

**Medical and Health Research Association
of New York City, Inc.**

**Reports on Financial Statements,
Schedule of Expenditures of Federal Awards,
Internal Control and Compliance**

Years Ended December 31, 2005 and 2004

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

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Report of Independent Public Accountants

To the Board of Directors
Medical and Health Research Association of New York City, Inc.

We have audited the accompanying statements of financial position of Medical and Health Research Association of New York City, Inc. (the "MHRA") as of December 31, 2005 and 2004, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of MHRA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medical and Health Research Association of New York City, Inc. as of December 31, 2005 and 2004, and the changes in its net deficit and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 31, 2006 on our consideration of MHRA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit of the 2005 financial statements of Medical and Health Research Association of New York City, Inc. was conducted for the purpose of forming an opinion on the 2005 basic financial statements taken as a whole. The information included in the accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the 2005 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2005 basic financial statements taken as a whole.

 J.H. Cohn LLP

New York, New York
August 31, 2006

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004**

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$25,514,840	\$12,245,588
Certificates of deposit	762,149	-
Grants receivable:		
Federal	8,312,763	6,254,326
New York State/New York City	5,384,036	6,337,872
Private	444,652	462,518
Service reimbursement receivable, net	6,347,155	6,451,261
Supplies inventory	210,348	192,291
Advances to subcontractors	8,536,330	10,303,859
Deposits and other assets	528,464	430,793
Property and equipment, net of accumulated depreciation of \$9,569,669 and \$9,384,323	<u>1,394,232</u>	<u>272,719</u>
 Totals	 <u>\$57,434,969</u>	 <u>\$42,951,227</u>

LIABILITIES AND NET DEFICIT

Liabilities:		
Accounts payable and accrued liabilities	\$35,103,352	\$38,545,718
Borrowings under line of credit	1,900,000	1,000,000
Advances from government agencies	<u>24,224,527</u>	<u>5,536,729</u>
Total liabilities	61,227,879	45,082,447
 Commitments and contingencies	 -	 -
 Net deficit - unrestricted	 <u>(3,792,910)</u>	 <u>(2,131,220)</u>
 Totals	 <u>\$57,434,969</u>	 <u>\$42,951,227</u>

See Notes to Financial Statements.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

**STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Revenue, grants and other support:		
Government grants, service contracts, medical reimbursement revenue:		
New York State	\$ 14,256,669	\$ 14,430,252
New York City	138,965,107	137,619,635
Federal	31,692,150	33,564,465
Medicaid and other 3 rd party	14,487,065	15,186,807
Interest income	31,713	59,209
Other income	1,240,036	1,513,081
Nongovernment grants and contributions:		
Foundations and private grants	817,397	1,620,517
General support contributions	345,503	206,014
Total revenue, grants and other support	<u>201,835,640</u>	<u>204,199,980</u>
Expenses:		
Program services:		
Reproductive health	14,545,424	16,740,648
HIV/STD	135,432,742	135,039,216
Nutrition	6,619,022	6,743,375
Child Health and Development	8,891,817	8,937,858
Emergency Preparedness	23,850,743	24,591,947
Training and Technical Assistance	2,070,278	1,599,242
Other miscellaneous programs	4,001,283	3,983,467
Total program services	<u>195,411,309</u>	<u>197,635,753</u>
Management and general	6,184,083	6,260,257
Fundraising and development	187,933	228,712
Total expenses	<u>201,783,325</u>	<u>204,124,722</u>
Change in unrestricted net deficit before minimum pension liability adjustment	52,315	75,258
Minimum pension liability adjustment	<u>(1,714,005)</u>	<u>(1,952,964)</u>
Change in unrestricted net deficit	(1,661,690)	(1,877,706)
Net deficit, beginning of year	<u>(2,131,220)</u>	<u>(253,514)</u>
Net deficit, end of year	<u>\$ (3,792,910)</u>	<u>\$ (2,131,220)</u>

