



HEALTH RESEARCH, INC.

Reports Required By OMB Circular A-133

March 31, 2014

HEALTH RESEARCH, INC.

Reports Required by OMB Circular A-133

March 31, 2014

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Health Research, Inc. (the Corporation), which comprise the statement of financial position as of March 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an



opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albany, New York
June 26, 2014



Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Directors
Health Research, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Health Research, Inc.'s (the Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended March 31, 2014. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2014.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing

our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Corporation as of and for the year ended March 31, 2014, and have issued our report thereon dated June 26, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended March 31, 2014 is presented for purposes of additional analysis as required by OMB Circular A-133 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Albany, New York
September 3, 2014

HEALTH RESEARCH, INC.
 Schedule of Expenditures of Federal Awards
 Year ended March 31, 2014
 Albany and Roswell Park Combined

CFDA number	Description	Pass through entity	Pass through entity award numbers	Total federal expenditures
Research and Development Cluster:				
U.S. Department of Agriculture:				
U.S. Department of Agriculture Direct Awards:				
10.028	Wildlife Services			\$ 58,666
10.479	Food Safety Cooperative Agreements			153,660
10.578	WIC Grants to States			107,828
	Total U.S. Department of Agriculture Direct Awards			<u>320,154</u>
U.S. Department of Defense:				
U.S. Department of Defense Direct Awards:				
12.420	Military Medical Research and Development			1,311,143
12.431	Basic Scientific Research			10,599
12.HDTRA113C0094	Enhancing the Potency of Ricin Toxin Subunit Vaccines			109,883
	Total U.S. Department of Defense Direct Awards			<u>1,431,625</u>
U.S. Department of Defense Pass Through Awards:				
12.420	Military Medical Research and Development	Androbiosystem	W81XWH08C0099	13,271
12.420	Military Medical Research and Development	Boston University	W81XWH-11-2-0161	37,017
12.420	Military Medical Research and Development	Daemen College	W81XWH-05-1-0401	2,126
12.420	Military Medical Research and Development	MD Anderson	W81XWH-12-1-020201	109,594
12.420	Military Medical Research and Development	Research Foundation of SUNY at Buffalo	W81XWH11-2-0125	39,908
12.420	Military Medical Research and Development	University of Nebraska	W81XWH-12-1-0456	85,438
12.420	Military Medical Research and Development	University of Southern California	W81XWH-11-0568	46,218
	Total U.S. Department of Defense Pass Through Awards			<u>333,572</u>
	Total U.S. Department of Defense			<u>1,765,197</u>
U.S. Department of Housing and Urban Development:				
U.S. Department of Housing and Urban Development Direct Awards:				
14.906	Healthy Homes Technical Studies Grants			166,370
	Total U.S. Department of Housing and Urban Development			<u>166,370</u>
U.S. Department of the Interior:				
U.S. Department of the Interior Direct Awards:				
15.657	Endangered Species Conservation – Recovery Implementation Funds			61,552
	Total U.S. Department of Interior Direct Awards			<u>61,552</u>
U.S. Department of Justice:				
U.S. Department of Justice Pass through Awards:				
16.813	Bureau of Justice Statistics	NYS Division of Criminal Justice Services	C632342	237,650
16.813	Bureau of Justice Statistics	NYS Division of Criminal Justice Services	C662000	502,341
	Total U.S. Department of Justice Awards			<u>739,991</u>
U.S. Department of Labor:				
U.S. Department of Labor Pass through Awards:				
17.005	Compensation and Working Conditions	NYS Department of Labor	C014611	79,896
17.005	Compensation and Working Conditions	NYS Department of Labor	C013509	79,384
	Total U.S. Department of Labor Pass through Awards			<u>159,280</u>
U.S. Department of Transportation:				
U.S. Department of Transportation Direct Awards:				
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants			2,818
	Total U.S. Department of Transportation Direct Awards			<u>2,818</u>
U.S. Department of Transportation Pass through Awards:				
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C001987	
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C002121	41,756
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	C002122	150,676
20.600	State and Community Highway Safety	NYS Governors Traffic Safety Commission	DMV01C0020733700393	244,351
	Total U.S. Department of Transportation Pass through Awards			<u>436,783</u>
	Total U.S. Department of Transportation Awards			<u>439,601</u>

HEALTH RESEARCH, INC.
 Schedule of Expenditures of Federal Awards
 Year ended March 31, 2014
 Albany and Roswell Park Combined

CFDA number	Description	Pass through entity	Pass through entity award numbers	Total federal expenditures
National Science Foundation:				
National Science Foundation Direct Awards:				
47.050	Geosciences			\$ 480,150
47.074	Biological Sciences			459,844
47.078	Polar Programs			93,351
47.MCB1243548	Intergovernmental Personnel Act (IPA)			130,929
	Total National Science Foundation Direct Awards			<u>1,164,274</u>
National Science Foundation Pass Through Awards:				
47.079	Office of International and Integrative Activities	U. S. Civilian Research	LEB131114BE13	3,678
	Total National Science Foundation Pass Through Awards			<u>3,678</u>
	Total National Science Foundation			<u>1,167,952</u>
Environmental Protection Agency:				
Environmental Protection Agency Direct Awards:				
66.469	Great Lakes Program			418,739
66.509	Science to Achieve Results (STAR) Program			121,921
66.953	Building Capacity to Implement EPA National Guidelines for School Environmental Health Programs			60,158
	Total Environmental Protection Agency Direct Awards			<u>600,818</u>
Environmental Protection Agency Pass Through Awards:				
66.456	National Estuary Program	New England Interstate Water	11364	5,000
	Total Environmental Protection Agency Pass Through Awards			<u>5,000</u>
	Total Environmental Protection Agency			<u>605,818</u>
Department of Veterans Affairs Direct Awards:				
64.VA25813P1391	BCI Research Study			472,128
	Total Department of Veterans Affairs Direct Awards			<u>472,128</u>
Department of Energy:				
Department of Energy Direct Awards:				
81.049	Office of Science Financial Assistance Program			47,109
	Total Department of Energy Direct Awards			<u>47,109</u>
Department of Energy Pass Through Awards:				
Department of Education Direct Awards:				
84.116	Fund for the Improvement of Postsecondary Education			51,043
	Total Department of Education Direct Awards			<u>51,043</u>
Department of Health and Human Services:				
Department of Health and Human Services Pass Through Awards:				
93.719	ARRA – State Grants to Promote Health Information Technology	New York eHealth Collaborative	11HRI01	1,901,148
	Total Department of Health and Human Services Pass Through Awards			<u>1,901,148</u>
	Total Department of Health and Human Services			<u>1,901,148</u>
Centers for Disease Control and Prevention:				
Centers for Disease Control and Prevention Direct Programs:				
93.065	Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure			6,887
93.069	Public Health Emergency Preparedness			11,562,564
93.070	Environmental Public Health and Emergency Response			2,354,129
93.073	Birth Defects and Developmental Disabilities – Prevention and Surveillance			329,068
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)			12,732,770
93.082	Aligned Cooperative Agreements			85,618
93.095	Sodium Reduction in Communities			94,453
93.136	HHS Programs for Disaster Relief Appropriations Act – Non Construction			662,798
93.161	Injury Prevention and Control Research and State and Community Based Programs			1,055,618
93.262	Health Program for Toxic Substances and Disease Registry			550,700
93.270	Occupational Safety and Health Program			1,009,843
93.283	Adult Viral Hepatitis Prevention and Control			24,149,595
93.292	Centers for Disease Control and Prevention Investigations and Technical Assistance			178,071
93.507	National Public Health Improvement Initiative			343,037
93.521	Strengthening Public Health Infrastructure for Improved Health Outcomes			2,550,797
	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			

