



HEALTH RESEARCH, INC.

Reports Required By OMB Circular A-133

March 31, 2012

HEALTH RESEARCH, INC.

Reports Required by OMB Circular A-133

March 31, 2012

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KPMG LLP
515 Broadway
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**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***

The Board of Directors
Health Research, Inc.:

We have audited the financial statements of Health Research, Inc. (the Corporation) as of and for the year ended March 31, 2012, and have issued our report thereon dated June 29, 2012. 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

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

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

Our consideration of 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 internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in 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 Corporation'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*.

This report is intended solely for the information and use of the board of directors, management of Health Research, Inc., 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.

KPMG LLP

June 29, 2012



**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

The Board of Directors
Health Research, Inc.:

Compliance

We have audited Health Research, Inc.'s (the Corporation) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012. The Corporation's major federal programs are identified in the summary of auditors' 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 Corporation's management. Our responsibility is to express an opinion on the Corporation'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 Corporation'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 Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings and questioned cost as item 2012-01.

Internal Control over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in determine the 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 Corporation'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 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 internal control over compliance that we consider to be material weaknesses, as defined above.

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's responses and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the board of directors, management of Health Research, Inc., 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.



October 15, 2012



KPMG LLP
515 Broadway
Albany, NY 12207-2974

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**Independent Auditors'
Report on Schedule of Expenditures of Federal Awards**

The Board of Directors
Health Research, Inc.:

We have audited the basic financial statements of Health Research, Inc. (the Corporation) as of and for the years ended March 31, 2012 and 2011, and have issued our report thereon dated June 29, 2012. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to June 29, 2012.

The supplementary information included in the accompanying schedule of expenditures of federal awards for year ended March 31, 2012 is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of 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 the 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 federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

June 29, 2012

HEALTH RESEARCH, INC.
 Schedule of Expenditures of Federal Awards
 Year ended March 31, 2012
 Albany and Roswell Park Combined

CFDA No.	Description	Pass through entity	Pass through entity award numbers	Federal expenditures
RESEARCH AND DEVELOPMENT CLUSTER				
U.S. Department of Agriculture				
U.S. Department of Agriculture Direct Awards				
10.028	Wildlife Services			\$ 64,418
10.479	Food Safety Cooperative Agreements			69,574
10.578	WIC Grants to States			119,472
Total U.S. Department of Agriculture Direct Awards				<u>253,464</u>
U.S. Department of Defense				
U.S. Department of Defense Direct Awards				
12.420	Military Medical Research and Development			2,676,670
12.431	Basic Scientific Research			78,331
Total U.S. Department of Defense Direct Awards				<u>2,755,001</u>
U.S. Department of Defense Pass Through Awards				
12.420	Military Medical Research and Development	Androbiosystem	W81XWH08C0099	155,888
12.420	Military Medical Research and Development	Boston University	W81WH-11-2-0161	7,021
12.420	Military Medical Research and Development	Cleveland Clinic Foundation	W81XWH0810236	8,176
12.420	Military Medical Research and Development	Columbia University	DDEFW81XWH-0510399	180,511
12.420	Military Medical Research and Development	Daemen College	W81WH0501401	24,198
12.420	Military Medical Research and Development	Daemen College	#11-1-0082-HR1-1	19,569
12.420	Military Medical Research and Development	Research Foundation of SUNY at Buffalo	W81XWH11-2-0125	19,521
12.420	Military Medical Research and Development	University of Southern California	W81XWH-11-1-0568	23,154
12.420	Military Medical Research and Development	University of Southern California	W81XWH-08-1-0383	33,697
Total U.S. Department of Defense Pass Through Awards				<u>471,735</u>
Total U.S. Department of Defense				<u>3,226,736</u>
U.S. Department of the Interior				
U.S. Department of the Interior Direct Awards				
15.657	Endangered Species Conservation – Recovery Implementation Funds			23,887
Total U.S. Department of Interior Direct Awards				<u>23,887</u>
U.S. Department of Justice				
U.S. Department of Justice Direct Awards				
16.813	Bureau of Justice Statistics			19,680
Total U.S. Department of Justice Direct Awards				<u>19,680</u>
U.S. Department of Labor				
U.S. Department of Labor Pass through Awards				
17.005	Compensation and Working Conditions	NYS Department of Labor	C013509	79,587
Total U.S. Department of Labor Pass through Awards				<u>79,587</u>
U.S. Department of Transportation				
U.S. Department of Transportation Direct Awards				
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants			18,090
Total U.S. Department of Transportation Direct Awards				<u>18,090</u>
U.S. Department of Transportation Pass through Awards				
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C001987	5,505
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C001954	25,849
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C002011	38,638
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C002010	144,971
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C001945	215,894
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C1110020	237,154
Total U.S. Department of Transportation Pass through Awards				<u>668,011</u>
Total U.S. Department of Transportation Awards				<u>686,101</u>
National Science Foundation				
National Science Foundation Direct Awards				
47.050	Geosciences			290,306
47.070	Computer and Information Science and Engineering			71,698
47.074	Biological Sciences			716,034
47.078	Polar Programs			161,332
Total National Science Foundation Direct Awards				<u>1,239,370</u>

(Continued)

HEALTH RESEARCH, INC.
Schedule of Expenditures of Federal Awards
Year ended March 31, 2012
Albany and Roswell Park Combined

CFDA No.	Description	Pass through entity	Pass through entity award numbers	Federal expenditures
National Science Foundation Pass Through Awards				
47.076	Education and Human Resources	Cornell University	513,068,787	\$ 81,644
47.079	International Science and Engineering (OISE)	U. S. Civilian Research	POB12965WA09	208
47.082	Trans-NSR Recovery Act Research Support	SUNY at Buffalo	CMMI0928630	28,570
47.074	Biological Sciences	University of California, Santa Cruz	S0182434	195,175
	Total National Science Foundation Pass Through Awards			<u>305,597</u>
	Total National Science Foundation			<u>1,544,967</u>
Environmental Protection Agency				
Environmental Protection Agency Direct Awards				
66.469	Great Lakes Program			232,146
66.509	Science to Achieve Results (STAR) Program			65,908
	Total Environmental Protection Agency Direct Awards			<u>298,054</u>
Environmental Protection Agency Pass Through Awards				
66.509	Science to Achieve Results (STAR) Program	University of CA, Los Angeles	2155PMA381	9,695
	Total Environmental Protection Agency Pass Through Awards			<u>9,695</u>
	Total Environmental Protection Agency			<u>307,749</u>
Department of Veterans Affairs				
Department of Veterans Affairs Direct Awards				
64.VA258P0417	BCI Research Study			693,273
	Total Department of Veterans Affairs Direct Awards			<u>693,273</u>
Department of Energy				
Department of Energy Direct Awards				
81.049	Office of Science Financial Assistance Program			38,475
	Total Department of Energy Direct Awards			<u>38,475</u>
Department of Energy Pass Through Awards				
81.049	Office of Science Financial Assistance Program	Colorado State University	DE-FG020-07ER-64350-003	15,665
	Total Department of Energy Pass Through Awards			<u>15,665</u>
	Total Department of Energy			<u>54,140</u>
Department of Education				
Department of Education Direct Awards				
84.116	Fund for the Improvement of Postsecondary Education			34,724
	Total Department of Education Direct Awards			<u>34,724</u>
U. S. Office of Personnel Management				
U. S. Office of Personnel Management Direct Awards				
93.UNK	National Vaccine Advisory Committee			40,032
	Total U. S. Office of Personnel Management Direct Awards			<u>40,032</u>
Department of Health and Human Services				
Department of Health and Human Services Direct Awards				
93.003	Public Health and Social Services Emergency Fund			30,318
93.089	Emergency System for Advance Registration of Volunteer Health Professionals			246,115
	Total Department of Health and Human Services Direct Awards			<u>276,433</u>
Department of Health and Human Services Pass Through Awards				
93.719	ARRA – State Grants to Promote Health Information Technology	New York eHealth Collaborative	10HRI01/11HRI01	1,276,234
	Total Department of Health and Human Services Pass Through Awards			<u>1,276,234</u>
	Total Department of Health and Human Services			<u>1,552,667</u>

(Continued)

HEALTH RESEARCH, INC.
Schedule of Expenditures of Federal Awards
Year ended March 31, 2012
Albany and Roswell Park Combined