See Notes to Financial Statements.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	Program Services							Total		
	Reproductive Health	HIV/STD	Nutrition	Child Health and Development	Emergency Preparedness	Training and Technical Assistance	Other Miscellaneous Programs		Management and General	Fundraising and Development
Salaries and wages	\$ 6,141,550	\$ 6,079,107	\$ 4,347,563	\$ 5,512,561	\$ 370,018	\$ 930,696	\$ 1,184,149	\$ 3,854,563	\$ 95,199	\$ 28,515,406
Payroll taxes and employee benefits	1,597,947	1,588,219	1,122,285	1,434,700	97,814	189,491	314,343	999,009	25,306	7,369,114
Totals	7,739,497	7,667,326	5,469,848	6,947,261	467,832	1,120,187	1,498,492	4,853,572	120,505	35,884,520
Subcontractors:										
Title X	1,498,136									
Ryan White		105,384,986								1,498,136
HIV Prevention		17,577,359								105,384,986
MIT Pacts/Hope		20,302								17,577,359
Emergency Preparedness					14,071,312					20,302
Various	214,113	5,000		491,768						14,071,312
Patient care	1,840,204	33,099								710,881
Purchased services	277,245	142,438	14,021	163,072	42,514	1,502	72,945	33,495		1,873,303
Occupancy	436,700	696,052	707,968	558,177	9,026	24,272	1,493,456	387,615		747,232
Supplies	880,550	1,013,214	83,180	153,559	3,712,624	31,165	21,604	39,656	17,600	4,330,866
Communications	203,869	83,056	101,376	124,844	442,005	1,673	2,911	46,793	2,060	5,937,612
Maintenance and repairs	195,435	41,025	76,285	25,559	549,370	(5)	(92,135)	58,389		1,006,527
Postage	29,696	8,994	20,097	58,642	62,282	11,517	2,068	29,303	6,453	860,376
Marketing and promotion	237,066	54,905				1,000	573,417	2,800	1,418	224,017
Printing	64,738	76,873		6,626		1,000		2,800	970	870,158
Insurance	340,798	50,721	19,252	11,860	101,068	29,424	6,556	9,765	3,305	298,355
Travel	34,963	80,721	20,317	80,259	14,851	15,821	19,372	60,880		533,555
Equipment rental	137,366	22,984	68,979	109,169	65,596	59,642	32,772	45,936	237	420,443
Professional fees	147,358	2,267,799	22,053	102,726	3,768	587		57,494	395	400,742
Recruitment and training	102,503	106,825	3,985	27,406	2,840,572	423,673	300,251	357,507	28,910	6,490,849
Interest expense	112,295				551,739	170,514	8,757	79,502	219	1,051,450
Sundry expenses	23,002	43,266	350	28,812	916,185	166,297	23,665	74,133	5,384	1,281,094
Total expenses before depreciation	14,515,534	135,376,945	6,607,711	8,889,740	23,850,744	2,057,456	3,964,131	6,147,785	187,933	201,597,979
Depreciation and amortization	29,890	55,797	11,311	2,077	(1)	12,822	37,152	36,298		185,346
Totals	\$14,545,424	\$135,432,742	\$6,619,022	\$8,891,817	\$23,850,743	\$2,070,278	\$4,001,283	\$6,184,083	\$187,933	\$201,783,325

