

MOSSES ADAMS

**PUBLIC HEALTH INSTITUTE  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007**

**CONTENTS**

**PAGE**

**INDEPENDENT AUDITOR'S REPORT** ..... 1

**FINANCIAL STATEMENTS**

Statements of Financial Position..... 2

Statements of Activities..... 3

Statements of Cash Flows..... 4

Notes to Financial Statements..... 5

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Public Health Institute

We have audited the accompanying statements of financial position of the Public Health Institute (the Institute) as of December 31, 2008 and 2007, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Health Institute as of December 31, 2008 and 2007, and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



San Francisco, California  
July 15, 2009

## FINANCIAL STATEMENTS

---

**PUBLIC HEALTH INSTITUTE**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2008 and 2007**

---

**ASSETS**

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 22,438,367	\$ 17,442,994
Grants and contracts receivable, net	19,322,477	17,606,326
Other assets	765,958	526,577
Furniture, equipment, and computer software at cost, net of accumulated depreciation	<u>73,833</u>	<u>71,019</u>
Total assets	<u>\$ 42,600,635</u>	<u>\$ 35,646,916</u>

**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts payable	\$ 6,139,428	\$ 4,276,269
Other accrued liabilities	3,799,405	4,190,409
Accrued vacation	3,058,910	2,726,727
Contract advances	<u>10,237,140</u>	<u>15,449,645</u>
Total liabilities	<u>23,234,883</u>	<u>26,643,050</u>
Net assets		
Unrestricted		
Undesignated	3,075,260	4,739,684
Board designated	1,691,147	1,546,377
Temporarily restricted	<u>14,599,345</u>	<u>2,717,805</u>
Total net assets	<u>19,365,752</u>	<u>9,003,866</u>
Total liabilities and net assets	<u>\$ 42,600,635</u>	<u>\$ 35,646,916</u>

*See accompanying notes.*

**PUBLIC HEALTH INSTITUTE**  
**STATEMENTS OF ACTIVITIES**  
Years Ended December 31, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>						
Grants and contracts	\$ 88,462,857	\$ -	\$ 88,462,857	\$ 84,152,683	\$ -	\$ 84,152,683
Contributions received in advance of expenses	-	14,599,345	14,599,345	160,522	2,717,803	2,878,325
Other income	526,056	-	526,056	1,018,753	-	1,018,753
Satisfaction of program restrictions	2,717,805	(2,717,805)	-	1,490,017	(1,490,017)	-
Total revenues	<u>91,706,718</u>	<u>11,881,540</u>	<u>103,588,258</u>	<u>86,821,975</u>	<u>1,227,786</u>	<u>88,049,761</u>
<b>EXPENSES</b>						
Direct expenses						
Salaries, wages and benefits	41,404,300	-	41,404,300	36,229,198	-	36,229,198
Professional services	5,958,271	-	5,958,271	8,049,753	-	8,049,753
Travel	4,500,740	-	4,500,740	3,350,824	-	3,350,824
Occupancy	2,047,182	-	2,047,182	2,029,596	-	2,029,596
Supplies	2,666,424	-	2,666,424	1,957,622	-	1,957,622
Training and professional development	1,908,101	-	1,908,101	1,417,951	-	1,417,951
Publications and printing	1,568,025	-	1,568,025	1,091,427	-	1,091,427
Program support international - foundation	966,180	-	966,180	731,585	-	731,585
Temporary help	871,058	-	871,058	507,683	-	507,683
Communications	704,311	-	704,311	498,658	-	498,658
Postage and delivery	120,755	-	120,755	139,792	-	139,792
Subcontracts and grants	17,210,628	-	17,210,628	18,788,106	-	18,788,106
Other	811,165	-	811,165	711,710	-	711,710
Total direct expenses	<u>80,737,140</u>	<u>-</u>	<u>80,737,140</u>	<u>75,503,905</u>	<u>-</u>	<u>75,503,905</u>
Indirect expenses						
Allocated	11,031,593	-	11,031,593	10,074,035	-	10,074,035
Unallocated	1,457,639	-	1,457,639	315,978	-	315,978
Total indirect expenses	<u>12,489,232</u>	<u>-</u>	<u>12,489,232</u>	<u>10,390,013</u>	<u>-</u>	<u>10,390,013</u>
Total expenses	<u>93,226,372</u>	<u>-</u>	<u>93,226,372</u>	<u>85,893,918</u>	<u>-</u>	<u>85,893,918</u>
Change in net assets	(1,519,654)	11,881,540	10,361,886	928,057	1,227,786	2,155,843
Net assets, beginning of year	<u>6,286,061</u>	<u>2,717,805</u>	<u>9,003,866</u>	<u>5,358,004</u>	<u>1,490,019</u>	<u>6,848,023</u>
Net assets, end of year	<u>\$ 4,766,407</u>	<u>\$ 14,599,345</u>	<u>\$ 19,365,752</u>	<u>\$ 6,286,061</u>	<u>\$ 2,717,805</u>	<u>\$ 9,003,866</u>

