

CONSOLIDATED FINANCIAL STATEMENTS
HAUPTMAN-WOODWARD MEDICAL
RESEARCH INSTITUTE, INC.

OCTOBER 31, 2010
with
INDEPENDENT AUDITOR'S REPORT

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets.....	3
Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 15
Supplemental Information:	
Schedule of Functional Expenses for the Year Ended October 31, 2010	16
Schedule of Functional Expenses for the Year Ended October 31, 2009	17
Schedule of Endowment Funds	18
Schedule of Expenditures of Federal Awards	19 - 20
Notes to Schedule of Expenditures of Federal Awards	21
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 - 23
Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	24 - 25
Schedule of Findings and Questioned Costs	26
Summary Schedule of Prior Audit Findings	27



Freed Maxick & Battaglia, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hauptman-Woodward Medical Research Institute, Inc.

We have audited the accompanying consolidated statements of financial position of Hauptman-Woodward Medical Research Institute, Inc. (the Institute) as of October 31, 2010 and 2009, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated 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 the *Government Auditing Standards*, issued by the Comptroller General of 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Institute, as of October 31, 2010 and 2009, and the results of its activities and changes in net assets and its 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 our report dated March 1, 2011 on our consideration of the Institute'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 audits were performed for the purpose of forming an opinion on the basic consolidated financial statements of the Institute taken as a whole. The accompanying schedule of expenditures of federal awards and other supplementary information on pages 16 – 21, are presented for purposes of additional analysis and as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Freed Maxick & Battaglia, CPAs, PC

Buffalo, New York
March 1, 2011

**HAUPTMAN-WOODWARD MEDICAL
RESEARCH INSTITUTE, INC.**

STATEMENTS OF FINANCIAL POSITION

October 31,

ASSETS	2010	2009
Current assets:		
Cash	\$ 317,619	\$ 101,365
Pledges receivable, net	1,975,278	1,150,713
Grants receivable - science	319,015	935,343
Prepaid expense	66,451	72,728
Total current assets	<u>2,678,363</u>	<u>2,260,149</u>
Investments	5,841,976	5,436,797
Cash value of life insurance	129,736	116,869
Fixed assets:		
Land, building and equipment, net	20,627,471	21,174,623
Other assets:		
Pledges receivable, net	3,780	1,375,364
Deferred financing fees, net	553,090	591,394
Note receivable	200,000	200,000
	<u>756,870</u>	<u>2,166,758</u>
Total assets	<u><u>\$ 30,034,416</u></u>	<u><u>\$ 31,155,196</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - operating	\$ 428,795	740,064
Accrued payroll and related taxes	176,945	170,108
Refundable advances	312,200	17,825
Bonds payable - current portion	260,000	240,000
Total current liabilities	<u>1,177,940</u>	<u>1,167,997</u>
Swap contract	567,417	445,659
Bonds payable	5,680,000	5,940,000
Total liabilities	<u>7,425,357</u>	<u>7,553,656</u>
Net assets:		
Unrestricted	17,935,358	17,705,523
Unrestricted replacement reserve (see Note 7)	600,000	500,000
Total unrestricted	<u>18,535,358</u>	<u>18,205,523</u>
Temporarily restricted	1,984,280	3,342,991
Permanently restricted	2,089,421	2,053,026
Total net assets	<u>22,609,059</u>	<u>23,601,540</u>
Total liabilities and net assets	<u><u>\$ 30,034,416</u></u>	<u><u>\$ 31,155,196</u></u>

See accompanying notes.

**HAUPTMAN WOODWARD MEDICAL
RESEARCH INSTITUTE, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended October 31,**

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Research grants and contributions	\$ 6,899,401	\$ 155,316	\$ -	7,054,717	\$ 6,354,987	\$ 236,695	\$ -	\$ 6,591,682
Equipment contributions	-	45,644	-	45,644	-	87,198	-	87,198
Contract/Fee For Service revenue	1,438,539	-	-	1,438,539	89,300	-	-	89,300
Contributions	330,822	-	36,395	367,217	248,965	-	346,373	595,338
Investment income	121,567	29,048	-	150,615	128,792	34,596	-	163,388
Other income	76,137	-	-	76,137	76,309	-	-	76,309
Total revenues	8,866,466	230,008	36,395	9,132,869	6,898,353	358,489	346,373	7,603,215
Net assets released from restrictions:								
Satisfaction of restricted activity - science	521,776	(521,776)	-	-	547,453	(547,453)	-	-
Satisfaction of restricted activity - recruitment	975,029	(975,029)	-	-	984,588	(984,588)	-	-
Satisfaction of restricted activity - retention	91,914	(91,914)	-	-	172,415	(172,415)	-	-
Total net assets released from restrictions	1,588,719	(1,588,719)	-	-	1,704,456	(1,704,456)	-	-
Total revenues	10,455,185	(1,358,711)	36,395	9,132,869	8,602,809	(1,345,967)	346,373	7,603,215
Expenses:								
Research	8,523,798	-	-	8,523,798	7,559,885	-	-	7,559,885
General and administration	1,361,075	-	-	1,361,075	1,339,847	-	-	1,339,847
Communications, Marketing and Development	472,616	-	-	472,616	448,176	-	-	448,176
	10,357,489	-	-	10,357,489	9,347,908	-	-	9,347,908
Change in net assets before swap contract and unrealized gain (loss) on investments	97,696	(1,358,711)	36,395	(1,224,620)	(745,099)	(1,345,967)	346,373	(1,744,693)
Other loss - swap contract	(121,758)	-	-	(121,758)	(255,518)	-	-	(255,518)
Unrealized gain on investments	353,897	-	-	353,897	224,972	-	-	224,972
Change in net assets	329,835	(1,358,711)	36,395	(992,481)	(775,645)	(1,345,967)	346,373	(1,775,239)
Net assets - beginning of year	18,205,523	3,342,991	2,053,026	23,601,540	18,981,168	4,688,958	1,706,653	25,376,779
Net assets - end of year	\$ 18,535,358	\$ 1,984,280	\$ 2,089,421	\$ 22,609,059	\$ 18,205,523	\$ 3,342,991	\$ 2,053,026	\$ 23,601,540