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2004

	Program Services										Fundraising and Development	Total
	Reproductive Health	HIV/STD	Nutrition	Child Health and Development	Emergency Preparedness	Training and Technical Assistance	Other Miscellaneous Programs	Management and General				
Salaries and wages	\$ 5,646,370	\$ 6,417,359	\$4,293,246	\$5,490,545	\$ 356,515	\$ 631,750	\$1,207,781	\$3,693,109	\$128,221	\$ 27,864,896		
Payroll taxes and employee benefits	1,532,369	1,715,756	1,191,603	1,479,199	92,309	123,980	123,978	1,006,847	33,142	7,299,183		
Totals	7,178,739	8,133,115	5,484,849	6,969,744	448,824	755,730	1,331,759	4,699,956	161,363	35,164,079		
Subcontractors:												
Title X	2,697,685			399,943	14,367,680	159,763	264					
Ryan White	102,897,337			109,966	102,760	4,185	89,196	24,199				
HIV Prevention	18,521,629		35,960	557,561	6,150	34,678	1,526,161	408,173				
MIT Pacts/Hope	226,276		743,072	245,204	2,730,871	120,648	176,006	149,642				
Emergency Preparedness			112,441		18,539				15,000			
Various	283,544	732,975						149,642	1,248			
Patient care	3,259,542											
Purchased services	255,216	175,878		126,465	438,036	1,365	5,292	56,291				
Occupancy	750,130	629,746		38,426	621,249	3,380	110,436	30,152	3,727			
Supplies	969,735	507,909		51,541	7,093	11,461	1,972	23,884	1,814			
Equipment		27,830				1,000	266,759	6,425				
Communications	165,767	95,377	103,134	43,711	18,539	56,863	15,687	29,383	3,087			
Maintenance and repairs	177,359	49,193	91,072	13,211	438,036	4,306	37,654	66,036				
Postage	24,105	25,341	24,246	98,128	6,150	4,306	37,654	66,036				
Marketing and promotion	40,894	27,830	2,052	85,572	101,913	65,358	36,611	56,088	623			
Printing	1,404	24,806	17,339		98,451	97		89,190				
Insurance	311,096	55,937	20,536	139,526	4,941,118	246,429	410,276	426,055	36,908			
Travel	31,876	69,897	26,310	29,351	581,919	94,899	4,120	61,381	1,050			
Equipment rental	67,566	23,504	50,229					12,458	482			
Professional fees	334,453	2,579,154	15,432					93,937	3,410			
Recruitment and training	74,827	77,538	3,205									
Interest expense	78,954	48,945										
Sundry expenses	6,564	59,541	19	22,481	33,940	26,253	(45,663)					
Total expenses before depreciation	16,709,456	134,961,928	6,729,896	8,930,890	24,586,485	1,586,420	3,966,530	6,233,250	228,712	203,933,507		
Depreciation and amortization	31,192	77,288	13,479	7,028	5,462	12,822	16,937	27,007		191,215		
Totals	\$16,740,648	\$135,039,216	\$6,743,375	\$8,937,918	\$24,591,947	\$1,599,242	\$3,983,467	\$6,260,257	\$228,712	\$204,124,722		

See Notes to Financial Statements.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating activities:		
Change in net deficit	\$ (1,661,690)	\$ (1,877,706)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Noncash operating activities:		
Change in minimum pension liability	1,714,005	1,952,964
Depreciation and amortization	185,346	191,216
Decrease (increase) in assets:		
Grants receivable	(1,086,735)	(2,159,197)
Service reimbursements receivable, net	104,106	(1,512,097)
Supplies inventory	(18,057)	63,590
Advances to subcontractors	1,767,529	(1,361,176)
Deposits and other assets	(97,671)	459,767
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(5,156,371)	3,533,665
Advances from government agencies	18,687,798	(10,629,298)
Net cash provided by (used in) operating activities	<u>14,438,260</u>	<u>(11,338,272)</u>
Investing activities:		
Purchase of property and equipment	(1,306,859)	(187,650)
Change in certificates of deposit	(762,149)	43,337
Net cash used in investing activities	<u>(2,069,008)</u>	<u>(144,313)</u>
Financing activities:		
Proceeds from line of credit	2,650,000	1,000,000
Repayments of line of credit	(1,750,000)	(1,000,000)
Net cash provided in financing activities	<u>900,000</u>	<u>-</u>
Net increase (decrease) cash and cash equivalents	13,269,252	(11,482,585)
Cash and cash equivalents, beginning of year	<u>12,245,588</u>	<u>23,728,173</u>
Cash and cash equivalents, end of year	<u>\$25,514,840</u>	<u>\$12,245,588</u>
Supplemental disclosure of cash flow data:		
Interest paid	<u>\$ 83,146</u>	<u>\$ 71,965</u>

See Notes to Financial Statements.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of organization:

Incorporated in November 1957, Medical and Health Research Association of New York City, Inc. ("MHRA") is an independent nonprofit organization dedicated to improving the health of New Yorkers using funds obtained by grant or contract from Federal, state and city agencies and private foundations. MHRA currently has three core areas of work: *direct services* (programs delivered directly to improve health and/or social welfare); *organizational services* (services to assist other organizations and programs such as grants management, capacity building and provision of administrative services); and *research and evaluation* (studies in public health, clinical practice and service delivery).

