial position. At September 30, 2010 and 2009, the Institute had received notification of \$1,924,205 and \$2,352,523, 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 \$42,010 and \$159,000 for the years ended September 30, 2010 and 2009, respectively, and is included within service revenue on 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 and money market accounts.

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 3 to 30 years. For the years ended September 30, 2010 and 2009, the Institute incurred depreciation expense in the amount of \$836,733 and \$815,485, respectively.

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, 2010 and 2009, respectively, the Department of Health and Human Services accounted for 81% and 80% of federal contract and grant revenue, respectively.

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 — NCIRE evaluated events subsequent to September 30, 2010 through February 15, 2011 (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, 2010 and 2009, consisted of the following:

| | 2010 | 2009 |
|--------------------------------------|---------------------|---------------------|
| Building | \$ 999,680 | \$ 999,680 |
| Furniture and office equipment | 817,310 | 565,899 |
| Medical and research equipment | <u>5,822,429</u> | <u>5,851,354</u> |
| Total | 7,639,419 | 7,416,933 |
| Less accumulated depreciation | <u>(4,195,578)</u> | <u>(3,577,597)</u> |
| Property, plant, and equipment — net | <u>\$ 3,443,841</u> | <u>\$ 3,839,336</u> |

At September 30, 2010, equipment under a capital lease totaled \$43,278.

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 \$898,970 and \$870,548 to the 401(a) Plan for the years ended September 30, 2010 and 2009, 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, 2010 and 2009, the Institute incurred such costs in the amount of \$10,529,751 and \$10,435,964, respectively, and was reimbursed \$2,189,542 and \$2,555,307, respectively, in relation to these types of services. At September 30, 2010 and 2009, the Institute had payables due to the VA and/or UCSF in the amounts of \$1,062,013 and \$884,327, respectively, for these services. These amounts are reported within accounts payable and accrued expenses. At September 30, 2010 and 2009, the Institute had receivables due from the VA and/or UCSF in the amounts of \$356,746 and \$653,773, 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 Department of Health and Human Services (DHHS). The negotiations resulted in a provisional rate of 48.2% and 55% for fiscal years 2010 and 2009, 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 48.3% issued by DHHS for fiscal year 2008, the Institute made an adjustment to the billing rate which resulted in a payable at September 30, 2010 to the federal government in the amount of \$771,523. The estimated final indirect rate of 49% for fiscal year 2009 resulted in a payable due to the federal government at September 30, 2010, in the amount \$760,937.

Operating Leases — At September 30, 2010, the Institute leased space under an operating lease that will expire in July 2012. Future minimum lease payments are as follows:

| | |
|-------|-------------------|
| 2011 | \$ 36,689 |
| 2012 | 31,586 |
| 2013 | <u> </u> |
| Total | <u>\$ 68,275</u> |

Total rental expense for the years ended September 30, 2010 and 2009, was \$36,310 and \$69,112, respectively.

Capital Lease — At September 30, 2010, the Institute leased equipment under a capital lease that will expire in February 2012. Future minimum lease payments are as follows:

| | |
|---|------------------|
| 2011 | \$ 20,891 |
| 2012 | <u>8,705</u> |
| Total | 29,596 |
| Less amount representing interest | <u>(1,242)</u> |
| Present value of net minimum lease payments | <u>\$ 28,354</u> |

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 \$12,732 and \$72,431 for the years ended September 30, 2010 and 2009, 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, 2010**

| 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 | \$ 1,552,767 |
| Basic Scientific Research | 12.431 | | <u>3,411,191</u> |
| Total Department of Defense, U.S. Army Medical and Materiel Command | | | <u>4,963,958</u> |
| National Aeronautics and Space Administration — Aerospace Education Services Program | 43.001 | Various | <u>575,424</u> |
| Department of Health and Human Services, National Institutes of Health: | | | |
| Direct Awards: | | | |
| Oral Diseases and Disorders Research | 93.121 | | 176,069 |
| Mental Health Research Grants | 93.242 | | 3,203,712 |
| Alcohol Research Programs | 93.273 | | 477,961 |
| Drug Abuse and Addiction Research Programs | 93.279 | | 206,616 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | | 281,126 |
| National Center for Research Resources | 93.389 | | 1,318,960 |
| Cancer Cause and Prevention Research | 93.393 | | 788,481 |
| Cancer Detection and Diagnosis Research | 93.394 | | 543,659 |
| Cancer Biology Research | 93.396 | | 365,543 |
| Trans-NIH Recovery Act Research Support | 93.701 | | 7,368,147 |
| Cardiovascular Diseases Research | 93.837 | | 2,809,036 |
| Lung Diseases Research | 93.838 | | 305,251 |
| Blood Diseases and Resources Research | 93.839 | | |
| Arthritis, Musculoskeletal, and Skin Diseases Research | 93.846 | | 2,796,754 |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | | 2,191,348 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | | 881,652 |
| Allergy, Immunology, and Transplantation Research | 93.855 | | 1,718,727 |
| Microbiology and Infectious Diseases Research | 93.856 | | 449,136 |
| Biomedical Research and Research Training | 93.859 | | 431,267 |
| Child Health and Human Development Extramural Research | 93.865 | | 1,421,927 |
| Aging Research | 93.866 | | <u>10,069,265</u> |
| Total Direct Awards | | | <u>37,804,637</u> |

