

HEALTH RESEARCH, INC.

**Financial Statements as of
March 31, 2021 and 2020
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

June 21, 2021

To the Board of Directors of
Health Research, Inc.:

We have audited the accompanying financial statements of Health Research, Inc. (a New York nonprofit organization) which comprise the statements of financial position as of March 31, 2021 and 2020, and the related statements of activities, functional expenses 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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.

INDEPENDENT AUDITOR'S REPORT

(Continued)

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HEALTH RESEARCH, INC.

STATEMENTS OF FINANCIAL POSITION MARCH 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 96,485,953	\$ 154,538,031
Investments (note 4)	572,410,944	510,057,272
Expense reimbursements due from sponsors (note 11)	115,597,444	64,205,209
Accrued interest receivable	1,924,864	1,845,249
Prepaid expenses	404,358	478,682
Property and equipment, net (note 5)	935,298	884,562
Agency fund (note 6)	<u>18,840,004</u>	<u>28,951,388</u>
	<u>\$ 806,598,865</u>	<u>\$ 760,960,393</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 101,044,187	\$ 50,573,910
Accrued payroll and related liabilities	14,071,425	16,705,034
Estimated liability for compensated absences	12,743,363	9,599,631
Restricted advances and deferred revenue	49,252,202	37,954,346
Agency fund (note 6)	<u>18,840,004</u>	<u>28,951,388</u>
Total liabilities	195,951,181	143,784,309
Net assets without donor restrictions	131,647,201	123,021,844
Net assets with donor restrictions	<u>479,000,483</u>	<u>494,154,240</u>
Total net assets	610,647,684	617,176,084
	<u>\$ 806,598,865</u>	<u>\$ 760,960,393</u>

The accompanying notes are an integral part of these statements.

HEALTH RESEARCH, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE:			
Grants and contracts (note 11)	\$ 752,218,166	\$ 389,918,512	\$ 1,142,136,678
Contract fees and technology transfer revenue earned (note 9)	266,693	-	266,693
Tangible donations (note 2)	9,173,071	-	9,173,071
Investment income (note 4)	21,097,423	-	21,097,423
Net assets released from restrictions	<u>405,072,269</u>	<u>(405,072,269)</u>	<u>-</u>
Total revenue	<u>1,187,827,622</u>	<u>(15,153,757)</u>	<u>1,172,673,865</u>
EXPENSES:			
Direct research, prevention and treatment costs	1,133,152,293	-	1,133,152,293
Tangible donations (note 2)	9,173,071	-	9,173,071
Indirect costs charged (note 2)	<u>36,876,901</u>	<u>-</u>	<u>36,876,901</u>
Total expenses	<u>1,179,202,265</u>	<u>-</u>	<u>1,179,202,265</u>
CHANGE IN NET ASSETS	8,625,357	(15,153,757)	(6,528,400)
NET ASSETS - beginning of year	<u>123,021,844</u>	<u>494,154,240</u>	<u>617,176,084</u>
NET ASSETS - end of year	<u>\$ 131,647,201</u>	<u>\$ 479,000,483</u>	<u>\$ 610,647,684</u>

The accompanying notes are an integral part of these statements.

HEALTH RESEARCH, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE:			
Grants and contracts (notes 11)	\$ 817,107,287	\$ 494,154,240	\$ 1,311,261,527
Contract fees and technology transfer revenue earned (note 9)	329,356	-	329,356
Investment income (note 4)	<u>11,059,694</u>	<u>-</u>	<u>11,059,694</u>
Total revenue	<u>828,496,337</u>	<u>494,154,240</u>	<u>1,322,650,577</u>
EXPENSES:			
Direct research, prevention and treatment costs	782,388,546	-	782,388,546
Indirect costs charged (note 2)	<u>37,876,395</u>	<u>-</u>	<u>37,876,395</u>
Total expenses	<u>820,264,941</u>	<u>-</u>	<u>820,264,941</u>
CHANGE IN NET ASSETS	8,231,396	494,154,240	502,385,636
NET ASSETS - beginning of year	<u>114,790,448</u>	<u>-</u>	<u>114,790,448</u>
NET ASSETS - end of year	<u>\$ 123,021,844</u>	<u>\$ 494,154,240</u>	<u>\$ 617,176,084</u>

The accompanying notes are an integral part of these statements.