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HEALTH RESEARCH, INC.

Schedule of Expenditures of Federal Awards
 Year ended March 31, 2014
 Albany and Roswell Park Combined

CFDA number	Description	Pass through entity	Pass through entity award numbers	Total federal expenditures
93.538	Affordable Care Act – National Environmental Public Health Tracking Program- Network Implementation			\$ 785,767
93.539	Prevention and Public Health Fund (Affordable Care Act) – Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance			877,625
93.544	The Patient Protection and Affordable Care Act of 1010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program			486,005
93.548	PPHF 2012: Nutrition, Physical Activity and Obesity Program			513,161
93.724	ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement			25,332
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance			618,911
93.735	State Public Health Approaches for Ensuring Quiltline Capacity			1,218,045
93.737	PPHF 2012: Community Transformation Grants – Small Communities Program			986,100
93.744	PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories			120,959
93.745	PPHF-2012: Health Care Surveillance/Health Statistics – Surveillance Program Announcement: Behavioral Risk Factor Surveillance System			229,612
93.937	Medical Monitoring Project			417,803
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance			1,934,657
93.945	Assistance Programs for Chronic Disease Prevention and Control			1,721,973
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs			606,402
93.2142011M40750	IBM-Endicott Employee Linkage			2,905
93.20020135	Laboratory Testing for HIV Incidence Surveillance-STARHS			728,940
	Total Centers for Disease Control and Prevention Direct Programs			68,940,145
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	564000000000	28,790
93.065	Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	Association of Public Health Labs	5640020062113	25,182
93.065	Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	Association of Public Health Labs	5640020062114	15,807
93.065	Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	Association of Public Health Labs	5640020064113	3,948
93.065	Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	Association of Public Health Labs	5640020064114	5,681
93.067	Global AIDS	Association of Public Health Labs	5640020064213	20,146
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	University of Maryland	NA	40,068
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	Fund for Public Health NY	12HRI02	64,977
93.749	PPHF 2012: Public Health Laboratory Infrastructure	Public Health Solutions	13HRI01	44,817
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	Association of Public Health Labs	564002006021302	49,748
93.524	Building Capacity of the Public Health System to Improve Population Health through National Non-Profit Organizations	National Association of Chronic Disease	0702013 & 1222013	178,530
93.737	PPHF 2012: Community Transformation Grants – Small Communities	Association of State and Territorial Health Officials	1230183	35,556
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	NYS Department of Health	H75DP004221	187,975
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	University of Iowa	1001092390	65,631
93.135	Centers for Disease Control and Prevention Investigations and Technical Assistance	University of Iowa	W000535232	23,138
	Centers for Research and Demonstration for Health Promotion and Disease Prevention	University of Washington	3U48DP001911-05S2	23,216
	Total Centers for Disease Control and Prevention Pass Through Programs			813,210
	Total Centers for Disease Control and Prevention			69,753,355
Centers for Medicare and Medicaid Services:				
Centers for Medicare and Medicaid Services Direct Awards:				
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review			42,389
93.628	Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees			454,655
	Total Centers for Medicare and Medicaid Services Awards			497,044

HEALTH RESEARCH, INC.

Schedule of Expenditures of Federal Awards

Year ended March 31, 2014

Albany and Roswell Park Combined

CFDA number	Description	Pass through entity	Pass through entity award numbers	Total federal expenditures
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			\$ 84,815
93.204	Surveillance of Hazardous Substance Emergency Events			41,855
	Total Agency for Toxic Substances and Disease Registry Direct Awards			<u>126,670</u>
Health Resources and Services Administration:				
Health Resources and Services Administration Direct Awards:				
93.110	Maternal and Child Health Federal Consolidated Programs			1,584,634
93.127	Emergency Medical Services for Children			142,522
93.145	AIDS Education and Training Centers			2,716,437
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth			(1,132)
93.234	Traumatic Brain Injury State Demonstration Grant Program			210,236
93.241	State Rural Hospital Flexibility Program			296,693
93.251	Universal Newborn Hearing Screening			202,775
93.256	State Health Access Program			222,252
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			2,326,314
93.300	National Center for Health Workforce Analysis			44,798
93.301	Small Rural Hospital Improvement Grant Program			174,741
93.913	Grants to States for Operation of Offices of Rural Health			203,878
93.928	Special Projects of National Significance			1,145,842
	Total Health Resources and Services Administration Direct Awards			<u>9,269,990</u>
Health Resources and Services Administration Pass Through Awards:				
93.145	AIDS Education and Training Centers	Columbia University	4GG006404	153,596
93.UNK	Quality Assessment of Newborn Screening System	Genetic Alliance	NA	6,008
93.HHSH250201200055G	Nursing Supply & Demand Projections	IHS Global Inc.	HHSH250201200055G	48,873
93.HHSH250201200007C	Update & Maintenance of Health Workforce Projection Models	IHS Global Inc.	HHSH250201200007C	141,862
	Total Health Resources and Services Administration Pass Through Awards			<u>350,339</u>
	Total Health Resources and Services Administration			<u>9,620,329</u>
Food and Drug Administration:				
Food and Drug Administration Direct Awards:				
93.103	Food and Drug Administration Research			539,649
93.448	Food Safety and Security Monitoring Project			273,609
93.449	Ruminant Feed Ban Support Project			280,382
	Total Food and Drug Administration			<u>1,093,640</u>
National Institutes of Health:				
National Institutes of Health Direct Awards:				
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research			294,887
93.113	Environmental Health			605,851
93.213	Research and Training in Complementary and Alternative Medicine			8,538
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health			682,932
93.307	Minority Health and Health Disparities Research			358,967
93.310	Trans-NIH Research Support			540,518
93.351	Research Infrastructure Programs			406,356
93.393	Cancer Cause and Prevention Research			11,418,234
93.394	Cancer Detection and Diagnosis Research			541,763
93.395	Cancer Treatment Research			8,966,598
93.396	Cancer Biology Research			2,074,748
93.397	Cancer Centers Support Grants			5,117,846
93.398	Cancer Research Manpower			802,037
93.701	ARRA-Trans-NIH Recovery Act Research Support			99,115
93.702	National Center for Research Resources, Recovery Act Construction Support			1,557,423
93.837	Cardiovascular Diseases Research			615,817
93.839	Blood Diseases and Resources Research			1,439,365
93.846	Arthritis, Musculoskeletal and Skin Diseases Research			1,127,504
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research			381,161
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders			1,089,391
93.855	Allergy, Immunology and Transplantation Research			4,994,564
93.859	Biomedical Research and Research Training			3,958,249
93.865	Child Health and Human Development Extramural Research			600,542
93.866	Aging Research			357,850
93.989	International Research, and Research Training			58,327

