



Health Resources in Action, Inc.

Financial Statements

June 30, 2017



Health Resources in Action

*Advancing Public Health and Medical Research*

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Kevin P. Martin & Associates, P.C.

# HEALTH RESOURCES in ACTION, INC.

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June 30, 2017

### **Independent Auditors' Report**

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## **Independent Auditors' Report**

To the Board of Directors of  
Health Resources in Action, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Health Resources in Action, Inc. (a nonprofit organization), (the Agency), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the Agency's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 22, 2017. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Nuniv P. Martini & Associates, P.C.*

December 13, 2017

**HEALTH RESOURCES in ACTION, INC.**

Statement of Financial Position

As of June 30, 2017 with Comparative Totals as of June 30, 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 829,721	\$ 528,002
Contracts and other receivables	3,272,615	3,082,115
Pledges receivable, current portion	322,069	435,788
Prepaid expenses and deposits	<u>195,503</u>	<u>73,937</u>
Total Current Assets	<u>4,619,908</u>	<u>4,119,842</u>
<b>Fixed Assets</b>		
Leasehold improvements	224,981	224,981
Furniture and equipment	<u>829,090</u>	<u>829,090</u>
Total fixed assets	1,054,071	1,054,071
Less: accumulated depreciation	<u>(497,614)</u>	<u>(456,002)</u>
Total Net Fixed Assets	<u>556,457</u>	<u>598,069</u>
<b>Other Assets</b>		
Pledges receivable, net of current portion	113,990	205,684
Investments	<u>1,906,812</u>	<u>1,736,507</u>
Total Other Assets	<u>2,020,802</u>	<u>1,942,191</u>
<b>Total Assets</b>	<u>\$ 7,197,167</u>	<u>\$ 6,660,102</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 784,295	\$ 1,008,281
Accrued expenses	293,492	182,271
Research grants payable	452,534	651,809
Deferred revenue	<u>494,001</u>	<u>497,122</u>
Total Current Liabilities	<u>2,024,322</u>	<u>2,339,483</u>
Total Liabilities	<u>2,024,322</u>	<u>2,339,483</u>
<b>Net Assets</b>		
Unrestricted net assets		
Operating	1,184,222	519,399
Operating - plant	556,457	598,069
Board designated for operating reserve	<u>1,250,000</u>	<u>1,250,000</u>
Total unrestricted net assets	<u>2,990,679</u>	<u>2,367,468</u>
Temporarily restricted net assets		
Community Health	1,141,236	880,574
Medical Foundation	535,475	286,888
Unrealized and realized gains on permanently restricted net assets	26,703	306,937
Working Capital	<u>200,000</u>	<u>200,000</u>
Total temporarily restricted net assets	<u>1,903,414</u>	<u>1,674,399</u>
Permanently restricted net assets	<u>278,752</u>	<u>278,752</u>
Total Net Assets	<u>5,172,845</u>	<u>4,320,619</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 7,197,167</u>	<u>\$ 6,660,102</u>

The accompanying notes are an integral part of the financial statements.

**HEALTH RESOURCES in ACTION, INC.**

Statement of Activities

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenues</b>				
Contract service revenue and fees	\$ 9,815,991	\$ -	\$ -	\$ 9,815,991
Grants and contributions	1,822,159	3,346,263	-	5,168,422
Donated services	1,036,160	-	-	1,036,160
United Way funding	116,906	-	-	116,906
Other revenue	3,207	-	-	3,207
Net assets released from purpose restrictions	<u>2,837,014</u>	<u>(2,837,014)</u>	<u>-</u>	<u>-</u>
Total Support and Revenues	<u>15,631,437</u>	<u>509,249</u>	<u>-</u>	<u>16,140,686</u>
<b>Operating Expenses</b>				
Program services				
Community Health	10,353,916	-	-	10,353,916
Medical Foundation	<u>3,200,860</u>	<u>-</u>	<u>-</u>	<u>3,200,860</u>
Total program services	<u>13,554,776</u>	<u>-</u>	<u>-</u>	<u>13,554,776</u>
Supporting services				
General and administrative	1,765,895	-	-	1,765,895
Fundraising and development	<u>78,094</u>	<u>-</u>	<u>-</u>	<u>78,094</u>
Total supporting services	<u>1,843,989</u>	<u>-</u>	<u>-</u>	<u>1,843,989</u>
Total Operating Expenses	<u>15,398,765</u>	<u>-</u>	<u>-</u>	<u>15,398,765</u>
Change in Net Assets from Operations	<u>232,672</u>	<u>509,249</u>	<u>-</u>	<u>741,921</u>
<b>Other Revenue (Expense)</b>				
Net realized and unrealized gains on investments	60,668	13,847	-	74,515
Investment income	35,790	-	-	35,790
Release of cumulative investment return	<u>294,081</u>	<u>(294,081)</u>	<u>-</u>	<u>-</u>
Total Other Revenue (Expense)	<u>390,539</u>	<u>(280,234)</u>	<u>-</u>	<u>110,305</u>
<b>Change in Net Assets</b>	623,211	229,015	-	852,226
<b>Net Assets at Beginning of Year</b>	<u>2,367,468</u>	<u>1,674,399</u>	<u>278,752</u>	<u>4,320,619</u>
<b>Net Assets at End of Year</b>	<u>\$ 2,990,679</u>	<u>\$ 1,903,414</u>	<u>\$ 278,752</u>	<u>\$ 5,172,845</u>