HEALTH RESEARCH, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED MARCH 31, 2021

	<u>Program</u>	Management & <u>General</u>	<u>Total</u>
Grant expenditures	\$ 456,356,505	\$ -	\$ 456,356,505
Salaries & wages	129,037,933	20,198,460	149,236,393
Subcontracts	436,207,812	1,189,884	437,397,696
Office expense	56,758,408	971,865	57,730,273
Other employee benefits	21,902,786	3,516,813	25,419,599
Pension plan contributions	15,625,039	2,454,219	18,079,258
Payroll taxes	9,056,925	1,421,060	10,477,985
Other expenses	8,200,554	219,799	8,420,353
Occupancy	21,231	3,478,957	3,500,188
Travel	481,300	10,630	491,930
Other - fee for service	4,260,428	657,109	4,917,537
Information technology	1,798,487	822,083	2,620,570
Tuition, training & professional dues	1,815,294	54,034	1,869,328
Printing & publications	540,854	589,395	1,130,249
Conferences, conventions & meetings	143,764	-	143,764
Insurance	-	706,902	706,902
Legal	118,044	198,167	316,211
Accounting	-	146,800	146,800
Depreciation and amortization	-	240,724	240,724
	<u>\$ 1,142,325,364</u>	<u>\$ 36,876,901</u>	<u>\$ 1,179,202,265</u>

The accompanying notes are an integral part of these statements.

HEALTH RESEARCH, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED MARCH 31, 2020

	<u>Program</u>	<u>Management & General</u>	<u>Total</u>
Grant expenditures	\$ 441,746,069	\$ -	\$ 441,746,069
Salaries & wages	119,037,463	19,951,365	138,988,828
Subcontracts	137,471,396	2,077,801	139,549,197
Office expense	24,911,216	1,101,457	26,012,673
Other employee benefits	20,905,997	3,679,705	24,585,702
Pension plan contributions	14,035,252	2,368,331	16,403,583
Payroll taxes	7,932,132	1,336,757	9,268,889
Other expenses	5,726,154	225,594	5,951,748
Occupancy	29,461	3,322,432	3,351,893
Travel	3,722,101	47,344	3,769,445
Other - fee for service	3,124,450	631,451	3,755,901
Information technology	1,228,773	1,126,958	2,355,731
Tuition, training & professional dues	878,914	82,515	961,429
Printing & publications	610,131	600,547	1,210,678
Conferences, conventions & meetings	931,904	520	932,424
Insurance	-	665,996	665,996
Legal	97,133	310,793	407,926
Accounting	-	152,488	152,488
Depreciation and amortization	-	194,341	194,341
	<u>\$ 782,388,546</u>	<u>\$ 37,876,395</u>	<u>\$ 820,264,941</u>

The accompanying notes are an integral part of these statements.

HEALTH RESEARCH, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,528,400)	\$ 502,385,636
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation and amortization	240,724	194,341
Realized and unrealized gains on investments	(13,103,364)	3,966,725
Changes in:		
Expense reimbursements due from sponsors	(51,392,235)	9,673,562
Accrued interest receivable	(79,615)	140,898
Prepaid expenses	74,324	(65,771)
Accounts payable	50,470,277	2,120,607
Accrued payroll and related liabilities	(2,633,609)	2,273,180
Estimated liability for compensated absences	3,143,732	172,499
Restricted advances and deferred revenue	<u>11,297,856</u>	<u>(526,716,300)</u>
Net cash flow from operating activities	<u>(8,510,310)</u>	<u>(5,854,623)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of investments	(552,138,043)	(528,478,088)
Sales of investments	502,887,735	543,219,603
Purchases of property and equipment	<u>(291,460)</u>	<u>(345,071)</u>
Net cash flow from investing activities	<u>(49,541,768)</u>	<u>14,396,444</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(58,052,078)	8,541,821
CASH AND CASH EQUIVALENTS - beginning of year	<u>154,538,031</u>	<u>145,996,210</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 96,485,953</u>	<u>\$ 154,538,031</u>

The accompanying notes are an integral part of these statements.

