

PUBLIC HEALTH INSTITUTE

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS WITH
OMB CIRCULAR A-133 AUDIT REPORTS**

FOR THE YEAR ENDED DECEMBER 31, 2010

PUBLIC HEALTH INSTITUTE

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Public Health Institute
Oakland, California

We have audited the accompanying statement of financial position of the Public Health Institute (the Institute) as of December 31, 2010, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. The financial statements of the Institute for the year ended December 31, 2009, were audited by other auditors whose report dated June 17, 2010, expressed an unqualified opinion on those statements.

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 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 the Institute as of December 31, 2010, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2011, on our consideration of the Institute'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

June 21, 2011

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PUBLIC HEALTH INSTITUTE
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 15,028,043	\$ 17,596,699
Grants and contracts receivable, net of allowance for doubtful accounts of \$75,000 and \$2,150,000 in 2010 and 2009, respectively (Note 2)	10,661,789	13,508,441
Prepaid expenses	901,275	827,049
Other assets	<u>50,387</u>	<u>64,365</u>
Total current assets	<u>26,641,494</u>	<u>31,996,554</u>
FURNITURE, EQUIPMENT AND COMPUTER SOFTWARE		
Furniture, equipment and computer software net of accumulated depreciation of \$360,256 and \$336,120 for 2010 and 2009, respectively (Note 3)	<u>45,829</u>	<u>69,965</u>
TOTAL ASSETS	<u>\$ 26,687,323</u>	<u>\$ 32,066,519</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 2,456,404	\$ 4,272,324
Accrued salaries and related leave	8,356,214	6,893,577
Other accrued liabilities	621,559	604,953
Contract advances	<u>2,883,451</u>	<u>5,368,757</u>
Total current liabilities	<u>14,317,628</u>	<u>17,139,611</u>

NET ASSETS

Unrestricted		
Undesignated	3,908,931	2,353,910
Designated (Note 4)	<u>1,795,319</u>	<u>1,892,358</u>
Total unrestricted	5,704,250	4,246,268
Temporarily restricted (Note 5)	<u>6,665,445</u>	<u>10,680,640</u>
Total net assets	<u>12,369,695</u>	<u>14,926,908</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,687,323</u>	<u>\$ 32,066,519</u>

PUBLIC HEALTH INSTITUTE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Grants and contracts (Notes 2 and 9)	\$ 80,269,194	\$ 15,577,122	\$ 95,846,316	\$ 88,177,442	\$ 7,409,770	\$ 95,587,212
Other revenue	239,109	-	239,109	207,128	-	207,128
Net assets released from donor restrictions	19,592,317	(19,592,317)	-	11,328,475	(11,328,475)	-
Total revenue	100,100,620	(4,015,195)	96,085,425	99,713,045	(3,918,705)	95,794,340
EXPENSES						
Direct expenses:						
Salaries, wages and benefits (Note 8)	50,641,736	-	50,641,736	47,047,775	-	47,047,775
Professional services	5,825,244	-	5,825,244	6,576,861	-	6,576,861
Travel	6,529,931	-	6,529,931	6,008,681	-	6,008,681
Occupancy	3,192,814	-	3,192,814	2,716,422	-	2,716,422
Supplies	1,557,587	-	1,557,587	3,304,506	-	3,304,506
Training and professional development	2,228,148	-	2,228,148	1,914,044	-	1,914,044
Publications and printing	1,278,711	-	1,278,711	621,029	-	621,029
Program support international - foundation	1,172,594	-	1,172,594	929,444	-	929,444
Temporary help	868,940	-	868,940	1,068,232	-	1,068,232
Communications	623,370	-	623,370	658,738	-	658,738
Postage and delivery	110,272	-	110,272	117,822	-	117,822
Subcontracts and grants	12,917,372	-	12,917,372	15,593,958	-	15,593,958
Other	490,475	-	490,475	451,192	-	451,192
Total direct expenses	87,437,194	-	87,437,194	87,008,704	-	87,008,704
Indirect expenses:						
Allocated	13,181,588	-	13,181,588	12,499,950	-	12,499,950
Unallocated	32,205	-	32,205	24,530	-	24,530
Bad debt expense (recovery)	(2,008,349)	-	(2,008,349)	700,000	-	700,000
Total indirect expenses	11,205,444	-	11,205,444	13,224,480	-	13,224,480
Total expenses	98,642,638	-	98,642,638	100,233,184	-	100,233,184
Changes in net assets	1,457,982	(4,015,195)	(2,557,213)	(520,139)	(3,918,705)	(4,438,844)
Net assets at beginning of year	4,246,268	10,680,640	14,926,908	4,766,407	14,599,345	19,365,752
NET ASSETS AT END OF YEAR	\$ 5,704,250	\$ 6,665,445	\$ 12,369,695	\$ 4,246,268	\$ 10,680,640	\$ 14,926,908

