



*Reports of Independent Auditors and
Financial Statements with
Federal Awards Supplementary Information*

**Northern California Institute for
Research and Education, Inc.**

September 30, 2018



MOSSADAMS

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Report of Independent Auditors

To the Audit Committee
Northern California Institute for Research and Education, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Northern California Institute for Research and Education, Inc. ("NCIRE"), which comprise the statement of financial position as of September 30, 2018, 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.

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 audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 NCIRE'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 NCIRE'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 Northern California Institute for Research and Education, Inc. as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purposes of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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 audit 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 February 28, 2019, on our consideration of NCIRE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of NCIRE's 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 NCIRE's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
February 28, 2019

Financial Statements

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
September 30, 2018

ASSETS

Cash and cash equivalents	\$ 4,114,828
Receivables	6,315,807
Prepaid expenses and other assets	178,168
Property, plant, and equipment - net	<u>718,603</u>

Total assets \$ 11,327,406

LIABILITIES

Accounts payable	\$ 2,800,612
Accrued expenses	1,469,815
Unearned revenue	<u>3,551,704</u>

Total liabilities 7,822,131

NET ASSETS

Unrestricted	2,360,345
Temporarily restricted	<u>1,144,930</u>

Total net assets 3,505,275

Total liabilities and net assets \$ 11,327,406

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Federal contracts and grants	\$ 40,659,080	\$ -	\$ 40,659,080
Clinical research revenue	3,313,404	-	3,313,404
Foundation and other program revenue	2,759,691	-	2,759,691
Contributions	136,468	244,989	381,457
Service revenue	53,485	-	53,485
Interest income	25,228	-	25,228
Other income	20,406	-	20,406
Net assets released from restrictions	211,624	(211,624)	-
Total revenues and other support	<u>47,179,386</u>	<u>33,365</u>	<u>47,212,751</u>
EXPENSES			
Research program expenses	37,475,408	-	37,475,408
Management and general expenses	8,723,778	-	8,723,778
Fund-raising expenses	240	-	240
Total operating expenses	<u>46,199,426</u>	<u>-</u>	<u>46,199,426</u>
CHANGES IN NET ASSETS	979,960	33,365	1,013,325
NET ASSETS, beginning of year	<u>1,380,385</u>	<u>1,111,565</u>	<u>2,491,950</u>
NET ASSETS, end of year	<u>\$ 2,360,345</u>	<u>\$ 1,144,930</u>	<u>\$ 3,505,275</u>

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Year Ended September 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,013,325
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	267,889
Changes in:	
Receivables	1,854,575
Prepaid expenses and other assets	16,963
Accounts payable	(1,476,054)
Accrued expenses	25,069
Unearned revenue	<u>(1,574,758)</u>
Net cash provided by operating activities	<u>127,009</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property, plant, and equipment	<u>(93,178)</u>
Net cash used in investing activities	<u>(93,178)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	33,831
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,080,997</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,114,828</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Accrued purchases of property, plant, and equipment	<u>\$ 15,530</u>

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Northern California Institute for Research and Education, Inc. (“NCIRE”), was formed in 1988 as a research institute affiliated with the San Francisco Veterans Affairs Medical Center (“VA”). NCIRE 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”).

NCIRE 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 NCIRE 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 NCIRE. NCIRE had no permanently restricted net assets at September 30, 2018.

During the reporting period, NCIRE had only unrestricted and temporarily restricted net assets. Temporarily restricted net assets at September 30, 2018, related primarily to contributions for which the research funds had not yet been spent for the purpose designated by the donor.

Revenue recognition – NCIRE 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.

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

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements

Foundation and other grants are not included as support until all conditions are substantially met. At September 30, 2018, NCIRE had received in advance conditional contributions of \$12,931, which are reported in unearned revenue in the statement of financial position. At September 30, 2018, NCIRE had received notification of \$80,908 of conditional commitments from foundations to fund research. These amounts will not be recorded by NCIRE until the donor-imposed conditions (incurring allowable costs to be reimbursed) are met or an advance is received.

