

Northern California
Institute for Research and
Education, Inc.

(A California Nonprofit Public Benefit Corporation)

Financial Statements for the Years Ended
September 30, 2009 and 2008, Independent Auditors'
Report, and OMB Circular A-133 Audit Reports for the
Year Ended September 30, 2009

**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, 2009 and 2008, 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, such financial statements present fairly, in all material respects, the financial position of the Institute as of September 30, 2009 and 2008, 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, 2009, 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 2009 financial statements and, in our opinion, is fairly stated in all material respects, in relation to the 2009 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2010, 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

April 5, 2010

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

**STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2009 AND 2008**

	2009	2008
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 7,665,502	\$ 6,584,612
RECEIVABLES	5,808,060	8,200,119
PREPAID EXPENSES AND OTHER ASSETS	169,534	182,081
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>3,839,336</u>	<u>4,231,515</u>
TOTAL	<u>\$ 17,482,432</u>	<u>\$ 19,198,327</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 1,947,033	\$ 2,344,586
Accrued expenses	2,507,188	4,671,760
Due to federal government	2,096,022	1,044,509
Unearned revenue	5,913,483	3,872,860
Capital lease obligation	<u>46,857</u>	<u> </u>
Total liabilities	<u>12,510,583</u>	<u>11,933,715</u>
 NET ASSETS:		
Unrestricted	4,493,696	6,791,211
Temporarily restricted	<u>478,153</u>	<u>473,401</u>
Total net assets	<u>4,971,849</u>	<u>7,264,612</u>
TOTAL	<u>\$ 17,482,432</u>	<u>\$ 19,198,327</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, 2009 AND 2008**

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:						
Federal contracts and grants	\$ 39,711,843	\$ -	\$ 39,711,843	\$ 44,725,187	\$ -	\$ 44,725,187
Clinical research revenue	1,285,365		1,285,365	1,664,612		1,664,612
Foundation and other grants	1,666,720		1,666,720	1,988,269		1,988,269
Contributions	115,354	58,762	174,116	268,776	100,537	369,313
Service revenue	331,962		331,962	646,752		646,752
Interest income	12,716		12,716	57,962		57,962
Other income	3,769		3,769	18,412		18,412
Net assets released from restrictions	54,010	(54,010)		66,814	(66,814)	
Total revenues and other support	<u>43,181,739</u>	<u>4,752</u>	<u>43,186,491</u>	<u>49,436,784</u>	<u>33,723</u>	<u>49,470,507</u>
OPERATING EXPENSES:						
Research program expenses	31,590,745		31,590,745	37,378,891		37,378,891
Management and general expenses	13,567,549		13,567,549	13,114,958		13,114,958
Fundraising expenses	248,529		248,529	178,343		178,343
Total operating expenses	<u>45,406,823</u>	<u>-</u>	<u>45,406,823</u>	<u>50,672,192</u>	<u>-</u>	<u>50,672,192</u>
DISTRIBUTIONS UPON TRANSFER OF INVESTIGATORS	<u>(72,431)</u>		<u>(72,431)</u>			
(DECREASE) INCREASE IN NET ASSETS	(2,297,515)	4,752	(2,292,763)	(1,235,408)	33,723	(1,201,685)
NET ASSETS — Beginning of year	<u>6,791,211</u>	<u>473,401</u>	<u>7,264,612</u>	<u>8,026,619</u>	<u>439,678</u>	<u>8,466,297</u>
NET ASSETS — End 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>

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, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$(2,292,763)	\$(1,201,685)
Adjustment to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	815,485	806,336
Transfer of equipment	72,431	
Loss on write-off of equipment	5,470	
Changes in:		
Receivables	2,392,059	(1,353,696)
Prepaid expenses and other assets	12,547	33,753
Accounts payable	(342,825)	38,905
Accrued expenses and due to federal government	(1,113,059)	1,261,802
Unearned revenue	<u>2,040,623</u>	<u>(530,389)</u>
Net cash provided by (used in) operating activities	1,589,968	(944,974)
CASH FLOWS FROM INVESTING ACTIVITIES — Purchases of property, plant, and equipment	(499,133)	(401,449)
CASH FLOWS FROM FINANCING ACTIVITIES — Payments on note payable	<u>(9,945)</u>	<u> </u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,080,890	(1,346,423)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>6,584,612</u>	<u>7,931,035</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 7,665,502</u>	<u>\$ 6,584,612</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Accrued purchases of property, plant, and equipment	<u>\$ -</u>	<u>\$ 54,728</u>
Acquisition of equipment through a capital lease agreement	<u>\$ 56,802</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Interest paid	<u>\$ 2,242</u>	<u>\$ -</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, 2009 AND 2008**