See accompanying notes to financial statements.

PUBLIC HEALTH INSTITUTE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (2,557,213)	\$ (4,438,844)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	24,136	23,868
(Decrease) increase in allowance for doubtful accounts	(2,075,000)	700,000
(Increase) decrease in:		
Grants and contracts receivable	4,921,652	5,114,036
Prepaid expenses	(74,226)	(126,274)
Other assets	13,978	818
Increase (decrease) in:		
Accounts payable	(1,815,920)	(1,867,104)
Accrued salaries and related leave	1,462,637	644,035
Other accrued liabilities	16,606	(3,820)
Contract advances	<u>(2,485,306)</u>	<u>(4,868,383)</u>
Net cash used by operating activities	<u>(2,568,656)</u>	<u>(4,821,668)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of computer software	<u>-</u>	<u>(20,000)</u>
Net cash used by investing activities	<u>-</u>	<u>(20,000)</u>
Net decrease in cash and cash equivalents	(2,568,656)	(4,841,668)
Cash and cash equivalents at beginning of year	<u>17,596,699</u>	<u>22,438,367</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 15,028,043</u>	<u>\$ 17,596,699</u>

See accompanying notes to financial statements.

PUBLIC HEALTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Public Health Institute (the Institute) is an independent, not for profit organization dedicated to promoting health, well-being and quality of life for people throughout California, across the nation and around the world. As one of the largest and most comprehensive public health organizations in the nation, the Institute is at the forefront of research and innovation to improve the efficacy of public health statewide, nationally and globally.

The Public Health Institute's mission is to generate and promote research, leadership and partnerships to build capacity for strong public health policy, programs, systems and practices. The Institute believes that health is a fundamental human right and just societies ensure equitable health outcomes for everyone. The Institute is guided by the following key principles:

- Accountability
- Leadership and creativity in individuals and institutions
- Cross-sector thinking
- Diverse partnerships throughout the world
- Innovation
- Evidence-based public health

The Institute has adopted a five-year strategic framework for fiscal years 2010 through 2014. Following are the strategic framework's six overarching goals:

- Strengthen public health engagement and leadership
- Advance sustainable global health solutions
- Strengthen public health systems, services and research
- Advance policy to improve social determinants of health
- Diversify and strengthen funding base to ensure long-term impact
- Deliver operational excellence to the Institute's programs

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

The Institute considers all cash and other highly liquid investments with initial maturities of three months or less when purchased to be cash equivalents.

At times during the year, the Institute maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal. The Institute has not experienced any losses.

Furniture, equipment and computer software -

Furniture, equipment and computer software in excess of \$5,000 are capitalized and stated at cost if purchased and at fair market value if donated.

PUBLIC HEALTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Furniture, equipment and computer software (continued) -

Furniture, equipment and computer software are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to seven years. The cost of maintenance and repairs is recorded as expenses are incurred.