Program income – No program income was earned from fees related to services provided on a grant-sponsored activity for the year ended September 30, 2018.

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. NCIRE has evaluated the collectability of the receivables, based upon estimated losses related to specific accounts, and determined that no allowance for doubtful accounts was required at September 30, 2018.

Fair value measurements – In accordance with GAAP, NCIRE 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; Level 3, which refers to securities valued based on significant unobservable inputs; and net asset value per share (“NAV”), which are based on fair value using NAV or its equivalent. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

NCIRE'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 NAV and amounted to \$3,651,453 at September 30, 2018. NCIRE had no other investments.

There were no unfunded commitments, normal course of business redemption restrictions, including redemption periods, or other redemption restrictions at September 30, 2018.

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, approximate their carrying value.

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.

NCIRE evaluates prominent events or changes in circumstances affecting property, plant, and equipment to determine whether impairment of property, plant, and equipment has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the property, plant, and equipment. There was no impairment of property, plant, and equipment at September 30, 2018.

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements

Income taxes – NCIRE is a nonprofit corporation exempt from federal income tax under Internal Revenue Code (“IRC”) section 501(c)(3) and state income tax under California Revenue and Taxation Code section 23701d. However, income from certain activities not directly related to NCIRE’s tax-exempt purpose may be subject to taxation as unrelated business income. NCIRE qualifies for the charitable contribution deduction under IRC section 170(b)(1)(A)(iii) and has been classified as an organization that is not a private foundation under section 509(a)(1). As of September 30, 2018, NCIRE had no unrecognized tax benefits or uncertain tax positions requiring accrual. Therefore, no provision for income taxes has been provided in the financial statements.

Concentrations of risk – NCIRE maintains cash balances at various financial institutions which, at times, may exceed federally insured limits.

NCIRE is funded primarily by government agencies. During the year ended September 30, 2018, the U.S. Department of Health and Human Services (“DHHS”) accounted for 79% of federal contract and grant revenue.

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.

New accounting pronouncements – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance moves revenue recognition towards one principles-based revenue standard to be applied across all industries. The guidance is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact ASU No. 2014-09 will have on NCIRE’s future financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance requires the recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the statement of financial position. The guidance is effective for annual reporting periods beginning after December 15, 2019. Management is currently evaluating the impact ASU No. 2016-02 will have on NCIRE’s future financial statements.

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement for Not-for-Profit Entities*. This guidance revises the not-for-profit reporting model. The guidance streamlines and clarifies net asset reporting, provides flexibility regarding the definition of reported operating subtotals, and imposes new reporting requirements related to expenses. The guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact ASU No. 2016-14 will have on NCIRE’s future financial statements.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This guidance enhances the statement of cash flow by streamlining the activities between cash and restricted cash as operating, investing, or financing, or as a combination of those activities. The guidance also highlights explanations of the change of cash, cash equivalents, restricted cash or restricted cash equivalents during the period. The guidance is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact ASU No. 2016-18 will have on NCIRE’s future financial statements.

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), to clarify and improve the scope and the accounting guidance for contributions received and made. The amendments should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 968, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and also in determining whether a contribution is conditional. The adoption is effective for the fiscal years beginning after June 15, 2019, for contributions received and for fiscal years beginning after December 15, 2019 for contributions made. Management is currently evaluating the impact ASU 2018-08 will have on NCIRE's future financial statements.