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, 2009 and 2008, 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, 2009 and 2008, the Institute had received in advance conditional contributions of \$386,695 and \$479,261, respectively, which are reported in unearned revenue in the statements of financial position. At September 30, 2009 and 2008, the Institute had received notification of \$2,352,523 and \$2,161,150, 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 \$159,000 and \$214,500 for the years ended September 30, 2009 and 2008, 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, 2009 and 2008, the Institute incurred depreciation expense in the amount of \$815,485 and \$806,336, 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, 2009 and 2008, respectively, the Department of Health and Human Services accounted for 80% and 83% 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 — The Institute has evaluated subsequent events through April 5, 2010, the date on which the financial statements were issued.

2. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at September 30, 2009 and 2008, consisted of the following:

	2009	2008
Building	\$ 999,680	\$ 993,935
Furniture and office equipment	565,899	402,174
Medical and research equipment	<u>5,851,354</u>	<u>5,975,078</u>
Total	7,416,933	7,371,187
Less accumulated depreciation	<u>(3,577,597)</u>	<u>(3,139,672)</u>
Property, plant, and equipment — net	<u>\$ 3,839,336</u>	<u>\$ 4,231,515</u>

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 \$870,548 and \$862,250 to the 401(a) Plan for the years ended September 30, 2009 and 2008, 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, 2009 and 2008, the Institute incurred such costs in the amount of \$10,435,964 and \$10,335,033, respectively, and was reimbursed \$2,555,307 and \$2,452,171, respectively, in relation to these types of services. At September 30, 2009 and 2008, the Institute had payables due to the VA and/or UCSF in the amounts of \$884,327 and \$986,462, respectively, for these services. These amounts are reported within accounts payable and accrued expenses. At September 30, 2009 and 2008, the Institute had receivables due from the VA and/or UCSF in the amounts of \$653,773 and \$800,742, 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 55% for fiscal years 2009 and 2008, 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 48.2% issued by DHHS for fiscal year 2007, the Institute made an adjustment to the billing rate which resulted in a payable at September 30, 2009 to the federal government in the amount of \$1,026,215. The estimated final indirect rate of 48.9% for fiscal year 2008 resulted in a payable due to the federal government at September 30, 2009, in the amount \$1,069,807.

Operating Leases — At September 30, 2009, the Institute leased space under an operating lease that will expire in July 2012. Future minimum lease payments are as follows:

2010	\$ 35,277
2011	36,689
2012	<u>31,586</u>
Total	<u>\$ 103,552</u>

Total rental expense for the years ended September 30, 2009 and 2008, was \$69,112 and \$71,334, respectively.

Capital Lease — At September 30, 2009, the Institute leased equipment under a capital lease that will expire in February 2012. Future minimum lease payments are as follows:

2010	\$ 20,891
2011	20,891
2012	<u>8,705</u>
Total	50,487
Less amount representing interest	<u>(3,630)</u>
Present value of net minimum lease payments	<u>\$ 46,857</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 \$72,431 and \$0 for the years ended September 30, 2009 and 2008, 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, 2009**

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	\$ 665,956
Basic Scientific Research	12.431		<u>4,249,161</u>
Total Department of Defense, U.S. Army Medical and Materiel Command			<u>4,915,117</u>
National Aeronautics and Space Administration — Aerospace Education Services Program	43.001	Various	<u>590,398</u>
Department of Health and Human Services, National Institutes of Health:			
Direct Awards:			
Oral Diseases and Disorders Research	93.121		100,175
Mental Health Research Grants	93.242		3,144,463
Alcohol Research Programs	93.273		662,663
Drug Abuse and Addiction Research Programs	93.279		643,463
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		227,921
National Center for Research Resources	93.389		1,482,842
Cancer Cause and Prevention Research	93.393		512,001
Cancer Detection and Diagnosis Research	93.394		783,576
Cancer Biology Research	93.396		911,661
Trans-NIH Recovery Act Research Support	93.701		73,612
Cardiovascular Diseases Research	93.837		3,500,182
Lung Diseases Research	93.838		438,246
Blood Diseases and Resources Research	93.839		362,103
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846		2,690,120
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		2,460,758
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		932,167
Allergy, Immunology, and Transplantation Research	93.855		1,422,975
Microbiology and Infectious Diseases Research	93.856		817,882
Biomedical Research and Research Training	93.859		343,946
Child Health and Human Development Extramural Research	93.865		1,239,574
Aging Research	93.866		<u>9,165,951</u>
Total Direct Awards			<u>31,916,281</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, 2009**