Compensated absences -

The Institute's current policy is to allow employees to accrue up to a maximum of 640 hours of paid time off. Prior to 2010, the Institute's compensated absences policy provided for 320 hours of vacation and 480 hours of sick leave, and during 2010 the accounting for such absences was combined into one "paid time off" pool of hours. As of December 31, 2010 and 2009, the liability for accrued compensated absences was \$6,851,305 and \$5,969,962, respectively.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Institute and include both internally designated (Note 4) and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Institute and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Institute. The Institute had no permanently restricted net assets as of December 31, 2010 or 2009.

Grants and contracts -

Revenue from grants is recognized as temporarily restricted if the grant is considered to be a contribution. Temporarily restricted grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Contracts are recorded as unrestricted revenue as reimbursable costs are incurred or on a percentage of completion method (if a fixed price agreement). Contract funding received in advance of incurring the related expenses is recorded as contract advances.

The Institute receives funding under grants and contracts from the U.S. Government for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

PUBLIC HEALTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Grants and contracts (continued) -

Grants and contracts receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Grants and contracts receivable approximate fair value.

The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

Income taxes -

The Institute is exempt from Federal income taxes 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 Internal Revenue Code Sections 511 through 515.

Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Institute is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2010 and 2009, the Institute has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

PUBLIC HEALTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

2. CONCENTRATION OF REVENUE AND RECEIVABLES

Approximately 34% and 29% of revenue for the years ended December 31, 2010 and 2009, respectively, was derived from a cooperative agreement with the United States Agency for International Development.

Approximately 52% and 67% of grants and contracts receivable for the years ended December 31, 2010 and 2009, respectively, was derived from contracts with the State of California Department of Public Health.

The Institute has no reason to believe that the relationship with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) may adversely affect the Institute's ability to finance ongoing operations.

3. FURNITURE, EQUIPMENT AND COMPUTER SOFTWARE

Furniture, equipment and computer software consisted of the following at December 31, 2010 and 2009:

	2010	2009
Furniture and equipment	\$ 104,590	\$ 104,590
Computer software	301,495	301,495
Total furniture, equipment and computer software	406,085	406,085
Less: Accumulated depreciation	(360,256)	(336,120)
NET FURNITURE, EQUIPMENT AND COMPUTER SOFTWARE	\$ 45,829	\$ 69,965

Total depreciation expense for the years ended December 31, 2010 and 2009 was \$24,136 and \$23,868, respectively.

4. BOARD DESIGNATED NET ASSETS

As of December 31, 2010 and 2009, net assets have been designated by the Board of Directors for the following purposes:

	2010	2009
Adeline Hackett Innovations Initiative	\$ 39,190	\$ 62,318
Fundraising purpose	159,372	140,185
Discretionary funds	1,596,757	1,689,855
BOARD DESIGNATED NET ASSETS	\$ 1,795,319	\$ 1,892,358

PUBLIC HEALTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

5. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2010 and 2009, the Institute has the following net assets that are temporarily restricted for specific programs as stipulated by the entity providing the funding:

	<u>2010</u>	<u>2009</u>
The California Endowment	\$ 1,939,720	\$ 3,134,098
California Healthcare Foundation	832,877	1,251,656
The Regents of the University of California	758,186	1,127,566
David and Lucile Packard Foundation	449,542	1,036,180
The Ford Foundation	359,610	115,518
The Summit Foundation	294,281	404,509
Gordon and Betty Moore Foundation	239,637	-
The SCAN Foundation	232,716	90,040
United Nations Foundation	230,977	100,273
California Wellness Foundation	215,911	393,175
Other	<u>1,111,988</u>	<u>3,027,625</u>
	<u>\$ 6,665,445</u>	<u>\$ 10,680,640</u>

6. LINE OF CREDIT

The Institute had a \$3,000,000 bank line of credit, which matured December 31, 2010. Amounts borrowed under this agreement bore interest at a rate of 5%. As of December 31, 2010 and 2009, there was no outstanding balance on the line of credit. Additionally, there were no borrowings on the line of credit during the years ended December 31, 2010 and 2009.