See accompanying notes.

HAUPTMAN WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended October 31,

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (992,481)	\$ (1,775,239)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	1,388,219	1,296,883
Change in allowances on pledges receivable	(141,910)	17,605
Contributions for endowment and other activities	(80,734)	(441,481)
Grants for equipment	(759,083)	(87,198)
Realized loss on investments	277	80,770
Unrealized gain on investments	(353,897)	(224,972)
Change in swap liability	121,758	255,518
Decrease (increase) in grants receivable - science	616,328	(530,411)
Decrease in pledges receivable	688,929	226,527
Decrease (increase) in prepaid expenses	6,277	(20,340)
(Decrease) increase in accounts payable - operating and accrued payroll and related taxes	(304,432)	636,701
Increase (decrease) in refundable advances	294,375	(12,491)
Net cash provided (used) by operating activities	483,626	(578,128)
Cash flows from investing activities:		
Purchase of land, building and equipment	(802,763)	(280,722)
Purchases and sales of investments, net	(64,426)	458,641
Net cash (used) provided by investing activities	(867,189)	177,919
Cash flows from financing activities:		
Contributions temporarily restricted for long term purposes	803,422	182,306
Contributions restricted for permanent endowment	36,395	346,373
Repayment of bonds payable	(240,000)	(220,000)
Net cash provided by financing activities	599,817	308,679
Net change in cash and cash equivalents	216,254	(91,530)
Cash - beginning of year	101,365	192,895
Cash - end of year	\$ 317,619	\$ 101,365
Supplemental cash flow information:		
Cash paid for interest	\$ 345,812	\$ 406,931

See accompanying notes.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Founded in 1956, Hauptman-Woodward Medical Research Institute, Inc. (the Institute) is a not-for-profit organization classified within the meaning of the Internal Revenue Code Section 509(a)(1). The Institute is an independent research institute performing basic biomedical research that promotes a greater understanding of disease by studying the proteins related to disease at their basic molecular level. By determining the structure and function of proteins, scientists are better able to understand what causes diseases and design new ways to treat, prevent or possibly cure them. The Institute's collaborative partners are both domestic and international; nonetheless, a majority of the research is conducted in the Western New York lab facility.

Principles of Consolidation – The consolidated financial statements include the accounts of Hauptman-Woodward Medical Research Institute, Inc and Hauptman-Woodward Foundation (hereinafter referred to as “the Institute”). All significant intercompany accounts and transactions have been eliminated upon consolidation.

Basis of Accounting - The accompanying financial statements of the Institute have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Display of Net Assets by Class - The Institute classifies net assets for reporting purposes into three net asset categories (temporarily restricted, permanently restricted and unrestricted) according to the existence or absence of donor-imposed or other (e.g. time) restrictions. Temporarily restricted net assets are those whose use has been limited by donors to a specific purpose or time period. Permanently restricted net assets are those for which donors require the principal of the gift to be maintained in perpetuity. Temporarily restricted net assets whose restrictions are satisfied in the year of the gift are reported as temporarily restricted support and included in the amount released from restrictions in the accompanying Statements of Activities and Changes in Net Assets.

Pledges Receivable - Unconditional pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable at the date of gift. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially satisfied.

Grants Receivable - Science - The Institute receives a substantial portion of its funding from governmental sources, both directly and as a sub-recipient. Although most cash is drawn electronically on a reimbursement basis, certain timing differences occur resulting in grants receivable at the balance sheet date. Grants receivable - science represent monies owed to the Institute for research expenditures incurred, but which have not yet been received. Grants receivable - science amounted to \$319,015 at October 31, 2010 (\$935,343 - 2009).