HEALTH RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2021 AND 2020

1. DESCRIPTION OF THE ORGANIZATION

Health Research, Inc. (the Corporation) is a nonprofit organization 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 (NYS DOH), the Roswell Park Cancer Institute Corporation (RPCIC) (a public benefit corporation) and other health related entities. The Corporation has divisions in Buffalo (Roswell Division) and Albany (Albany Division), New York which administer 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 NYS 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas which are affected by the use of estimates include the expense reimbursements and deferred revenue from sponsors. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in bank demand deposit and money market accounts. The Corporation's cash balances may at times exceed federally insured limits. The Corporation has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash.

Investments

All investments are stated at fair value. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Investments are held in the Corporation's name, as described in Note 4. Investment income, including interest and dividend income and realized and unrealized gains and losses on the Corporation's assets without donor restrictions, is recognized in the statements of activities.

Expense Reimbursements Due From Sponsors

Expense reimbursements due from sponsors consist of primarily grants and contract payments due from the federal government. Management evaluates the collectability of the amounts due on a periodic basis and has determined that an allowance for uncollectible receivables is not necessary at March 31, 2021 and 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. 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.

The Corporation capitalizes property and equipment purchased with non-sponsored funds in excess of \$5,000 and a useful life greater than one year. Generally, equipment purchased using sponsored funds is directly charged as an expense to the respective grant or contract and not capitalized.

Agency Fund

As more fully described in Note 6, the Corporation administers an agency fund 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. Interest income earned on money market accounts of the Agency Fund are recognized in the statements of financial position as an increase to the Agency Fund liability.

Estimated Liabilities for Compensated Absences

Employees are granted vacation leave and other compensated absences at varying amounts. In the event of termination or upon retirement, employees are entitled to payment for their accumulated vacation and compensated absences. Estimated vacation leave and other compensated absences have been recognized in the financial statements based on entitled employees' present rate of pay.

Restricted Advances and Deferred Revenue

Restricted advances consist of contracts and grants received in advance of related expenses.

Revenue Recognition

Substantially all of the Corporation's revenue is derived from restricted contracts, grants, and donations. Revenue without donor restrictions is recognized when expenses relative to the contracts, grants, and donations are incurred. Revenue with donor restrictions is recognized when proceeds are received by the Corporation, for specific program purposes. This revenue is then released from with donor restrictions into without donor restrictions when the program expends funds.

During the year ended March 31, 2021, the Corporation received approximately \$9 million of tangible donations, which were then distributed in support of COVID-19 response. The tangible donations were recorded at the fair market value of the supplies received and presented as tangible donation revenue and expense on the statement of activities for the year ended March 31, 2021.

Financial Statement Presentation

The Corporation reports information regarding its activities and the related net assets using two net asset categories: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions - Includes amounts that have no external donor restrictions on their use or purpose. The Board of Directors can authorize use of these funds as it desires to carry on the purpose of the Corporation according to its by-laws. At March 31, 2021 and 2020, the Board of Directors had \$10,000,000 designated to specifically support the new Wadsworth Center laboratories.

Net Assets with Donor Restrictions - Includes amounts that have donor-imposed restrictions that expire when the donor-imposed restrictions have been satisfied by actions of the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Certain Expenses

The statements of functional expenses report expenses by their functional classification, a method of grouping expenses according to the purpose for which they are incurred. Certain categories of expenses are attributable to one or more program or supporting functions of the Corporation. Those expenses include payroll and benefits expenses, which management allocates based on time spent in the program and supporting functions in accordance with time and efforts reports completed by employees.

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.

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.

Fair Value Measurement – Definition and Hierarchy

The Corporation uses various valuation techniques in determining fair value. A hierarchy for inputs used in measuring fair value has been established that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation's assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Fair value is determined using the market approach using relevant market data.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The Corporation currently has no assets or liabilities that are measured using Level 3 inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement – Definition and Hierarchy (Continued)

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Corporation in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Income Taxes

The Corporation is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Corporation has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

3. LIQUIDITY

The Corporation is substantially supported by restricted contracts, grants and donations. In addition, the Corporation holds financial assets for specific programmatic purposes and/or with specific donor designations. Thus, financial assets reported on the accompanying statement of financial position may not be available for general expenditure within one year.