7. LEASE COMMITMENTS

The Institute leases office space under several agreements, expiring in various years through 2018. 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.

Future minimum lease payments and receipts under operating leases having remaining terms in excess of one year as of December 31, 2010 are as follows:

<u>Year Ended December 31,</u>	<u>Rental Expense</u>	<u>Sublease Rentals</u>	<u>Net Rental Expense</u>
2011	\$ 4,080,470	\$ (316,185)	\$ 3,764,285
2012	3,168,986	(324,299)	2,844,687
2013	2,652,533	(229,956)	2,422,577
2014	1,729,371	(19,210)	1,710,161
2015	1,314,679	-	1,314,679
Thereafter	<u>2,642,455</u>	<u>-</u>	<u>2,642,455</u>
	<u>\$ 15,588,494</u>	<u>\$ (889,650)</u>	<u>\$ 14,698,844</u>

PUBLIC HEALTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

7. LEASE COMMITMENTS (Continued)

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

	2010	2009
Rental expense	\$ 4,254,272	\$ 3,508,490
Less: Sublease rentals	(104,932)	-
TOTAL RENTAL EXPENSE	\$ 4,149,340	\$ 3,508,490

8. TAX SHELTERED ANNUITY PLAN

In lieu of a standard retirement plan, 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. The maximum combined contributions are determined by limits set under Federal law.

During the years ended December 31, 2010 and 2009, the Institute contributed \$4,204,863 and \$3,448,344, respectively, to the tax sheltered annuity plan. The aforementioned contributions are fully vested and are administered by TIAA/CREF.

9. CONTINGENCY

The Institute receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2010. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

10. 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 by grants from 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 for which the Institute paid the University. The Institute was subsequently reimbursed for these costs under the aforementioned Federal awards. 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.

PUBLIC HEALTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

10. UNIVERSITY OF CALIFORNIA, IRVINE SUBCONTRACTS (Continued)

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 withheld subsequent payments to UCI in the amount of \$602,728 pending completion of an independent limited scope audit. The amounts withheld were from the subsequent subcontracts with UCI for the CCR Program. In late 2009, the Institute disallowed the entire amount withheld, on the basis of the completed independent limited scope audit. On March 16, 2011, the Institute made a payment in the amount of \$375,846 to the State of California to discharge this liability arising out of the Institute's acceptance of the completed independent limited scope audit. The Institute is currently awaiting direction from the Federal government to which the remaining balance of \$226,882 is due.

11. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the Statements of Financial Position date but before financial statements are issued. The Institute recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2010, including the estimates inherent in the process of preparing the financial statements. The Institute's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at December 31, 2010, but arose after December 31, 2010, and before financial statements are available to be issued.

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through June 21, 2011, the date the financial statements were issued.



GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL FINANCIAL
INFORMATION**

To the Board of Directors
Public Health Institute
Oakland, California

Our report on our audit of the basic financial statements of the Public Health Institute appears on page I-2. The accompanying Schedules of Expenditures of Federal Awards and Findings and Questioned Costs are presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gelman Rosenberg & Freedman

