

# 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, 2015 and 2014,  
Independent Auditors' Reports, and  
Schedule of Expenditures of Federal Awards and  
OMB Circular A-133 Compliance Reports  
for the Year Ended September 30, 2015

**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, 2015 and 2014, 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, 2015 and 2014, 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**

### *Supplemental Schedule*

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, 2015 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 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 Requirements and Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016, 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.

*Deloitte & Touche LLP*

January 29, 2016

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

**STATEMENTS OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 2015 AND 2014**

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	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 11,325,850	\$ 9,583,493
RECEIVABLES	7,258,082	8,437,061
PREPAID EXPENSES AND OTHER ASSETS	99,221	104,199
PROPERTY, PLANT, AND EQUIPMENT—Net	<u>1,231,962</u>	<u>1,425,800</u>
TOTAL	<u>\$ 19,915,115</u>	<u>\$ 19,550,553</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable	\$ 4,892,248	\$ 6,414,540
Accrued expenses	1,464,637	1,437,091
Due to federal government	1,018,950	1,138,950
Unearned revenue	<u>10,589,311</u>	<u>8,219,025</u>
Total liabilities	<u>17,965,146</u>	<u>17,209,606</u>
NET ASSETS:		
Unrestricted	1,188,149	1,442,833
Temporarily restricted	<u>761,820</u>	<u>898,114</u>
Total net assets	<u>1,949,969</u>	<u>2,340,947</u>
TOTAL	<u>\$ 19,915,115</u>	<u>\$ 19,550,553</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, 2015 AND 2014**

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:						
Federal contracts and grants	\$ 38,796,577	\$ -	\$ 38,796,577	\$ 41,091,729	\$ -	\$ 41,091,729
Clinical research revenue	1,360,154		1,360,154	1,587,470		1,587,470
Foundation and other grants	14,504		14,504	55,476		55,476
Contributions	501,143	4,762	505,905	888,997	574,714	1,463,711
Service revenue	75,468		75,468	36,688		36,688
Interest income	4,367		4,367	5,451		5,451
Other income	23,926		23,926	69,819		69,819
Net assets released from restrictions	141,056	(141,056)	-	78,107	(78,107)	-
Total revenues and other support	<u>40,917,195</u>	<u>(136,294)</u>	<u>40,780,901</u>	<u>43,813,737</u>	<u>496,607</u>	<u>44,310,344</u>
OPERATING EXPENSES:						
Research program expenses	31,229,796		31,229,796	33,508,166		33,508,166
Management and general expenses	9,938,653		9,938,653	10,035,140		10,035,140
Fund-raising expenses	3,430		3,430	54,021		54,021
Total operating expenses	<u>41,171,879</u>	<u>-</u>	<u>41,171,879</u>	<u>43,597,327</u>	<u>-</u>	<u>43,597,327</u>
INCREASE (DECREASE) IN NET ASSETS	(254,684)	(136,294)	(390,978)	216,410	496,607	713,017
NET ASSETS—Beginning of year	<u>1,442,833</u>	<u>898,114</u>	<u>2,340,947</u>	<u>1,226,423</u>	<u>401,507</u>	<u>1,627,930</u>
NET ASSETS—End 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>

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, 2015 AND 2014**

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	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ (390,978)	\$ 713,017
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	363,667	554,137
Loss on disposal of equipment		4,190
Changes in:		
Receivables	1,178,979	(3,224,998)
Prepaid expenses and other assets	4,978	39,264
Accounts payable	(1,579,499)	3,149,057
Accrued expenses and due to federal government	(92,454)	54,892
Unearned revenue	<u>2,370,286</u>	<u>1,095,606</u>
Net cash provided by operating activities	<u>1,854,979</u>	<u>2,385,165</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES—Purchases of property, plant, and equipment</b>	<u>(112,622)</u>	<u>(118,098)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,742,357	2,267,067
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>9,583,493</u>	<u>7,316,426</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$ 11,325,850</u>	<u>\$ 9,583,493</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES—Accrued purchases of property, plant, and equipment</b>	<u>\$ 57,207</u>	<u>\$ -</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, 2015 AND 2014**

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**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 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, 2015 and 2014, 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, 2015 and 2014, the Institute had received in advance conditional contributions of \$29,869 and \$43,698, respectively, which are reported in unearned revenue in the statements of financial position. At September 30, 2015 and 2014, the Institute had received notification of \$0 and \$25,584, 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 \$1,565 and \$12,510 for the years ended September 30, 2015 and 2014, 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 collectability of the receivables and determined that no allowance for doubtful accounts was required at September 30, 2015 or 2014.