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1. - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Investments and Investment Income - Investments in equity securities with readily determinable fair market values and all investments in debt securities are presented in the financial statements at fair market value. Investment income or loss (including realized gains on investments, interest and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law. Dividend and interest income earned on permanently restricted net assets are available for unrestricted purposes as appropriated by the board unless restricted by the donor and are reported as investment income in the respective net asset category in the accompanying statements of activities.

Fair Value - Fair value under US GAAP is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. US GAAP for fair value applies to all assets and liabilities that are being measured and reported on a fair value basis. US GAAP requires disclosure that establishes a framework for measuring fair value and disclosure about the methods by which fair value measurements are made. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

- Level I: Valuations based on quoted prices in active markets for identical assets or liabilities that the Institute has the ability to access. 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. Level I assets include cash and cash equivalents, debt and equity securities that are traded in active exchange markets, as well as certain U.S. Treasury and other U.S. Governments obligations that are highly liquid and are actively traded in over-the counter markets.
- Level II: Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level II assets include equity and fixed income managed funds with quoted prices that are traded less frequently than exchange-traded instruments, and whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level III: Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market-based inputs. Level III assets would include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of fair value requires significant investment management judgment or estimation. The Institute does not currently have any Level III assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1. - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at October 31, 2010 and 2009.

Money market funds: The fair value of money market funds are classified as Level 1 as these financial instruments are highly liquid and are stated at cost which approximates fair value.

Mutual funds: Valued at the net asset value (NAV) of shares held at year end. The NAV is the closing price reported on the active market on which the securities are traded. Mutual funds are classified as Level 1.

Corporate, Government and Agency bonds: Valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. Corporate and Government and Agency bonds are classified as Level 2.

Common stock and Equity Securities: Valued at the closing price reported on the active market on which the individual securities are traded. Common stock and equity securities are classified as Level 1.

Common Trust Fund: Valued at the fair value determined using the market price of the underlying securities and the value of the investment contracts. Trust funds are classified as Level 2.

Interest rate swap: Estimated fair value is generally determined using an externally developed model using forward looking assumptions of interest rates and the resulting effect on the underlying cash flows of the swap. The interest rate swap is classified as Level 2.

Fixed Assets - The Institute records fixed assets at acquisition cost, or if donated, at fair value at the date of donation. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated lives of property and equipment are generally as follows:

Buildings and improvements	up to 39 years
Equipment	7 - 10 years
Furniture and fixtures	5 - 10 years

Depreciation expense for the year ended October 31, 2010 was \$1,349,915 (\$1,258,579 - 2009).

In March 2007, the Institute sold its former research facility location. The sale price was \$1.2 million consisting of \$1 million in cash and a \$200,000 note receivable. The note bears interest at 5% and is payable with interest only through February 2012, at which time the principal balance is due in full.

Deferred Financing Fees - In conjunction with the the construction of the Institute's research facility, certain costs, including bond issuance costs and letter of credit fees, were incurred to finance the project. Deferred financing fees totaling \$766,075 at October 31, 2010 and 2009 are being amortized over the 20 year life of the debt outstanding on the straight-line method, which does not differ materially from the effective yield method. Amortization expense and accumulated amortization for the year ended October 31, 2010 was \$38,304 (\$38,304 - 2009) and \$212,985 (\$174,680 - 2009), respectively. Annual amortization of deferred financing fees subsequent to October 31, 2010 is expected to be \$38,304 through 2025.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1. - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Revenue Recognition - The Institute's revenue is principally derived from research grants sponsored by the Federal government and contributions from foundations and other private institutions.

Grants - The terms of the research grants generally require the Institute to provide progress and final reports and to satisfy other specific terms and conditions related to the research. Accordingly, the Institute has determined that the appropriate accounting is to treat these grants as exchange transactions. Such revenue is therefore accounted for as unrestricted. Revenue is recognized as 1.) the project expenses are incurred, including applicable indirect costs, which are based primarily on negotiated indirect cost recovery rates based on prior year actual costs, and 2.) completion of specific contract conditions.

Contributions - All contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts of stock are recorded at fair value at the date of donation. Conditional contributions are recorded as revenue when the condition is met. At October 31, 2010 and 2009 there was a conditional promise that was made to the Institute in the amount of \$310,000 for the recruitment of new scientists. This amount has not been received or recognized as revenue since the condition has not been fulfilled.

Contract/Fee For Service Revenue - The Institute entered into a contract arrangement with the Industrial Macromolecular Crystallography Association (IMCA) to manage an x-ray beamline located at the Argonne National Laboratory effective January 1, 2010. The contract is for a two year period with an option to renew for an additional three years. Contract revenue is recognized when earned. Any amounts received that are designated for future periods are recorded as a refundable advance.

Interest Rate Swap - The Institute utilizes interest rate swaps as part of its interest rate risk management strategy. The Institute does not hold any derivative financial instruments for trading purposes. Such instruments are entered into solely to limit the impact of changes in interest rates on designated bank loans and are considered to be effective cash flow hedges. The interest rate differential paid or received on interest rate swap agreements is recognized over the life of the agreements, with income and expense recorded in interest expense.