CFDA No.	Description	Pass through entity	Pass through entity award numbers	Federal expenditures
Centers for Disease Control and Prevention				
Centers for Disease Control and Prevention Direct Programs				
93.069	Public Health Emergency Preparedness			\$ 35,526,306
93.070	Environmental Public Health and Emergency Response			2,990,880
93.136	Injury Prevention and Control Research and State and Community Based Programs			483,790
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children			406,609
93.262	Occupational Safety and Health Program			504,922
93.270	Adult Viral Hepatitis Prevention and Control			464,257
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance			19,107,837
93.507	Strengthening Public Health Infrastructure for Improved Health Outcomes			316,398
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements			1,237,621
93.523	The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities			120,250
93.538	Affordable Care Act – National Environmental Public Health Tracking Program-Network Implementation			425,961
93.539	Prevention and Public Health Fund (Affordable Care Act) – Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance			46,156
93.544	The Patient Protection and Affordable Care Act of 1010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program			89,806
93.712	ARRA – Immunization			402,894
93.717	ARRA – Preventing Healthcare-Associated Infections			958,353
93.724	ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement			34,183
93.729	ARRA – Health Information Technology and Public Health			315,219
93.937	Medical Monitoring Project			392,157
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance			2,780,517
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs			200,903
93.200	Tuberculosis Epidemiologic Studies Consortium			49,609
93.2142011M40750	IBM-Endicott Employee Linkage			10,195
93.254	Public Health Practice Evaluation of Respirator			39,356
93.2002010M35633	H1N1 Proficiency Testing Program for Influenza			46,455
93.200	Lab Testing for Recent HIV Infection			610,005
93.2142010M362	Adult Blood Lead Epidemiology			9,599
93.2142011M396	Adult Blood Lead Epidemiology			9,540
93.2002009M31408	Comparative Genomic Hybridization and Mito Chip Array Analysis			1,529
Total Centers for Disease Control and Prevention Direct Programs				67,581,307
Centers for Disease Control and Prevention Pass Through Programs				
93.065	Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	Association of Public Health Labs	NA	12,026
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	Association of Public Health Labs	NA	83,816
93.S38882728	Augmenting NY Cancer Registry Data	Association of Public Health Labs	S38882728	116,214
93.635278-11S-1603	Measuring Secondhand Smoke Exposure in CPPW Communities	ICF Macro International	635278-11S-1603	27,289
93.068	Chronic Diseases: Research, Control, and Prevention	Prevent Blindness America	NA	89,628
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	National Association of Chronic Disease	1642011	4,925
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	Mount Sinai Medical Center	25455234609	75,901
93.538	Congenital Malformation Registry	NYC Department of Health	12001653	739
93.20104QAP75099299	Air Pollution Health Effects: Health Impact	TKC Global Solutions, LLC	20104QAP75099299	20,192
93.862505S02	Outcomes of Ovarian Cancer	Westat, Inc.	862505S02	23,445
93.3524301S1458	Improving the Reporting of Hematopoietic Diseases	ICF Macro International	3524310S1458	185,535
Total Centers for Disease Control and Prevention Pass Through Programs				639,710
Total Centers for Disease Control and Prevention				68,221,017

(Continued)

HEALTH RESEARCH, INC.
 Schedule of Expenditures of Federal Awards
 Year ended March 31, 2012
 Albany and Roswell Park Combined

CFDA No.	Description	Pass through entity	Pass through entity award numbers	Federal expenditures
Centers for Medicare and Medicaid Services				
Centers for Medicare and Medicaid Services Pass Through Awards				
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchange	NYS Department of Financial Services	C000369	\$ 522,596
Total Centers for Medicare and Medicaid Services Pass Through Awards				<u>522,596</u>
Agency for Toxic Substances and Disease Registry				
Agency for Toxic Substances and Disease Registry Direct Awards				
93.161	Health Program for Toxic Substances and Disease Registry			646,050
93.204	Surveillance of Hazardous Substance Emergency Events			172,469
Total Agency for Toxic Substances and Disease Registry Direct Awards				<u>818,519</u>
Health Resources and Services Administration				
Health Resources and Services Administration Direct Awards				
93.110	Maternal and Child Health Federal Consolidated Programs			1,726,744
93.127	Emergency Medical Services for Children			136,174
93.145	AIDS Education and Training Centers			4,120,583
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth			1,028,178
93.234	Traumatic Brain Injury State Demonstration Grant Program			279,587
93.241	State Rural Hospital Flexibility Program			397,127
93.251	Universal Newborn Hearing Screening			348,902
93.256	State Health Access Program			2,785,612
93.301	Small Rural Hospital Improvement Grant Program			174,674
93.884	Grants from Training in Primary Care Medicine and Dentistry			13,973
93.913	Grants to States for Operation of Offices of Rural Health			179,712
93.928	Special Projects of National Significance			100,590
Total Health Resources and Services Administration Direct Awards				<u>11,291,856</u>
Health Resources and Services Administration Pass Through Awards				
93.145	AIDS Education and Training Centers	Columbia University	3	58,948
93.145	AIDS Education and Training Centers	Columbia University	539397	105,545
93.110	Maternal and Child Health Federal Consolidated Programs	Genetic Alliance	NA	14,307
93.UNK	Quality Assessment of Newborn Screening System	Genetic Alliance	NA	436
93.266	Rapid Expansion of Antiretroviral Therapy Programs for HIV-Infected Persons in Selected Countries in Africa and the Caribbean Under the Presidents Emergency Plan for AIDS Relief	Harvard University	NA	198,491
93.TLG080304677.01	Modeling of Reports for Workforce Projections	The Lewin Group, Inc.	TLG080304677.01	114,541
Total Health Resources and Services Administration Pass Through Awards				<u>492,268</u>
Total Health Resources and Services Administration				<u>11,784,124</u>
Food and Drug Administration				
Food and Drug Administration Direct Awards				
93.448	Food Safety and Security Monitoring Project			238,728
93.449	Ruminant Feed Ban Support Project			285,848
Total Food and Drug Administration Direct Awards				<u>524,576</u>
Food and Drug Administration Pass Through Awards				
93.HHSF223201000044C	Understanding Menthol in Tobacco Products	Research Triangle Institute	HHSF223201000044C	177,226
Total Food and Drug Administration Pass Through Awards				<u>177,226</u>
Total Food and Drug Administration				<u>701,802</u>

(Continued)

HEALTH RESEARCH, INC.
 Schedule of Expenditures of Federal Awards
 Year ended March 31, 2012
 Albany and Roswell Park Combined