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	\$ (10,851)
Duke University — Discovery and Applied Research for Technological Innovations	93.286	R01 EB008387	113,754
The University of California, Davis — Mental Health Research Grants	93.242	R24 MH081807	9,592
The Board of Trustees of the Leland Stanford Junior University: Aging Research	93.866	1P01 AG18784	217,246
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS14543	17,476
RHO Federal System Division — Blood Diseases and Resources Research	93.839	5U54 HL070587	(8,894)
California Pacific Medical Center Research Institute — Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5 R01 NS31966	582,018
The University of Texas Southwestern Medical Center — Biomedical Research and Research Training	93.859	5 U54 GM62114	6,722
Palo Alto Institute for Research and Education, Inc. — Aging Research	93.866	1R01 AG021632	20,769
The University of California, San Francisco — Lung Diseases Research	93.838	P01 HL024136	189,103
The University of California, Berkeley — Cardiovascular Diseases Research	93.837	1R01 HL071253	4,530
Twin Star Medical — Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	2 R44 NS043832	24,863
Seattle Institute for Biomedical and Clinical Research — Aging Research	93.866	3R01AG25502	93,142
University of Southern California — Cancer Cause and: Prevention Research	93.393	P01 CA123328	311,927
Aging Research	93.866	2P01AG12435	338,779
Emory University — Diabetes, Digestive and Kidney Diseases Extramural Research	93.847	N01DK75004	29,496
Medical University of Ohio — Cardiovascular Diseases Research	93.837	HL071556	2,555
Tufts — New England Medical Center Hospitals, Inc. — Aging Research	93.866	1R01AG027002	36,926
Washington University — Aging Research	93.866	U01AG032438	12,140
The University of California, Irvine — National Center for Research Resources	93.389	1 U24 RR021992	199,120
The University of Maryland: Blood Diseases and Resources Research	93.839	R01HL083917	27,590
Cardiovascular Diseases Research	93.837	R01HL080584	19,300
Yale University: Mental Health Research Grants	93.242	5 R01 MH058262	33,783
Cardiovascular Diseases Research	93.837	A06695	18,961
Total Pass-Through Awards			<u>2,290,047</u>
Total Department of Health and Human Services			<u>34,206,328</u>
TOTAL RESEARCH AND DEVELOPMENT			<u>\$39,711,843</u>

See notes to schedule of expenditures of federal awards.

(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, 2009**

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	\$ 91,758
Mental Health Research Grants	93.242	344,484
Alcohol Research Programs	93.273	42,694
Drug Abuse and Addiction Research Programs	93.279	422,166
National Center For Research Resources	93.389	539,876
Cardiovascular Diseases Research	93.837	317,015
Blood Diseases and Resources Research	93.839	22,327
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	227,913
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	60,722
Allergy, Immunology and Transplantation Research	93.855	396,883
Microbiology and Infectious Diseases Research	93.856	(13,902)
Child Health and Human Development Extramural Research	93.865	239,369
Aging Research	93.866	<u>7,213,077</u>
Total		<u>\$9,904,382</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, 2009, and have issued our report thereon dated April 5, 2010. 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 *control deficiency* 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 *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Institute's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Institute's financial statements that is more than inconsequential will not be prevented or detected by the Institute's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Institute's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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

April 5, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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 are applicable to its major federal program for the year ended September 30, 2009. 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 grant agreements applicable 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 requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

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 grant agreements 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 in

order to determine our auditing procedures for the purpose of expressing an opinion on compliance, 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 *control deficiency* in an Institute's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Institute's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Institute's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Institute's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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

April 5, 2010

**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, 2009**

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 \$1,191,000 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.