(Continued)

HEALTH RESEARCH, INC.
 Schedule of Expenditures of Federal Awards
 Year ended March 31, 2014
 Albany and Roswell Park Combined

CFDA number	Description	Pass through entity	Pass through entity award numbers	Total federal expenditures
93.2142012M52205	Adult Blood Lead Epidemiology and Surveillance			\$ 13,461
93.HHSN2612010000601	TCGA Biospecimens			63,485
93.HHSN2752011000011	Analysis of Human Biospecimens			534,701
93.HHSN275201200005C	Aldous – Infertility, Child Growth and Development			2,035,107
93.HHSN267200703431C	Genetic Factors in Birth Defects			85,797
	Total National Institutes of Health Direct Awards			50,831,134
National Institutes of Health Pass Through Awards:				
93.279	Drug Abuse and Addiction Research Programs	Albany Medical College	465262	29,980
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Albany Medical College	465271HRI	125,965
93.393	Cancer Cause and Prevention Research	Albert Einstein College of Medicine	R01CA133010	32,366
93.395	Cancer Treatment Research	American College of Radiology	U10CA21661	26,531
93.HHSN261201000119C	Platelet Based Nanoparticle Therapy for Prostate Cancer	Androbiosystems	93.HHSN261201000119C	11,666
93.866	Aging Research	Bechman Institute City of Hope	R01AG037037	2,719
93.395	Cancer Treatment Research	Brigham and Womens Hospital	U10CA31946	432,358
93.395	Cancer Treatment Research	Brigham and Womens Hospital	U10CA037447	59,260
93.839	Blood Diseases and Resources Research	Brigham and Womens Hospital	P01HL107146	635,047
93.5500001	Comparative Genomics of WNV: Genome Population Structure	Broad Institute	5500000106	16,512
93.395	Cancer Treatment Research	Buffalo Biolabs	R41CA150437	27,215
93.395	Cancer Treatment Research	Buffalo Biolabs	R41CA159657	131,651
93.HHSN261201100113C	SBIR Topic 255 Phase II: Development of Anticancer Agents	Buffalo Biolabs	HHSN261201100113C	146,139
93.HHSN261201200077C	Protectan CBLB501 for the Improvement of Head and Neck Cancer	Buffalo Biolabs	HHSN261201200077C	20,929
93.395	Cancer Treatment Research	Children’s Hospital of Philadelphia	7U10CA098543	46,504
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Columbia University	2GG0005617	53,456
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Columbia University	NA	21,661
93.855	Allergy, Immunology and Transplantation Research	Columbia University	537664	6,210
93.855	Allergy, Immunology and Transplantation Research	Columbia University	9GG00638207	222,082
93.113	Environmental Health	Cornell University	588919084	67,116
93.UNK	Salmonella Genetic Typing	Cornell University	NA	1,716
93.395	Cancer Treatment Research	Duke Clinical Research Institute	U10CA076001	10,449
93.395	Cancer Treatment Research	Emory University	R01CA129968	15,197
93.865	Child Health and Human Development Extramural Research	Emory University	NA	188,315
93.855	Allergy, Immunology and Transplantation Research	Fred Hutchinson Cancer Research Center	U54CA163438	31,392
93.397	Cancer Centers Support Grants	Fox Chase	P20CA138017	1,454
93.395	Cancer Treatment Research	Gynecologic Oncology Group	U10CA027469	207,355
93.395	Cancer Treatment Research	Gynecologic Oncology Group	U10CA101165	2,185,810
93.HHSN261201000018I	Cancer Genome Atlas Program	Gynecologic Oncology Group	HHSN261201000018I	(95,512)
93.393	Cancer Cause and Prevention Research	Harvard Pilgrim Health Care	NA	63,901
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	Indiana University	IN4685251HRI	25,485
93.397	Cancer Centers Support Grants	John Hopkins University	P50CA058236	69,028
93.395	Cancer Treatment Research	John Wayne Cancer Institute	P01CA029605	1,376
93.113	Environmental Health	Kaiser Permanente	U01ES019435	47,441
93.393	Cancer Cause and Prevention Research	Kaiser Permanente	R01CA105274	260,649
93.393	Cancer Cause and Prevention Research	Kaiser Permanente	1U24CA171524-01	19,270
93.395	Cancer Treatment Research	Kaiser Permanente	R01CA166701	257,696
93.10XS171-TO3	GTex Task Order S13-074 Scale Up	Leidos Biomed Research, Inc.	10XS171-TO3	1,173,571
93.396	Cancer Biology Research	MD Anderson	R01CA136483	34,709
93.855	Allergy, Immunology and Transplantation Research	Mapp Biopharmaceutical, Inc.	701701	187
93.855	Allergy, Immunology and Transplantation Research	Mapp Biopharmaceutical, Inc.	702104	57,835
93.395	Cancer Treatment Research	Mayo Clinic Rochester	U10CA025224	7,644
93.839	Blood Diseases and Resources Research	Medical College of Wisconsin	R01HL107213	216,161
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research	Medical University of South Carolina	3P01CA138389-05S1	686,419
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research	Medical University of South Carolina	3P01CA138389-06S2	12,809
93.393	Cancer Cause and Prevention Research	Medical University of South Carolina	P01CA138389	722,276
93.393	Cancer Cause and Prevention Research	Medical University of South Carolina	R01CA167067	9,271
93.P0656110	Cancer Cause and Prevention Research	Medical University of South Carolina	P0656110	15,146
93.393	Cancer Cause and Prevention Research	Northeastern University	R01CA069390	568
93.N01CN35157	Phase I Study Erlotinib in Patients with Premalignant (I121507)	Northwestern University	N01CN35157	176,777
93.859	Biomedical Research and Research Training	Oakland University	NA	12,120
93.837	Cardiovascular Diseases Research	Ohio State University	U10HL069294	2,084
93.837	Cardiovascular Diseases Research	Ohio State University	U10HL109322	12,633
93.839	Blood Diseases and Resources Research	Ohio State University	U01HL069294	422
93.395	Cancer Treatment Research	Photolitec	R42CA173980	10,666
93.242	Mental Health Research Grants	Research Foundation of Mental Hygiene	NA	112,822
93.279	Drug Abuse and Addiction Research Programs	Research Foundation of SUNY at Buffalo	U01DA020830	13,403
93.395	Cancer Treatment Research	Research Foundation of SUNY at Buffalo	R21CA168454	49,095
93.396	Cancer Biology Research	Research Foundation of SUNY at Buffalo	R01CA108970	37,479
93.398	Cancer Research Manpower	Research Foundation of SUNY at Buffalo	R25CA113951	4,649
93.839	Blood Diseases and Resources Research	Research Foundation of SUNY at Buffalo	R01HL103411	164,906
93.855	Allergy, Immunology and Transplantation Research	Research Foundation of SUNY at Buffalo	R01AI085127	12,501