*See accompanying notes.*

**PUBLIC HEALTH INSTITUTE**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 10,361,886	\$ 2,155,843
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	42,796	62,892
Change in allowance for doubtful accounts	1,254,889	191,675
Change in operating assets and liabilities		
Grants and contracts receivable	(2,971,040)	2,415,516
Other assets	(239,381)	(228,789)
Accounts payable	1,863,159	(2,743,888)
Other accrued liabilities	(391,004)	715,726
Accrued vacation	332,183	300,670
Contract advances	(5,212,505)	(4,494,313)
Net cash from operating activities	<u>5,040,983</u>	<u>(1,624,668)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture, equipment, and computer software	(45,610)	-
Net cash from investing activities	<u>(45,610)</u>	-
Net change in cash and cash equivalents	4,995,373	(1,624,668)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>17,442,994</u>	<u>19,067,662</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 22,438,367</u>	<u>\$ 17,442,994</u>

*See accompanying notes.*

**NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business** - The Public Health Institute (the Institute) is a nonprofit organization founded in 1964 and incorporated under the laws of the State of California. Working in close partnership with personnel from state, local and voluntary agencies, the Institute engages in public health research, education, and intervention activities.

The corporate articles of incorporation also provide for developing and increasing the health resources of the State of California Department of Health Services (now Department of Public Health) by implementing and financing the conduct of studies and research into the causes, nature, prevention and treatment of diseases, disorders and defects of importance to the public health and studies and research into health services and the delivery thereof.

The Institute has no shareholders and no permanent endowment. Income consists primarily from conducting investigative projects for public and private organizations. The Institute actively solicits government grants and contracts as well as awards from private corporations and philanthropic foundations to pursue health research goals.

**Basis of Presentation** - The financial statements include all accounts of the Institute recorded on an accrual basis of accounting.

**Net Asset Classifications** - The accompanying financial statements have been prepared in accordance with the standards set forth in Statements of Financial Accounting Standards No. 116 (*Accounting for Contributions Received and Contributions Made*), No. 117 (*Financial Statements for Not-for-Profit Organizations*) and the guidelines set forth in the industry audit and accounting guide "Not-For-Profit Organizations" issued by the American Institute of Certified Public Accountants. Under these guidelines, contributions of cash and other assets are classified as one of the following three categories:

*Unrestricted* - Unconditional promises to give by a donor without any use or time restrictions. Contributions with restrictions met in the same reporting period are reported as unrestricted.

*Temporarily Restricted* - Unconditional promises to give by a donor that specifies a specific use or the occurrence of a certain future event.

*Permanently Restricted* - Unconditional promises to give by a donor that specifies that the assets donated be invested to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the organization may determine the income's availability to the organization's operations. The Institute has no permanently restricted net assets at December 31, 2008 and 2007.

The Board has designated certain unrestricted net assets to be used on specific projects.