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

The Institute's investment in a government securities-backed money market fund, Bank of America Treasury Reserves, included in cash and cash equivalents is valued at the traded net asset value of the fund. These instruments are classified as Level 1 and amounted to \$3,285,169 and \$3,284,829 at September 30, 2015 and 2014, respectively. The Institute had no Level II or III investments.

There were no unfunded commitments, normal course of business redemption restrictions, including redemption periods, or other redemption restrictions at September 30, 2015 and 2014.

**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, 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, 2015 and 2014, the Department of Health and Human Services (DHHS) accounted for 81% and 80% 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, 2015 through January 29, 2016 (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, 2015 and 2014, consist of the following:

	<b>2015</b>	<b>2014</b>
Federal grants and contracts	\$ 6,308,623	\$ 7,050,863
Clinical research	344,913	454,899
Private foundations	11,013	33,524
Due from VA	415,277	679,723
Miscellaneous	<u>178,256</u>	<u>218,052</u>
Total receivables	<u>\$ 7,258,082</u>	<u>\$ 8,437,061</u>

## 3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at September 30, 2015 and 2014, consist of the following:

	<b>2015</b>	<b>2014</b>
Building	\$ 999,680	\$ 999,680
Furniture and office equipment	1,195,415	1,180,515
Medical and research equipment	<u>2,171,864</u>	<u>6,231,098</u>
Total	4,366,959	8,411,293
Less accumulated depreciation	<u>(3,134,997)</u>	<u>(6,985,493)</u>
Property, plant, and equipment—net	<u>\$ 1,231,962</u>	<u>\$ 1,425,800</u>

During the year ended September 30, 2015, in concurrence with the Department of Defense the Institute transferred a fully depreciated obsolete 4 Tesla magnetic resonance imaging machine with a gross book value of approximately \$4.2 million to another federal agency.

#### 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 \$993,308 and \$1,010,661 to the 401(a) Plan for the years ended September 30, 2015 and 2014, 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, 2015 and 2014, the Institute incurred such costs in the amount of \$7,988,991 and \$7,716,855, respectively, and was reimbursed \$3,369,608 and \$3,844,911, respectively, in relation to these types of services. At September 30, 2015 and 2014, the Institute had payables due to the VA and/or UCSF in the amounts of \$652,701 and \$635,876, respectively, for these services. These amounts are reported within accounts payable and accrued expenses. At September 30, 2015 and 2014, the Institute had receivables due from the VA and/or UCSF in the amounts of \$443,085 and \$678,423, 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 the U.S. Office of Management and Budget (OMB) Circular A-133 and by various federal agencies. To date, there have not been any significant adjustments related to research agreements.

**Indirect Costs**—The Institute negotiates its indirect cost agreement with the DHHS. The negotiations resulted in a provisional rate of 53.3% for fiscal years 2016 and 2015. 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 53.2% for fiscal year 2014 was finalized in August 2015. The final indirect rate of 53.1% for fiscal year 2013 was finalized in October 2014.

At September 30, 2015 and 2014, the Institute had payables due to the federal government in the amounts of \$1,018,950 and \$1,138,950, respectively, for these 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  
OMB CIRCULAR A-133 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  
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, 2015, 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 January 29, 2016.

### **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.

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, cursive script.

January 29, 2016

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

To the Audit and Risk Management Committee  
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, 2015. 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 laws, regulations, contracts, and grants 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 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 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, 2015.

## 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 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. *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 OMB Circular A-133. 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.