CFDA No.	Description	Pass through entity	Pass through entity award numbers	Federal expenditures
National Institutes of Health				
National Institutes of Health Direct Awards				
93.113	Environmental Health			\$ 1,039,434
93.173	Research Related to Deafness and Communication Disorders			8,426
93.213	Research and Training in Complementary and Alternative Medicine			49,706
93.242	Mental Health Research Grants			104,170
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health			1,863,293
93.307	Minority Health and Health Disparities Research			56,268
93.310	Trans-NIH Research Support			561,601
93.389	National Center for Research Resources			208,501
93.393	Cancer Cause and Prevention Research			12,310,571
93.394	Cancer Detection and Diagnosis Research			723,489
93.395	Cancer Treatment Research			11,776,427
93.396	Cancer Biology Research			2,307,313
93.397	Cancer Centers Support Grants			5,735,365
93.399	Cancer Control			1,404,212
93.701	ARRA-Trans-NIH Recovery Act Research Support			3,404,868
93.702	National Center for Research Resources, Recovery Act Construction Support			19,981
93.837	Heart and Vascular Diseases Research			645,022
93.837	Blood Diseases and Resources Research			1,720,961
93.846	Arthritis, Musculoskeletal and Skin Diseases Research			1,191,805
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research			334,246
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders			1,086,038
93.855	Allergy, Immunology and Transplantation Research			4,728,567
93.859	Biomedical Research and Research Training			3,587,626
93.865	Child Health and Human Development Extramural Research			681,406
93.989	International Research, and Research Training			34,169
93.N01A125490	West Nile & Pox Viruses			500
93.HHSN27520011000011	Analysis of Human Biospecimens			418
93.HHSN267200603430C	Novel Technologies in Newborn Screening			728,835
93.HHSN275201200005C	Aldous – Infertility, Child Growth and Development			373,564
93.HHSN267200703431C	Genetic Factors in Birth Defects			389,868
93.HHSN267200700019C	Infertility Treatment, Child Growth & Development			1,634,726
Total National Institutes of Health Direct Awards				58,711,376
National Institutes of Health Pass Through Awards				
93.855	Allergy, Immunology and Transplantation Research	Akonni Biosystems, Inc.	1R43AI08565001A1	52,887
93.855	Allergy, Immunology and Transplantation Research	Akonni Biosystems, Inc.	NA	176,947
93.279	Drug Abuse and Addiction Research Programs	Albany Medical College	465262	70,795
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Albany Medical College	465271HRI	85,049
93.393	Cancer Cause and Prevention Research	Albert Einstein College of Medicine	R01CA133010	43,427
93.395	Cancer Treatment Research	American College of Radiology	U10CA21661	83,043
93.HHSN261201000119C	Platelet Based Nanoparticle Therapy for Prostate Cancer	Androbiosystems	93.HHSN261201000119C	23,589
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Arizona State University	8990	2,975
93.395	Cancer Treatment Research	Brigham and Womens Hospital	U10CA31964	209,446
93.395	Cancer Treatment Research	Brigham and Womens Hospital	U10CA037447	28,825
93.839	Blood Diseases and Resources Research	Brigham and Womens Hospital	P01HL107146	439,041
93.395	Cancer Treatment Research	Buffalo Biolabs	R41CA137977	30,553
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Case Western University	RES506124	21,724
93.395	Cancer Treatment Research	Children's Oncology Group	U10CA098543	75,911
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Columbia University	536756	2,251
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Columbia University	539146	5,150
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Columbia University	539391	88,884
93.855	Allergy, Immunology and Transplantation Research	Columbia University	537663	336,474
93.855	Allergy, Immunology and Transplantation Research	Columbia University	537662	33,245
93.113	Environmental Health	Cornell University	588919084	82,890
93.UNK	Salmonella Genetic Typing	Cornell University	NA	1,188
93.393	Cancer Cause and Prevention Research	Dana-Farber Cancer Institute	1147504	130,728
93.397	Cancer Centers Support Grants	Dana-Farber Cancer Institute	K07CA118269	3,025
93.395	Cancer Treatment Research	Duke University	U10CA076001	154
93.395	Cancer Treatment Research	Emory University	R01CA129968	38,293
93.865	Child Health and Human Development Extramural Research	Emory University	S417066	188,577
93.HHSN261200644002C	Lab Assessment of Tobacco Use Behavior and Exposure to Toxin	Georgetown University	HHSN261200644002C	2,070
93.395	Cancer Treatment Research	Gynecologic Oncology Group	U10CA027469	474,483
93.395	Cancer Treatment Research	Gynecologic Oncology Group	U10CA101165	1,380,022

(Continued)

HEALTH RESEARCH, INC.
 Schedule of Expenditures of Federal Awards
 Year ended March 31, 2012
 Albany and Roswell Park Combined

CFDA No.	Description	Pass through entity	Pass through entity award numbers	Federal expenditures
93.701	Trans-NIH Recovery Act Research Support	Gynecologic Oncology Group	U10CA027469	\$ 31,648
93.397	Cancer Centers Support Grants	John Hopkins University	P50CA058236	167,695
93.395	Cancer Treatment Research	John Wayne Cancer Institute	P01CA029605	825
93.701	Trans-NIH Recovery Act Research Support	John Wayne Cancer Institute	P01CA029605	2,359
93.113	Environmental Health	Kaiser Permanente	U01ES019435	29,752
93.393	Cancer Cause and Prevention Research	Kaiser Permanente	R01CA105274	190,381
93.701	Trans-NIH Recovery Act Research Support	Kaiser Permanente	R01CA105274	181,284
93.307	Minority Health and Health Disparities Research	Louisiana State University	SP20MD004817-02	31,921
93.855	Allergy, Immunology and Transplantation Research	Mapp Biopharmaceutical, Inc.	701701	111,158
93.395	Cancer Treatment Research	Mayo Clinic Rochester	U10CA025224	52,793
93.839	Blood Diseases and Resources Research	Medical College of Wisconsin	R01HL107213	103,599
93.393	Cancer Cause and Prevention Research	Medical University of South Carolina	P01CA138389	152,501
93.393	Cancer Cause and Prevention Research	Moffitt Cancer Center	5R01CA137357	36,590
93.701	ARRA-Trans-NIH Recovery Act Research Support	Montefiore Hospital Medical Center	5U01AI3500417	128,795
93.395	Cancer Treatment Research	National Childhood Cancer Foundation	U10CA98543	15,000
93.839	Blood Diseases and Resources Research	National Marrow Donor Program	U01HL069294	9,685
93.399	Cancer Control	National Surgical Adjuvant Breast and Bowel Project	U10CA037377	61,315
93.393	Cancer Cause and Prevention Research	Northeastern University	50013878050	11,990
93.820	Confirmation of Harmful Agents by Mass Tag PCR	Northrop Grumman	8200143823	243,320
93.701	Trans-NIH Recovery Act Research Support	Northwestern University	R21CA135467	8,274
93.N01CN35157	Phase I Study Erlotinib in Patients with Premalignant (1121507)	Northwestern University	N01CN35157	312,023
93.859	Biomedical Research and Research Training	Oakland University	NA	2,714
93.701	ARRA-Trans-NIH Recovery Act Research Support	Ordway Research Institute, Inc.	ES0159540252	14,144
93.701	Trans-NIH Recovery Act Research Support	Purdue University	1R03HC062692	17,186
93.399	Cancer Control	Regents of the University of Michigan	U01CA37429	32,125
93.242	Mental Health Research Grants	Research Foundation of Mental Hygiene	NA	121,905
93.279	Drug Abuse and Addiction Research Programs	Research Foundation of SUNY at Buffalo	U01DA020830	101,607
93.396	Cancer Biology Research	Research Foundation of SUNY at Buffalo	R01CA108970	32,300
93.701	Trans-NIH Recovery Act Research Support	Research Foundation of SUNY at Buffalo	R25MD0049366	15,276
93.701	Trans-NIH Recovery Act Research Support	Research Foundation of SUNY at Buffalo	R01DE013833	1,405
93.839	Blood Diseases and Resources Research	Research Foundation of SUNY at Buffalo	R01HL103411	17,681
93.855	Allergy, Immunology and Transplantation Research	Research Foundation of SUNY at Buffalo	5R21AI092348-02	18,172
93.395	Cancer Treatment Research	St. Jude Childrens Hospital	U24CA055727	3,034
93.10XS171	Collection of 80 Normal Tissues From Decreased Donors	SAIC Frederick	10XS171	726,406
93.HHSN261200800001E	Effects of Pre-Analytic Variables on Circulating Micromas	SAIC Frederick	HHSN261200800001E	526,905
93.389	National Center for Research Resources	SimPore, Inc.	111005HRI	17,476
93.855	Allergy, Immunology and Transplantation Research	Soligenix, Inc.	1U01AI08211001	96,927
93.399	Cancer Control	Southwest Oncology Group	CA37429	35
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	SUNY at Buffalo	R21EB0095601	33,172
93.396	Cancer Biology Research	SUNY at Buffalo	R01CA131407	32,519
93.701	Trans-NIH Recovery Act Research Support	SUNY at Buffalo	R21CA141165	31,928
93.859	Biomedical Research and Research Training	SUNY Research Foundation	110109380457033	46,745
93.989	International Research, and Research Training	SUNY Research Foundation	100922854372	3,315
93.989	International Research, and Research Training	SUNY Research Foundation	57595	6,413
93.701	ARRA-Trans-NIH Recovery Act Research Support	Thomas Jefferson University	08003000R91701	21,150
93.701	ARRA-Trans-NIH Recovery Act Research Support	Thomas Jefferson University	08004000R97803	138,883
93.855	Allergy, Immunology and Transplantation Research	Trudeau Institute, Inc.	NA	10,877
93.393	Cancer Cause and Prevention Research	University Health Network	R03CA141615	8,227
93.396	Cancer Biology Research	University of Alabama at Birmingham	412579	28,412
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	University of British Columbia	F0905177	12,346
93.855	Allergy, Immunology and Transplantation Research	University of CA, Santa Cruz	S0183090	192,720
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	University of CA, San Diego	R01NS066072	200,706
93.855	Allergy, Immunology and Transplantation Research	University of CA, San Diego	10312189	89,292
93.394	Cancer Detection and Diagnosis Research	University of California at Irvine	R21CA156032	24,410
93.113	Environmental Health	University of Cincinnati	NA	16,216
93.395	Cancer Treatment Research	University of Colorado	R21CA135595	36,405
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	University of Houston	R110155	49,376
93.393	Cancer Cause and Prevention Research	University of Illinois	U01CA154248	2,745
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	University of Michigan	3000623671	56,370
93.395	Cancer Treatment Research	University of Michigan	R21CA128193	16,021
93.395	Cancer Treatment Research	University of Michigan	R01CA083081	52,711
93.399	Cancer Control	University of Michigan	CA101451	45,606
93.396	Cancer Biology Research	University of North Carolina	P01CA077739	975,453
93.361	Nursing Research	University of Pittsburgh	5R01NR101735	15,254
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	University of Pittsburgh	11084	1,918