The Institute recognizes the fair value of its interest rate swap agreements as an asset or a liability on the Statement of Financial Position. The Institute utilizes permitted hedge accounting for its existing swap positions. Accordingly, the changes in fair value of this instrument, to the extent it is effective, is reflected in the Statement of Activities and Changes in Net Assets as Other Gain (loss) - Swap Contract (see Note 6).

Income Taxes - The Institute is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

US GAAP provides guidance on the financial statement recognition and measurement for income tax positions that the Institute has taken or expects to take in the Institute's income tax returns. Organizations take many tax positions relative to tax laws, including those taken in determining whether tax is due, a refund is owed, a tax return needs to be filed, or the characterization of income as taxable (for example, unrelated business income) or nontaxable. The Institute has not recorded any liabilities relating to uncertain tax positions.

The Institute files its Return of Organization Exempt from Income Tax in the U.S. federal jurisdiction and its Annual Filing of Charitable Organizations in New York State. The tax years 2007-2009 generally remain open to examination in taxing jurisdictions in which the Institute is subject to filing requirements of those jurisdictions.

Accounting Estimates - The process of preparing financial statements in conformity with US GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Concentrations of Credit Risk - The Institute receives a significant amount of its funding from governmental sources, and the loss of any one of these sources would have a substantial effect on the Institute's results of operations and cash flow.

Financial instruments that potentially subject the Institute to credit risk consist principally of cash accounts in financial institutions. During the course of the year cash balances exceed the federally insured deposit limit and management does not anticipate nonperformance by the institutions. Management reviews the financial viability of these institutions on a periodic basis.

Reclassification - Certain elements of the financial statements for the year ended October 31, 2009 have been reclassified to conform with the 2010 consolidated presentation.

NOTE 2. - PLEDGES RECEIVABLE

Pledges, including unconditional promises to give, are recognized when received. Pledges receivable of \$1,979,058 (\$2,526,077- 2009) represent the present value of future cash flows and are recorded as receivables at the balance sheet date. An allowance for uncollectible accounts was recorded at October 31, 2010 in the amount of \$778 (\$85,360 - 2009). The allowance for uncollectible pledges receivable is determined based on a review of individual receivables, prior collection history, and the type of contribution.

As further shown below, pledges receivable that are collectible more than one year from the balance sheet date are discounted using an interest rate determined at the date the pledge is received. The interest rate used is generally a risk adjusted rate. The discount rate used was 4%, commensurate with the prime rate for October 2010 (3.25% - 2009).

Pledges receivable, net of an allowance for uncollectible contributions and present value discount, are summarized as follows at October 31:

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. - PLEDGES RECEIVABLE (CONTINUED)

	<u>2010</u>	<u>2009</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,975,278	\$ 1,224,873
One year to five years	<u>5,000</u>	<u>1,444,334</u>
	1,980,278	2,669,207
Less present value discount	(442)	(57,770)
Less allowance for uncollectible contributions	<u>(778)</u>	<u>(85,360)</u>
	<u>\$ 1,979,058</u>	<u>\$ 2,526,077</u>

NOTE 3. - INVESTMENTS

The following tables present information about the assets and liabilities that are measured at fair value on a recurring basis as of October 31, 2010 and 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine fair value.

At October 31, 2010	Quoted Prices in Active Market Level I	Significant Other Observable Inputs Level II	Significant Unobservable Inputs Level III	Total
Money market funds	\$ 286,394	\$ -	\$ -	\$ 286,394
Common trust fund	-	2,006,010	-	2,006,010
Corporate bonds (commercial paper)	-	1,124,942	-	1,124,942
Common Stock/Equity Securities	1,764,631	-	-	1,764,631
Mutual Funds – Domestic	458,918	-	-	458,918
Mutual Funds - International	<u>201,081</u>	<u>-</u>	<u>-</u>	<u>659,999</u>
Total investments	<u>\$ 2,711,024</u>	<u>\$ 3,130,952</u>	<u>\$ -</u>	<u>\$ 5,841,976</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ 567,417</u>	<u>\$ -</u>	<u>\$ 567,417</u>

At October 31, 2009	Quoted Prices in Active Market Level I	Significant Other Observable Inputs Level II	Significant Unobservable Inputs Level III	Total
Money market funds	\$ 174,773	\$ -	\$ -	\$ 174,773
Common trust fund	-	2,211,496	-	2,211,496
Government and agency bonds	-	51,157	-	51,157
Corporate bonds (commercial paper)	-	1,089,498	-	1,089,498
Common Stock/Equity Securities	1,280,442	-	-	1,280,442
Mutual funds – Domestic	408,001	-	-	408,001
Mutual funds - International	<u>221,430</u>	<u>-</u>	<u>-</u>	<u>221,430</u>
Total investments	<u>\$ 2,084,646</u>	<u>\$ 3,352,151</u>	<u>\$ -</u>	<u>\$ 5,436,797</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ 445,659</u>	<u>\$ -</u>	<u>\$ 445,659</u>

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. - INVESTMENTS (CONTINUED)

The interest rate swap (note 6) is considered a level 2 category within the hierarchy. Its value at October 31, 2010 is a liability of \$567,417 (\$445,659 - 2009) and is derived from proprietary models based upon recognized financial principles from a third party lender incorporating the net discounted future fixed cash payments and the discounted expected variable cash payments. Variable cash payments are based on an expectation of future interest rates derived from observable market interest rate curves. Any credit valuation adjustments have been incorporated to appropriately reflect non performance risk.