June 21, 2011

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

PUBLIC HEALTH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Granting Agency/ Name of Program	Pass-Through Entity	CFDA Number	Grant/Contract Number	Expenditures
Research and Development Cluster:				
U.S. Department of Education (US DOE):				
National Institute on Disability and Rehabilitation Research	-	84.133A	H133A060098	\$ 1,421,987
Subtotal - US DOE Programs				1,421,987
Department of Health and Human Services (DHHS):				
Environmental Health	Columbia University	93.113	547709	40,928
Environmental Health	National Institutes of Health	93.113	1 R01 ES013736-01A1	179,777
Environmental Health	March of Dimes	93.113	080137	26,083
Environmental Health	National Institutes of Health	93.113	1U01ES019471-01	28,812
Subtotal CFDA #93.113				275,600
Substance Abuse and Mental Health Services Projects of Regional and National Significance	National Institutes of Health	93.243	1U79SP015000-01	335,558
Substance Abuse and Mental Health Services Projects of Regional and National Significance	National Institutes of Health	93.243	1U79SP017379-01	27,345
Subtotal CFDA #93.243				362,903
Occupational Safety and Health Programs	Centers for Disease Control and Prevention	93.262	5 U60 OH008468-04	666,424
Occupational Safety and Health Programs	Centers for Disease Control and Prevention	93.262	254-2010-34511	29,740
Occupational Safety and Health Programs	Centers for Disease Control and Prevention	93.262	254-2010-36374	2,827
Subtotal CFDA #93.262				698,991
Alcohol Research Programs	U.C. San Francisco	93.273	4120SC	93,539
Alcohol Research Programs	National Institutes of Health	93.273	5 R01 AA014683-04	47,033
Alcohol Research Programs	National Institutes of Health	93.273	5R01AA014362-04	215,242
Alcohol Research Programs	University of North Dakota	93.273	827	98,248
Alcohol Research Programs	UCSF - Institute of Health and	93.273	4634SC	53,076
Alcohol Research Programs	National Institutes of Health	93.273	P30AA005595-28	1,680,948
Alcohol Research Programs	National Institutes of Health	93.273	1R21AA016124-02	43,776
Alcohol Research Programs	National Institutes of Health	93.273	1R21AA016578-01A1	158,916
Alcohol Research Programs	National Institutes of Health	93.273	5 R01 AA016644-02	150,035
Alcohol Research Programs	National Institutes of Health	93.273	2R01AA013750-04A2	384,108
Alcohol Research Programs	National Institutes of Health	93.273	1 R01 AA017197-01A1	298,611
Alcohol Research Programs	Drexel University	93.273	232435	78,937
Alcohol Research Programs	National Institutes of Health	93.273	1 R21 AA017947-01A1	137,508
Alcohol Research Programs	National Institutes of Health	93.273	1R01AA017954-02	29,117
Alcohol Research Programs	National Institutes of Health	93.273	1R01AA018119-02	210,525
Alcohol Research Programs	National Institutes of Health	93.273	1R21AA018175-02	126,696
Alcohol Research Programs	National Institutes of Health	93.273	1R21AA018174-01	127,856
Alcohol Research Programs	National Institutes of Health	93.273	1 R21 AA018365-01	268,180
Alcohol Research Programs	Brandies University	93.273	4-01439	39,192
Alcohol Research Programs	Kaiser Permanente	93.273	115-9362-01	38,457
Subtotal CFDA #93.273				4,280,000
Drug Abuse and Addiction Research Programs	National Institutes of Health	93.279	R21 DA023677-01	22,576
Drug Abuse and Addiction Research Programs	National Institutes of Health	93.279	1 R01 DA024714-01A1	672,775
Drug Abuse and Addiction Research Programs	University of Oxford	93.279	R00204/CN001	77,058
Drug Abuse and Addiction Research Programs	National Institutes of Health	93.279	1R21DA025208-02	101,669
Drug Abuse and Addiction Research Programs	National Institutes of Health	93.279	1 R21 DA026324-01A1	133,727
Subtotal CFDA #93.279				1,007,805
Centers for Disease Control and Prevention Investigations and Technical Assistance	Centers for Disease Control and Prevention	93.283	1 U58 DP001016-01	891,271
Centers for Disease Control and Prevention Investigations and Technical Assistance	University of North Carolina	93.283	5-53708	57,360
Centers for Disease Control and Prevention Investigations and Technical Assistance	Centers for Disease Control and Prevention	93.283	1U14WC000104-02	48,945
Centers for Disease Control and Prevention Investigations and Technical Assistance	Centers for Disease Control and Prevention	93.283	5 U38EH000186-03	977,278
Centers for Disease Control and Prevention Investigations and Technical Assistance	Centers for Disease Control and Prevention	93.283	5 U13 DP001366-01	57,808
Subtotal CFDA #93.283				2,032,662
Nursing Research	UCSF - Institute of Health and	93.361	5446sc	24,766
Cancer Cause and Prevention research	Northeastern University	93.393	500117 P1001942	170,365
Cancer Treatment Research	Centers for Disease Control and Prevention	93.395	5U01DP000260-03	22,454
Cancer Research Manpower	University of California	93.398	SUB0700222	10,697
Cancer Control	University of California - Davis	93.399	K-013506-PHI	60,143
Cancer Control	Dana Farber Cancer Center	93.399	1101105	20,219
Subtotal CFDA #93.399				80,362
Trans-NIH Recovery Act Research Support	Columbia University	ARRA 93.701	2 (ACCT #5-37983)	81,365
Trans-NIH Recovery Act Research Support	Columbia University	ARRA 93.701	1 (ACCT #5-37983)	126,139
Trans-NIH Recovery Act Research Support	University of California - Davis	ARRA 93.701	09001888.02	37,690
Trans-NIH Recovery Act Research Support	Columbia University	ARRA 93.701	1 (ACCT #5-39492)	18,688
Subtotal ARRA #93.701				263,882

