

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, 2016 and 2015,
Independent Auditors' Reports, and
Schedule of Expenditures of Federal Awards and
Uniform Guidance Compliance Reports
for the Year Ended September 30, 2016

**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 of the
Northern California Institute for
Research and Education, Inc.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of Northern California Institute for Research and Education, Inc. (a California Nonprofit Public Benefit Corporation) (the "Institute"), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern California Institute for Research and Education, Inc. as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purposes of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2016, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Institute's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017, 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 the audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

The logo for Deloitte & Touche LLP, written in a stylized, cursive script.

March 10, 2017

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

**STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2016 AND 2015**

	2016	2015
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 11,013,628	\$ 11,325,850
RECEIVABLES	13,642,764	7,258,082
PREPAID EXPENSES AND OTHER ASSETS	83,440	99,221
PROPERTY, PLANT, AND EQUIPMENT—Net	<u>1,087,532</u>	<u>1,231,962</u>
TOTAL	<u>\$ 25,827,364</u>	<u>\$ 19,915,115</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 10,840,974	\$ 4,892,248
Accrued expenses	1,369,379	1,464,637
Due to federal government	898,950	1,018,950
Unearned revenue	<u>10,268,390</u>	<u>10,589,311</u>
Total liabilities	<u>23,377,693</u>	<u>17,965,146</u>
NET ASSETS:		
Unrestricted	1,542,834	1,188,149
Temporarily restricted	<u>906,837</u>	<u>761,820</u>
Total net assets	<u>2,449,671</u>	<u>1,949,969</u>
TOTAL	<u>\$ 25,827,364</u>	<u>\$ 19,915,115</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, 2016 AND 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:						
Federal contracts and grants	\$ 40,754,260	\$ -	\$ 40,754,260	\$ 38,796,577	\$ -	\$ 38,796,577
Clinical research revenue	1,968,352		1,968,352	1,360,154		1,360,154
Foundation and other grants	32,038		32,038	14,504		14,504
Contributions	249,273	272,476	521,749	501,143	4,762	505,905
Service revenue	104,331		104,331	75,468		75,468
Interest income	5,854		5,854	4,367		4,367
Other income	28,416		28,416	23,926		23,926
Net assets released from restrictions	127,459	(127,459)	-	141,056	(141,056)	-
Total revenues and other support	<u>43,269,983</u>	<u>145,017</u>	<u>43,415,000</u>	<u>40,917,195</u>	<u>(136,294)</u>	<u>40,780,901</u>
OPERATING EXPENSES:						
Research program expenses	33,230,771		33,230,771	31,229,796		31,229,796
Management and general expenses	9,599,318		9,599,318	9,938,653		9,938,653
Fund-raising expenses	85,209		85,209	3,430		3,430
Total operating expenses	<u>42,915,298</u>	<u>-</u>	<u>42,915,298</u>	<u>41,171,879</u>	<u>-</u>	<u>41,171,879</u>
INCREASE (DECREASE) IN NET ASSETS	354,685	145,017	499,702	(254,684)	(136,294)	(390,978)
NET ASSETS—Beginning of year	<u>1,188,149</u>	<u>761,820</u>	<u>1,949,969</u>	<u>1,442,833</u>	<u>898,114</u>	<u>2,340,947</u>
NET ASSETS—End of year	<u>\$ 1,542,834</u>	<u>\$ 906,837</u>	<u>\$ 2,449,671</u>	<u>\$ 1,188,149</u>	<u>\$ 761,820</u>	<u>\$ 1,949,969</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, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 499,702	\$ (390,978)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	460,276	363,667
Changes in:		
Receivables	(6,384,682)	1,178,979
Prepaid expenses and other assets	15,781	4,978
Accounts payable	6,005,933	(1,579,499)
Accrued expenses and due to federal government	(215,258)	(92,454)
Unearned revenue	<u>(320,921)</u>	<u>2,370,286</u>
Net cash provided by operating activities	<u>60,831</u>	<u>1,854,979</u>
CASH FLOWS FROM INVESTING ACTIVITIES—Purchases of property, plant, and equipment	<u>(373,053)</u>	<u>(112,622)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(312,222)	1,742,357
CASH AND CASH EQUIVALENTS—Beginning of year	<u>11,325,850</u>	<u>9,583,493</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$11,013,628</u>	<u>\$11,325,850</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES—		
Accrued purchases of property, plant, and equipment	<u>\$ -</u>	<u>\$ 57,207</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, 2016 AND 2015**

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization—Northern California Institute for Research and Education, Inc. (a California nonprofit public benefit corporation) (NCIRE or 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 advancing veterans’ health research.