MHRA is classified as a 501(c)(3) organization and is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

Note 2 - Summary of significant accounting policies:

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of estimates:

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

Cash and cash equivalents:

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less when acquired. MHRA places its temporary cash investments with high credit quality financial institutions. At times, such investments may exceed Federally insured limits.

Under provisions stipulated by certain of MHRA's funding agencies, cash advances for program services are required to be held in separate accounts. Cash maintained in these segregated accounts for the HIV Care, HIV Prevention, and Housing Opportunities for Persons with AIDS (HOPWA) programs totaled approximately \$23,450,000 and \$12,464,000 at December 31, 2005 and 2004, respectively.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of significant accounting policies (continued):

Grants receivable:

Grants receivable are recognized to the extent of support earned in excess of advances and payments received.

Supplies inventory:

Supplies inventory, consisting primarily of pharmaceuticals, are stated at cost using the first-in, first-out method.

Property and equipment:

MHRA capitalizes property and equipment valued at \$5,000 or greater. Capital assets are stated at cost at the date of acquisition or fair value at the date of contribution, if donated. MHRA retains assets purchased with grantor restricted funds, unless the grantor requests that such equipment be returned.

Equipment is depreciated over its five year estimated useful life using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset. Improvements on premises having no lease are amortized over their estimated useful lives of five years.

Advances to subcontractors:

Advances to subcontractors consist of advances MHRA has made to subcontractors under various subcontractor agreements. The amounts advanced are generally equal to 25 percent of the total grant award and will be offset against expenses incurred by the subcontractor during the grant award year. Unreimbursed allowable expenditures incurred by the subcontractors are recorded as accounts payable prior to final settlement.

Advances from government agencies:

Advances from government agencies and all other sources are recorded as deferred revenue when received and recorded as revenue in the period in which the related services are rendered.

Net assets (net deficit):

MHRA's resources are classified and reported based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted - include expendable resources not subject to donor-imposed restrictions.

Temporarily restricted - include resources subject to donor-imposed restrictions that will be met either by actions of MHRA or the passage of time.

Permanently restricted - include resources subject to donor-imposed stipulations, requiring that the principal be maintained in perpetuity, but permit MHRA to expend part or all of the income and gains derived therefrom.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of significant accounting policies (concluded):

Net assets (net deficit) (concluded):

As of December 31, 2005 and 2004, MHRA had no temporarily restricted or permanently restricted net assets.

Contributions:

MHRA records contributions of cash and other assets when an unconditional promise to give is received from a donor. Contributions are recorded at the fair market value of the assets received and are classified as either unrestricted, temporarily restricted or permanently restricted support depending on the existence of any donor restrictions.

Contributions of noncash assets are recorded at their fair value in the period received.

Government grants, service contracts and medical reimbursement revenue:

The terms under which government grants are awarded provide for reimbursement of budgeted expenditures within the grant period. Funds are received in either predetermined installments or in increments based upon estimated or actual expenditures for the period. Upon termination, unexpended funds received are returnable to the grantor. Accordingly, grant income under these awards is recognized in amounts equal to budgeted expenditures incurred.

Any deficiency or excess of receipts under or over budgeted expenditures incurred is reported in the financial statements under the appropriate captions "Grants receivable" or "Advances from government agencies".

Service contract revenue and medical reimbursement revenue are recognized at the time the contractual service is delivered.

Reclassifications:

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

Note 3 - Property and equipment:

Property and equipment consists of the following:

	<u>2005</u>	<u>2004</u>
Leasehold improvements	\$ 2,126,593	\$1,954,071
Equipment, furniture and fixtures	7,792,626	7,702,971
Construction in progress	<u>1,044,682</u>	
	<u>10,963,901</u>	<u>9,657,042</u>
Less accumulated depreciation and amortization	<u>9,569,669</u>	<u>9,384,323</u>
Totals	<u>\$ 1,394,232</u>	<u>\$ 272,719</u>

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4 - Pension plans:

MHRA has a defined benefit pension plan covering certain employees that complete 1,000 hours of service for each of the five years required to vest. In 2005 and 2004, all of the plan's assets were managed by State Street Bank & Trust Company ("State Street"), Pictet Asset Management, Ltd., and STI Classic Funds and consisted primarily of equity, bond and money market accounts, which are valued based on quoted market values. State Street is the custodian for all plan funds. The plan calls for benefits to be paid to eligible employees at retirement based primarily on years of service and average salary, as defined.