HEALTH RESEARCH, INC.

Schedule of Expenditures of Federal Awards

Year ended March 31, 2014

Albany and Roswell Park Combined

CFDA number	Description	Pass through entity	Pass through entity award numbers	Total federal expenditures
93.395	Cancer Treatment Research	St. Jude Childrens Hospital	U24CA055727	\$ 14,050
93.10XS171	Collection of 80 Normal Tissues From Decreased Donors	SAIC Frederick	10XS171	300,366
93.29XS172	TCGA	SAIC Frederick	29XS172	7,218
93.HHSN261200800001E	Effects of Pre-Analytic Variables on Circulating Micromars	SAIC Frederick	HHSN261200800001E	12,665
93.394	Cancer Detection and Diagnosis Research	Sloan Kettering	R21CA164568	55,194
93.395	Cancer Treatment Research	Sloan Kettering	R01CA162139	99,028
93.855	Allergy, Immunology and Transplantation Research	NA	NA	163,987
93.399	Cancer Control	Soligenix, Inc.	CA37429	9,621
93.281	Mental Health Research Career/Scientist Development Awards	Southwest Oncology Group	NA	22,294
93.286	Discovery and Applied Research for Technological Innovations to Improve	SUNY at Buffalo	1K08MH098794	21,113
93.396	Cancer Biology Research	SUNY at Buffalo	R01EB017270	10,026
93.989	International Research, and Research Training	SUNY at Buffalo	R01CA131407	2,268
93.989	International Research, and Research Training	SUNY Research Foundation	60949	37,452
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	SUNY Research Foundation	64449	55,874
93.393	Cancer Cause and Prevention Research	University of Alabama	000401948002	1,172
93.855	Allergy, Immunology and Transplantation Research	University of Arizona	R01CA077789	151,244
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	University of CA, Santa Cruz	S0183090	220,903
93.855	Allergy, Immunology and Transplantation Research	University of CA, San Diego	R01NS066072	163,411
93.393	Cancer Cause and Prevention Research	University of CA, San Diego	10312189	7,514
93.113	Environmental Health	University of Chicago	7R21CA124116	18,593
93.393	Cancer Cause and Prevention Research	University of Cincinnati	NA	18,306
93.393	Cancer Cause and Prevention Research	University of Connecticut	R03CA159421	48,542
93.395	Cancer Treatment Research	University of Illinois	U01CA154248	17,336
93.399	Cancer Control	University of Michigan	R01CA083081	21,528
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research	University of Michigan	CA101451	424,785
93.393	Cancer Cause and Prevention Research	University of Minnesota	U19CA157345	377
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research	University of Minnesota	P003936801	172,839
93.396	Cancer Biology Research	University of Nebraska	1R01CA16615601A1	903,604
93.361	Nursing Research	University of North Carolina	P01CA077739	11,866
93.397	Cancer Centers Support Grants	University of Pittsburgh	5R01NR101735	27,107
93.838	Lung Diseases Research	University of Pittsburgh	P50CA0904440	1933
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	University of Pittsburgh	1933	59,148
93.NA	NRG Oncology NCORP Research Base SDMC	University of Pittsburgh	11084	3,657
93.213	Research and Training in Complementary and Alternative Medicine	NA	NA	77,216
93.397	Cancer Centers Support Grants	University of Rochester	R01A7007474	112,671
93.839	Blood Diseases and Resources Research	University of Rochester	P50CA130805	64,395
93.855	Allergy, Immunology and Transplantation Research	University of Rochester	R01HL095109	15,468
93.855	Allergy, Immunology and Transplantation Research	University of Pennsylvania	NA	78,435
93.393	Cancer Cause and Prevention Research	University of Texas at Austin	UTA07577	310
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	University of Vermont	R21CA137650	30,551
93.393	Cancer Cause and Prevention Research	University of Washington	R24DK094768	156,339
93.393	Cancer Cause and Prevention Research	University of Waterloo	R01CA100362	11,601
93.N01CN35153	INC07-10-01 A Phase IIB Randomized Placebo Controlled Trial	University of Waterloo	R01CA125116	60
93.43160219A21	Identification of Salmonella-Specific Regulatory Network	University of Wisconsin	N01CN35153	5,724
93.HHSN271201100027C	Path P1 Project Management and Panels	Virginia Polytechnic Institute	43160219A21	359,706
93.273	Alcohol Research Programs	Westat	HHSN271201100027C	640,180
		Yale University	5R21AA018273-02	4,313
	Total National Institutes of Health Pass Through Awards			13,592,599
	Total National Institutes of Health			64,423,733
Agency for Healthcare Research and Quality:				
Agency for Healthcare Research and Quality Direct Awards:				
93.715	Recovery Act – Comparative Effectiveness Research – AHRQ			632,291
	Total Agency for Healthcare Research and Quality Direct Awards			632,291
Agency for Healthcare Research and Quality Pass Through Awards:				
93.226	Research on Healthcare Costs, Quality and Outcomes	NYS Unified Court System	C500897	413,399
93.226	Research on Healthcare Costs, Quality and Outcomes	Mt. Sinai School of Medicine	025456934609	77,614
93.226	Research on Healthcare Costs, Quality and Outcomes	Boston University SPH	NA	60,432
	Total Agency for Healthcare Research and Quality Pass Through Awards			551,445
	Total Agency for Healthcare Research and Quality			1,183,736
Office of the Secretary:				
Office of the Secretary Direct Awards:				
93.500	Pregnancy Assistance Fund Program			252,418
	Total Office of the Secretary			252,418
	Total Department of Health and Human Services			148,852,073

(Continued)

HEALTH RESEARCH, INC.