(Continued)

HEALTH RESEARCH, INC.
Schedule of Expenditures of Federal Awards
Year ended March 31, 2012
Albany and Roswell Park Combined

CFDA No.	Description	Pass through entity	Pass through entity award numbers	Federal expenditures
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	University of Pittsburgh	11083	\$ 18,617
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	University of Rochester	1R1 EB010069-01A1	
93.701	Trans-NIH Recovery Act Research Support	University of Rochester	R01AI059111	10,390
93.855	Allergy, Immunology and Transplantation Research	University of Rochester	R01AI059111	12,288
93.859	Biomedical Research and Research Training	University of Texas	160280	8,477
93.855	Allergy, Immunology and Transplantation Research	University of Texas at Austin	UTA07577	5,622
93.393	Cancer Cause and Prevention Research	University of Waterloo	R01CA100362	143,515
93.393	Cancer Cause and Prevention Research	University of Waterloo	R01CA125116	31,840
93.393	Cancer Cause and Prevention Research	University of Wisconsin	R01CA125116	21,885
93.N01CN35153	INC07-10-01 A Phase IIB Randomized Placebo Controlled Trial	University of Wisconsin	N01CN35153	8,705
93.113	Environmental Health	Vanderbilt University	1865052	23,116
93.397	Cancer Centers Support Grants	Washington University School of Medicine	P50CA134254	144,564
93.HHSN271201100027C	Path P1 Project Management and Panels	Westat	HHSN271201100027C	103,089
93.113	Environmental Health	X-Ray Optical Systems, Inc.	2R44ES01668902	33,520
93.371	Biomedical Research Technology	X-Ray Optical Systems, Inc.	NA	52,376
93.393	Cancer Cause and Prevention Research	Yale University	A07521M09A10285	88,665
93.393	Cancer Cause and Prevention Research	Yale University	R01CA140256	142,519
93.273	Alcohol Research Programs	Yale University	5R21AA018273-02	47,066
93.273	Alcohol Research Programs	Yale University	1R21AA018273-01A1	48,501
93.701	Trans-NIH Recovery Act Research Support	Yale University	R01DA026450	28,733
	Total National Institutes of Health Pass Through Awards			<u>10,862,530</u>
	Total National Institutes of Health			<u>69,573,906</u>
Agency for Healthcare Research and Quality				
Agency for Healthcare Research and Quality Direct Awards				
93.715	Recovery Act – Comparative Effectiveness Research – AHRQ			378,806
	Total Agency for Healthcare Research and Quality Direct Awards			<u>378,806</u>
Agency for Healthcare Research and Quality Pass Through Awards				
93.226	Research on Healthcare Costs, Quality and Outcomes	NYS Unified Court System	C500897	707,863
93.226	Research on Healthcare Costs, Quality and Outcomes	Mt. Sinai School of Medicine	25456914609	56,380
93.245	Evaluation of AHRQ's On-Time Pressure Ulcer Program	Abt Associates, Inc.	24484	5,163
	Total Agency for Healthcare Research and Quality Pass Through Awards			<u>769,406</u>
	Total Agency for Healthcare Research and Quality			<u>1,148,212</u>
	Total Department of Health and Human Services			<u>154,322,843</u>
Department of Homeland Security				
Department of Homeland Security Direct Awards				
97.044	Assistance to Firefighters Grant			115,720
	Total Department of Homeland Security Direct Awards			<u>115,720</u>
Agency for International Development				
Agency for International Development Pass Through Awards				
98.001	USAID Foreign Assistance for Programs Overseas	University Research Co., LLC	FY10A036970	24,202
98.001	USAID Foreign Assistance for Programs Overseas	SUNY Research Foundation	1002	37,272
	Total Agency for International Development Pass Through Awards			<u>61,474</u>
	TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>\$ 161,464,377</u>
OTHER AWARDS				
Department of Health and Human Services				
Centers for Disease Control and Prevention				
Centers for Disease Control and Prevention Direct Awards				
93.184	Disabilities Prevention			189,258
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance			10,023,371
93.723	ARRA – Prevention and Wellness-State, Territories and Pacific Islands			3,935,901
93.940	HIV Prevention Activities Health Department Based			26,083,838
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups			2,917,884
93.941	HIV Demonstration, Research, Public and Professional Education Projects			586,696
	Total Centers for Disease Control and Prevention Direct Awards			<u>43,736,948</u>

(Continued)

HEALTH RESEARCH, INC.
Schedule of Expenditures of Federal Awards
Year ended March 31, 2012
Albany and Roswell Park Combined

CFDA No.	Description	Pass through entity	Pass through entity award numbers	Federal expenditures
Centers for Disease Control and Prevention Pass Through Awards 93.262	Occupational Safety and Health Program	The Mary Imogene Bassett Hospital	7,384	\$ 6,856
	Total Centers for Disease Control and Prevention Pass Through Awards			<u>6,856</u>
	Total Centers for Disease Control and Prevention			<u>43,743,804</u>
Health Resources and Services Administration				
Health Resources and Services Administration Direct Awards				
93.236	Grants to States to Support Oral Health Workforce Activities			262,698
93.404	ARRA – Dental Public Health Residency Training Grants			84,763
93.917	HIV Care Formula Grants			162,435,839
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants			<u>133,162</u>
	Total Health Resources and Services Administration Direct Awards			<u>162,916,462</u>
Health Resources and Services Administration Pass Through Awards				
93.914	HIV Emergency Relief Project Grants	Public Health Solutions	93SEC4624M	(16,276)
93.914	HIV Emergency Relief Project Grants	Public Health Solutions	01QAP4624	1,809,553
93.914	HIV Emergency Relief Project Grants	Public Health Solutions	94HRR4624M	1,615,494
93.914	HIV Emergency Relief Project Grants	Public Health Solutions	92HRI4624M	21,672,945
93.914	HIV Emergency Relief Project Grants	United Way – Long Island	10011	8,999
93.914	HIV Emergency Relief Project Grants	United Way – Long Island	11011	<u>317,009</u>
	Total Health Resources and Services Administration Pass Through Awards			<u>25,407,724</u>
	Total Health Resources and Services Administration			<u>188,324,186</u>
Office of the Secretary				
Office of the Secretary Direct Awards				
93.889	National Bioterrorism Hospital Preparedness Program			15,799,872
	Total Office of the Secretary Direct Awards			<u>15,799,872</u>
Office of the Secretary Pass Through Awards				
93.889	National Bioterrorism Hospital Preparedness Program	Fund for Public Health in NY	1110HEALR001	122,150
93.889	National Bioterrorism Hospital Preparedness Program	Fund for Public Health in NY	11,902,550	<u>249,950</u>
	Total Office of the Secretary Pass Through Awards			<u>372,100</u>
	Total Office of the Secretary			<u>16,171,972</u>
	Total Department of Health and Human Services			<u>248,239,962</u>
	TOTAL OTHER AWARDS			<u>248,239,962</u>
	TOTAL FEDERAL EXPENDITURES			<u>\$ 409,704,339</u>

See accompanying notes to schedule of expenditures of federal awards

HEALTH RESEARCH, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended March 31, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Health Research, Inc. (HRI or Corporation) and is presented on the cash basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

The amounts reported as federal expenditures generally were obtained from the appropriate financial records for the applicable program and period. The amounts reported in federal financial reports are prepared from these financial records, which are maintained for each program. These records are periodically reconciled to the general ledger which is the source of the financial statements.

(2) Indirect Costs

Indirect costs are included in the reported expenditures to the extent such costs are included in the federal financial reports used as the source for the data presented.