**Cash Equivalents** - The Institute considers all highly liquid investments, with original maturities of three months or less when purchased, to be cash equivalents. The Institute maintains, from time to time, balances at a bank in excess of the federally insured limits. Management believes that the risk of loss is minimal.

**Furniture, Equipment, and Computer Software** - Furniture, equipment, and computer software is recorded at cost if purchased and at fair-market value if donated. Depreciation is computed on a straight-line basis over estimated useful lives of five to seven years. The Institute capitalizes additions over \$5,000.

**Grants and Contracts** - Revenue from grants and contracts is recognized as temporarily restricted revenue if the grant is considered to be a contribution. Revenue from grants and contracts considered to be exchange transactions is recognized as expenditures are incurred.

**Subcontractor** - Subcontract costs are recorded as the costs are incurred.

**Revenue and Accounts Receivable** - Revenue has been recorded on the basis of the services performed, including amounts unbilled. At December 31, 2008 and 2007, approximately 84% and 65% of accounts receivable and 28% and 31% of revenue is the result of the contract with the State of California Department of Public Health. Due to certain write-offs of accounts receivable in prior years, management reviewed all receivables for collectability and established an allowance of \$1,500,000 and \$245,111 at December 31, 2008 and 2007, respectively.

**PUBLIC HEALTH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS**

**Contributions Received in Advance of Expenses** - Temporarily restricted funds (Contributions) are recognized as revenue in the year the funds are received which may be in advance of the expenses.

**Contract Advances** - The Institute receives advances on grants and contracts for services to be rendered in future periods. Such amounts are recognized as revenue when the service is delivered (Exchanges).

**Compensated Absences** - The Institute's policy is to allow employees to accrue up to a maximum of 320 hours of vacation. As of December 31, 2008 and 2007, the liability for accrued vacation was \$3,058,910 and \$2,726,727, respectively.

**Income Taxes** - The Institute is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code and from state income and franchise taxes under Section 23701d of the California Revenue and Taxation Code except to the extent of unrelated business taxable income as defined under IRC sections 511 through 515. Pursuant to FSP FIN 48-3, management has elected to defer the application of FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes to fiscal years beginning after December 15, 2008. The Institute evaluates uncertain tax positions in accordance with FASB Statement No. 5, Accounting for Contingencies whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2008 and 2007, the Institute had no uncertain tax positions requiring accrual. Continuance of such exemption is subject to compliance with regulations and review of activities by taxing authorities. The Institute is not aware of any transactions that would affect its tax-exempt status.

**Estimates** - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Institute's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**Reclassifications** - Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

**NOTE 2 - FUNCTIONAL EXPENSES**

The following details functional expenses for the year ended December 31:

	2008						
	Program Services and Fundraising			Management and General			
	Program			PHI	ARG	Subtotal	Total
	Services	Fundraising	Subtotal				
Salaries, wages, and benefits	\$ 41,403,384	\$ 916	\$ 41,404,300	\$ 7,636,438	\$ 411,195	\$ 8,047,633	\$ 49,451,933
Professional services	5,958,271	-	5,958,271	415,804	3,973	419,777	6,378,048
Travel	4,500,740	-	4,500,740	197,596	7,464	205,060	4,705,800
Occupancy	2,047,182	-	2,047,182	603,411	378,369	981,780	3,028,962
Supplies	2,666,424	-	2,666,424	315,816	44,961	360,777	3,027,201
Training and professional development	1,907,606	495	1,908,101	144,827	1,701	146,528	2,054,629
Publications and printing	1,563,717	4,308	1,568,025	70,265	34,858	105,123	1,673,148
Program support international - foundation	966,180	-	966,180	-	-	-	966,180
Temporary help	871,058	-	871,058	150,063	(1,117)	148,946	1,020,004
Communications	704,311	-	704,311	63,862	19,369	83,231	787,542
Postage and delivery	119,054	1,701	120,755	36,587	1,578	38,165	158,920
Subcontracts and grants	17,210,628	-	17,210,628	-	-	-	17,210,628
Bad debt expense	-	-	-	1,254,890	-	1,254,890	1,254,890
Other	810,954	211	811,165	695,244	2,078	697,322	1,508,487
Total	<u>\$ 80,729,509</u>	<u>\$ 7,631</u>	<u>\$ 80,737,140</u>	<u>\$ 11,584,803</u>	<u>\$ 904,429</u>	<u>\$ 12,489,232</u>	<u>\$ 93,226,372</u>

Of the \$12,489,232 Management and General expenses, \$904,429 is applicable to the Alcohol Research Group (ARG) programs.