Net realized gains and losses from the sale of securities are included in the changes in unrestricted net assets and all gains are considered available for expenditure. The Institute's net realized loss from the sale of investments during the year ended October 31, 2010 amounted to \$277 (\$80,769 - 2009).

Net unrealized gains and losses on securities arising from unrealized changes in the fair value of investments are also included in the changes in unrestricted net assets. The Institute recognized a net unrealized gain amounting to \$353,897 for the year ended October 31, 2010 (\$224,972 - 2009).

NOTE 4. - FIXED ASSETS

Land, building and equipment are summarized as follows:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 306,557	\$ 306,557
Building	23,381,886	23,381,885
Equipment	<u>11,029,586</u>	<u>10,226,825</u>
	34,718,029	33,915,267
Less accumulated depreciation	<u>14,090,558</u>	<u>12,740,644</u>
	<u>\$ 20,627,471</u>	<u>\$ 21,174,623</u>

NOTE 5. - LINE OF CREDIT

The Institute has availability under a line of credit for \$245,000 with a bank. Amounts drawn on the line of credit accrue interest at the bank's prime rate of interest. The line of credit is renewable each April 1st and is secured by substantially all assets of the Institute. There were no amounts outstanding on this line at October 31, 2010 or 2009.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. - BONDS PAYABLE AND SWAP CONTRACT

In March 2004, the Institute issued \$7,000,000 in tax-exempt variable interest rate bonds through the Erie County Industrial Development Agency (the Issuer) with Key Bank National Association (the Bank) providing a letter of credit to enhance the credit quality of the Issue. The bonds are for a 20 year term bearing interest at a weekly rate defined as the minimum rate of interest necessary in order to sell the bonds on such business day at a price equal to the principal amount thereof, plus accrued interest if any, and are payable quarterly to the bond holders. The bonds, which mature March 1, 2024, were issued to finance the Institute's research facility in Buffalo, New York. Deferred financing costs were incurred in connection with the issue amounting to \$776,074. Approximately \$553,000 remains unamortized at October 31, 2010 (\$591,395 – 2009).

The future minimum payments under the Issue subsequent to 2011 are approximately as follows:

2012	\$ 275,000
2013	300,000
2014	325,000
2015	350,000
2016	375,000
Thereafter	<u>4,055,000</u>
	<u>\$ 5,680,000</u>

The bank letter of credit was issued to secure payment of the outstanding bond principal plus 98 days accrued interest and will expire March 22, 2011. The amount in use as of October 31, 2010 is \$6,067,588. The expiration can be extended for one year periods at the bank's discretion. The Institute pays interest to the bank quarterly in an amount calculated as a percentage equal to the maximum amount available to be drawn on the letter of credit. The bank has a first security interest in substantially all assets of the Institute. In addition, the agreement contains various covenants with which the Institute was in compliance at October 31, 2010 and 2009.

In connection with the bond issuance, the Institute entered into two interest rate swap agreements to convert their existing obligations from a variable interest rate to a fixed interest rate over the term of the swap agreements, both of which expire in 2014. These arrangements were entered into to protect against the long term risk associated with a rise in interest rates. \$3,090,000 of the Issue was converted to a fixed rate of interest at 3.75% and the remaining \$3,090,000 was converted to a fixed rate of interest of 3.45%. For the year ended October 31, 2010, the Institute recorded a liability under the swap agreements of \$567,417 (\$445,659 in 2009) and an unrealized loss representing the change in fair value of the swap agreement of \$121,758 for the year ended October 31, 2010 (\$255,518 - 2009).

For all derivative transactions, the Institute is exposed to counterparty credit risk to the extent that the counterparties may not be able to meet their obligations towards the Institute. To manage the counterparty risk, the Institute limits its derivative transactions to those with major financial institutions. The Institute does not expect to experience any material adverse financial consequences as a result of default by the Institute's counterparties.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. - NET ASSETS

Permanently restricted net assets of \$2,089,421 at October 31, 2010 (\$2,053,026 - 2009) consist of endowment funds, the income from which is expended for specific or general research activities.

Temporarily restricted net assets of \$1,984,280 at October 31, 2010 (\$3,342,991 - 2009) represent contributions which are restricted for the conduct of specified biomedical research, capital campaign for new building, equipment, operating losses and or time.

Unrestricted net assets at October 31, 2010 of \$18,535,358 (\$18,205,523 - 2009) consist primarily of building and investments which includes unrealized holding gains or losses, when applicable. In 2010, \$600,000 of these net assets have been designated as a reserve for replacement in accordance with the covenant prescribed by the bank (\$500,000 - 2009).