Plan valuation for funding purposes and for financial reporting purposes is prepared using the required projected unit credit method. MHRA's policy is to fund the pension expenses determined by projected unit credit method, subject to the Internal Revenue Service funding limitation rules.

MHRA's independent actuary has determined that under the provisions for defined benefit plan valuations of the Employee Retirement Income Security Act ("ERISA"), which govern MHRA's Internal Revenue Service funding rules of the plan, the actuarial value of the plan's assets exceed the actuarial accrued liability (based on ERISA valuation) by more than \$250,000. Accordingly, there is no minimum contribution required for the 2006 plan year. However, MHRA expects to contribute \$1,150,000 to the plan in the year ending December 31, 2006.

The following table sets forth MHRA's funded status and additional minimum liabilities of the pension plan as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Accumulated benefit obligation	<u>\$42,356,427</u>	<u>\$39,854,395</u>
Benefit obligation	\$47,267,175	\$45,130,295
Fair value of plan assets	<u>33,614,494</u>	<u>32,477,409</u>
Funded status	<u>(13,652,681)</u>	<u>(12,652,886)</u>
Unrecognized net actuarial loss	13,559,064	12,572,890
Unrecognized prior service cost	<u>(491,780)</u>	<u>(555,160)</u>
Accrued liability (included in accounts payable and accrued expenses)	<u>\$ (585,397)</u>	<u>\$ (635,156)</u>
Minimum liability	<u>\$ 8,493,466</u>	<u>\$ 6,741,830</u>

An additional minimum liability is required to be reflected in the financial statements since the accumulated benefit obligation exceeds the fair value of the pension plan's assets at December 31, 2005 and 2004. The additional minimum liability is included in accounts payable and accrued liabilities.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4 - Pension plans (continued):

The following table provides weighted average assumptions and certain other information:

	<u>2005</u>	<u>2004</u>
Weighted average assumptions:		
Discount rate	6.00%	6.00%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.70	5.20
Other information:		
Benefit payments	\$1,850,720	\$1,729,519
Benefits costs	1,495,274	965,509
Employer contribution	1,148,769	1,114,118

The pension plan for MHRA asset allocations at December 31, 2005 and 2004, by asset category, are as follows:

	<u>2005</u>	<u>2004</u>
Equity securities	64.88%	64.94%
Debt securities	34.74	35.06
Cash	<u>.38</u>	
Totals	<u>100.00%</u>	<u>100.00%</u>

The plan's assets are invested with the objective of being able to meet current and future benefit payment needs while controlling pension expenses volatility and future contributions. Plan assets are diversified among U.S. equities, international equities and U.S. fixed income investments.

Estimated future benefit payments reflecting expected future service for each of the five years subsequent to December 31, 2005 and in the aggregate for the five years thereafter are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2006	\$ 1,953,517
2007	1,986,107
2008	2,052,662
2009	2,196,201
2010	2,335,328
2011-2015	14,503,041

In an effort to help stabilize future pension costs, MHRA has enlisted the services of a pension consulting firm to study the range of pension delivery options available for MHRA's employees. Based on the results of the study and careful evaluation of the various options, MHRA has developed a plan for restructuring pension benefits. Under the restructuring, MHRA's management intends to propose freezing the existing defined benefit plan as of December 31, 2006, and implement a new defined contribution plan effective January 1, 2007. Such restructuring of pension benefits requires approval of the Board of Directors. The effects on the financial statements resulting from such curtailment are under review and have not been finalized.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4 - Pension plans (concluded):

Effective July 2000, MHRA also adopted a 403(b) Thrift Plan for all employees. MHRA made no contributions to the Thrift Plan in 2005 and 2004. All of the Thrift Plan's assets, which totaled \$1,123,260 on December 31, 2005, are administered by Mutual of America Life Insurance Company.

Effective April 7, 2003, MHRA adopted a 457(b) Deferred Compensation Plan for highly compensated employees. All contributions to the Plan are made by the employees. All of the plan's assets, which totaled \$102,664 on December 31, 2005, are administered by TIAA-CREF.