Schedule of Expenditures of Federal Awards

Year ended March 31, 2014

Albany and Roswell Park Combined

CFDA number	Description	Pass through entity	Pass through entity award numbers	Total federal expenditures
Department of Homeland Security: Department of Homeland Security Direct Awards: 93.HSHQDC13C00085	US DHS Validation of Field Based PCR for Biothreat Detection Total Department of Homeland Security Direct Awards			\$ 78,276 <u>78,276</u>
Agency for International Development: Agency for International Development Pass Through Awards: 98.001 98.001	USAID Foreign Assistance for Programs Overseas USAID Foreign Assistance for Programs Overseas Total Agency for International Development Pass Through Awards Total Research and Development Cluster	University Research Co., LLC University Research Co., LLC	FY10A036970 FY13S05880000	9,833 <u>9,193</u> <u>19,026</u> <u>154,945,570</u>
Other awards: Department of Health and Human Services: Centers for Disease Control and Prevention: Centers for Disease Control and Prevention Direct Awards: 93.161 93.184 93.520 93.723 93.940 93.941	Health Program for Toxic Substances and Disease Registry Disabilities Prevention Centers for Disease Control and Prevention – Affordable Care Act (ACA) Communities Putting Prevention to Work ARRA – Prevention and Wellness-State, Territories and Pacific Islands HIV Prevention Activities Health Department Based HIV Demonstration, Research, Public and Professional Education Projects Total Centers for Disease Control and Prevention			136,248 347,519 <u>97,733</u> (339) 18,927,147 <u>510,962</u> <u>20,019,270</u>
Health Resources and Services Administration: Health Resources and Services Administration Direct Awards: 93.236 93.404 93.917	Grants to States to Support Oral Health Workforce Activities ARRA – Dental Public Health Residency Training Grants HIV Care Formula Grants Total Health Resources and Services Administration Direct Awards			286,695 13,457 <u>150,268,697</u> <u>150,568,849</u>
Health Resources and Services Administration Pass Through Awards: 93.224 93.914 93.914 93.914 93.914	Consolidated Health Centers HIV Emergency Relief Project Grants HIV Emergency Relief Project Grants HIV Emergency Relief Project Grants HIV Emergency Relief Project Grants Total Health Resources and Services Administration Pass Through Awards Total Health Resources and Services Administration	National Governors Association Center Public Health Solutions Public Health Solutions Public Health Solutions United Way – Long Island	1104504504 01QAP4624 94HRR4624M 92HRI4624M 13011	582 1,414,559 1,472,136 19,130,534 <u>67,000</u> <u>22,084,811</u> <u>172,653,660</u>
Office of the Secretary: Office of the Secretary Direct Awards: 93.089 93.889	Emergency System for Advance Registration of Volunteer Health Professional National Bioterrorism Hospital Preparedness Program Total Office of the Secretary			60,381 <u>7,252,455</u> <u>7,312,836</u>
Office of Minority Health: Office of Minority Health Pass Through Awards: 93.004	Cooperative Agreements to Improve the Health Status of Minority Populations Total Office of Minority Health Pass Through Awards Total Department of Health and Human Services Total Other Awards Total Federal Expenditures	National Network of Public Health Institutes	C444	<u>4,459</u> <u>4,459</u> <u>199,990,225</u> <u>199,990,225</u> <u>\$ 354,935,795</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, 2014

(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.

(Continued)

HEALTH RESEARCH, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended March 31, 2014

(3) Subrecipients

Of the federal expenditures presented in the accompanying schedule, HRI provided federal awards to subrecipients during the year ended March 31, 2014 as follows:

Program title	CFDA number	Subcontract expenses
WIC Grants to States	10.578	\$ 600
Military Medical Research and Development	12.420	4,893
Enhancing the Potency of Ricin Toxin Subunit Vaccines	12.HDTRA113C0094	20,968
Healthy Homes Technical Studies Grant	14.906	39,924
Endangered Species Conservation – Recovery Implementation Funds	15.657	6,870
Bureau of Justice Statistics	16.813	6,000
Great Lakes Program	66.469	122,056
Science to Achieve Results (STAR) Program	66.509	1,341
Office of Science Financial Assistance Program	81.049	47,109
Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	93.065	8,360
Global AIDS	93.067	3,463
Public Health Emergency Preparedness	93.069	6,950,832
Environmental Public Health and Emergency Response	93.070	27,322
Birth Defects and Developmental Disabilities – Prevention and Surveillance	93.073	5,156
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	1,743,813
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077	85,037
Sodium Reduction in Communities	93.082	46,959
Maternal and Child Health Federal Consolidated Programs	93.110	749,395
Environmental Health	93.113	37,898
Emergency Medical Services for Children	93.127	3,735
Injury Prevention and Control Research and State and Community Based Programs	93.136	91,956
AIDS Education and Training Centers	93.145	1,115,805
Health Program for Toxic Substances and Disease Registry	93.161	18,730
Disabilities Prevention	93.184	38,347
Research on Healthcare Costs, Quality and Outcomes	93.226	277,044
Traumatic Brain Injury-State Demonstration Grant Program	93.234	74,941
Grants to States to Support Oral Health Workforce Activities	93.236	122,971
State Rural Hospital Flexibility Program	93.241	143,500

(Continued)

HEALTH RESEARCH, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended March 31, 2014

Program title	CFDA number	Subcontract expenses
Mental Health Research Grants	93.242	\$ 11,980
State Health Access Program	93.256	194,500
Occupational Safety and Health Program	93.262	30,000
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	622,279
Adult Viral Hepatitis Prevention and Control Centers for Disease Control and Prevention	93.270	103,216
Investigations and Technical Assistance	93.283	8,709,682
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	305,337
National Public Health Improvement Initiative	93.292	7,600
Small Rural Hospital Improvement Grant Program	93.301	174,741
Cancer Cause and Prevention Research	93.393	5,124,433
Cancer Detection and Diagnosis Research	93.394	106,723
Cancer Treatment Research	93.395	497,285
Cancer Biology Research	93.396	89,284
Cancer Centers Support Grants	93.397	405,428
ARRA – Dental Public Health Residency Training Grants	93.404	8,480
Pregnancy Assistance Fund Program	93.500	88,922
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507	123,098
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	141,028
Affordable Care Act – National Environmental Public Health Tracking Program-Network Implementation	93.538	3,000
Prevention and Public Health Fund (Affordable Care Act) – Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance	93.539	584,546
The Patient Protection and Affordable Care Act of 1010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544	113,875
PPHF 2012: Nutrition, Physical Activity and Obesity Program	93.548	170,186
Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare- Medicaid Enrollees	93.628	57,675
ARRA-Trans-NIH Recovery Act Research Support	93.701	4,213
National Center for Research Resources, Recovery Act Construction Support	93.702	57,833