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, 2016 and 2015, 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, 2016 and 2015, the Institute had received in advance conditional contributions of \$22,474 and \$29,869, respectively, which are reported in unearned revenue in the statements of financial position. At September 30, 2016 and 2015, the Institute had received notification of \$24,000 and \$0, 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 \$0 and \$1,565 for the years ended September 30, 2016 and 2015, 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.

Receivables—Receivables consist primarily of amounts due under federal grants and other contracts. The Institute has evaluated the collectibility of the receivables and determined that no allowance for doubtful accounts was required at September 30, 2016 or 2015.

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, included in cash and cash equivalents, is valued at the traded net asset value of the fund. This instrument is classified as Level 1 and amounted to \$3,286,781 and \$3,285,169 at September 30, 2016 and 2015, respectively. The Institute had no Level 2 or 3 investments.

There were no unfunded commitments, normal course of business redemption restrictions, including redemption periods, or other redemption restrictions at September 30, 2016 and 2015.

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). NCIRE management believes that no liabilities are required to accrue for uncertain tax positions as of September 30, 2016 and 2015.

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, 2016 and 2015, the Department of Health and Human Services (DHHS) accounted for 79% and 81% of federal contract and grant revenue, respectively.

Use of Estimates—The preparation of financial statements in accordance with GAAP 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, 2016, through March 10, 2017 (the date the financial statements were available for issuance), and did not identify any significant events that warrant additional disclosure.

2. RECEIVABLES

Receivables at September 30, 2016 and 2015, consist of the following:

	2016	2015
Federal grants and contracts	\$ 12,155,644	\$ 6,308,623
Clinical research	783,246	344,913
Private foundations	19,979	11,013
Due from VA	461,198	415,277
Miscellaneous	<u>222,697</u>	<u>178,256</u>
Total receivables	<u>\$ 13,642,764</u>	<u>\$ 7,258,082</u>

3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at September 30, 2016 and 2015, consist of the following:

	2016	2015
Building	\$ 999,680	\$ 999,680
Furniture and office equipment	1,471,402	1,195,415
Medical and research equipment	<u>2,067,405</u>	<u>2,171,864</u>
Total	4,538,487	4,366,959
Less accumulated depreciation	<u>(3,450,955)</u>	<u>(3,134,997)</u>
Property, plant, and equipment—net	<u>\$ 1,087,532</u>	<u>\$ 1,231,962</u>

Effective October 1, 2015, the Institute accelerated depreciation of Building 14 (the Institute's administrative headquarters) in anticipation of the demolition of the building by the San Francisco VA Health Care System (SFVAHCS) as part of the plan for development of a research building on the site. Building 14 was originally constructed on land owned by the SFVAHCS. As a result, the Institute recognized an additional \$171,878 in depreciation expense for the year ended September 30, 2016.

4. 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 \$946,090 and \$993,308 to the 401(a) Plan for the years ended September 30, 2016 and 2015, respectively.

5. 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, 2016 and 2015, the Institute incurred such costs in the amount of \$7,335,344 and \$7,988,991, respectively, and was reimbursed \$2,689,477 and \$3,369,608, respectively, in relation to these types of services. At September 30, 2016 and 2015, the Institute had payables due to the VA and/or UCSF in the amounts of \$585,250 and \$652,701, respectively, for these services. These amounts are reported within accounts payable and accrued expenses. At September 30, 2016 and 2015, the Institute had receivables due from the VA and/or UCSF in the amounts of \$515,664 and \$443,085, respectively. These amounts are reported within receivables.

6. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), 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 53.3% for fiscal years 2017 and 2016. 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.