NOTE 8. - ENDOWMENT ASSETS

The Institute's endowment consists of eight individual funds established for a variety of purposes, which includes only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Board of Directors has interpreted New York State Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor instructions to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified at temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The Institute's endowments consist of permanently restricted funds, the purpose for which is to provide investment income to support the Institution's mission. There are no Board designated endowments at October 31, 2010 or 2009.

The following is a summary of changes in the Institute's endowment net assets for the year ended October 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 2,053,026	\$2,053,026
Investment return:				
Investment income	-	53,951	-	53,951
Net realized and unrealized gains on endowment funds	-	<u>126,435</u>	<u>-</u>	<u>126,435</u>
Total investment return	-	180,386	-	180,386
Contributions	-	-	36,395	36,395
Appropriations for expenditure	<u>-</u>	<u>(180,386)</u>	<u>-</u>	<u>(180,386)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,089,421</u>	<u>\$ 2,089,421</u>

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. - ENDOWMENT ASSETS (CONTINUED)

The following is a summary of changes in the Institute's endowment net assets for the year ended October 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 1,706,653	\$1,706,653
Investment return:				
Investment income	-	65,306	-	65,306
Net realized and unrealized gains on endowment funds	<u>-</u>	<u>44,373</u>	<u>-</u>	<u>44,373</u>
Total investment return	-	109,679	-	109,679
Contributions	-	-	346,373	346,373
Appropriations for expenditure	<u>-</u>	<u>(109,679)</u>	<u>-</u>	<u>(109,679)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,053,026</u>	<u>\$ 2,053,026</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or NYPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of October 31, 2010 or 2009. Deficiencies would result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain science initiatives that are deemed prudent by the Institute.

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to emphasize total return. The Institute expects its endowment funds, over time, to provide an average rate of return of approximately 5-7% annually, while maintaining purchasing power of the assets over a longer term. Actual returns in any given year may vary from this amount.

In order to meet their objective, management policies require that net realized and unrealized appreciation/depreciation be retained permanently in an amount necessary to adjust to the historic dollar value of the original endowments by the weighted average gain/loss attributable to the endowment portfolio in relation to the total portfolio for any given year. The overall strategy is based on conservatism and is one of well balanced growth.

Under the Institute's spending policy, 4% based on a three year rolling average investment balance may be utilized from restricted funds. While this utilization is expected to be derived primarily from accumulated earnings, if deemed prudent by management, this amount may be utilized from restricted funds.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9. - FEDERAL RESEARCH AND CONSTRUCTION GRANT INCOME

Included in research grants and contributions on the Statement of Activities and Changes in Net Assets are certain federal research grant revenues including subcontracts and, exclusive of grant equipment income, which are summarized as follows:

	<u>2010</u>	<u>2009</u>
Research grants:		
Direct	\$ 3,866,530	\$ 4,052,189
Indirect	<u>2,319,432</u>	<u>2,128,811</u>
	<u>\$ 6,185,962</u>	<u>\$ 6,181,000</u>

The remainder relates to non-federal grant and contribution revenue which amounted to \$868,755 for the year ended October 31, 2010 (\$410,682 – 2009).

NOTE 10. - RETIREMENT PLANS

The Institute has a defined contribution 403(b) retirement plan (the Plan) for its employees. All employees are eligible to participate. The Institute contributes 6% of an employee's eligible gross compensation to the Plan. All amounts are immediately vested. The Institute contributed approximately \$203,866 at October 31, 2010 (\$162,047- 2009).

NOTE 11. - FUNCTIONAL EXPENSES

The cost of providing the Institute's activities and programs have been summarized on a functional basis in the statement of activities and changes in net assets. All direct costs have been charged to relevant functions and various indirect expenses have been allocated among the activities based on their use.

NOTE 12. - SUBSEQUENT EVENTS

Subsequent to October 31, 2010, the Institute received formal notification of a third earmark through the Department of Defense's Telemedicine and Advanced Technology Research Center. The Institute is currently in the initial stages of contract negotiations with the DOD. This award approximates \$1.7M over three years and is for the study of important proteins and metabolic pathways in pathogenic bacteria that have been known to cause infections in military personnel overseas. The Institute anticipates commencing activities under this award beginning June 1, 2011.

These financial statements have not been updated for subsequent events occurring after March 1, 2011 which is the date these financial statements were available to be issued.