Note 5 - Contingencies:

Grant awards received from governmental agencies provide grantors the right to audit transactions charged to projects and services rendered by MHRA with right of reimbursement. In the opinion of management, no material liability exists in connection with any such audits that could affect the financial statements.

In the normal course of its operations, MHRA is a defendant or co-defendant in various legal proceedings. While the ultimate outcome of such proceedings cannot be determined, management does not expect the resolution of such actions to have a material adverse effect on MHRA's financial position.

Note 6 - Lease commitments:

MHRA holds thirty-one operating lease commitments (five for administrative offices and twenty-six for project services.) The following is a yearly schedule of future minimum rental commitments under these leases:

<u>Year Ending December 31,</u>	<u>Amount</u>
2006	\$ 4,010,434
2007	4,468,816
2008	4,063,137
2009	3,386,475
2010	3,321,829
Thereafter	<u>32,937,792</u>
Total	<u>\$52,188,483</u>

MHRA anticipates that as leases expire new leases will be entered into at rentals which are not less than those previously paid for the equivalent facilities. Rent expense totaled approximately \$3,910,000 and \$3,750,000 in 2005 and 2004, respectively.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7 - Line of credit:

At December 31, 2005 and 2004, MHRA had a \$3 million line of credit with a financial institution. Interest is charged at the prime rate, which was 7.25% at December 31, 2005. The line of credit had outstanding balances of \$1,900,000 and \$1,000,000 at December 31, 2005 and 2004, respectively. The line, which was increased to \$4 million in 2006, expires on December 1, 2006 and is collateralized by MHRA's receivables.

Note 8 - Early Intervention Program deficit:

Since the inception of its operations as a fee-for-service program in 1993, the Early Intervention Program has operated at a cumulative deficit of \$1,856,213 through December 31, 2005. Such deficit has been funded with MHRA's unrestricted funds.

Note 9 - Related party transactions:

As a major player in New York City's public health arena, MHRA seeks and obtains Director candidates from a wide range of hospitals, universities and other New York City area organizations that provide health services or are otherwise connected to the public health field. In addition, Article 1, Sections 2 and 4 of MHRA's by-laws mandate the appointment of three local public health officials as ex-officio Directors; the Commissioner of the New York City Department of Health, the President of the New York City Health & Hospitals Corporation, and the Chief Medical Examiner of the City of New York. Together, all of these individuals bring indispensable skills and expertise to MHRA's Board of Directors. However, due to the broad scope of services MHRA provides, MHRA has business arrangements with certain public agencies and private organizations where the ex-officio Directors and certain other Directors are agency heads or key employees. The total amount contracted with such agencies and organizations approximates \$150 million. Contracts with local government agencies are awarded in accordance with rigorous government procurement regulations. The award of contracts to Director and ex-officio Director-affiliated organizations comply with MHRA's purchasing procedures; Directors and ex-officio Directors play no role in the process in either their organizational or directorship capacities. Management believes that MHRA is in full compliance with its comprehensive conflict of interest policy.

Note 10- Unrestricted net assets (net deficit):

At December 31, 2005 and 2004, unrestricted net assets (net deficit) is comprised as follows:

	<u>2005</u>	<u>2004</u>
From operations, other than the minimum pension liability adjustment	\$ 4,700,556	\$ 4,610,610
Minimum pension liability adjustment	<u>(8,493,466)</u>	<u>(6,741,830)</u>
Totals	<u>\$(3,792,910)</u>	<u>\$(2,131,220)</u>