(Continued)

See notes to schedule of expenditures of federal awards.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

| 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 | \$ 303,868 |
| Children's Hospital and Research — Blood Diseases and Resources Research | 93.839 | U54HL070583 | 49,573 |
| Duke University — Discovery and Applied Research for Technological Innovations | 93.286 | R01 EB008387 | 269,587 |
| Duke University — Allergy, Immunology and Transplantation Research | 93.855 | 5U19AI056363 | 163,409 |
| The University of California, Davis — Mental Health Research Grants | 93.242 | R24 MH081807 | 13,123 |
| The Board of Trustees of the Leland Stanford Junior University: | | | |
| Aging Research | 93.866 | 1P01 AG18784 | 45,445 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | NS14543 | 293,929 |
| RHO Federal System Division — Blood Diseases and Resources Research | 93.839 | 5U54 HL070587 | 41,773 |
| California Pacific Medical Center Research Institute — Extramural | | | |
| Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 5 R01 NS31966 | 332,940 |
| The University of Texas Southwestern Medical Center — Biomedical | | | |
| Research and Research Training | 93.859 | 5 U54 GM62114 | |
| Palo Alto Institute for Research and Education, Inc. — Aging Research | 93.866 | 1R01 AG021632 | 40,882 |
| The University of California, San Francisco: | | | |
| Lung Diseases Research | 93.838 | P01 HL024136 | 17,014 |
| Aging Research | 93.866 | R01 AG032306 | 88,348 |
| The University of California, San Diego — Cardiovascular Diseases Research | 93.837 | R21HL091217 | 8,321 |
| Neurosciences and Neurological Disorders | 93.853 | 2 R44 NS043832 | |
| Seattle Institute for Biomedical and Clinical Research — Aging Research | 93.866 | 3R01AG25502 | 46,444 |
| University of Southern California: | | | |
| Cancer Cause and Prevention Research | 93.393 | P01 CA123328 | 85,893 |
| Aging Research | 93.866 | 2P01AG12435 | 512,918 |
| Emory University — Diabetes, Digestive and Kidney Diseases Extramural Research | 93.847 | N01DK75004 | 2,922 |
| Jewish Home of San Francisco — Trans - NIH Recovery Act Research Support | 93.701 | 1RC1AG036377 | 112,814 |
| Medical University of Ohio — Cardiovascular Diseases Research | 93.837 | HL071556 | 759 |
| National Space Biomedical — National Aeronautics and Space Administration | 43.002 | NCC9-58 | 51,460 |
| New York University: | | | |
| Mental Health Research Grants | 93.242 | 7R01MH056350 | 503,390 |
| Military Medical Research and Development | 12.420 | W81XWH09-2-0044 | 51,161 |
| Tufts — New England Medical Center Hospitals, Inc. — Aging Research | 93.866 | 1R01AG027002 | 3,838 |
| Washington University — Aging Research | 93.866 | U01AG032438 | 14,901 |
| The University of California, Irvine | | | |
| National Center for Research Resources | 93.389 | 1 U24 RR021992 | 255,228 |
| Trans - NIH Recovery Act Research Support | 93.701 | U24RR021992 | 21,637 |
| The University of Maryland: | | | |
| Blood Diseases and Resources Research | 93.839 | R01HL083917 | 1,644 |
| Cardiovascular Diseases Research | 93.837 | R01HL080584 | 17,511 |
| University of North Carolina — Allergy, Immunology and Transplantation Research | 93.855 | 5U19AI031496 | 34,226 |
| Yale University: | | | |
| Mental Health Research Grants | 93.242 | 5 U01 MH082022 | 124,680 |
| Cardiovascular Diseases Research | 93.837 | A06695 | 17,591 |
| Total Pass-Through Awards | | | <u>3,527,229</u> |
| Total Department of Health and Human Services | | | <u>41,331,866</u> |
| TOTAL RESEARCH AND DEVELOPMENT | | | <u>\$46,871,248</u> |

**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, 2010**

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 | \$ 6,591 |
| Mental Health Research Grants | 93.242 | 383,446 |
| Drug Abuse Research Programs | 93.279 | 147,122 |
| National Center For Research Resources | 93.389 | 483,347 |
| Cancer Cause and Prevention Research | 93.393 | 108,830 |
| Trans — NIH Recovery Act Research Support | 93.701 | 4,479,559 |
| Heart and Vascular Diseases Research | 93.837 | 25,038 |
| Kidney Diseases, Urology and Hematology Research | 93.849 | 275,124 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 36,821 |
| Allergy, Immunology and Transplantation Research | 93.855 | 530,286 |
| Microbiology and Infectious Diseases Research | 93.856 | 1,558 |
| Biomedical Research and Research Training | 93.859 | 3,772 |
| Child Health and Human Development Extramural Research | 93.865 | 772,943 |
| Aging Research | 93.866 | <u>7,693,343</u> |
| | Total | <u>\$ 14,947,780</u> |

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON THE 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, 2010, and have issued our report thereon February 15, 2011. 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

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, 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

February 15, 2011

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 *U.S. Office of Management and Budget (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, 2010. 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 of its major federal programs 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, 2010.

Internal Control over Compliance

The 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, 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

February 15, 2011

**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, 2010**

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 \$1,406,000 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.