The final indirect rate of 53.5% for fiscal year 2015 was finalized in August 2016. The final indirect rate of 53.2% for fiscal year 2014 was finalized in August 2015.

At September 30, 2016 and 2015, the Institute had payables due to the federal government in the amounts of \$898,950 and \$1,018,950, respectively, for previous years' indirect rate changes.

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.

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
UNIFORM GUIDANCE COMPLIANCE REPORTS**

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 of the
Northern California Institute for
Research and Education, Inc.
San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northern California Institute for Research and Education, Inc. (a California Nonprofit Public Benefit Corporation)(the "Institute"), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

March 10, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited Northern California Institute for Research and Education, Inc.'s (a California Nonprofit Public Benefit Corporation)(the "Institute") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended September 30, 2016. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

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

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

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

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

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, handwritten-style font.

March 10, 2017

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
RESEARCH AND DEVELOPMENT:				
Department of Defense, U.S. Army Medical and Materiel Command: Military Medical Research and Development	12.420	Various	\$ 2,919,498	\$ 6,767,021
Total Department of Defense, U.S. Army Medical and Materiel Command			<u>2,919,498</u>	<u>6,767,021</u>
Department of Health and Human Services, National Institutes of Health: Direct Awards:				
Research Related to Deafness and Communication Disorders	93.173			630,742
Research and Training in Complementary and Alternative Medicine	93.213		3,074	216,630
Mental Health Research Grants	93.242		167,625	3,007,119
Occupational Safety and Health Program	93.262			40,916
Alcohol Research Programs	93.273			345,308
Drug Abuse and Addiction Research Programs	93.279			86,478
Minority Health and Health Disparities Research	93.307			171,853
Nursing Research	93.361			100,494
Cancer Cause and Prevention Research	93.393			1,479,327
Cancer Biology Research	93.396			37,409
Cardiovascular Diseases Research	93.837		1,259,563	4,449,461
Lung Diseases Research	93.838			103,850
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846			2,215,981
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		195,433	1,279,860
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			736,135
Allergy, Immunology, and Transplantation Research	93.855		624,379	1,726,301
Biomedical Research and Research Training	93.859		93,250	402,364
Aging Research	93.866		<u>11,498,770</u>	<u>15,043,589</u>
Total Direct Awards			<u>13,842,094</u>	<u>32,073,817</u>

(Continued)

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
RESEARCH AND DEVELOPMENT (continued):				
Department of Health and Human Services (continued):				
Pass-Through Awards:				
University of California, San Francisco—Military Medical Research and Development	12.420	W81XWH-14-2-0176		\$ 54,007
Military Medical Research and Development	12.420	W81XWH-12-2-0048		134,589
Research and Training in Complementary and Alternative Medicine	93.213	R01AT004572		
Aging Research	93.866	R01AG032306		749
Cancer Cause and Prevention Research	93.393	R01CA181191		38,857
Cancer Detection and Diagnosis Research	93.394	CA199792		15,040
Mental Health Research Grants	93.242	R01MH083784		28,798
Mental Health Research Grants	93.242	MH101472		33,533
New York University— Military Medical Research and Development	12.420	W81XWH-14-1-0043		132,763
Purdue University—Aging Research	93.866	AG034160		8,203
San Francisco Dept. of Public Health— Drug Abuse and Addiction Research Programs	93.279	1R01DA031678-01		36,117
San Francisco Dept. of Public Health— Drug Abuse and Addiction Research Programs	93.279	5R01DA034527-02		18,058
Ernest Gallo Clinic and Research Center—Military Medical Research and Development	12.420	W81XWH-11-1-0245		(12,601)
Tufts Medical Center—Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01DK08796-04		37,608
Aging Research	93.866	R01AH027002		47,533
Veterans Medical Research Foundation—Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01DK098234-01A		63,434
University of California San Diego— Environmental Health	93.113	R01ES017462		2,058

(Continued)