The accompanying notes are an integral part of the financial statements.

**HEALTH RESOURCES in ACTION, INC.**

Statement of Activities

Comparative Totals For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenues</b>				
Contract service revenue and fees	\$ 8,850,717	\$ -	\$ -	\$ 8,850,717
Grants and contributions	992,141	2,973,284	-	3,965,425
Donated services	1,133,340	-	-	1,133,340
United Way funding	179,444	-	-	179,444
Other revenue	490	-	-	490
Net assets released from purpose restrictions	<u>3,060,610</u>	<u>(3,060,610)</u>	<u>-</u>	<u>-</u>
<b>Total Support and Revenues</b>	<u>14,216,742</u>	<u>(87,326)</u>	<u>-</u>	<u>14,129,416</u>
<b>Operating Expenses</b>				
Program services				
Community Health	8,793,080	-	-	8,793,080
Medical Foundation	<u>3,357,389</u>	<u>-</u>	<u>-</u>	<u>3,357,389</u>
<b>Total program services</b>	<u>12,150,469</u>	<u>-</u>	<u>-</u>	<u>12,150,469</u>
Supporting services				
General and administrative	1,608,842	-	-	1,608,842
Fundraising and development	<u>125,061</u>	<u>-</u>	<u>-</u>	<u>125,061</u>
<b>Total supporting services</b>	<u>1,733,903</u>	<u>-</u>	<u>-</u>	<u>1,733,903</u>
<b>Total Operating Expenses</b>	<u>13,884,372</u>	<u>-</u>	<u>-</u>	<u>13,884,372</u>
<b>Change in Net Assets from Operations</b>	<u>332,370</u>	<u>(87,326)</u>	<u>-</u>	<u>245,044</u>
<b>Other Revenue (Expense)</b>				
Executive transition costs	(213,453)	-	-	(213,453)
Capital funding for Helpline Navigation System	523,955	-	-	523,955
Net realized and unrealized gains on investments	48,876	11,156	-	60,032
Investment income	48,026	-	-	48,026
Investment management fees	<u>(11,146)</u>	<u>-</u>	<u>-</u>	<u>(11,146)</u>
<b>Total Other Revenue (Expense)</b>	<u>396,258</u>	<u>11,156</u>	<u>-</u>	<u>407,414</u>
<b>Change in Net Assets</b>	728,628	(76,170)	-	652,458
<b>Net Assets at Beginning of Year</b>	<u>1,638,840</u>	<u>1,750,569</u>	<u>278,752</u>	<u>3,668,161</u>
<b>Net Assets at End of Year</b>	<u>\$ 2,367,468</u>	<u>\$ 1,674,399</u>	<u>\$ 278,752</u>	<u>\$ 4,320,619</u>

The accompanying notes are an integral part of the financial statements.

**HEALTH RESOURCES in ACTION, INC.**

Statement of Changes in Net Assets

For the Year Ended June 30, 2017 with Comparative Totals for the Year Ended June 30, 2016