(Continued)

HEALTH RESEARCH, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended March 31, 2014

Program title	CFDA number	Subcontract expenses
Recovery Act – Comparative Effectiveness Research – AHRQ	93.715	\$ 564,608
ARRA – State Grants to Promote Health Information Technology	93.719	204,314
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance	93.733	169,673
State Public Health Approaches for Ensuring Quitline Capacity	93.735	1,211,893
PPHF 2012: Community Transformation Grants – Small Communities Program	93.737	599,240
PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories	93.744	30,704
PPHF-2012: Health Care Surveillance/Health Statistics - Surveillance Program Announcement: Behavioral Risk Factor Surveillance System	93.745	229,612
Blood Diseases and Resources Research	93.839	889,235
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	33,146
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	18,323
Allergy, Immunology and Transplantation Research	93.855	542,825
Biomedical Research and Research Training	93.859	307,088
Child Health and Human Development Extramural Research	93.865	196,764
National Bioterrorism Hospital Preparedness Program	93.889	5,767,629
HIV Emergency Relief Project Grants	93.914	2,231,932
HIV Care Formula Grants	93.917	18,244,980
Special Projects of National Significance	93.928	660,049
HIV Prevention Activities-Health Department Based	93.940	4,688,870
HIV Demonstration, Research, Public and Professional Education Projects	93.941	154,397
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	247,716
Assistance Programs for Chronic Disease Prevention and Control	93.945	240,808
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	62,737
International Research, and Research Training	93.989	53,787
Aldous – Infertility, Child Growth and Development	93.HHSN275201200005C	1,029,546
		<u>\$ 67,910,245</u>

HEALTH RESEARCH, INC.

Schedule of Findings and Questioned Costs

Year ended March 31, 2014

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities Health Department Based

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

Auditee qualified as low-risk auditee? X Yes _____ No

HEALTH RESEARCH, INC.

Schedule of Findings and Questioned Costs

Year ended March 31, 2014

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

None.

Section III – Findings and Questioned Costs relating to Federal Awards

None.



HEALTH RESEARCH, INC.

Financial Statements and Supplementary Information

March 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

HEALTH RESEARCH, INC.
Financial Statements and Schedules
March 31, 2014 and 2013

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

Board of Directors
Health Research, Inc.:

We have audited the accompanying financial statements of Health Research, Inc., which comprise the statements of financial position as of March 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Health Research, Inc. as of March 31, 2014 and 2013, and the changes in net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Health Research, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

June 26, 2014

HEALTH RESEARCH, INC.
Statements of Financial Position
March 31, 2014 and 2013

Assets	2014	2013
Cash and cash equivalents	\$ 137,061,308	234,047,593
Investments (note 3)	199,001,208	78,473,675
Board designated investments for postretirement benefits (note 3)	74,220,760	63,845,513
Expense reimbursements due from sponsors (note 10)	67,884,798	66,573,999
Accrued interest receivable	1,097,650	609,746
Prepaid expenses	323,443	343,579
Property, plant, and equipment, net (note 4)	1,099,039	1,678,699
Agency fund (note 5)	52,146,614	51,812,021
Total assets	\$ 532,834,820	497,384,825
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 30,280,678	34,668,896
Accrued liabilities:		
Vacation pay	8,857,828	9,204,782
Payroll and payroll-related costs	12,226,080	13,398,793
Total accrued liabilities	21,083,908	22,603,575
Restricted advances and deferred revenue	274,124,254	247,980,256
Accrued postretirement benefit obligation (note 6)	102,038,802	100,702,753
Agency fund (note 5)	52,146,614	51,812,021
Total liabilities	479,674,256	457,767,501
Commitments and contingencies (notes 7 and 10)		
Unrestricted net assets	53,160,564	39,617,324
Total liabilities and net assets	\$ 532,834,820	497,384,825

See accompanying notes to financial statements.

HEALTH RESEARCH, INC.

Statements of Activities

Years ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue:		
Grants and contracts (note 10)	\$ 693,424,238	658,452,002
Contract fees and technology transfer revenue earned (note 8)	3,535,304	3,153,935
Net investment income (note 3)	<u>6,452,302</u>	<u>4,340,260</u>
Total revenue	<u>703,411,844</u>	<u>665,946,197</u>
Expenses:		
Direct research, prevention and treatment costs	661,941,711	627,495,580
Indirect costs charged (note 2)	<u>34,531,806</u>	<u>34,041,087</u>
Total expenses	<u>696,473,517</u>	<u>661,536,667</u>
Excess of revenue over expenses	6,938,327	4,409,530
Change in postretirement obligations other than net periodic postretirement benefit cost (note 6)	<u>6,604,913</u>	<u>21,571,242</u>
Change in net assets	13,543,240	25,980,772
Unrestricted net assets at beginning of year	<u>39,617,324</u>	<u>13,636,552</u>
Unrestricted net assets at end of year	<u>\$ 53,160,564</u>	<u>39,617,324</u>

See accompanying notes to financial statements.

HEALTH RESEARCH, INC.

Statements of Cash Flows

Years ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 13,543,240	25,980,772
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	660,173	699,086
Change in net unrealized gains on investments	(2,281,491)	(1,799,589)
Postretirement obligations other than net periodic postretirement benefit cost	(6,604,913)	(21,571,242)
Changes in assets and liabilities that provide (use) cash:		
Expense reimbursements due from sponsors	(1,310,799)	2,969,346
Accrued interest receivable	(487,904)	60,737
Prepaid expenses	20,136	(28,583)
Accounts payable and accrued liabilities	(5,907,885)	(7,744,095)
Restricted advances and deferred revenue	26,143,998	49,339,001
Accrued postretirement benefit obligation	7,940,962	11,129,033
Net cash provided by operating activities	<u>31,715,517</u>	<u>59,034,466</u>
Cash flows from investing activities:		
Purchases of fixed assets	(80,513)	(40,349)
Proceeds from redemption and sale of investments	245,810,185	73,765,803
Purchases of investments	(374,431,474)	(75,592,354)
Net cash used by investing activities	<u>(128,701,802)</u>	<u>(1,866,900)</u>
Net (decrease) increase in cash and cash equivalents	(96,986,285)	57,167,566
Cash and cash equivalents at beginning of year	<u>234,047,593</u>	<u>176,880,027</u>
Cash and cash equivalents at end of year	<u>\$ 137,061,308</u>	<u>234,047,593</u>

See accompanying notes to financial statements.

HEALTH RESEARCH, INC.

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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 related entities. The Corporation has divisions in Buffalo (Roswell Park) and Albany, New York which administers projects conducted at the RPCIC, the NYS DOH and other health related entities, primarily financed by private and governmental contracts, grants and donations. The Corporation has an agreement with New York State DOH and RPCIC 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 26, 2014 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, is recognized in the statements of activities. Interest income earned on money market

HEALTH RESEARCH, INC.