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2010

	Program					Total
	Science	Research Administration	General and Administrative	Public Relations	Development	
Salaries	\$ 2,217,431	\$ 311,578	\$ 540,958	\$ 123,237	\$ 86,953	\$ 3,280,157
Depreciation and amortization	-	1,335,804	50,826	1,589	-	1,388,219
Subcontracts	1,304,550	-	-	-	-	1,304,550
IMCA	1,086,403	-	-	-	-	1,086,403
Supplies	341,632	121,085	28,185	3,335	949	495,186
Service contracts	134,204	317,005	15,308	107	1,658	468,282
Group insurance	300,297	38,491	56,402	20,109	16,392	431,691
Utilities	-	352,319	13,402	-	-	365,721
Interest	-	-	332,354	-	-	332,354
Payroll tax	179,052	23,644	38,227	10,230	7,750	258,903
Pension	107,093	17,972	31,931	6,941	5,217	169,154
Consultant	7,943	104,569	33,950	-	-	146,462
Events	-	-	-	10,323	58,797	69,120
Series and programs	-	-	-	-	65,067	65,067
Conferences and meetings	53,441	4,954	-	4,490	735	63,620
Travel	41,620	3,460	11,816	1,303	-	58,199
Investment fees	-	-	55,268	-	-	55,268
Dues, permits and publications	12,885	3,641	32,154	4,411	-	53,091
Educational expense	52,246	-	-	-	-	52,246
Professional and Accounting	-	-	42,413	-	-	42,413
Newsletter/appeals	-	-	-	28,558	7,847	36,405
Miscellaneous	3,110	10,650	19,775	641	236	34,412
Insurance - general	-	21,341	8,352	-	-	29,693
Bad debt	-	-	21,665	-	-	21,665
Repairs and maintenance	-	-	19,672	-	-	19,672
Legal fees	3,471	5,962	8,417	-	-	17,850
Purchased services	-	5,945	-	3,446	-	9,391
Government affairs	-	-	-	2,295	-	2,295
	\$ 5,845,378	\$ 2,678,420	\$ 1,361,075	\$ 221,015	\$ 251,601	\$ 10,357,489

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2009

	Program					Total
	Science	Research Administration	General and Administrative	Public Relations	Development	
Salaries	\$ 2,203,803	\$ 352,126	\$ 499,766	\$ 103,938	\$ 103,829	\$ 3,263,462
Subcontracts	1,517,244	-	-	-	-	1,517,244
Depreciation and amortization	-	1,244,468	50,826	1,589	-	1,296,883
Supplies	402,461	54,152	33,092	1,659	1,019	492,383
Service contracts	125,482	331,107	16,400	107	1,659	474,755
Interest	-	-	415,327	-	-	415,327
Group insurance	275,197	42,958	47,931	17,361	22,370	405,817
Utilities	-	320,945	16,000	-	-	336,945
Payroll tax	172,868	29,217	37,427	8,954	8,916	257,382
Pension	109,608	17,489	28,724	6,226	6,125	168,172
Bad debt	84,620	-	20,478	-	-	105,098
Conferences and meetings	54,002	1,020	8,951	3,306	2,550	69,829
Dues, permits and publications	14,533	9,236	39,649	2,114	495	66,027
Series and programs	-	-	-	-	64,533	64,533
Travel	41,968	1,825	3,809	204	357	48,163
Professional and Accounting	-	-	38,607	-	6,483	45,090
Educational expense	44,716	-	-	-	-	44,716
Events	-	-	-	5,606	37,650	43,256
Consultant	23,925	-	18,950	-	-	42,875
Newsletter/appeals	-	-	-	22,756	14,472	37,228
Legal fees	6,730	25,974	4,264	-	-	36,968
Miscellaneous	10,429	9,479	11,339	2,293	20	33,560
Investment fees	-	-	29,086	-	-	29,086
Insurance - general	-	19,476	7,737	-	-	27,213
Purchased services	7,881	4,946	11,484	-	-	24,311
Government affairs	-	-	-	1,585	-	1,585
	\$ 5,095,467	\$ 2,464,418	\$ 1,339,847	\$ 177,698	\$ 270,478	\$ 9,347,908

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

SCHEDULE OF ENDOWMENT FUNDS

For the Year Ended October 31, 2010

Constance W. Stafford Fellowship Fund	\$ 876,656
W. Jackson Catt Trust	432,826
William Duax Crystallography Chair	305,560
Joseph T. and Sally K. Stewart	267,923
Paul J. Koessler Foundation	125,000
Don and Victoria Hess	53,831
Jane F. and Richard F. Griffin	25,000
Hauptman Endowed Chair	<u>2,625</u>
	<u>\$ 2,089,421</u>

For the Year Ended October 31, 2009

Constance W. Stafford Fellowship Fund	\$ 876,656
W. Jackson Catt Trust	432,826
William Duax Crystallography Chair	298,602
Joseph T. and Sally K. Stewart	257,547
Paul J. Koessler Foundation	125,000
Don and Victoria Hess	37,395
Jane F. and Richard F. Griffin	<u>25,000</u>
	<u>\$ 2,053,026</u>