**PUBLIC HEALTH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS**

2007							
	Program Services and Fundraising			Management and General			Total
	Program Services	Fundraising	Subtotal	PHI	ARG	Subtotal	
Salaries, wages and benefits	\$ 36,228,175	\$ 1,023	\$ 36,229,198	\$ 6,665,977	\$ 504,924	\$ 7,170,901	\$ 43,400,099
Professional services	8,049,353	400	8,049,753	527,903	753	528,656	8,578,409
Travel	3,350,824	-	3,350,824	230,625	8,973	239,598	3,590,422
Occupancy	2,029,596	-	2,029,596	595,229	346,887	942,116	2,971,712
Supplies	1,957,622	-	1,957,622	303,674	36,594	340,268	2,297,890
Training and professional development	1,417,651	300	1,417,951	186,799	2,175	188,974	1,606,925
Publications and printing	1,091,262	165	1,091,427	54,539	12,999	67,538	1,158,965
Program support international - foundation	731,585	-	731,585	-	-	-	731,585
Temporary help	507,683	-	507,683	61,216	(1,979)	59,237	566,920
Communications	498,643	15	498,658	48,861	15,861	64,722	563,380
Postage and delivery	137,728	2,064	139,792	29,917	1,417	31,334	171,126
Subcontracts and grants	18,788,106	-	18,788,106	-	-	-	18,788,106
Bad debt expense	-	-	-	191,675	-	191,675	191,675
Other	711,711	-	711,711	545,678	19,316	564,994	1,276,705
<b>Total</b>	<b>\$ 75,499,939</b>	<b>\$ 3,967</b>	<b>\$ 75,503,906</b>	<b>\$ 9,442,093</b>	<b>\$ 947,920</b>	<b>\$ 10,390,013</b>	<b>\$ 85,893,919</b>

Of the \$10,390,013 Management and General expenses, \$947,920 is applicable to the Alcohol Research Group (ARG) programs.

**NOTE 3 - FURNITURE, EQUIPMENT, AND COMPUTER SOFTWARE**

Furniture, equipment, and computer software as of December 31 is as follows:

	2008	2007
Furniture and equipment	\$ 104,590	\$ 58,980
Computer software	281,495	281,495
	386,085	340,475
Less accumulated depreciation	(312,252)	(269,456)
<b>Total</b>	<b>\$ 73,833</b>	<b>\$ 71,019</b>

Total depreciation expense for the years ended December 31, 2008 and 2007, amounted to \$42,796 and \$62,892, respectively.

**NOTE 4 - TAX SHELTERED ANNUITY PLAN**

In lieu of a standard retirement program, the Institute offers participation in a tax sheltered annuity plan. Employees who work a minimum of 20 hours per week after six full months of employment are eligible to participate. The Institute contributes 10% of gross wages to the tax sheltered annuity plan. An employee's minimum contribution is \$25 per month. However, the maximum combined contributions are determined by limits set under federal law.

During 2008 and 2007, the Institute contributed \$3,257,148 and \$2,858,720 to the tax sheltered annuity plan. Employees contributed \$2,402,030 and \$2,153,107. The contributions are fully vested and are administered by TIAA/CREF and Union Central Life Insurance Company.

**PUBLIC HEALTH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS**

---

**NOTE 5 - DESCRIPTION OF LEASING ARRANGEMENTS**

The Institute leases various sites in order to conduct research projects, expiring in various years through 2018.