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total
	Operating	Operating - Plant	Board Designated	Total			
<b>Net Assets, June 30, 2015</b>	\$ 511,802	\$ 127,038	\$ 1,000,000	\$ 1,638,840	\$ 1,750,569	\$ 278,752	\$ 3,668,161
Change in net assets	385,294	(52,924)	-	332,370	(87,326)	-	245,044
Executive transition costs	(213,453)	-	-	(213,453)	-	-	(213,453)
Capital funding for Helpline Navigation System	-	523,955	-	523,955	-	-	523,955
Investment return	85,756	-	-	85,756	11,156	-	96,912
Board designation of operating reserve	(250,000)	-	250,000	-	-	-	-
<b>Net Assets, June 30, 2016</b>	519,399	598,069	1,250,000	2,367,468	1,674,399	278,752	4,320,619
Change in net assets	274,284	(41,612)	-	232,672	509,249	-	741,921
Investment return	96,458	-	-	96,458	13,847	-	110,305
Release of cumulative investment return	294,081	-	-	294,081	(294,081)	-	-
<b>Net Assets, June 30, 2017</b>	<u>\$ 1,184,222</u>	<u>\$ 556,457</u>	<u>\$ 1,250,000</u>	<u>\$ 2,990,679</u>	<u>\$ 1,903,414</u>	<u>\$ 278,752</u>	<u>\$ 5,172,845</u>

The accompanying notes are an integral part of the financial statements.

**HEALTH RESOURCES in ACTION, INC.**

Statement of Cash Flows

For the Year Ended June 30, 2017 with Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 852,226	\$ 652,458
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	41,612	52,924
Change in allowance for doubtful accounts	(5,000)	(2,537)
Reinvested interest and dividends	(35,790)	(21,745)
Net unrealized and realized gains on investments	(74,515)	(48,737)
Decrease (increase) in assets		
Contracts and other receivables	(185,500)	(345,480)
Pledges receivable	205,413	(8,387)
Prepaid expenses and deposits	(121,566)	(15,980)
Increase (decrease) in liabilities		
Accounts payable	26,014	(119,984)
Accrued expenses	111,221	60,598
Research grants payable	(199,275)	(93,526)
Deferred revenue	(3,121)	303,602
<b>Net Cash Provided by Operating Activities</b>	<u>611,719</u>	<u>413,206</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of fixed assets	(250,000)	(273,955)
Proceeds from the sale of investments	-	1,953,971
Purchase of investments	(60,000)	(1,706,058)
<b>Net Cash Used in Investing Activities</b>	<u>(310,000)</u>	<u>(26,042)</u>
<b>Cash Flows from Financing Activities</b>		
Repayments on line of credit	-	(350,000)
<b>Net Cash Used in Financing Activities</b>	<u>-</u>	<u>(350,000)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	301,719	37,164
<b>Cash and Cash Equivalents - Beginning</b>	<u>528,002</u>	<u>490,838</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 829,721</u>	<u>\$ 528,002</u>
<b>Supplement Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 693</u>
<b>Supplement Data for Noncash Investing and Financing Activities</b>		
Fixed asset additions included in accounts payable	<u>\$ -</u>	<u>\$ 250,000</u>

The accompanying notes are an integral part of the financial statements.

**HEALTH RESOURCES in ACTION, INC.**

Statement of Functional Expenses

For the Year Ended June 30, 2017 with Comparative Totals for the Year Ended June 30, 2016