The Corporation's financial assets available within one year of the balance sheet date for general expenditure are as follows at March 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 96,485,953	\$ 154,538,031
Investments	572,410,944	510,057,272
Expense reimbursements due from sponsors	115,597,444	64,205,209
Accrued interest receivable	<u>1,924,864</u>	<u>1,845,249</u>
	786,419,205	730,645,761
Less: Financial assets unavailable for general expenditures within one year, due to:		
Net assets with donor restrictions	(479,000,483)	(494,154,240)
Board designated net assets	(10,000,000)	(10,000,000)
Restricted advances and deferred revenue	(49,252,202)	(37,954,346)
Long-term fixed-income securities	<u>(13,850,194)</u>	<u>(11,303,996)</u>
	<u>\$ 234,316,326</u>	<u>\$ 177,233,179</u>

4. INVESTMENTS

In accordance with its investment policy, the Corporation invests in fixed income, mutual funds 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.

Investments consisted of the following at March 31, 2021:

<u>Description</u>	<u>Division</u>		<u>Total</u>
	<u>Roswell</u>	<u>Albany</u>	
Fixed income securities:			
United States government bonds and notes	\$ 8,009,096	\$452,024,498	\$460,033,594
Municipal Taxable	804,357	2,387,051	3,191,408
Corporate Bonds	7,679,408	16,372,696	24,052,104
Asset Backed Securities	2,104,363	5,718,012	7,822,375
Commercial Mortgage Backed	1,507,353	4,108,985	5,616,338
Residential Mortgage Backed	441,639	1,146,771	1,588,410
Mutual Funds	19,595,782	46,837,088	66,432,870
Equity securities	1,079,748	2,594,097	3,673,845
	<u>\$ 41,221,746</u>	<u>\$531,189,198</u>	<u>\$572,410,944</u>

Investments consisted of the following at March 31, 2020:

<u>Description</u>	<u>Division</u>		<u>Total</u>
	<u>Roswell</u>	<u>Albany</u>	
Fixed income securities:			
United States government bonds and notes	\$ 8,466,722	\$410,972,414	\$419,439,136
Municipal Taxable	1,224,199	3,325,241	4,549,440
Corporate Bonds	5,674,773	12,878,697	18,553,470
Asset Backed Securities	1,277,037	3,278,570	4,555,607
Commercial Mortgage Backed	1,653,743	4,476,704	6,130,447
Residential Mortgage Backed	581,539	1,705,467	2,287,006
Mutual Funds	15,453,146	36,952,974	52,406,120
Equity securities	630,210	1,505,836	2,136,046
	<u>\$ 34,961,369</u>	<u>\$475,095,903</u>	<u>\$510,057,272</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 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, 2021 and 2020 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.

4. INVESTMENTS (Continued)

The following investments are measured at fair value on a recurring basis at March 31, 2021:

<u>Description</u>	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	<u>Total</u>
Fixed investment securities:			
United States government bonds and notes	\$448,108,573	\$ 11,925,021	\$460,033,594
Municipal Taxable	-	3,191,408	3,191,408
Corporate Bonds	-	24,052,104	24,052,104
Asset Backed Securities	-	7,822,375	7,822,375
Commercial Mortgage Backed	-	5,616,338	5,616,338
Residential Mortgage Backed	-	1,588,410	1,588,410
Equities securities:			
Domestic equities	3,673,845	-	3,673,845
Mutual funds:			
Fixed Income Mutual Funds	-	7,530,040	7,530,040
Domestic Equity Mutual Funds	3,592,202	-	3,592,202
International Equity Funds	14,181,391	-	14,181,391
State Street Global Advisors	-	14,682,962	14,682,962
Colchester Global Bond Fund	-	13,110,817	13,110,817
Western Asset Management Company	-	13,335,458	13,335,458
	<u>\$469,556,011</u>	<u>\$102,854,933</u>	<u>\$572,410,944</u>