NOTE 2 – RECEIVABLES

Receivables at September 30, 2018, consist of the following:

Federal grants and contracts	\$ 5,117,081
Clinical research	592,882
Private foundations	26,659
Due from VA	438,306
Miscellaneous	<u>140,879</u>
Total receivables	<u><u>\$ 6,315,807</u></u>

NOTE 3 – PROPERTY, PLANT, AND EQUIPMENT - NET

Property, plant, and equipment - net at September 30, 2018, consist of the following:

Building	\$ 999,680
Furniture and office equipment	1,563,063
Medical and research equipment	<u>2,174,239</u>
Total	4,736,982
Less accumulated depreciation	<u>(4,018,379)</u>
Property, plant, and equipment - net	<u><u>\$ 718,603</u></u>

Effective October 1, 2015, NCIRE accelerated depreciation of Building 14 (NCIRE'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. For the year ended September 30, 2018, NCIRE recognized \$44,115 in depreciation expense in anticipation of the demolition of the building by the end of fiscal year 2020.

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements

NOTE 4 – RETIREMENT PLANS

403(b) savings plan – NCIRE’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. NCIRE does not contribute to the Plan.

Defined contribution plan – NCIRE’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. NCIRE makes annual contributions of 10% of eligible employee compensation. NCIRE contributed \$605,897 to the 401(a) Plan for the year ended September 30, 2018.

NOTE 5 – RELATED-PARTY TRANSACTIONS

The majority of NCIRE’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. NCIRE 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. NCIRE, the VA, and UCSF reimburse one another for costs associated with these activities.

NCIRE bills the VA for some personnel costs via the Intergovernmental Personnel Act (“IPA”) of 1970. Costs expended include salaries and wages, as well as payroll taxes and other benefit costs. Reimbursements for these costs were \$2,591,961 for the year ended September 30, 2018. These costs were included in research program expenses on the statement of activities and changes in net assets. At September 30, 2018, NCIRE had payables due to the VA and/or UCSF in the amount of \$840,269 for these services. This amount is reported within accounts payable and accrued expenses. At September 30, 2018, NCIRE had receivables due from the VA and/or UCSF in the amount of \$449,862. This amount is reported within receivables.

NOTE 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* ("Uniform Guidance"), and by various federal agencies. As of September 30, 2018, there have not been any significant adjustments related to research agreements.

Indirect costs – NCIRE negotiates its indirect cost agreement with the DHHS. The negotiations resulted in a provisional rate of 53.3% for fiscal years 2020, 2019, and 2018. The rates were determined using estimated indirect costs as a function of estimated direct costs. If actual costs are lower than these estimates, NCIRE will make a downward adjustment to its draw of federal funds in order to appropriately reflect actual indirect costs for the period.

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

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. NCIRE recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. NCIRE's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

NCIRE has evaluated subsequent events through February 28, 2019, which is the date the financial statements were available to be issued.

Supplementary Information

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

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 CLUSTER				
U.S. Department of Defense:				
Direct Awards:				
Military Medical Research and Development	12.420		\$ 1,696,187	\$ 5,972,934
Total Direct Awards			<u>1,696,187</u>	<u>5,972,934</u>
Pass-Through Awards:				
University of California, San Francisco -				
Military Medical Research and Development	12.420	W81XWH-14-2-0176	-	332,174
Military Medical Research and Development	12.420	W81XWH-14-2-0143	-	173,992
Military Medical Research and Development	12.420	W81XWH-13-2-0075	-	25,562
Arizona State University -				
Military Medical Research and Development	12.420	W81XWH-14-1-0467	-	43,210
Boston University -				
Military Medical Research and Development	12.420	W81XWH-17-1-0685	-	5,353
The Henry M. Jackson Foundation -				
Military Medical Research and Development	12.420	W81XWH-15-2-0070	-	39,563
Rhode Island Hospital -				
Military Medical Research and Development	12.420	W81XWH-15-2-0055	-	41,094
Virginia Commonwealth University -				
Military Medical Research and Development	12.420	W81XWH-13-2-0095	-	394,009
Total Pass-Through Awards			<u>-</u>	<u>1,054,957</u>
Total U.S. Department of Defense			<u>1,696,187</u>	<u>7,027,891</u>
U.S. Department of Health and Human Services:				
Direct Awards:				
Oral Diseases and Disorders Research	93.121		-	115,528
Research Related to Deafness and Communication Disorders	93.173		-	506,045
Research and Training in Complementary and Alternative Medicine	93.213		194,331	467,523
Mental Health Research Grants	93.242		103,683	2,114,562
Alcohol Research Programs	93.273		-	304,803
Drug Abuse and Addiction Research Programs	93.279		-	278,613
Minority Health and Health Disparities Research	93.307		-	(1,964)
Cancer Cause and Prevention Research	93.393		-	769,639
Cancer Biology Research	93.396		-	744,829
Cardiovascular Diseases Research	93.837		397,032	3,649,626
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846		-	1,063,693
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		559,521	2,387,974
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		9,400	468,713
Allergy, Immunology, and Transplantation Research	93.855		684,715	1,750,356
Biomedical Research and Research Training	93.859		171,870	402,675
Aging Research	93.866		14,227,139	17,288,076
Other NIH grants	93.xxx		-	(375,741)
Total Direct Awards			<u>16,347,691</u>	<u>31,934,950</u>
Pass-Through Awards:				
Advanced MRI Technologies LLC -				
Mental Health Research Grants	93.242	MH112210	-	33,253
Beth Israel Deaconess Medical Center, Inc. -				
Cancer Cause and Prevention Research	93.393	CA212386	-	18,277