Notes to Financial Statements

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accounts of the Agency Fund are recognized in the statements 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.

Generally, equipment purchased using sponsored funds is directly charged as an expense to the respective grant or contract and not capitalized.

(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.

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(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 NYS DOH 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 concluded that there are no material tax liabilities that need to be recorded for the years ended March 31, 2014 and 2013.

(2) Joint Indirect Cost Rate

In general, personal services and facilities provided by NYS DOH 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 NYS DOH 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.

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 NYS 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 rates.

(3) Investments and Fair Value Measurements

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

HEALTH RESEARCH, INC.

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Investments, stated at fair value, consist of the following at March 31, 2014:

	Division		Total
	Roswell Park	Albany	
Fixed income securities:			
United States government bonds and notes	\$ 6,562,310	151,434,556	157,996,866
Asset backed securities	6,557,706	15,911,040	22,468,746
Corporate bonds	6,081,882	13,608,235	19,690,117
Mortgage backed securities	6,566,888	15,067,592	21,634,480
Collateralized mortgage obligations	747,375	1,734,581	2,481,956
Municipal bonds	580,344	1,188,668	1,769,012
Floating rate notes	3,256,634	7,125,532	10,382,166
Equity securities	11,609,313	25,189,312	36,798,625
	<u>41,962,452</u>	<u>231,259,516</u>	<u>273,221,968</u>
Less amounts designated by Board for postretirement benefits	<u>27,777,769</u>	<u>46,442,991</u>	<u>74,220,760</u>
	<u>\$ 14,184,683</u>	<u>184,816,525</u>	<u>199,001,208</u>

Investments, stated at fair value, consist of the following at March 31, 2013:

	Division		Total
	Roswell Park	Albany	
Fixed income securities:			
United States government bonds and notes	\$ 5,571,735	26,458,921	32,030,656
Asset backed securities	8,697,135	20,291,874	28,989,009
Corporate bonds	5,919,959	13,543,294	19,463,253
Mortgage backed securities	6,836,146	15,731,711	22,567,857
Collateralized mortgage obligations	595,221	1,403,522	1,998,743
Municipal bonds	851,769	1,608,710	2,460,479
Floating rate notes	1,757,104	3,840,568	5,597,672
Equity securities	9,000,584	20,210,935	29,211,519
	<u>39,229,653</u>	<u>103,089,535</u>	<u>142,319,188</u>
Less amounts designated by Board for postretirement benefits	<u>23,407,165</u>	<u>40,438,348</u>	<u>63,845,513</u>
	<u>\$ 15,822,488</u>	<u>62,651,187</u>	<u>78,473,675</u>

Equity securities are valued based on quoted market prices in active markets (Level 1 measurement).

Fixed income securities are valued based on quoted market prices in active markets (Level 1 measurement). When quoted market prices are not available, fair values are based on quoted market prices of comparable instruments (Level 2 measurement). When necessary, the Corporation utilizes matrix pricing from a third party pricing vendor to determine fair value pricing (Level 2 measurement). Matrix

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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, 2014 and 2013 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.

	2014		
	Total	Level 1	Level 2
Investments:			
Fixed investment securities:			
United States government bonds and notes	\$ 157,996,866	145,609,344	12,387,522
Asset backed securities	22,468,746	—	22,468,746
Corporate bonds	19,690,117	—	19,690,117
Mortgage backed securities	21,634,480	—	21,634,480
Collateralized mortgage obligations	2,481,956	—	2,481,956
Municipal bonds	1,769,012	—	1,769,012
Floating rate notes	10,382,166	—	10,382,166
Equities securities:			
Domestic Equities	12,588,306	12,588,306	—
S&P 500 Index Fund	12,008,314	12,008,314	—
Mid Cap Index Fund	6,077,899	6,077,899	—
Small Cap Value Index Fund	3,062,133	3,062,133	—
Small Cap Growth Index Fund	3,061,973	3,061,973	—
	<u>\$ 273,221,968</u>	<u>182,407,969</u>	<u>90,813,999</u>

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	2013		
	Total	Level 1	Level 2
Investments:			
Fixed investment securities:			
United States government bonds and notes	\$ 32,030,656	19,643,133	12,387,523
Asset backed securities	28,989,009	—	28,989,009
Corporate bonds	19,463,253	—	19,463,253
Mortgage backed securities	22,567,857	—	22,567,857
Collateralized mortgage obligations	1,998,743	—	1,998,743
Municipal bonds	2,460,479	—	2,460,479
Floating rate notes	5,597,672	—	5,597,672
Equities securities:			
Domestic Equities	10,003,144	10,003,144	—
S&P 500 Index Fund	9,468,336	9,468,336	—
Mid Cap Index Fund	4,818,539	4,818,539	—
Small Cap Value Index Fund	2,499,483	2,499,483	—
Small Cap Growth Index Fund	2,422,017	2,422,017	—
	<u>\$ 142,319,188</u>	<u>48,854,652</u>	<u>93,464,536</u>

The Corporation has no investments that are valued using Level 3 inputs as of March 31, 2014 and 2013. There were no significant transfers into or out of Level 1 and Level 2 for the years ended March 31, 2014 and 2013.

Net investment income is comprised of the following as of March 31, 2014:

	Division		Total
	Roswell Park	Albany	
Interest and dividend income (net of fees of \$368,268)	\$ 637,274	2,393,117	3,030,391
Change in net unrealized gains	1,263,764	1,017,727	2,281,491
Net realized gains (losses)	(46,046)	1,186,466	1,140,420
	<u>\$ 1,854,992</u>	<u>4,597,310</u>	<u>6,452,302</u>

HEALTH RESEARCH, INC.

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Net investment income is comprised of the following as of March 31, 2013:

	Division		Total
	Roswell Park	Albany	
Interest and dividend income (net of fees of \$308,277)	\$ 562,867	1,919,705	2,482,572
Change in net unrealized gains	333,750	1,465,839	1,799,589
Net realized gains (losses)	227,508	(169,409)	58,099
	<u>\$ 1,124,125</u>	<u>3,216,135</u>	<u>4,340,260</u>

(4) Property, Plant, and Equipment

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

	Division		2014
	Roswell Park	Albany	Total
Buildings and improvements	\$ 253,147	318,858	572,005
Furniture, fixtures, and equipment (includes software)	471,956	4,522,967	4,994,923
	<u>725,103</u>	<u>4,841,825</u>	<u>5,566,928</u>
Less accumulated depreciation and amortization	493,653	3,974,236	4,467,889
	<u>\$ 231,450</u>	<u>867,589</u>	<u>1,099,039</u>

	Division		2013
	Roswell Park	Albany	Total
Buildings and improvements	\$ 253,147	318,858	572,005
Furniture, fixtures, and equipment (includes software)	477,422	4,442,454	4,919,876
	<u>730,569</u>	<u>4,761,312</u>	<u>5,491,881</u>
Less accumulated depreciation and amortization	499,119	3,314,063	3,813,182
	<u>\$ 231,450</u>	<u>1,447,249</u>	<u>1,678,699</u>

Depreciation and amortization expense charged to operations during fiscal year 2014 and 2013 amounted to \$660,173 and \$699,086, respectively.