The following investments are measured at fair value on a recurring basis at March 31, 2020:

<u>Description</u>	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	<u>Total</u>
Fixed investment securities:			
United States government bonds and notes	\$ 409,227,235	\$ 10,211,901	\$ 419,439,136
Municipal Taxable	-	4,549,440	4,549,440
Corporate Bonds	-	18,553,470	18,553,470
Asset Backed Securities	-	4,555,607	4,555,607
Commercial Mortgage Backed	-	6,130,447	6,130,447
Residential Mortgage Backed	-	2,287,006	2,287,006
Equities securities:			
Domestic equities	2,136,046	-	2,136,046
Mutual Funds			
Fixed Income Mutual Funds	-	5,491,189	5,491,189
Domestic Equity Mutual Funds	2,225,661	-	2,225,661
International Equity Funds	9,378,843	-	9,378,843
State Street Global Advisors	-	11,485,976	11,485,976
Colchester Global Bond Fund	-	12,093,126	12,093,126
Western Asset Management Company	-	11,731,325	11,731,325
	<u>\$ 422,967,785</u>	<u>\$ 87,089,487</u>	<u>\$ 510,057,272</u>

4. INVESTMENTS (Continued)

The Corporation has no investments that are valued using Level 3 inputs as of March 31, 2021 and 2020. There were no significant transfers into or out of Level 1 and Level 2 for the years ended March 31, 2021 and 2020.

Net investment income is comprised of the following as of March 31, 2021:

<u>Description</u>	<u>Division</u>		<u>Total</u>
	<u>Roswell</u>	<u>Albany</u>	
Interest and dividend income, net of fees of \$488,299	\$ 740,666	\$ 7,253,393	\$ 7,994,059
Net unrealized gains	4,826,411	6,187,137	11,013,548
Net realized gains	<u>645,933</u>	<u>1,443,883</u>	<u>2,089,816</u>
	<u>\$ 6,213,010</u>	<u>\$ 14,884,413</u>	<u>\$ 21,097,423</u>

Net investment income is comprised of the following as of March 31, 2020:

<u>Description</u>	<u>Division</u>		<u>Total</u>
	<u>Roswell</u>	<u>Albany</u>	
Interest and dividend income, net of fees of \$487,259	\$ 695,613	\$ 14,330,806	\$ 15,026,419
Net unrealized losses	(1,534,575)	(2,254,805)	(3,789,380)
Net realized losses	<u>(75,342)</u>	<u>(102,003)</u>	<u>(177,345)</u>
	<u>\$ (914,304)</u>	<u>\$ 11,973,998</u>	<u>\$ 11,059,694</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of March 31, 2021:

<u>Description</u>	<u>Division</u>		<u>Total</u>
	<u>Roswell</u>	<u>Albany</u>	
Buildings and improvements	\$ 21,697	\$ 550,595	\$ 572,292
Furnitures, fixtures, and equipment	<u>97,793</u>	<u>3,682,105</u>	<u>3,779,898</u>
	119,490	4,232,700	4,352,190
Less: accumulated depreciation and amortization	<u>106,613</u>	<u>3,310,279</u>	<u>3,416,892</u>
	<u>\$ 12,877</u>	<u>\$ 922,421</u>	<u>\$ 935,298</u>

5. PROPERTY AND EQUIPMENT (Continued)

Property and equipment consisted of the following as of March 31, 2020:

<u>Description</u>	<u>Division</u>		<u>Total</u>
	<u>Roswell</u>	<u>Albany</u>	
Buildings and improvements	\$ 21,697	\$ 671,514	\$ 693,211
Furniture's, fixtures, and equipment	90,095	3,621,414	3,711,509
	<u>111,792</u>	<u>4,292,928</u>	<u>4,404,720</u>
Less: accumulated depreciation and amortization	98,436	3,421,722	3,520,158
	<u>\$ 13,356</u>	<u>\$ 871,206</u>	<u>\$ 884,562</u>

Depreciation and amortization expense for the years ended March 31, 2021 and 2020 was \$240,724 and \$194,341, respectively.

6. 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 an 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, the Corporation 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 the balance is reflected in 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 held by a bank in money market cash accounts.