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2005**

<u>Federal Grantor/Pass-through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Awards Expenditures</u>
U.S. Department of Health and Human Services:			
Direct Awards:			
AIRA/Healthy People 2010	93.185		\$ 719,273
Emergency Preparedness	93.283		23,944,910
Title X	93.217		3,969,176
Behavioral Science Training	93.278		1,100,133
HIV Prevention Training Center	93.978		653,242
Mental Health Screening	93.110		168,513
Pacts/Hope	93.118		151,931
ASQ Building Blocks	93.865		239,809
CITA	93.939		125,962
Pass-Through from New York City			
Department of Health:			
Ryan White HIV Care Services	93.914	6H89HA090015	113,836,509
HIV Prevention	93.940	U62/CCU202054	9,583,804
Laboratory Info Mgmt. System	97.008	U62/CCU202054	792,317
Infertility Prevention	93.977	05SD72201R0X00	403,689
Pass-Through from New York State			
Department of Health:			
Bushwick BrightStart-Healthy Families (TANF)	93.558	C022619	712,891
MIC-Women's Health Service (TANF)	93.558	C014708	629,768
Health Insurance Enrollment	93.767	C018504	525,212
MIC-Women's Health Service (MCH)	93.994	C014708	2,093,328
Safe Start	93.994	C019039	144,591
SIDS Info Counseling	93.994	30513	198,364
Pass-Through from Health Research, Inc.:			
HIV Perinatal Prevention	93.940	001169-05	43,856
Asthma Supplement	93.283	001486-01	57,321
Pass-Through from Columbia University:			
MIT/MIRAD	93.943	U64/CCU217724-05	9,525
Pass-Through from New York School of Medicine:			
BELLE	93.865	1R01HD0	55,716
Pass-Through from New Jersey Family Planning League:			
Title X - FPAR Readiness	93.217	FPHPA20394-29-4	8,700
Total U.S. Department of Health and Human Services			<u>160,168,540</u>

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2005**

<u>Federal Grantor/Pass-through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Awards Expenditures</u>
U.S. Department of Agriculture:			
Pass-Through from New York State Department of Health:			
Women, Infants and Children Supplemental Food Program	10.557	C019359	\$ 6,840,597
Women, Infants and Children Vendor Con- solidation Program	10.557	C019398	<u>587,590</u>
Total U.S. Department of Agriculture			<u>7,428,187</u>
U.S. Department of Labor:			
Pass-Through from New York State Depart- ment of Labor:			
Fatal Occupational Injuries	17.005	C010537	<u>71,808</u>
Total U.S. Department of Labor			<u>71,808</u>
Total expenditures of Federal awards			<u>\$167,668,535</u>

See Notes to Schedule of Expenditures of Federal Awards.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Basis of presentation:

The accompanying schedule of expenditures of Federal awards includes the Federal grant expenditures of MHRA for the year ended December 31, 2005 and is presented on the accrual 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 Nonprofit Organizations." Therefore, some accounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. The schedule of expenditures of Federal awards does not include Women, Infants and Children (the "WIC") vouchers redeemed totaling approximately \$37 million as MHRA acts only as an agent for these transactions.

Note 2 - Subrecipients:

Of the expenditures of Federal awards presented on the schedule, MHRA provided Federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Ryan White HIV Care Services	93.914	\$105,384,986
HIV Prevention	93.940	7,382,491
Emergency Preparedness	93.283	14,071,312
Title X	93.217	1,498,136
Pacts/Hope	93.118	20,302
AIRA/Healthy People 2010	93.185	275,367
Bushwick BrightStart - Healthy Families (TANF)	93.558	216,401
Title X - FPAR Readiness	93.217	8,700
Infertility prevention	93.977	<u>205,413</u>
Total		<u>\$129,063,108</u>

Report of Independent Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Medical and Health Research Association of New York City, Inc.

We have audited the financial statements of Medical and Health Research Association of New York City, Inc. ("MHRA") as of and for the year ended December 31, 2005, and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered MHRA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 J.H. Cohn LLP

New York, New York
August 31, 2006

Report of Independent Public Accountants on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with Federal OMB Circular A-133

To the Board of Directors
Medical and Health Research Association of New York City, Inc.

Compliance

We have audited the compliance of Medical and Health Research Association of New York City, Inc. ("MHRA") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major governmental financial assistance programs for the year ended December 31, 2005. MHRA's major governmental financial assistance programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major governmental financial assistance programs is the responsibility of MHRA's management. Our responsibility is to express an opinion on MHRA's compliance based on our audit.

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

In our opinion, MHRA complied, in all material respects, with the requirements referred to above that are applicable to each of its major governmental financial assistance programs for the year ended December 31, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questions costs as item 2005-01.