(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, 2018

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 CLUSTER (continued)				
U.S. Department of Health and Human Services (continued)				
University of California, San Francisco -				
Cancer Detection and Diagnosis Research	93.394	CA199792	-	48,038
Mental Health Research Grants	93.242	R01MH083784	-	61,357
Mental Health Research Grants	93.242	MH101472	-	100,261
San Francisco Dept. of Public Health -				
Drug Abuse and Addiction Research Programs	93.279	1R01DA031678-01	-	6,330
Tufts Medical Center -				
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	U01DK102730	-	61,500
Veterans Medical Research Foundation -				
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.866	R01AH027002	-	189,548.00
Cancer Treatment Research	93.847	R01DK098234-01A	-	434
University of California Berkeley -				
Mental Health Research Grants	93.242	R24MH106096	-	67,545
Mental Health Research Grants	93.242	MH111444	-	97,090
Mental Health Research Grants	93.242	R01MH110477	-	27,691
Discovery and Applied Research for				
Technological Innovations to Improve Human Health	93.286	U01EB025162	-	11,968
Baylor College of Medicine Extramural Research -				
Programs in the Neurosciences and Neurological Disorders	93.853	U01NS090406	-	31,124
The Medical College of Wisconsin -				
Cardiovascular Diseases Research	93.837	R01HL115267	-	23,333
Kaiser Foundation Research Institute -				
Cardiovascular Diseases Research	93.837	RNG200103	-	137,344
Johns Hopkins University -				
Allergy, Immunology, and Transplantation Research	93.855	U01AI035042	-	22,578
Aging Research	93.866	AG047859	-	21,654
Aging Research	93.866	AG050745	-	4,116
Joan & Sanford I. Weill Medical College of Cornell University -				
Cardiovascular Diseases Research	93.837	HL128278	-	212,190
Neurosciences and Neurological Disorders	93.853	NS092802	-	12,891
RAND Corporation -				
Aging Research	93.866	R21AG053716	-	21,543
Trustees of Indiana University -				
Nursing Research	93.361	R01NR015255	-	27,961
The University of Memphis -				
Alcohol Research Programs	93.273	R01AA020829	-	7,045
The Research Foundation for the State University of NY -				
Oral Diseases and Disorders Research	93.121	DE025826	-	4,293
University of Buffalo -				
Trans-NIH Research Support	93.310	1U01CA221244	-	102,871
University of North Carolina -				
Mental Health Research Grants	93.242	MH110925	-	206,911
University of Southern California -				
Aging Research	93.866	AG050009	-	6,598
Aging Research	93.866	AG053798	-	62,129
Aging Research	93.866	1U24AG057437	-	41,670
The Trustees of the University of Pennsylvania -				
Neurosciences and Neurological Disorders	93.853	R01NS102324	-	26,696
Total Pass-Through Awards			-	1,696,239
Total U.S. Department of Health and Human Services			16,347,691	33,631,189
TOTAL RESEARCH AND DEVELOPMENT CLUSTER AND AND EXPENDITURES OF FEDERAL AWARDS			<u>\$ 18,043,878</u>	<u>\$ 40,659,080</u>