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

7. EMPLOYEE BENEFIT PLANS

Defined Benefit Plan

The Corporation participates in the New York State and Local Employees' Retirement System (System), a defined benefit cost sharing, multiple-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. The risks of participating in a multi-employer plan are different from single-employer plans in the following aspects: (a) assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; (c) if the Corporation chooses to stop participating in its multi-employer plan, the Corporation may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. As of March 31, 2021, the Corporation has no plans to withdraw from its multi-employer pension plan.

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, 2021 and 2020 approximated 13.6% and 13.5%, respectively.

The required pension contribution for plan years ended March 31, 2021 and 2020 consisted of the Corporation's contributions of \$16,632,077 and \$15,894,038, respectively, and employees' contributions of \$2,667,051 and \$2,131,332, respectively. Actuarial and plan asset data relating to employees of the Corporation is not available due to the System being accounted for using standards promulgated by the Governmental Accounting Standards Board (GASB). The System issues a publicly available financial report which may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12236.

Defined Contribution Plan

The New York State Voluntary Defined Contribution Program (VDC) is a Defined Contribution 401(a) retirement plan and is an alternative option to the Defined Benefit plan. The VDC is available to unrepresented employees hired on or after July 1, 2013 and who earn \$75,000 or more on an annual basis. If hired in a position where there is mandatory retirement system participation, the employee has 30 days from the date of hire to select and enroll in the VDC. If the employee does not enroll within 30 days from the day of hire, that employee will automatically default into the Defined Benefit plan and will not have the option to enroll in the VDC in the future. Election is retroactive to the date of full-time employment and election to participate cannot be changed.

Individual employee accounts are set up for participants electing the VDC and benefits are based on the amounts credited to these accounts (employer contributions and employee pretax contributions) plus any investment earnings on the money in the account. The employee contribution rate varies based on annual salary (currently 3%-6%).

7. EMPLOYEE BENEFIT PLANS (Continued)

Defined Contribution Plan (Continued)

Vesting occurs after 366 days of active service. All employee and employer contributions as well as interest earned, will become the property of the employee upon vesting. All investments will be directed by the participant upon reaching the 366-day vesting date. A participant who does not complete the vesting period is entitled to a refund of the employees' contributions, plus interest, upon request. During the years ended March 31, 2021 and 2020, the Corporation contributed \$21,480 and \$24,756, respectively, to vested participants.

Postretirement Benefits Trust

In addition to pension benefits, the Corporation also provides postretirement health reimbursements through the Health Research, Inc. Postretirement Health Benefit Trust (the Trust), which was established on August 1, 2014. The Trust was established to eliminate the Corporation's previously recorded defined benefit obligation by replacing it with a defined contribution structure.

The Trust was created to provide reimbursements for health insurance premiums, and qualifying medical expenses not covered by health insurance. Participants are eligible to participate in the Trust if they are a Class 1, Class 2 or Class 3 retiree, as defined by the Plan document. Employees become eligible for postretirement benefits upon retirement from the Corporation. Generally, eligibility begins at age 55 with 15 years of service.

The Corporation contributes annually to the Trust, in accordance with the contribution schedule included in the Plan document. During the years ended March 31, 2021 and 2020, the Corporation contributed approximately \$2,267,000 and \$2,263,000, respectively, to the Trust for the benefit of participants.

8. CONTRACT AND GRANT AWARDS

At March 31, 2021 and 2020, the unexpended portion of contract and grant awards available to be used in subsequent years totaled \$1,650,116,663 (Roswell Division - \$106,835,291 and Albany Division - \$1,543,281,372) and \$1,063,176,758 (Roswell Division - \$99,687,061 and Albany Division - \$963,489,697), respectively.

9. TECHNOLOGY TRANSFER

The Corporation serves as Technology Transfer administrator for the NYS DOH and RPCIC. When NYS DOH or the RPCIC assigns or sells any inventions developed by their employees to the Corporation, the Corporation assumes the responsibility for the 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, 2021, the Corporation has a total of 198 inventions under administration, has obtained 93 U.S. patents, and 118 inventions have been licensed. As of March 31, 2020, the Corporation had a total of 177 inventions under administration, has obtained 88 U.S. patents, and 117 inventions have been licensed. During the years ended March 31, 2021 and 2020, the Corporation's expenses relating to these patents and inventions were \$576,602 and \$378,269 and the related income totaled \$114,632 and \$153,699 net of royalties paid of \$72,338 and \$79,979, respectively.