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(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. In connection with the Funding Administration Agreement, HRI accepted an assignment from the OAG the responsibilities of the OAG under the Database and Website Agreement with FAIR Health.

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.

As of January 28, 2014, a second amendment was signed ending the contract between HRI and FAIR Health as the original terms of the agreement had been fulfilled and FAIR Health demonstrated its financial self sufficiency. HRI will continue to administer the use of the remaining funds, in keeping with the purpose of the AOD.

(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. Employees entering the System after April 1, 2012 are required to contribute, for the duration of their employment, between 3% and 6% based on the value of their annual compensation. 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

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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, 2014 and 2013 approximated 21.0% and 18.6%, respectively.

The required pension contribution for plan years ended March 31, 2014 and 2013 consisted of the Corporation's contributions of \$21,352,247 and \$20,437,462, respectively, and employees' contributions of \$1,502,003 and \$1,649,186, 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 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, 2014 and 2013, board designated investments for postretirement benefits totaled \$74,220,760 and \$63,845,513, 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.

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

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Benefit obligation at beginning of the year	\$ 100,702,753	111,144,962
Service cost	4,771,746	5,665,581
Interest cost	4,221,119	4,856,043
Plan participants' contributions	983,721	907,457
Actuarial gain	(5,992,947)	(19,542,275)
Benefits paid	(2,657,233)	(2,403,636)
Medicare Part D prescription drug federal subsidy	9,643	74,621
Benefit obligation at end of year	\$ <u>102,038,802</u>	<u>100,702,753</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	—
Actual return on plan assets	—	—
Employer contribution	1,663,869	1,421,558
Plan participants' contributions	983,721	907,457
Medicare Part D prescription drug federal subsidy	9,643	74,621
Benefits paid	(2,657,233)	(2,403,636)
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:

Benefits obligation	<u>(102,038,802)</u>	<u>(100,702,753)</u>
Funded status, amount recognized in the statements of financial position as accrued postretirement benefit obligation	\$ <u>(102,038,802)</u>	<u>(100,702,753)</u>
Amounts not yet reflected in net postretirement benefit cost and recognized in unrestricted net assets:		
Transition obligation	\$ 158,662	211,548
Prior service credits	(526,908)	(703,183)
Net actuarial loss	13,427,311	20,155,613
	\$ <u>13,059,065</u>	<u>19,663,978</u>

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HRI participates in the New York State Health Insurance Program (NYSHIP). In July 2012, HRI was notified by NYSHIP of a change in rates and billing practices. As such, HRI is no longer explicitly reimbursing Medicare Part B premiums to retirees. The annual health insurance premiums, which comprise the underlying benefit costs of the valuation, include Medicare Part B as a component. The projected benefit obligation at March 31, 2013 reflects the actuarial impact related to this assumption change.

The estimated amounts that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in fiscal year 2014 are as follows:

Unrecognized transition obligation	\$	52,886	
Unrecognized prior service credit		(176,275)	
Unrecognized net actuarial loss		293,574	
	\$	<u>170,185</u>	

Net periodic postretirement benefit cost for 2014 and 2013 includes the following components:

	<u>2014</u>	<u>2013</u>
Components of net periodic postretirement benefit cost:		
Service cost	\$ 4,771,746	5,665,581
Interest cost	4,221,119	4,856,043
Amortization of transition obligation	52,886	52,886
Amortization of unrecognized prior service credit	(176,275)	(176,275)
Amortization of net loss	735,355	2,152,356
Net periodic postretirement benefit cost	\$ <u>9,604,831</u>	<u>12,550,591</u>

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

	<u>2014</u>	<u>2013</u>
Discount rate for net benefit cost	4.32%	4.68%
Discount rate for net benefit obligation	4.54%	4.32%
Rate of compensation increase	3.00%	3.00%
Expected return on plan assets	N/A	N/A

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Estimated Future Employer Benefit Payments – Expected employer benefit payments, which reflect expected future service, for each fiscal year. Shown below are expected gross benefit payments (including prescription drug benefits):

	Employer benefit payments
2015	\$ 1,920,729
2016	2,092,698
2017	2,260,039
2018	2,459,628
2019	2,724,845
Years 2020 – 2024	20,275,150

The Corporation expects to contribute approximately \$1,900,000 to the plan in fiscal year 2014, net of employee contributions.

Assumed health care trend rates at March 31:

Health care cost trend rate assumed for next year	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%
Year the rate reaches the ultimate trend rate	2022

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:

	1-Percentage point increase	1-Percentage point decrease
Effect on total of service and interest cost components	\$ 2,366,327	(1,794,938)
Effect on postretirement benefit obligation	21,299,638	(16,810,695)

(7) Contract and Grant Awards

At March 31, 2014 and 2013, the unexpended portion of contract and grant awards available to be used in subsequent years total \$218,148,602 (Roswell Park Division – \$62,363,529 and Albany Division – \$155,785,073) and \$236,914,638 (Roswell Park Division – \$63,347,621 and Albany Division – \$173,567,017), respectively.

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(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, 2014 and 2013, the Corporation has a total of 118 and 208 inventions under administration, has obtained 107 and 109 U.S. patents, and 110 and 109 inventions have been licensed, respectively. During the years ended March 31, 2014 and 2013, the Corporation's expenses relating to these patents and inventions were \$522,454 and \$541,917 and the related income totaled \$3,257,902 and \$3,035,468, respectively.

(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:	
2015	\$ 2,957,559
2016	2,805,782
2017	2,805,782
2018	2,715,904
2019	2,266,517
2020 and beyond	<u>1,996,929</u>
Total minimum payments required	\$ <u><u>15,548,473</u></u>

Rent expense for the years ended March 31, 2014 and 2013 is approximately \$2,958,000 and \$2,941,000, respectively.

(10) Business and Credit Concentrations

The majority of the Corporation's funding is received directly from DHHS. For the years ended March 31, 2014 and 2013, approximately 44% and 49%, respectively, of total revenue relates to contracts and grants from DHHS. Included in expense reimbursements due from sponsors at March 31, 2014 and 2013 is \$26,279,955 and \$25,849,567, 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.