Internal Control Over Compliance

The management of MHRA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its governmental financial assistance programs. In planning and performing our audit, we considered MHRA's internal control over compliance with requirements that could have a direct and material effect on a major governmental financial assistance program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major governmental financial assistance program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J.H. Cole LLP

New York, New York
August 31, 2006



MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005**

A. Summary of Audit Results:

1. The auditors' report expresses an unqualified opinion on the financial statements of Medical and Health Research Association of New York City, Inc.
2. No material weaknesses or reportable conditions were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Medical and Health Research Association of New York City, Inc. were disclosed during the audit.
4. No material weaknesses or reportable conditions were identified during the audit of its major governmental financial assistance programs.
5. The auditors' report on compliance for its major governmental financial assistance programs for Medical and Health Research Association of New York City, Inc. expresses an unqualified opinion.
6. Findings relative to the major governmental financial assistance programs for Medical and Health Research Association of New York City, Inc. are described in Section "C" below.
7. The programs tested as major programs included:

	<u>Federal CFDA Number</u>	<u>Amount</u>
Ryan White HIV Care Services	93.914	\$113,836,509
Emergency Preparedness	93.283	24,002,231
Title X	93.217	3,977,876
HIV Prevention	93.940	9,627,660
Women, Infants and Children Supplemental Food Program	10.557	7,428,187

8. The threshold for distinguishing Type A governmental financial assistance programs was \$3 million.
9. Medical and Health Research Association of New York City, Inc. was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit:

None.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005**

C. Findings and Questioned Costs:

Item 2005-01:

U.S. Department of Health and Human Services
Title X, CFDA 93.217

Criteria:

MHRA's MIC Program charges fees for services provided based upon Federal poverty guidelines. This income may be used in one of three methods; deducted from outlays, added to the project budget or used to meet matching requirements.

Condition:

We selected 20 files for test work to determine if there is current income and family size documentation and that the amount charged to the patient was in accordance with Federal poverty guidelines. We noted the following:

1 file could not be located

4 files did not contain current income documentation for the patient

4 patients paid amounts that were different from the fee schedule

Recommendation:

We recommend that all patient files be kept in a secure location where they can easily be retrieved when needed, current income and family size documentation is obtained from all patients serviced, and that the amounts charged to patients are in accordance with the current fee schedule.

Management's Response:

MHRA agrees with this finding and recommendation. MIC-Women's Health Services has taken steps to insure improved compliance with Federal and state income and documentation standards. Our existing procedure requires that, at the end of each day, all case files be stored in locked medical records rooms that have been established for that purpose. In addition, we have redrafted our self-pay fee policy to address the audit's findings and incorporate recent Title X and New York State policy changes that now permit clients to provide estimates or self-declarations of income and family size in lieu of formal documentation. The updated policy reemphasizes the importance of insuring that all documentation is maintained in the client's medical records, informs staff that self-declarations must be obtained when the client cannot produce standard income verification documents, and requires that files be returned in their entirety to the secure location at the end of each business day. We have also introduced a new income scale form that must be attached to the file. The form has a specific check-off that staff must use to indicate that the patient's income was matched to scale, and instructs staff not to accept any other amount in payment. We plan to follow-up the introduction of the revised procedure with a retraining of all management and clerical staff, including competency testing.

MEDICAL AND HEALTH RESEARCH ASSOCIATION OF NEW YORK CITY, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005

C. Findings and Questioned Costs:

Item 2004-01:

Finding:

There was a check not supported by two authorized signatures.

Recommendation:

Management should strengthen its procedures to ensure that the checks over \$10,000 must have two authorized signatures. Reviewing the checks on a regular basis is essential in detecting errors, either by the bank or the organization, and is a key control in ensuring the propriety of cash disbursements.

Current Year Status:

Resolved.

Item 2003-01:

Finding:

Ryan White HIV Care Services (CFDA 93.914) and Pacts/Hope (CFDA 93.188) - there was no after-the-fact effort report or confirmations to reflect the actual activity of each employee whose compensation is charged, in whole or in part, directly to awards.

Recommendation:

Management should obtain after-the-fact effort reports and/or confirmations of time and effort allocated to grants and contracts directly from employees or supervisory personnel, as appropriate.

Current Year Status:

Resolved - an effort reporting system was put in place.