10. OPERATING LEASES

Rent expense for the years ended March 31, 2021 and 2020 was approximately \$3,124,200 and \$3,064,000 per year, respectively. A summary of the Corporation's future minimum lease obligations is as follows:

Years Ending March 31,	
2022	\$ 3,188,280
2023	3,188,280
2024	3,188,280
2025	3,188,280
2026	3,188,280
Thereafter	<u>6,575,738</u>
	<u>\$ 22,517,138</u>

11. COMMITMENTS AND CONTINGENCIES

Significant Concentration

The majority of the Corporation's funding is received directly from DHHS. For the years ended March 31, 2021 and 2020, approximately 57% and 43%, respectively, of total revenue relates to contracts and grants from DHHS. Included in expense reimbursements due from sponsors at March 31, 2021 and 2020 is \$83,142,474 and \$35,475,545, 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.

Collective Bargaining Agreement

Approximately 74% of the Corporation's employees are covered by a collective bargaining agreement. The labor contract, with the Civil Service Employee Association – Private Sector, covers a three-year period ending March 31, 2024. The agreement covers all Corporation employees, except persons in positions established under training grants or contracts, or training components of other grants or contracts; variable hour employees; and personnel in positions which are designated as Management/Confidential services employees.

COVID-19 Pandemic

The United States is presently in the midst of a national health emergency related to a virus, commonly known as Novel Coronavirus (COVID-19). The overall consequences of COVID – 19 on a national, regional and local level are unknown, but it has the potential to result in a significant economic impact. The impact of this situation on the Corporation and its future results and financial position is not presently determinable. To assist with the COVID-19 response in New York State, the Corporation accepted on behalf of New York State, approximately \$31,000,000 and \$1,000,000 of donations during the years ended March 31, 2021 and 2020, respectively. Refer to Note 12 for further detail.

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are to be used for the following purposes for the years ending March 31:

	<u>Balance</u> <u>March 31, 2020</u>	<u>Contributions</u>	<u>Released</u>	<u>Balance</u> <u>March 31, 2021</u>
<u>Albany Division</u>				
School of Public Health	1,376,403	516,884	(1,112,380)	780,907
Uninsured Care Program	446,634,106	324,153,669	(370,557,415)	400,230,360
Wadsworth Center	12,847,504	3,627,403	(3,677,615)	12,797,292
Other Sponsored Programs	3,129,280	3,088,398	(2,774,590)	3,443,088
COVID-19 Response Donations	-	31,008,271	(1,368,851)	29,639,420
Total Albany Division	<u>463,987,293</u>	<u>362,394,625</u>	<u>(379,490,851)</u>	<u>446,891,067</u>
<u>Roswell Division</u>				
Cancer Research	<u>30,166,947</u>	<u>27,523,887</u>	<u>(25,581,418)</u>	<u>32,109,416</u>
Total Roswell Division	<u>30,166,947</u>	<u>27,523,887</u>	<u>(25,581,418)</u>	<u>32,109,416</u>
	<u>\$ 494,154,240</u>	<u>\$ 389,918,512</u>	<u>\$ (405,072,269)</u>	<u>\$ 479,000,483</u>

Donations accepted by the Corporation, on behalf of the State of New York, for the COVID-19 response will be used for direct expenses associated with response activities, including: purchase of commodities for distribution to essential workers and public health officials responding to the pandemic; personal protective equipment (PPE); laboratory testing supplies and equipment; and scientific research related to COVID-19. The remainder of the funds are being used to provide financial assistance to COVID-19 first responders and essential workers for work-related expenses and costs through the Empire Pandemic Response Reimbursement Fund program coordinated by the New York State Office of Child and Family Services. It is anticipated that all, or a majority of the COVID-19 Response Donations will be disbursed by March 31, 2022.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 21, 2021, which is the date the financial statements were available to be issued.