January 29, 2016

**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, 2015**

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	\$ 6,300,182
Basic Scientific Research	12.431		<u>(1,118)</u>
Total Department of Defense, U.S. Army Medical and Materiel Command			<u>6,299,064</u>
Department of Health and Human Services, National Institutes of Health:			
Direct Awards:			
Research Related to Deafness and Communication Disorders	93.173		610,894
Research and Training in Complementary and Alternative Medicine	93.213		356,121
Mental Health Research Grants	93.242		3,574,586
Occupational Safety and Health Program	93.262		199,088
Alcohol Research Programs	93.273		431,776
Minority Health and Health Disparities Research	93.307		332,727
Nursing Research	93.361		401,857
National Center for Research Resources	93.389		6,268
Cancer Cause and Prevention Research	93.393		829,011
Cancer Detection and Diagnosis Research	93.394		29,233
Cardiovascular Diseases Research	93.837		4,095,318
Lung Diseases Research	93.838		253,970
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846		2,232,680
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		635,331
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		1,720,351
Allergy, Immunology, and Transplantation Research	93.855		1,709,842
Biomedical Research and Research Training	93.859		558,004
Aging Research	93.866		<u>13,583,525</u>
Total Direct Awards			<u>31,560,582</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, 2015**

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 University of California, San Francisco:			
Military Medical Research and Development	12.420	W81XWH-14-2-0176	\$ 25,741
Research and Training in Complementary and Alternative Medicine	93.213	R01AT004572	11,505
New York University:			
Mental Health Research Grants	93.242	7R01MH056350	1,534
Military Medical Research and Development	12.420	W81XWH-14-1-0043	143,544
University of North Carolina—Allergy, Immunology, and Transplantation Research	93.855	5U19AI031496	(7,175)
Yale University—Mental Health Research Grants	93.242	M13A11649 (A08922)	(7,015)
San Francisco Dept. of Public Health—Drug Abuse and Addiction Research Programs	93.279	1R01DA031678-01	33,389
San Francisco Dept. of Public Health—Drug Abuse and Addiction Research Programs	93.279	5R01DA034527-02	16,695
Ernest Gallo Clinic and Research Center—Military Medical Research and Development	12.420	W81XWH-11-1-0245	28,293
Tufts Medical Center—Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01DK08796-04	37,257
Veterans Medical Research Foundation—Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	R01DK098234-01A	48,519
University of California San Diego—Environmental Health	93.113	R01ES017462	23,190
University of Pittsburgh—Environmental Health	93.113	R01ES020718	167,289
University of California Berkeley—Mental Health Research Grants	93.242	R24MH106096	20,889
Center for the Advancement of Science in Space—Space Operations	43.007	UA2013108	182,401
Baylor College of Medicine			
Extramural Research Programs in the Neurosciences and Neurological Disorder	93.853	U01NS090406	32,606
Virginia Commonwealth University—Military Medical Research and Development	12.420	W81XWH-13-2-0095	134,052
Kaiser Foundation Research Institute—Cardiovascular Diseases Research	93.837	RNG200103	44,217
Total Pass-Through Awards			<u>936,931</u>
Total Department of Health and Human services			<u>32,497,513</u>
TOTAL RESEARCH AND DEVELOPMENT			<u>\$38,796,577</u>

(Concluded)

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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**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.’s (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 prepared on the accrual basis of accounting as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which numbers are available.