**NORTHERN CALIFORNIA INSTITUTE FOR
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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Health and Human Services (continued): Pass-Through Awards:				
University of Pittsburgh— Environmental Health	93.113	R01ES020718		\$ 292,615
University of California Berkeley— Mental Health Research Grants	93.242	R24MH106096		52,725
Center for the Advancement of Science in Space—Space Operations	43.007	UA2013108		116,598
Baylor College of Medicine Extramural Research—Programs in the Neurosciences and Neurological Disorders	93.853	U01NS090406		45,437
Virginia Commonwealth University— Military Medical Research and Development	12.420	W81XWH-13-2-0095		203,109
The Medical College of Wisconsin— Cardiovascular Diseases Research	93.837	R01HL115267		25,344
Kaiser Foundation Research Institute— Cardiovascular Diseases Research	93.837	RNG200103		145,697
Arizona University—Military Medical Research and Development	12.420	W81XWH-14-1-0467		19,183
Johns Hopkins University— Diabetes, Digestive, and Kidney Diseases Research	93.847	R01DK103574		8,907
Aging Research	93.866	AG047859		6,651
Joan & Sanford I. Weill Medical College of Cornell University—Cardiovascular Diseases Research	93.837	HL128278		247,669
Brown University— Alcohol Research Programs	93.273	AA023662		6,332
Drug Abuse and Addiction Research Programs	93.279	DA033425		24,116
Trustees of Indiana University— Nursing Research	93.361	R01NR015255		49,266

(Continued)

**NORTHERN CALIFORNIA INSTITUTE FOR
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(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Health and Human Services (continued): Pass-Through Awards:				
The University of Memphis—Alcohol Research Programs	93.273	R01AA020829		17,054
The Research Foundation for the State University of NY—Oral Diseases and Disorders Research	93.121	DE025826		13,639
The Henry M. Jackson Foundation—Military Medical Research and Development	12.420	W81XWH-15-2-0070		5,885
Rhode Island Hospital—Military Medical Research and Development	12.420	W81XWH-15-2-0055		20,510
University of North Carolina—Research on Healthcare Costs, Quality and Outcomes	93.226	HS023875		5,748
Medical University of Ohio—Cardiovascular Diseases Research	93.837	HL071556		<u>(31,810)</u>
Total Pass-Through Awards			<u> </u>	<u>1,913,421</u>
Total Department of Health and Human services			<u>13,842,094</u>	<u>33,987,238</u>
TOTAL RESEARCH AND DEVELOPMENT			<u>\$ 16,761,592</u>	<u>\$ 40,754,259</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, 2016**

1. PURPOSE OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") is a supplementary schedule to the financial statements of the Northern California Institute for Research and Education, Inc. (a California Nonprofit Public Benefit Corporation)(the "Institute"), and is presented for the purpose of additional analysis. Because the Schedule presents only a selected portion of the activities of the Institute, it is not intended to, and does not, present either the financial position, changes in net assets, or cash flows of the Institute.

2. BASIS OF PRESENTATION

The Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which numbers are available. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Institute has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

In December 2013, the Office of Management and Budget (OMB) issued the Uniform Guidance, a comprehensive grant reform rules. The new requirements consolidate what was previously in eight separate OMB Circulars into a single new document. This consolidation resulted in various areas of change to the previous requirements. The grant reform rules are intended to streamline the federal government's guidance on administrative requirements, cost principles, and audit requirements for federal awards. The final guidance supersedes OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122, and A-133, and is effective for federal awards made after December 26, 2014. The final guidance had no material impact on the Institute's federal grant programs.