(3) Subrecipients

Of the federal expenditures presented in the accompanying schedule, HRI provided federal awards to subrecipients during the year ended March 31, 2012 as follows:

Program title	CFDA number	Subcontract expenses
WIC Grants to States	10.578	\$ 19,580
State and Community Highway Safety	20.600	155,640
Polar Programs	47.078	7,279
Great Lakes Program	66.469	2,609
Science to Achieve Results (STAR) Program	66.509	7,955
Public Health Emergency Preparedness	93.069	17,090,526
Environmental Public Health and Emergency Response	93.070	115,125
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	117,889
Maternal and Child Health Federal Consolidated Programs	93.110	513,126
Environmental Health	93.113	219,732
Emergency Medical Services for Children	93.127	9,260
Injury Prevention and Control Research and State and Community Based Programs	93.136	37,431
AIDS Education and Training Centers	93.145	1,200,122
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	645,225

HEALTH RESEARCH, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended March 31, 2012

Program title	CFDA number	Subcontract expenses
Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	\$ 40,290
Research on Healthcare Costs, Quality and Outcomes	93.226	357,995
Traumatic Brain Injury-State Demonstration Grant Program	93.234	138,612
Grants to States to Support Oral Health Workforce Activities	93.236	133,513
State Rural Hospital Flexibility Program	93.241	268,361
Mental Health Research Grants	93.242	55,000
Universal Newborn Hearing Screening	93.251	71,512
State Health Access Program	93.256	601,473
Rapid Expansion of Antiretroviral Therapy Programs for HIV Infected Persons in Selected Countries in Africa and the Caribbean Under the President's Emergency Plan for AIDS Relief	93.266	14,186
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	10,825,441
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	897,633
Small Rural Hospital Improvement Grant Program	93.301	174,674
National Center for Research Resources	93.389	41,289
Cancer Cause and Prevention Research	93.393	332,702
Cancer Detection and Diagnosis Research	93.394	1,729
ARRA – Dental Public Health Residency Training Grants	93.404	12,900
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507	37,170
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	93.521	80,192
The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities	93.523	120,250
Trans-NIH Recovery Act Research Support	93.701	353,897
ARRA – Immunization	93.712	166,589
Recovery Act – Comparative Effectiveness Research – AHRQ	93.715	212,683

HEALTH RESEARCH, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended March 31, 2012

<u>Program title</u>	<u>CFDA number</u>	<u>Subcontract expenses</u>
ARRA – Preventing Healthcare-Associated Infections	93.717	\$ 319,958
ARRA – Prevention and Wellness – State, Territories and Pacific Islands	93.723	3,133,388
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	75,832
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	119,709
Allergy, Immunology and Transplantation Research	93.855	348,509
Biomedical Research and Research Training	93.859	30,031
Child Health and Human Development Extramural Research	93.865	103,691
National Bioterrorism Hospital Preparedness Program	93.889	11,595,218
HIV Emergency Relief Project Grants	93.914	2,740,897
HIV Care Formula Grants	93.917	18,995,203
Special Projects of National Significance	93.928	18,739
HIV Prevention Activities-Health Department Based	93.940	10,598,939
HIV Demonstration, Research, Public and Professional Education Projects	93.941	99,555
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	1,977,837
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	428,301
Information and Education Grants	93.978	112,976
Preventive Health Services Sexually Transmitted Diseases Research Demonstrations, and Public International Research, and Research Training	93.989	10,000
USAID Foreign Assistance for Programs Overseas	98.001	1,245
Genetic Factors in Birth Defects	93.HHSN267200703431C	8,444
Infertility Treatment, Child Growth & Development	93.HHSN267200700019C	495,993
Novel Technologies in Newborn Screening	93.HHSN267200603430C	682,482
		<u>\$ 86,976,537</u>

HEALTH RESEARCH, INC.

Schedule of Findings and Questioned Costs

Year ended March 31, 2012

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
Various 93.914 93.723	Research and Development Programs Cluster HIV Emergency Relief Project Grants ARRA – Prevention and Wellness – State Territories and Pacific Islands

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes No

HEALTH RESEARCH, INC.

Schedule of Findings and Questioned Costs

Year ended March 31, 2012

Section II – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

HEALTH RESEARCH, INC.

Schedule of Findings and Questioned Costs

Year ended March 31, 2012

Section III – Findings and Questioned Costs relating to Federal Awards

Federal Program: Research and Development Programs Cluster, specifically the Centers for Disease Control and Prevention Investigations and Technical Assistance Program and the Cancer Treatment Research Program

CFDA No.: 93.283 and 93.395

Federal Agencies: Centers for Disease Control and Prevention and the National Institutes of Health

Pass-through Entity: N/A

Federal Award Year: 2010, 2011, 2012

Finding 2012-01: Physical Inventory of Equipment

Requirement

OMB Circular A-110 § __ .34(f) (3), requires that a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

Condition and Context

HRI has structured their policies and procedures regarding inventory to be in accordance with OMB Circular A-110, and as such, have sought to design controls to properly manage equipment purchased with federal funds, including conducting a physical inventory of equipment at least once every two years. HRI – Roswell Park Division maintains a detailed listing (the RPCI Equipment Inventory Status report) of all departments /cost centers, the dates when the last inventory was performed, and when the most recent inventory observation requests to departments were sent/ followed-up on.

KPMG observed 10 departmental cost centers for which inventory was on hand at March 31, 2012. A physical inventory observation request was sent to the appropriate departments, however the observation was not completed and returned by the department prior to the 2-year period elapsing.

Questioned Costs

None.

Cause

The inventory observation requests sent to Health Research, Inc. – Roswell Park Division were not followed-up on a timely basis.

HEALTH RESEARCH, INC.

Schedule of Findings and Questioned Costs

Year ended March 31, 2012

Recommendation

We recommend HRI enhance their existing policies to ensure that all equipment inventory observations are completed and returned at least once every two years. The process should ensure timely notification to department personnel and require regular follow-up through completion of the physical inventory within the 2-year timeframe.

Views of Responsible Officials and Planned Corrective Actions

All delinquent observations were completed by June 29, 2012. Health Research Inc – Roswell Park Division has implemented an improved process to ensure that physical inventory observations are completed timely, at least once every two years. Physical inventory management will include additional time for inventories to be completed within a 2-year period. The improved process will also include management control reports to help departments complete the observations in a timely manner.



HEALTH RESEARCH, INC.

Financial Statements

March 31, 2012 and 2011

(With Independent Auditors' Report Thereon)



KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

Board of Directors
Health Research, Inc.:

We have audited the accompanying statements of financial position of Health Research, Inc. (the Corporation) as of March 31, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Corporation'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 audits provide 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 Health Research, Inc. as of March 31, 2012 and 2011, and the changes in its net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012 on our consideration of Health Research, Inc.'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 *Governmental Auditing Standards* and should be considered in accessing the results of our 2012 audit.

KPMG LLP

June 29, 2012

HEALTH RESEARCH, INC.
Statements of Financial Position
March 31, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 176,880,027	54,156,224
Investments (note 3)	82,673,693	169,940,456
Board designated investments for postretirement benefits (note 3)	56,019,355	47,705,079
Expense reimbursements due from sponsors (note 10)	69,543,345	65,079,135
Accrued interest receivable	670,483	1,436,214
Prepaid expenses	314,996	349,299
Property, plant, and equipment, net (note 4)	2,337,436	2,988,750
Agency fund (note 5)	56,078,769	57,577,071
Total assets	<u>\$ 444,518,104</u>	<u>399,232,228</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 42,012,617	42,447,272
Accrued liabilities:		
Vacation pay	9,697,749	9,570,911
Payroll and payroll-related costs	12,607,813	11,012,249
Total accrued liabilities	22,305,562	20,583,160
Restricted advances and deferred revenue	198,641,255	163,732,158
Payable to New York State, indirect cost recovery (note 2)	698,387	2,584,226
Accrued postretirement benefit obligation (note 6)	111,144,962	88,019,796
Agency fund (note 5)	56,078,769	57,577,071
Total liabilities	430,881,552	374,943,683
Commitments and contingencies (notes 7 and 10)		
Unrestricted net assets	13,636,552	24,288,545
Total liabilities and net assets	<u>\$ 444,518,104</u>	<u>399,232,228</u>

See accompanying notes to financial statements.

HEALTH RESEARCH, INC.