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended October 31, 2010**

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
Research & Development Cluster			
Direct Federal Awards:			
Department of Health and Human Services/			
National Institute of Health:			
Structure and function of integral membrane Enzyme human aromatase	93.859	1R01GM086893	\$ 491,822
Structural Studies of AIDS Responsive Drugs	93.821	2R01 GM51670	144,391
Structure of Peptide Synthetases	93.859	5R01 GM068440	89,029
Tools for High Throughput Structural Biology	93.859	5U54 GM074899	2,523,624
Structure and Regulation of hsp90 Chaperones	93.821	5R01 C095130	109,665
Structural Biology of Oxylipin Biosynthesis	93.859	1R01 GM077176	288,319
Studies of hsp90 Mechanism and Function	93.859	1F31GM086120	27,083
Development of an Expert Crystallization Knowledge System	93.859	1R01 GM088396	281,589
High Throughput Screening of Inhibitors Of Pyoverdine Production	93.310	1R03MH092076	10,562
Multi-Level Optimization of Membrane Proteins for Crystallography	93.859	1U54GM094611	93,940
American Recovery and Reinvestment Act			
Supplemental funding to existing awards:			
“ARRA” National Institute of Health:			
Structural studies of AIDS Responsive Drugs	93.701	3R01GM051670	195,999
Structure of peptide synthetases	93.701	3R01GM068440	234,425
Structural Biology of Oxylipin Biosynthesis	93.701	3R01GM077176	135,110
Rigaku MicroMax-007 HF Lab X-Ray System	93.701	1S10RR023629	497,680
Department of Defense – Defense Threat Reduction Agency			
Virus mutation and transfer from animals To humans		HDTRA-1-09-C-0017	922,096
Preventing Long-Term Brain and Lung Damage Caused by Battlefield Trauma		HDTRA-1-10-C-0057	284,795

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
For the Year Ended October 31, 2010**

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
Funds received as subrecipients under subcontracts:			
National Institute of Health Grant Subrecipient of Rutgers University: Structural Genomics of Eukaryotic Model Organisms	93.859	5U54 GM074958	139,448
National Institute of Health Grant Subrecipient of the University of Buffalo: Interphotoreceptor Retinoid	93.821	5R01 EY09412	129,278
National Institute of Health Grant Subrecipient of the University of Connecticut: T Palladium Membrane Immogens and Anti-oxidant Defense	93.855	2R01 AIO26756	106,504
National Institute of Health Grant Subrecipient of Minnesota: Chemically Controlled Assembly of Therapeutic Protein Nanostructures	93.395	5R01CA120116	85,357
National Institute of Health Grant Subrecipient Of University of Rochester Nanoliter Lab on a Chip Protein Crystallization	93.859	1R01GM084083	81,409
National Institute of Health Grant Subrecipient Of Roswell Park Cancer Institute	93.396	2R01CA065910	18,268
National Institute of Health Grant Subrecipient Of Rutgers University	93.859	1U54GM094597	5,290
American Recovery and Reinvestment Act - National Science Foundation Grant Subrecipient Of the University of Buffalo	47.082	DB1 0959989	<u>3,719</u>
Total federal expenditures			<u>\$6,899,402</u>

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended October 31, 2010

NOTE 1. - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Hauptman-Woodward Medical Research Institute, Inc. (the Institute) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institute.

NOTE 2. - SUB-CONTRACTORS

Of the direct federal expenditures presented in the Schedule, the Institute provided federal awards to certain entities through subcontract agreements as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Amount provided to Sub-contract recipient</u>
Tools for High Throughput Structural Biology	93.859	5U54 GM074899	\$ 1,055,105
Development of an Expert Crystallization Knowledge System	93.859	1R01GM088396	166,257
Preventing Long-Term Brain and Lung Damage Caused by Battlefield Trauma		HDTRA-10-C-0057	57,170
Structural Studies of AIDS responsive drugs	93.821	2R01 GM51670	36,564
Structure and function of integral Membrane Enzyme Human Aromatase	93.859	1R01GM086893	<u>38,475</u>
			<u>\$ 1,353,571</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS ON BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Hauptman-Woodward Medical Research Institute, Inc.

We have audited the financial statements of Hauptman-Woodward Medical Research Institute, Inc. (the Institute) as of and for the year ended October 31, 2010, and have issued our report thereon dated March 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated March 1, 2011.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies, and is not intended to be and should not be used by anyone other than those specified parties.

Freed Maxick & Battaglia, CPAs, PC

Buffalo, New York
March 1, 2011





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Hauptman-Woodward Medical Research Institute, Inc.

Compliance

We have audited Hauptman-Woodward Medical Research Institute, Inc.'s (the Institute) compliance of with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could hae a direct and material effect to each of its major federal programs for the year ended October 31, 2010. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Institutes management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

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

In our opinion, Hauptman-Woodward Medical Research Institute, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2010.

Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on Internal Control over Compliance in accordance with OMB Circular A-133 but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Freed Maxick & Battaglia, CPAs, PC

Buffalo, New York
March 1, 2011



HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended October 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ 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? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
Various	<u>Research and Development Cluster</u>

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

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

II. Financial statement findings

None

III. Findings and Questioned Costs for Federal Awards

None

HAUPTMAN-WOODWARD MEDICAL RESEARCH INSTITUTE, INC.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended October 31, 2010**

There were no audit findings for the year ended October 31, 2009.