In December 2013, the OMB issued comprehensive grant reform rules titled, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 have 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		Amount Provided to Subrecipients
Banner Alzheimer's Institute	12.420	W81XWH-12-2-0012	\$ 23,082
	12.420	W81XWH-13-1-0259	5,380
Brigham and Women's Hospital	93.866	2U01AG024904	310,152
	93.866	U01AG024904	43,804
Brown University	93.213	R34AT008319	10,592
	93.837	1R01HL111032-01A1	178,187
California Medical Innovation Institute	93.837	R01HL118627	296,024
Duke University	93.866	U01AG024904	150,515
Henry M Jackson Foundation	12.420	W81XWH-12-1-0581	5,690
	12.420	W81XWH-14-2-0137	30,300
Indiana University	12.420	W81XWH-12-2-0012	25,933
	12.420	W81XWH-13-1-0259	17,058
John Hopkins University	93.866	2U01AG024904	234,138
	93.847	2R01DK069406	10,031
Kaiser Foundation Research	93.866	1R01AG034853	38,035
	93.242	1R01 MH086498	86,304
Mayo Clinic Rochester	93.847	2R01DK069406	83,435
	12.420	W81XWH-12-2-0012	87,675
	12.420	W81XWH-13-1-0259	101,612
	93.866	2U01AG024904	866,079
Northwestern University	93.866	1R01AG034853	25,004
Oregon Health & Science University	93.846	1R01AR061106-01A1	14,488
Oregon State University	93.866	R01AG046206	81,858
PAIRE	93.847	2R01DK069406	107,593
Rehabilitation Institute Of Chicago	12.420	W81XWH-12-2-0012	1,086
Tulane University	93.847	2R01DK069406	6,868
UC Berkeley	12.420	W81XWH-12-2-0012	7,879
	12.420	W81XWH-14-1-0462	82,537
	93.837	R01HL063348	27,939
	93.866	2U01AG024904	445,039
UC Davis	12.420	W81XWH-12-2-0012	43,974
	12.420	W81XWH-13-1-0259	26,838
	12.420	W81XWH-14-1-0462	10,993
	93.242	R01MH081051	43,506
	93.855	R01AI106987	111,503
	93.866	2U01AG024904	513,506
	93.866	U01AG024904	4,575

(Continued)

<b>Subrecipients</b>	<b>Federal CFDA Number</b>		<b>Amount Provided to Subrecipients</b>
UC Irvine	93.866	2U01AG024904	\$ 32,626
UCLA	93.837	1R01HL114563	42,180
	93.866	1R01AG034853	22,757
UCSD	12.420	W81XWH-12-2-0012	431,031
	93.855	R01AI106987	83,882
	93.866	2U01AG024904	5,710,015
UCSF	93.242	U01MH076989	149,339
	93.855	R21AI116218	54,147
University College London	93.866	2U01AG024904	116,540
University of Illinois	93.847	2R01DK069406	4,724
University of Michigan	12.420	W81XWH-12-2-0012	16,609
	12.420	W81XWH-13-1-0259	14,487
	93.847	2R01DK069406	10,215
	93.866	2U01AG024904	136,146
University of Pennsylvania	12.420	W81XWH-12-2-0012	55,928
	12.420	W81XWH-13-1-0259	39,103
	93.847	2R01DK069406	46,524
	93.866	2U01AG024904	626,305
University of Pittsburgh	93.866	1R01AG034853	11,958
	93.866	2U01AG024904	124,182
University of Southern California	12.420	W81XWH-12-2-0012	106,938
	12.420	W81XWH-13-1-0259	46,546
	12.420	W81XWH-14-1-0462	16,525
	93.866	2U01AG024904	649,163
University of Utah	93.371	1P41RR023953-01A1	7,829
	93.837	1R01HL114563	63,572
	93.837	1R01HL116522-01A1	610,758
	93.866	2U01AG024904	30,780
University of Washington	93.855	R01AI106987	191,498
	93.866	1R01AG034853	5,981
UT Southwestern Medical Center	93.837	1R01HL114563	14,431
Vanderbilt University Medical Center	93.855	R01AI106987	245,429
	93.859	R01GM061606	224,889
Washington University	12.420	W81XWH-13-1-0259	9,362
	93.866	2U01AG024904	<u>150,913</u>
<b>Total</b>			<u><u>\$ 14,262,524</u></u>

**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, 2015**

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**SECTION I—SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?

\_\_\_ yes  X  no

• Significant deficiency(ies) identified that are not considered to be material weaknesses?

\_\_\_ yes  X  none reported

Noncompliance material to financial statements noted?

\_\_\_ yes  X  no

**Federal Awards**

Internal control over major programs:

• Material weakness(es) identified?

\_\_\_ yes  X  no

• Significant deficiency(ies) identified that are not considered to be material weaknesses?

\_\_\_ yes  X  none reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

\_\_\_ yes  X  no

**Institute's Major Programs**

**Name of Federal Program**

**CFDA/Award**

Research and development

Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$1,160,071

Auditee qualified as low-risk auditee?

X  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.