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Schedule of Expenditures of Federal Awards

NOTE 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. ("NCIRE"), and is presented for the purpose of additional analysis. Because the Schedule presents only a selected portion of the activities of NCIRE, it is not intended to, and does not, present either the financial position, changes in net assets, or cash flows of NCIRE.

NOTE 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* ("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.

NCIRE has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 – SUBRECIPIENTS

Certain funds are passed through to subrecipient organizations by NCIRE. Expenditures incurred by the subrecipients, and reimbursed by NCIRE, are included in the Schedule. NCIRE is also the subrecipient of federal funds, which are reported as expenditures and listed separately as federal pass through funds.

Of the federal awards presented in the schedule of expenditures of federal awards, NCIRE 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	\$ 157
	12.420	W81XWH-13-1-0259	2,224
	93.866	U19AG024904	95,327
Baylor College of Medicine	12.420	W81XWH-16-1-0558	11,590
Biomed Research Institute	93.855	R01AI106987	20,447
Blood Systems Research Institute	93.855	R56AI116342	8,161
	93.853	R01NS102886	9,400
Boston University	12.420	W81XWH-16-1-0558	6,635
Boston VA Research Institute	12.420	W81XWH-16-1-0558	20,734
Brigham and Women's Hospital	93.866	U19AG024904	82,265

(continued)

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Schedule of Expenditures of Federal Awards

Subrecipients	Federal CFDA Number	Award No.	Amount Provided to Subrecipients
<i>(continued)</i>			
California Medical Innovation Institute	93.837	R01HL118627	153,802
Center for Veterans Research and CPMC Research Institute	93.213	UG3AT009765	33,553
	93.847	R01DK107629	39,871
	93.847	R21DK112126	19,766
	93.847	R01DK115562	3,401
	93.866	R01AG027002	1,861
	12.420	W81XWH-17-1-0336	27,386
Indiana University	12.420	W81XWH-12-2-0012	5,462
	12.420	W81XWH-13-1-0259	17,445
	93.866	U19AG024904	273,860
	93.213	UG3AT009765	17,095
Johns Hopkins University	93.866	R01AG034853	73,889
	93.847	R01DK103574	384,728
Kaiser Foundation Research	93.866	1R56AG056417-01	343,571
	93.213	UG3AT009765	2,691
LA BioMed Research Institute	93.855	R01AI041513	12,802
Mayo Clinic Rochester	12.420	W81XWH-12-2-0012	11,458
	12.420	W81XWH-13-1-0259	35,574
	93.866	U19AG024904	462,524
Oregon Health and Science University	93.213	UG3AT009765	33,612
Oregon State University	93.866	R01AG046206	105,145
Public Health Institute	12.420	W81XWH-13-1-0054	24,814
Purdue University	93.837	R01HL114118	8,909
Rehabilitation Institute Of Chicago	12.420	W81XWH-12-2-0012	1,215
	12.420	W81XWH-13-1-0259	4,818
UC Berkeley	12.420	W81XWH-14-1-0462	210,034
	93.837	R01HL063348	81,460
	93.866	U19AG024904	406,506
	12.420	W81XWH-13-1-0259	7,712
UC Davis	12.420	W81XWH-12-2-0012	13,961
	12.420	W81XWH-13-1-0259	18,947
	12.420	W81XWH-14-1-0462	9,136
	93.855	R01AI106987	29,637
	93.866	U19AG024904	335,030
UC Los Angeles	93.837	1R01HL114563	52,843
UC San Diego	93.855	R01A1106987	81,154
UC San Francisco	93.855	R56AI116342	70,461
	93.847	ROIDK108349	111,755
	93.855	R21A1116218	184,456
	93.242	U01MH076989	103,683
	93.866	U19AG024904	105,882
University College London	93.866	U19AG024904	92,340
University of Arkansas for Medical	93.213	UG3AT009765	36,287
University of Colorado Denver	93.213	UG3AT009765	27,326
University of Michigan	12.420	W81XWH-12-2-0012	1,820
	12.420	W81XWH-13-1-0259	7,045
	93.866	U19AG024904	166,247
	12.420	W81XWH-14-1-0462	26,666