Future minimum rental payments under operating leases having remaining terms in excess of one year as of December 31, 2008, are as follows:

<u>Year Ending December 31,</u>	
2009	\$ 3,362,525
2010	3,356,962
2011	2,446,777
2012	2,144,250
2013	2,062,717
Thereafter	<u>4,520,484</u>
Total minimum future rental payments	<u>\$ 17,893,715</u>

The Institute generally attempts to include, in lease agreements, a clause which enables the lease to be terminated should funding from an outside agency be terminated.

The following is a summary of rental expense under all operating leases:

	<u>2008</u>	<u>2007</u>
Rental expense	\$ 2,717,733	\$ 2,611,519
Less sublease rentals	<u>(10,099)</u>	<u>(11,190)</u>
Total rental expense	<u>\$ 2,707,634</u>	<u>\$ 2,600,329</u>

**NOTE 6 - FINANCIAL INSTRUMENTS**

**Receivables** - Billed and unbilled grants and contracts receivable result primarily from contracts with the State of California and U.S. Government Agencies. The nature of these contracts do not require collateral or other security. Financial statement amounts approximate fair value.

**NOTE 7 - UNIVERSITY OF CALIFORNIA, IRVINE SUBCONTRACTS**

The Institute had three subcontracts with the University of California, Irvine (UCI) in order to support the California Department of Health Services' (DHS) California Cancer Registry (CCR) Program. These subcontracts were funded from grants from the DHS, the Centers for Disease Control and Prevention and the National Cancer Institute. In September 2004, the University of California Internal Audit Department issued a report questioning between \$500,000 and \$600,000 of costs charged to the three subcontracts with the Institute. The Interim Report contends that the costs incurred by UCI were not within the Scope of Work as indicated on the subcontracts with the Institute. The questioned costs were incurred from December 2001 through March 2003 and were used to develop/upgrade software used by UCI's Epidemiology Division for their research purposes.

Since communications between the Institute and UCI have not come to any conclusions as to what actions UCI will take regarding the questioned costs, the Institute has been withholding current payments to UCI in the amount of approximately \$600,000. The amounts being withheld are from the subsequent subcontracts for the CCR program.

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2008 and 2007, the Institute has net assets that are temporarily restricted for specific programs as designated by the foundation providing the funding. The Institute has \$14.6 million and \$2.7 million of temporarily restricted net assets as of December 31, 2008 and 2007, respectively, presented below by funder:

	<u>2008</u>	<u>2007</u>
Bill & Melinda Gates Foundation	\$ 4,795,828	\$ 988
California Endowment	3,824,394	1,118,301
David and Lucile Packard Foundation	3,803,544	1,476
Kaiser Permanente	599,920	-
California Wellness Foundation	403,239	876,981
Other	1,172,420	720,059
Total Temporarily Restricted Net Assets	<u>\$ 14,599,345</u>	<u>\$ 2,717,805</u>

**NOTE 9 - DESIGNATED ASSETS**

The Board of Directors has designated the following funds for:

	<u>2008</u>	<u>2007</u>
Adeline Hackett Innovations Initiative	\$ 72,443	\$ 84,725
Fundraising purpose	142,635	142,450
Discretionary funds	1,476,069	1,319,202
Total Board Designated Net Assets	<u>\$ 1,691,147</u>	<u>\$ 1,546,377</u>

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The Institute has grants and contracts with various organizations and government agencies which are subject to audit by the funding source. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which could result from these audits would not be material.

The Institute entered into a grant agreement in July 2006 with a government agency which includes a cost sharing provision. This provision requires the Institute to expend a specified amount (1% of total cost) of non-federal funds over the complete term of the grant and the failure to meet the conditions of the provision could result in a compliance finding as well as monetary loss. The cost sharing required balance as of December 31, 2008, was \$398,088. Of this amount the Institute has funded \$213,430 and anticipates \$63,584 from its partners (total accumulated expenditure of \$277,014 of non-federal funds).