	2017						2016	
	Program Services			Supporting Services			Total Expenses	Total Expenses
	Community Health	Medical Foundation	Total Program Services	General and Administrative	Fundraising and Development	Total Supporting Services		
<b>Personnel and Related Costs</b>								
Salaries	\$ 4,094,669	\$ 666,448	\$ 4,761,117	\$ 1,084,721	\$ 7,013	\$ 1,091,734	\$ 5,852,851	\$ 5,314,777
Employee benefits	748,252	123,526	871,778	199,890	1,295	201,185	1,072,963	902,850
Payroll taxes	331,351	53,705	385,056	87,357	510	87,867	472,923	436,688
Temporary help	8,749	-	8,749	41,316	-	41,316	50,065	34,174
<b>Total Personnel and Related Costs</b>	<u>5,183,021</u>	<u>843,679</u>	<u>6,026,700</u>	<u>1,413,284</u>	<u>8,818</u>	<u>1,422,102</u>	<u>7,448,802</u>	<u>6,688,489</u>
<b>Donated Services</b>	<u>7,160</u>	<u>1,029,000</u>	<u>1,036,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,036,160</u>	<u>1,133,340</u>
<b>Outside Services</b>								
Consultants	717,438	68,571	786,009	83,497	65,362	148,859	934,868	1,011,710
Subcontractors	452,186	45,879	498,065	-	-	-	498,065	341,834
<b>Total Outside Services</b>	<u>1,169,624</u>	<u>114,450</u>	<u>1,284,074</u>	<u>83,497</u>	<u>65,362</u>	<u>148,859</u>	<u>1,432,933</u>	<u>1,353,544</u>
<b>Occupancy</b>								
Rent	465,386	76,198	541,584	90,190	462	90,652	632,236	555,681
Utilities and facility costs	17,211	1,333	18,544	2,397	14	2,411	20,955	36,122
<b>Total Occupancy</b>	<u>482,597</u>	<u>77,531</u>	<u>560,128</u>	<u>92,587</u>	<u>476</u>	<u>93,063</u>	<u>653,191</u>	<u>591,803</u>
<b>Training and Travel</b>								
Staff training	46,730	4,118	50,848	8,472	555	9,027	59,875	59,147
Travel	342,237	44,065	386,302	7,223	1,422	8,645	394,947	316,827
<b>Total Training and Travel</b>	<u>388,967</u>	<u>48,183</u>	<u>437,150</u>	<u>15,695</u>	<u>1,977</u>	<u>17,672</u>	<u>454,822</u>	<u>375,974</u>
<b>Other Costs</b>								
Printing, reproduction and public health materials	541,811	5,540	547,351	1,300	-	1,300	548,651	697,017
Office and program supplies, small equipment and maintenance	359,107	19,085	378,192	36,743	1,139	37,882	416,074	440,240
Telephone and internet	80,334	5,317	85,651	9,081	43	9,124	94,775	76,730
Professional services	12,809	-	12,809	38,937	-	38,937	51,746	68,280
Insurance	25,193	2,360	27,553	4,759	24	4,783	32,336	32,955
Mailing and postage	78,742	461	79,203	1,514	84	1,598	80,801	79,285
Bad debt	-	-	-	400	-	400	400	-
Data processing	268,383	23,370	291,753	6,722	171	6,893	298,646	78,762
Dues, memberships and subscriptions	7,350	4,350	11,700	13,277	-	13,277	24,977	29,061
Miscellaneous	3,395	-	3,395	6,487	-	6,487	9,882	9,860
Depreciation	-	-	-	41,612	-	41,612	41,612	52,924
<b>Total Other Costs</b>	<u>1,377,124</u>	<u>60,483</u>	<u>1,437,607</u>	<u>160,832</u>	<u>1,461</u>	<u>162,293</u>	<u>1,599,900</u>	<u>1,565,114</u>
<b>Grant Awards</b>	<u>1,745,423</u>	<u>1,027,534</u>	<u>2,772,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,772,957</u>	<u>2,176,108</u>
<b>Total Functional Expenses</b>	<u>\$ 10,353,916</u>	<u>\$ 3,200,860</u>	<u>\$ 13,554,776</u>	<u>\$ 1,765,895</u>	<u>\$ 78,094</u>	<u>\$ 1,843,989</u>	<u>\$ 15,398,765</u>	<u>\$ 13,884,372</u>

The accompanying notes are an integral part of these financial statements.

# HEALTH RESOURCES in ACTION, INC.

## Notes to Financial Statements

June 30, 2017

### **(1) Summary of Significant Accounting Policies**

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies followed by Health Resources in Action, Inc. (the Agency) are described below to enhance the usefulness of the financial statements to the reader.

#### ***(a) Nature of Activities***

The Agency is a national nonprofit organization located in Boston, Massachusetts with a mission to help people live healthier lives and build healthy communities through policy, research, prevention and health promotion. Since its founding in 1957, the Agency has been a leader in developing innovative strategies and approaches to advance healthy communities and medical discoveries.

The following programs are listed in order of relative importance based upon total program expenditures:

The Agency's Community Health program provides a broad range of services that include youth development, peer leadership, training and technical assistance, programmatic research and evaluation, strategic planning, organizational development, health communication and social marketing. The Agency works to build the capacity of coalitions, organizations, communities, government agencies, and the public health workforce. The Agency is skilled at working with and across multiple sectors and engaging non-traditional partners to build the capacity of coalitions, organizations, communities, and the public health workforce, including youth, regional planners, business leaders, faith-based communities, public safety, food systems, and economic and community development agencies. The Community Health program accounted for 76% of total program expenditures for the year ended June 30, 2017.

The Agency's Medical Foundation program works with private individuals, bank trusts and family foundations to design customized grant programs that accelerate medical discoveries. Each year, more than 100 internationally recognized scientists and physicians from across the United States and Europe serve on the scientific review committees and provide critical and unbiased evaluations of all applications and research progress reports. Through the Agency's Life Sciences Consulting Services, the Agency provides reports that can be tailored for either scientific or lay audiences for clients that wish to learn more about a specific disease or field of biomedical research. The Agency reviews, evaluates, and summarizes relevant scientific literature as well as assess the current funding landscape. The Agency identifies and interviews leaders in the field of interest. The Medical Foundation program accounted for 24% of total program expenditures for the year ended June 30, 2017.