Statements of Activities

Years ended March 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenue:		
Grants and contracts (note 10)	\$ 656,750,591	657,811,974
Contract fees and technology transfer revenue earned	3,387,400	3,261,268
Net investment income (note 3)	1,448,106	4,144,571
Total revenue	<u>661,586,097</u>	<u>665,217,813</u>
Expenses:		
Direct research, prevention and treatment costs	622,861,067	617,310,994
Indirect costs charged (note 2)	34,432,973	38,063,003
Total expenses	<u>657,294,040</u>	<u>655,373,997</u>
Excess of revenue over expenses	4,292,057	9,843,816
Postretirement obligations other than net periodic postretirement benefit cost (note 6)	<u>(14,944,050)</u>	<u>(6,439,874)</u>
Change in net assets	(10,651,993)	3,403,942
Unrestricted net assets – beginning of year	<u>24,288,545</u>	<u>20,884,603</u>
Unrestricted net assets – end of year	<u>\$ 13,636,552</u>	<u>24,288,545</u>

See accompanying notes to financial statements.

HEALTH RESEARCH, INC.

Statements of Cash Flows

Years ended March 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (10,651,993)	3,403,942
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	702,396	479,376
Change in net unrealized gains and losses on investments	(4,298)	(2,592,391)
Postretirement obligations other than net periodic postretirement benefit cost	14,944,050	6,439,874
Changes in assets and liabilities:		
Expense reimbursements due from sponsors	(4,464,210)	(15,005,990)
Accrued interest receivable	765,731	(168,896)
Prepaid expenses	34,303	9,533
Accounts payable and accrued liabilities	1,287,747	(4,569,356)
Restricted advances and deferred revenue	34,909,097	7,728,875
Payable to New York State, indirect cost recovery	(1,885,839)	(1,487,494)
Accrued postretirement benefit obligation	8,181,116	8,831,545
Net cash provided by operating activities	<u>43,818,100</u>	<u>3,069,018</u>
Cash flows from investing activities:		
Purchases of fixed assets	(51,082)	(1,202,529)
Proceeds from redemption and sale of investments	155,687,020	261,565,047
Purchases of investments	<u>(76,730,235)</u>	<u>(273,168,427)</u>
Net cash provided (used) by investing activities	<u>78,905,703</u>	<u>(12,805,909)</u>
Net increase (decrease) in cash and cash equivalents	122,723,803	(9,736,891)
Cash and cash equivalents at beginning of year	<u>54,156,224</u>	<u>63,893,115</u>
Cash and cash equivalents at end of year	<u>\$ 176,880,027</u>	<u>54,156,224</u>

See accompanying notes to financial statements.

HEALTH RESEARCH, INC.

Notes to Financial Statements

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(1) Description of Organization and Summary of Significant Accounting Policies

Health Research, Inc. (the Corporation) is a not-for-profit corporation chartered under the laws of New York State in 1953 primarily to apply for, secure and administer gifts or grants in furtherance of the research, prevention, and treatment of diseases and conditions by the New York State Department of Health (DOH), the Roswell Park Cancer Institute Corporation (RPCIC) (a public benefit corporation) and other health departments. The Corporation has divisions in Buffalo (Roswell Park) and Albany, New York which administer projects conducted at the RPCIC and the DOH primarily financed by private and governmental contracts, grants and donations. The Corporation has an agreement with New York State through DOH which defines the operating relationship, administrative authority, facilities use and financial guidelines. The Corporation is included in the financial statements of the State of New York as a component unit for financial reporting purposes.

Significant accounting policies followed by the Corporation in the preparation of its financial statements are presented below:

(a) *Basis of Presentation*

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared consistent with FASB Accounting Standards Codification (ASC) 958, which addresses the accounting for not-for-profit entities. In accordance with the provisions of the ASC 958, net assets, and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are amounts not subject to donor-imposed stipulations and are available for operations.

As more fully discussed in note 5, Agency Fund represents amounts the Corporation is administering on behalf of the Office of the Attorney General, New York State Department of Law (OAG) pursuant to an Assurance Discontinuance Agreement signed on December 22, 2010.

The Corporation considers events or transactions that occur after the statement of financial position date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on June 29, 2012 and subsequent events have been evaluated through that date.

(b) *Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and cash held in demand deposit and money market accounts. Cash equivalents are recorded at fair value using Level 1 inputs.

(c) *Investments*

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. See notes 1(d) and 3 for a discussion of fair value measurements. Investment income including interest and dividend income and realized and unrealized gains and losses on the Corporation's unrestricted net assets are recognized in the statements of activities. Interest income earned on money market

HEALTH RESEARCH, INC.

Notes to Financial Statements

March 31, 2012 and 2011

accounts of the Agency Fund are recognized in the statement of financial position as an increase to the Agency Fund liability.

(d) *Fair Value Measurements of Financial Instruments*

The Corporation estimates fair value based on a valuation framework that uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy, defined by ASC 820, *Fair Value Measurements and Disclosures*, are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies.

Level 3: Unobservable inputs that are supported by little or no market activity and require significant management judgment or estimation in the determination of fair value.

The carrying value of expense reimbursements due from sponsors and other receivables, prepaid expenses, accounts payable and other accrued liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. See note 3 for further information related to the fair value of investments.

(e) *Property, Plant, and Equipment*

Buildings and improvements, and furniture, fixtures, and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed utilizing the straight-line method over the estimated useful lives of the assets or lease term for leasehold improvements, ranging from 5 to 10 years.

(f) *Restricted Advances and Deferred Revenue*

Restricted advances consist of contracts and grants received in advance of related expenses. Deferred revenue represents unexpended proceeds received by the Corporation, including amounts for the AIDS Drug Assistance Program. These restricted advances and deferred revenue amounts are recorded as revenue when applicable expenses are incurred by the Corporation.

(g) *Revenue Recognition*

Substantially all of the Corporation's revenue is derived from restricted contracts, grants, and donations. Revenue is recognized when expenses relative to the contracts, grants, and donations are incurred. Restricted grants and contracts revenue whose restrictions are met in the same year are included in grants and contracts revenue in the statements of activities.

HEALTH RESEARCH, INC.

Notes to Financial Statements

March 31, 2012 and 2011

(h) Indirect Costs

Grants and contracts generally provide for reimbursement of indirect costs through the use of an indirect cost rate agreed upon between the sponsor and the Corporation. The Corporation's standard rate is negotiated with the Federal Department of Health and Human Services (DHHS), which includes both Corporation and New York State indirect costs, or, in the case of the Roswell Division, the RPCIC costs. Many nonfederal sponsors, and some federal grant programs, limit the amount of indirect cost reimbursement to less than the actual approved rate.

(i) Use of Estimates

Management of the Corporation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these financial statements in conformity with U.S. generally accepted accounting principles. The most significant areas which are affected by the use of estimates include the expense reimbursements and deferred revenue from sponsors and the accrued postretirement benefit obligation assumptions. Actual results could differ from those estimates.

(j) Income Taxes

The Corporation has been determined by the Internal Revenue Service to be an organization described in the Internal Revenue Code (the Code) Section 501(c)(3) and, therefore, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Corporation follows the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management has evaluated ASC 740-10 and there was no impact to the Corporation's financial statements for the years ended March 31, 2012 and 2011.

(2) Joint Indirect Cost Rate

In general, personal services and facilities provided by New York State or RPCIC, applicable to certain contract and grant research, are included as a component of the joint indirect cost rates allowable by certain contracting and granting agencies. Therefore, certain allowable costs relative to the personal services and facilities provided by New York State or RPCIC are included in the Corporation's indirect costs charged and recovered. The Corporation recovers indirect costs through the use of an indirect cost rate agreed upon between the sponsor and the Corporation in its billing process and are used to support agency operations or reimburse New York State directly.

On an annual basis, the joint indirect cost rates are approved by DHHS based upon the submission of a joint indirect cost proposal for the Corporation and New York State Department of Health (DOH), and for the Corporation and RPCIC. Any adjustment to these fixed rates based on final costs or audit is normally reflected on a prospective basis, either as an increase or reduction in the subsequent year's fixed rates.

(3) Investments and Fair Value Measurements

As a not-for-profit corporation, no restrictions are present over the types of investments in which the Corporation can invest. In accordance with its investment policy, the Corporation invests in fixed income and equity securities and maintains deposits with financial institutions and obligations of or guaranteed by

HEALTH RESEARCH, INC.

Notes to Financial Statements

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the United States government. These investments are held by the Corporation's agents in the Corporation's name.