3. SUBRECIPIENTS

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

Subrecipients	Federal CFDA Number	Award No.	Amount Provided to Subrecipients
Banner Alzheimer's Institute	12.420	W81XWH-12-2-0012	\$ 20,226
	12.420	W81XWH-13-1-0259	11,750
	93.866	2U01AG024904	192,843
Blood Systems Research Institute	93.855	R56AI116342	32,614
Brigham and Women's Hospital	93.866	U01AG024904	89,689
Brown University	93.213	R34AT008319	3,074
California Medical Innovation Institute	93.837	1R01HL111032-01A1	48,598
	93.837	R01HL118627	676,733
Duke University	93.866	U01AG024904	(879)
Henry M. Jackson Foundation	12.420	W81XWH-14-2-0137	51,292
Indiana University	12.420	W81XWH-12-2-0012	38,612
	12.420	W81XWH-13-1-0259	17,136
	93.866	2U01AG024904	353,657
Johns Hopkins University	93.866	R01AG034853	39,950
Kaiser Foundation Research	93.242	1R01 MH086498	(282)
	93.847	2R01DK069406	20,625
LA BioMed Research Institute	93.855	R01AI106987	558
Massachusetts General Hospital	93.866	U01AG024904	26,627
Mayo Clinic Rochester	12.420	W81XWH-12-2-0012	73,778
	12.420	W81XWH-13-1-0259	68,086
	93.866	2U01AG024904	516,079
Oregon State University	93.866	R01AG046206	86,728
Palo Alto Veterans Institute for Research	93.847	2R01DK069406	104,685
Public Health Institute	12.420	W81XWH-13-1-0054	14,901
Rehabilitation Institute Of Chicago	12.420	W81XWH-12-2-0012	4,077
	12.420	W81XWH-13-1-0259	5,271
	12.420	W81XWH-12-2-0012	39,053
UC Berkeley	12.420	W81XWH-14-1-0462	50,050
	93.837	R01HL063348	133,257
	93.866	2U01AG024904	633,916
	12.420	W81XWH-13-1-0259	16,253
UC Davis	12.420	W81XWH-12-2-0012	43,829
	12.420	W81XWH-13-1-0259	31,623
	12.420	W81XWH-14-1-0462	19,945
	93.855	R01AI106987	72,568
UC Irvine	93.866	2U01AG024904	423,267
	93.866	2U01AG024904	35,396
UC Los Angeles	93.837	1R01HL114563	20,223
	93.866	R01AG034853	203

(Continued)

Subrecipients	Federal CFDA Number	Award No.	Amount Provided to Subrecipients
UC San Diego	12.420	W81XWH-14-1-0462	\$ 32,385
	12.420	W81XWH-12-2-0012	997,570
	12.420	W81XWH-13-1-0259	368,228
	93.855	R01AI106987	51,673
UC San Francisco	93.866	2U01AG024904	(336,585)
	93.855	R56AI116342	38,903
	93.847	R01DK108349	29,747
	93.855	R21AI116218	166,060
University College London	93.837	R21HL129853	49,159
	93.242	U01MH076989	167,907
	93.866	2U01AG024904	233,470
	12.420	W81XWH-12-2-0012	17,924
University of Michigan	12.420	W81XWH-13-1-0259	8,539
	93.847	2R01DK069406	1,613
	93.866	2U01AG024904	208,528
	12.420	W81XWH-14-1-0462	36,684
University of Pennsylvania	12.420	W81XWH-12-2-0012	79,683
	12.420	W81XWH-13-1-0259	32,104
	93.847	2R01DK069406	38,763
	93.866	2U01AG024904	552,067
University of Pittsburgh	93.866	2U01AG024904	73,195
University of Southern California	93.866	2U01AG024904	1,504,986
	12.420	W81XWH-12-2-0012	139,720
	12.420	W81XWH-14-1-0462	158,920
	93.866	2U01AG024904	6,626,823
University of Utah	12.420	W81XWH-13-1-0259	535,736
	93.837	1R01HL114563	52
	93.837	1R01HL116522-01A1	316,857
	93.866	2U01AG024904	66,322
University of Washington	93.855	R01AI106987	163,119
	93.866	R01AG034853	775
UT Southwestern Medical Center	93.837	1R01HL114563	14,684
Vanderbilt University Medical Center	93.859	R01GM061606	93,250
	93.855	R01AI106987	98,883
Washington University	93.866	2U01AG024904	133,644
	12.420	W81XWH-13-1-0259	6,125
Yale University	93.866	R01AG034853	<u>38,068</u>
		Total	<u>\$ 16,761,592</u>

(Concluded)

**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, 2016**

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of Major Federal Programs

CFDA Number(s) Name of Federal Program

Cluster Research and development

Dollar threshold used to distinguish between type A and type B programs: \$1,222,628

Auditee qualified as low-risk auditee? yes no

SECTION II—FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters are reportable.