PUBLIC HEALTH INSTITUTE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Granting Agency/ Name of Program	Pass-Through Entity	CFDA Number	Grant/Contract Number	Expenditures
Research and Development Cluster (Continued):				
Department of Health and Human Services (DHHS) (continued):				
Arthritis, Musculoskeletal and Skin Diseases Research	Georgetown university	93.846	U01AR057971-01	\$ 60,733
Center for Research for Mothers and Children	Columbia University	93.865	1 R01 HD058	160,376
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Centers for Disease Control and Prevention	93.938	1 U58 DP000807-01	4,538,150
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Centers for Disease Control and Prevention	93.938	1U87DP001248-01	62,219
Subtotal CFDA #93.938				4,600,369
International Research and Research Training	National Institutes of Health	93.989	2 R01 TW005938-06	322,226
SEER 2005-2010	National Institutes of Health	N/A	N01 PC 54404	1,920,761
Child Health & Dev 06-11	National Institutes of Health	N/A	N01-DK63422	298,701
CCR-Occupational Cancer SrvInc	Centers for Disease Control and Prevention	N/A	254-2007-21179	30,010
Evaluation of Respirator Usage	Centers for Disease Control and Prevention	N/A	254-2009-31321	86,659
SEER	National Institutes of Health	N/A	HHSN261201000034C	990,493
Subtotal CFDA Unknown				3,326,624
Subtotal - DHHS Programs				17,700,815
U.S. Agency for International Development (USAID):				
Foreign Assistance to American Schools and Hospitals Abroad (ASHA)	Lash Foundation	98.006	GSM-001	96,012
Subtotal - USAID Programs				96,012
Total Research and Development Cluster				\$ 19,218,814
Other Programs:				
U.S. Agency for International Development (USAID):				
USAID Foreign Assistance for Programs Overseas	-	98.001	GPO-A-00-06-00005-00	32,870,373
Department of Agriculture (USDA):				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Department of Public Health	10.561	08-85580	328,644
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Department of Public Health	10.561	08-85554	10,554,789
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Department of Public Health	ARRA 10.561	3U58DP002007-01S2	40,040
Subtotal CFDA #10.561				10,923,473
Department of Health and Human Services (DHHS):				
Alcohol Research Programs	National Institutes of Health	93.273	1R13AA019904-01	42,617
Preventive Health and Health Services Block Grant	Department of Public Health	93.991	07-65423	153,720
Department of Health and Human Services (DHHS) - Centers for Disease Control:				
Recovery Act	Macro International Inc.	ARRA 93.715	635243-10S-1562	6,140
U.S. Department of Justice (US DOJ):				
Office of Juvenile Justice Delinquency Program	U.S. Dept. of Justice	16.543	2009-MC-CX-K066	116,041
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 63,331,178

**PUBLIC HEALTH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Notes to Schedule:

A The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal grant activity of the Institute under programs of the Federal government for the year ended December 31, 2010. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institute.

B Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, 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. Pass-through entity identifying numbers are presented where available.

C Of the Federal expenditures presented in the Schedule, the Institute provided Federal awards to subrecipients as follows:

Program Name	CFDA Number	Amount Provided
Research and Development Cluster	Various	\$ 3,126,633
USAID Foreign Assistance for Programs Overseas	98.001	\$ 1,188,813
State Administrative Matching Grants for Food Stamp Program	10.561	\$ 1,454,612

PUBLIC HEALTH INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

- 1). Type of auditor's report issued: **Unqualified**
- 2). Internal control over financial reporting:
- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported
- 3). Noncompliance material to financial statements noted? Yes No

Federal Awards

- 4). Internal control over major programs:
- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported
- 5). Type of auditor's report issued on compliance for major programs: **Unqualified**
- 6). Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

7). Identification of major programs:

<u>Federal Program Title</u>	<u>CFDA</u>	<u>Expenditures</u>
United States Agency for International Development: Foreign Assistance for Programs Overseas	98.001	\$ 32,870,373
United States Department of Agriculture: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 10,923,473
Research and Development Cluster	Various	\$ 19,218,814

- 8). Dollar threshold used to distinguish between Type A and Type B programs: **\$1,899,935**
- 9). Auditee qualified as a low-risk auditee? Yes No

PUBLIC HEALTH INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (Circular A-133, Section .510)

Finding 2010-1: Procurement

Federal Programs: All Federal Programs (All CFDA's)

Criteria: 2CFR Section 215.46, entitled "Procurement Records" indicates that procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) Basis for contractor selection, (b) Justification for lack of competition when competitive bids or offers are not obtained, and (c) Basis for award cost or price.

Condition: The Institute maintains a policy which requires three written quotations from vendors (or evidence of a sole source justification) for purchases exceeding \$5,000. Our audit revealed certain instances where procurement actions were not adequately documented.

Questioned Costs: None

Context, Effect and Cause: The importance in maintaining a record of each procurement action is to support the Institute's due diligence process in connection with the acquisition of services or significant capital assets; it is also a critical step in identifying any actual or potential conflicts of interest with prospective vendors. Further, obtaining multiple bids and performing a cost analysis ensures that the Institute receives the best value for their purchases; failing to follow proper procurement standards (by not complying with the Institute's internal procurement policies) could result in disallowance of costs.

Recommendation: We recommend the Institute maintain proper documentation in connection with every procurement action within the vendor files. We also recommend the Institute reevaluate its established policy to ensure the current procurement thresholds are appropriate given the current level of purchasing activity.

Management Response: Management acknowledges the importance of maintaining a record of each procurement in accordance with the Institute's purchasing policy. The Institute will reinforce documentation requirements in its updated policy (see Corrective Action Plan notation below).

Corrective Action Plan: The Institute is updating its purchasing policy. A draft of the updated purchasing policy has been provided to Gelman, Rosenberg and Freedman. Appropriate interim measures have been taken to maintain adequate procurement documentation as necessary.

Section IV - Prior Year Findings

There were no prior year audit findings.



GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

**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 Board of Directors
Public Health Institute
Oakland, California

We have audited the financial statements of Public Health Institute (the Institute) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

A *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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the Institute's internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the Institute's internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in the Institute's internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

We noted certain matters that we reported to management of the Institute in a separate letter dated June 21, 2011.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gelman Rosenberg & Freedman

June 21, 2011



GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Public Health Institute
Oakland, California

Compliance

We have audited the compliance of the Public Health Institute (the Institute) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended December 31, 2010. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2010-1.

Internal Control Over Compliance

The management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Institute's internal control over

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compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of the Institute's 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in the Institute's internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2010-1. A significant deficiency in internal control over compliance is a deficiency, or 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.

The Institute's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Institute's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the Public Health Institute, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



June 21, 2011