(continued)

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Notes to Schedule of Expenditures of Federal Awards

Subrecipients	Federal CFDA Number	Award No.	Amount Provided to Subrecipients
<i>(continued)</i>			
University of Pennsylvania	12.420	W81XWH-12-2-0012	638
	12.420	W81XWH-13-1-0259	23,566
	93.866	2U01AG024904	645,436
University of Pittsburgh	93.866	2U01AG024904	79,331
University of Southern California	12.420	W81XWH-12-2-0012	31,521
	12.420	W81XWH-14-1-0462	597,164
	93.866	2U01AG024904	10,523,777
	12.420	W81XWH-13-1-0259	503,581
University of Utah	93.837	1R01HL116522-01A1	72,458
University of Virginia	93.866	R01AG047897	156,474
University of Washington	93.855	RO1A1106987	118,686
	12.420	W81XWH-16-1-0558	68,895
UT Southwestern Medical Center	93.837	1R01HL114563	27,560
Vanderbilt University Medical Center	93.859	RO1GM061606	171,870
	93.855	RO1A1106987	158,909
Washington University	93.866	2U01AG024904	238,394
	12.420	W81XWH-13-1-0259	5,991
Yale University	93.213	UG3AT009765	43,767
	93.866	R01AG034853	39,280
			\$ 18,043,878

Report of Independent Auditors 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 Committee
Northern California Institute for Research and Education, Inc.

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 the Northern California Institute for Research and Education, Inc. ("NCIRE"), which comprise the statement of financial position as of September 30, 2018, 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 February 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NCIRE'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 NCIRE's internal control. Accordingly, we do not express an opinion on the effectiveness of NCIRE'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 NCIRE'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 NCIRE'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 NCIRE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NCIRE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
February 28, 2019

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Audit Committee
Northern California Institute for Research and Education, Inc.

Report on Compliance for the Major Federal Program

We have audited the Northern California Institute for Research and Education, Inc.'s ("NCIRE") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on NCIRE's major federal program for the year ended September 30, 2018. NCIRE's major federal program is 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for NCIRE's major federal program 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* ("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 NCIRE'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 the major federal program. However, our audit does not provide a legal determination of NCIRE's compliance.

Opinion on the Major Federal Program

In our opinion, NCIRE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Report on Internal Control over Compliance

Management of NCIRE 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 NCIRE's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 NCIRE'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.

Moss Adams LLP

San Francisco, California
February 28, 2019

Northern California Institute for Research and Education, Inc.
(A California Nonprofit Public Benefit Corporation)
Schedule of Findings and Questioned Costs
September 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor 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? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

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

Identification of the major federal program and type of auditor’s report issued on compliance for the major federal program:

<i>CFDA Numbers</i>	<i>Name of Major Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for the Major Federal Program</i>
Various	Research and Development Cluster	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$1,219,772

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

Summary Schedule of Prior Audit Findings

Name of Auditee: Northern California Institute for Research and Education, Inc.
Period Covered by the Audit: October 1, 2017 to September 30, 2018
Name of Audit Firm: Moss Adams LLP

There were no findings in the prior audit report.