Investments consist of the following at March 31, 2012:

	Division		Total
	Roswell Park	Albany	
United States government bonds and notes	\$ 6,449,895	36,474,122	42,924,017
Asset backed securities	6,744,592	16,276,332	23,020,924
Corporate bonds	4,397,554	10,013,559	14,411,113
Mortgage backed securities	7,312,748	16,306,584	23,619,332
Collateralized mortgage obligations	510,227	1,173,865	1,684,092
Municipal bonds	927,158	1,790,605	2,717,763
Floating rate notes	2,206,454	4,357,965	6,564,419
Equities	7,274,896	16,476,492	23,751,388
	35,823,524	102,869,524	138,693,048
Less amounts designated by Board for postretirement benefits	20,479,212	35,540,143	56,019,355
	<u>\$ 15,344,312</u>	<u>67,329,381</u>	<u>82,673,693</u>

Investments consist of the following at March 31, 2011:

	Division		Total
	Roswell Park	Albany	
United States government bonds and notes	\$ 7,250,525	122,875,966	130,126,491
Asset backed securities	5,831,170	14,123,661	19,954,831
Corporate bonds	4,073,275	9,257,575	13,330,850
Mortgage backed securities	6,630,782	14,391,162	21,021,944
Collateralized mortgage obligations	476,140	1,285,652	1,761,792
Municipal bonds	364,831	834,595	1,199,426
Floating rate notes	2,166,393	4,355,306	6,521,699
Equities	8,081,417	15,647,085	23,728,502
	34,874,533	182,771,002	217,645,535
Less amounts designated by Board for postretirement benefits	17,177,758	30,527,321	47,705,079
	<u>\$ 17,696,775</u>	<u>152,243,681</u>	<u>169,940,456</u>

HEALTH RESEARCH, INC.

Notes to Financial Statements

March 31, 2012 and 2011

The following discussion describes the valuation methodologies used for financial assets measured at fair value.

Fair values for securities are based on quoted market prices or dealer quotes, where available. When quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. When necessary, the Corporation utilizes matrix pricing from a third party pricing vendor to determine fair value pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

The following presents the Corporation's investments at March 31, 2012 and 2011 that are measured at fair value on a recurring basis. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Corporation's investments are redeemable subject to one day's notice.

	2012		
	Total	Level 1	Level 2
Investments:			
United States government bonds and notes	\$ 42,924,017	30,536,495	12,387,522
Asset backed securities	23,020,924	—	23,020,924
Corporate bonds	14,411,113	—	14,411,113
Mortgage backed securities	23,619,332	—	23,619,332
Collateralized mortgage obligations	1,684,092	—	1,684,092
Floating rate notes	6,564,419	—	6,564,419
Municipal bonds	2,717,763	—	2,717,763
Equities:			
Domestic Equities	7,299,863	7,299,863	—
S&P 500 Index Fund	8,573,757	8,573,757	—
Mid Cap Index Fund	3,991,116	3,991,116	—
Small Cap Value Index Fund	1,959,949	1,959,949	—
Small Cap Growth Index Fund	1,926,703	1,926,703	—
	<u>\$ 138,693,048</u>	<u>54,287,883</u>	<u>84,405,165</u>

HEALTH RESEARCH, INC.

Notes to Financial Statements

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	2011		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
United States government bonds and notes	\$ 130,126,493	114,488,338	15,638,155
Asset backed securities	19,954,831	—	19,954,831
Corporate bonds	13,330,849	—	13,330,849
Mortgage backed securities	21,021,944	—	21,021,944
Collateralized mortgage obligations	1,761,791	—	1,761,791
Floating rate notes	6,521,698	—	6,521,698
Municipal bonds	1,199,426	—	1,199,426
Equities:			
Domestic Equities	6,905,708	6,905,708	—
S&P 500 Index Fund	8,069,165	8,069,165	—
Mid Cap Index Fund	4,354,738	4,354,738	—
Small Cap Value Index Fund	2,099,916	2,099,916	—
Small Cap Growth Index Fund	2,298,976	2,298,976	—
	<u>\$ 217,645,535</u>	<u>138,216,841</u>	<u>79,428,694</u>

The Corporation has no investments that are valued using Level 3 inputs as of March 31, 2012 and 2011. There were no significant transfers into or out of Level 1 and Level 2 for the years ended March 31, 2012 and 2011. During 2012, the Corporation transferred a portion of its investments in U.S. government bonds and notes to money market accounts, which are classified as cash and cash equivalents on the statement of financial position as of March, 31 2012.

Net investment income is comprised of the following as of March 31, 2012:

	Division		Total
	<u>Roswell Park</u>	<u>Albany</u>	
Interest and dividend income (net of fees of \$302,056)	\$ 498,315	977,896	1,476,211
Change in net unrealized gains and losses	(246,996)	251,294	4,298
Net realized (losses) gains	(22,775)	(9,628)	(32,403)
	<u>\$ 228,544</u>	<u>1,219,562</u>	<u>1,448,106</u>

HEALTH RESEARCH, INC.

Notes to Financial Statements

March 31, 2012 and 2011

Net investment income is comprised of the following as of March 31, 2011:

	Division		Total
	Roswell Park	Albany	
Interest and dividend income (net of fees of \$359,101)	\$ 500,844	1,118,518	1,619,362
Change in net unrealized gains and losses	904,244	1,688,147	2,592,391
Net realized (losses) gains	(70,739)	3,557	(67,182)
	<u>\$ 1,334,349</u>	<u>2,810,222</u>	<u>4,144,571</u>

(4) Property, Plant, and Equipment

A summary of property, plant, and equipment at March 31 is as follows:

	Division		2012
	Roswell Park	Albany	Total
Buildings and improvements	\$ 253,147	318,858	572,005
Furniture, fixtures, and equipment (includes software)	487,118	4,417,547	4,904,665
	<u>740,265</u>	<u>4,736,405</u>	<u>5,476,670</u>
Less accumulated depreciation and amortization	508,815	2,630,419	3,139,234
	<u>\$ 231,450</u>	<u>2,105,986</u>	<u>2,337,436</u>

	Division		2011
	Roswell Park	Albany	Total
Buildings and improvements	\$ 253,147	318,858	572,005
Furniture, fixtures, and equipment (includes software)	487,117	4,401,466	4,888,583
	<u>740,264</u>	<u>4,720,324</u>	<u>5,460,588</u>
Less accumulated depreciation and amortization	506,005	1,965,833	2,471,838
	<u>\$ 234,259</u>	<u>2,754,491</u>	<u>2,988,750</u>

Depreciation and amortization expense charged to operations during fiscal year 2012 and 2011 amounted to \$702,396 and \$479,376, respectively.

HEALTH RESEARCH, INC.

Notes to Financial Statements

March 31, 2012 and 2011

(5) Agency Fund

Pursuant to an Assurance of Discontinuance Agreement (AOD), the Office of the Attorney General, New York State Department of Law (OAG) required certain health insurers to fund the establishment and operation of new independent databases for determining fair and accurate reimbursement rates for out-of-network health services. In addition, the AOD requires the development of a website available to the public which discloses out-of-network reimbursement information that will educate consumers on the true cost of health care services and the reimbursement rate system.

As part of the AOD, FAIR Health, Inc. (FAIR Health), a New York Not-for-Profit Corporation was formed to create, maintain, operate and own the independent databases and website. FAIR Health entered into a Database and Website Agreement with Syracuse University to design, establish and maintain the new databases and website, under the oversight of a independent Contract Monitor.

On December 22, 2010, OAG entered into a Funding Administration Agreement with the Corporation to continue the administration of the funds collected to support the AOD activities contemplated through the establishment of FAIR Health and the provisions of the Database and Website Agreement.

Accordingly, OAG transferred to the Corporation approximately \$56.0 million, which is reflected on the statements of financial position as an Agency Fund. The Corporation is entitled to a fixed annual fee of \$75,000 to cover its costs and expenses in administering the remaining funds collected under the AOD beginning April 2011. The funds are invested in money market accounts and measured at fair value using Level 1 inputs.

(6) Employee Benefit Plans

(a) Pension Benefits

The Corporation participates in the New York State and Local Employees' Retirement System (System), a defined benefit cost sharing, multi-employer pension plan. The System is noncontributory except for employees with less than 10 years of service who joined the System after July 27, 1976 who are required by law to contribute 3% of their salary. In addition, employees entering the System after January 1, 2010 are required to contribute 3% of their salary for the duration of their employment. As set forth in the New York State Retirement and Social Security Law NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds, and the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers. The rates billed by the Comptroller for the years ended March 31, 2012 and 2011 approximated 15.8% and 11.3%, respectively.

The required pension contribution for plan years ended March 31, 2012 and 2011 consisted of the Corporation's contributions of \$17,218,943 and \$13,043,862, respectively, and employees' contributions of \$1,796,881 and \$1,832,470, respectively. Actuarial and plan asset data relating to employees of the Corporation is not available. The System issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may

HEALTH RESEARCH, INC.

Notes to Financial Statements

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be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12236.

(b) *Postretirement Benefits*

In addition to pension benefits, the Corporation provides postretirement health insurance benefits. Employees become eligible for postretirement benefits upon retirement from the Corporation. Generally, eligibility begins at 55 with 15 years of service. Employees who have unused sick bank hours at retirement in excess of fifty days, may convert those hours to a lifetime credit against the retiree contribution of health benefits.

Assets collected for this purpose are tracked and shown as board designated investments for postretirement benefits on the statements of financial position, but are not considered plan assets. As of March 31, 2012 and 2011, board designated investments for postretirement benefits totaled \$56,019,355 and \$47,705,079, respectively.

The Corporation follows the provisions of ASC 715-20 which requires an employer to recognize the funded status, (i.e. difference between the fair value of plan assets and projected benefit obligations) of its postretirement health insurance plan as an asset or liability in its balance sheet (statement of financial position) and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets.

Additional actuarial gains and losses that arise in subsequent periods and are not recognized as net postretirement benefit cost in the same period, will be recognized as a component of unrestricted net assets. These future actuarial gains and losses will be recognized as a component of net postretirement benefit cost on the same basis as the amounts recognized in unrestricted net assets.

HEALTH RESEARCH, INC.

Notes to Financial Statements

March 31, 2012 and 2011

The following table sets forth the postretirement benefit obligation and fair value of plan assets at March 31:

	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Benefit obligation at beginning of the year	\$ 88,019,796	72,748,377
Service cost	4,532,963	4,553,130
Interest cost	4,495,853	4,556,273
Plan participants' contributions	734,312	638,137
Actuarial loss	15,601,646	7,490,799
Benefits paid	(2,271,825)	(2,003,979)
Medicare Part D prescription drug federal subsidy	32,217	37,059
Benefit obligation at end of year	\$ <u>111,144,962</u>	<u>88,019,796</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	—
Actual return on plan assets	—	—
Employer contribution	1,505,296	1,328,783
Plan participants' contributions	734,312	638,137
Medicare Part D prescription drug federal subsidy	32,217	37,059
Benefits paid	(2,271,825)	(2,003,979)
Fair value of plan assets at end of year	\$ <u>—</u>	<u>—</u>

The funded status of the postretirement benefit obligation for health insurance and amounts recognized in the statements of financial position at March 31, are as follows:

	<u>2012</u>	<u>2011</u>
Funded status:		
Fair value of plan assets	\$ —	—
Benefits obligation	<u>(111,144,962)</u>	<u>(88,019,796)</u>
Funded status, amount recognized in the statements of financial position as accrued postretirement benefit obligation	\$ <u>(111,144,962)</u>	<u>(88,019,796)</u>
Amounts not yet reflected in net postretirement benefit cost and recognized in unrestricted net assets:		
Transition obligation	\$ 264,434	317,320
Prior service credits	(879,458)	(1,055,733)
Net actuarial loss	<u>41,850,244</u>	<u>27,029,583</u>
	\$ <u>41,235,220</u>	<u>26,291,170</u>

HEALTH RESEARCH, INC.

Notes to Financial Statements

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The estimated amounts that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in fiscal year 2013 are as follows:

Unrecognized transition obligation	\$	52,886
Unrecognized prior service credit		(176,275)
Unrecognized net actuarial loss		2,478,494
	\$	<u>2,355,105</u>

Net periodic postretirement benefit cost for 2012 and 2011 includes the following components:

		<u>2012</u>	<u>2011</u>
Components of net periodic postretirement benefit cost:			
Service cost	\$	4,532,963	4,553,130
Interest cost		4,495,853	4,556,273
Amortization of transition obligation		52,886	52,886
Amortization of unrecognized prior service credit		(176,275)	(176,275)
Amortization of net loss		780,985	1,174,315
Net periodic postretirement benefit cost	\$	<u>9,686,412</u>	<u>10,160,329</u>

Weighted-average assumptions used in accounting for the postretirement benefit obligation for health insurance at March 31 were:

		<u>2012</u>	<u>2011</u>
Discount rate for net benefit cost		5.78%	6.19%
Discount rate for net benefit obligation		4.68	5.78
Rate of compensation increase		3.00	4.00
Expected return on plan assets		N/A	N/A

Estimated Future Benefit Payments – Expected benefit payments, which reflect expected future service, for each fiscal year. Shown below are expected gross benefit payments (including prescription drug benefits) and the expected gross amount of subsidy receipts:

		<u>Employer benefit payments</u>	<u>Subsidy receipts</u>
2013	\$	1,761,417	(58,711)
2014		2,020,809	(67,188)
2015		2,324,985	(79,190)
2016		2,621,823	(91,737)
2017		2,916,962	(106,811)
Years 2018 – 2022		21,824,805	(822,633)

HEALTH RESEARCH, INC.

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The Corporation expects to contribute approximately \$1,700,000 to the plan in fiscal year 2013, net of employee contributions.

Assumed health care trend rates at March 31:

Health care cost trend rate assumed for next year	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00
Year the rate reaches the ultimate trend rate	2021

Assumed health care cost trend rates have a significant effect on the amounts reported for the health insurance plan. A one-percentage-point change in the health care cost trend rates would have the following effects:

	<u>1-Percentage point increase</u>	<u>1-Percentage point decrease</u>
Effect on total of service and interest cost components	\$ 2,391,894	(1,810,370)
Effect on postretirement benefit obligation	23,874,163	(18,747,891)

(7) Contract and Grant Awards

At March 31, 2012 and 2011, the unexpended portion of contract and grant awards available to be used in subsequent years amounts to \$243,099,461 (Roswell Park Division – \$63,443,740 and Albany Division – \$179,655,721) and \$259,241,960 (Roswell Park Division – \$73,685,202 and Albany Division – \$185,556,758), respectively.

(8) Technology Transfer

The Corporation serves as Technology Transfer administrator for the DOH and RPCIC. If DOH or the RPCIC assigns or sells any inventions developed by their employees to the Corporation, the Corporation assumes responsibility for filing of patent applications and marketing the invention, usually in the form of royalty bearing licenses to companies which develop, produce, and sell products based upon the invention.

As of March 31, 2012 and 2011, the Corporation has a total of 175 and 163 inventions under administration, has obtained 107 and 122 U.S. patents, and 104 and 89 inventions have been licensed, respectively. During the years ended March 31, 2012 and 2011, the Corporation's expenses relating to these patents and inventions were \$525,115 and \$616,694 and the related income totaled \$3,130,198 and \$3,052,398, respectively.

HEALTH RESEARCH, INC.

Notes to Financial Statements

March 31, 2012 and 2011

(9) Operating Leases

Future minimum lease payments under noncancelable operating leases having initial terms in excess of one year are as follows:

Year ending March 31:	
2013	\$ 2,940,820
2014	2,957,559
2015	2,957,559
2016	2,805,782
2017	2,805,782
2018 and beyond	<u>6,979,350</u>
Total minimum payments required	\$ <u><u>21,446,852</u></u>

Rent expense for the years ended March 31, 2012 and 2011 is approximately \$3,297,000 and \$3,370,000, respectively.

(10) Business and Credit Concentrations

The majority of the Corporation's funding is received directly from DHHS. For the years ended March 31, 2012 and 2011, approximately 54% and 55%, respectively, of total revenue relates to contracts and grants from DHHS. Included in expense reimbursements due from sponsors at March 31, 2012 and 2011 is \$33,218,506 and \$32,255,389, respectively, due from DHHS.

Substantially all Federal contracts and grants are subject to financial and compliance audits by the grantor agencies of the Federal government. Disallowances, if any, as a result of these audits may become liabilities of the Corporation. Management believes that no material disallowances will result from audits by the grantor agencies.