#### ***(b) Basis of Presentation***

The statement of activities reports all changes in net assets, including changes in unrestricted net assets from operating and non-operating activities. Operating revenues consist of those monies received and other contributions attributable to the Agency's ongoing efforts. Investment income, realized and unrealized gains and losses on investments, net of related management fees are reported as non-operating revenue because such assets are managed for long-term stabilization of the Agency's activities.

# HEALTH RESOURCES in ACTION, INC.

## Notes to Financial Statements

June 30, 2017

### **(1) Summary of Significant Accounting Policies - continued**

#### ***(c) Standards of Accounting and Reporting***

The Agency's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (unrestricted, temporarily restricted and permanently restricted) and the statement of activities displays the change in each class of net assets. The classes of net assets applicable to the Agency are presented as follows:

Unrestricted - Unrestricted net assets are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Temporarily Restricted - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Agency and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions, gains and investment income that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the contributions are recognized.

Permanently Restricted - Permanently restricted net assets reflect the original amount of gifts and investment earnings required by the donor to be permanently retained. Generally, the donors of these assets permit the Agency to use all or part of the income earned on related investments for general or specific purposes.

#### ***(d) Cash and Cash Equivalents***

The Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Agency maintains its cash balances at several financial institutions located in Massachusetts. The cash balances are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Agency has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2017.

#### ***(e) Investments***

The Agency carries investments at fair value. Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the period. Investments are exposed to risks such as interest rate, credit and overall market volatility.

# HEALTH RESOURCES in ACTION, INC.

## Notes to Financial Statements

June 30, 2017

### (1) Summary of Significant Accounting Policies - continued

#### *(e) Investments - continued*

The Agency's investment policy sets forth guidelines for prudent investment of funds, taking into account liquidity, risk and return characteristics appropriate for different categories of holdings. In addition, the Agency has an investment committee which has set ranges for the composition of the investment portfolio. These ranges are evaluated by this committee on a periodic basis to determine that the investment portfolio is in line with the predetermined ranges.

The objectives for the management of the Agency's invested assets are to maximize the organizational growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets. The Agency targets a diversified asset allocation that includes equities and fixed income investments within prudent risk constraints.

#### *(f) Revenue Recognition*

The Agency earns revenue as follows:

Contract service revenue and fees - Contract revenue is earned and recognized by the Agency when units or services are provided and billed under various agreements funded primarily by governmental agencies. All contracts, consist of two types, unit-rate and cost-reimbursement contracts, all with ceiling amounts. Unit-rate contracts provide that revenue is to be earned and recognized at a negotiated or class rate for each unit-of-service that is provided under the terms of the contract. Under the cost-reimbursement contracts, revenue recognition takes place as costs related to the services provided are incurred. Billings on the contracts are subject to final approval by the governmental agency.

Contributions - Grants, contributions and United Way funding are recognized as revenue when received or unconditionally committed to the Agency.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Agency. The Agency depends on the donated services of many highly skilled professionals for help in evaluating the relevance of research grant proposals it receives. For the year ended June 30, 2017, donated services totaling \$1,036,160, representing 3,156 hours, have been recognized as income and expense on the accompanying financial statements and are reported at estimated fair value at the date of receipt.

Deferred revenue represents contract service revenue and fee income received prior to year-end. These amounts are deferred and recognized over the periods to which the fees relate

Substantially all of the Agency's revenue is derived from its activities in Massachusetts. During the year ended June 30, 2017, the Agency derived approximately 60% of its total revenue from governmental agencies, 32% of its total revenue from individuals, foundations and corporations, and 8% from other sources. All revenue is recorded at the estimated net realizable amounts.

# HEALTH RESOURCES in ACTION, INC.

## Notes to Financial Statements

June 30, 2017

### (1) Summary of Significant Accounting Policies - continued

#### (g) *Accounts Receivable*

The Agency's accounts receivable are comprised primarily of contracts receivable. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions. As of June 30, 2017, there was no allowance for doubtful accounts.

The Agency does not have a policy to accrue interest on account receivables. The Agency has no policies requiring collateral or other security to secure the accounts receivable. As of June 30, 2017, 60% of the Agency's accounts receivable is due from foundations, institutions and other and 40% is due from the Massachusetts Department of Public Health.

#### (h) *Promises to Give*

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date.

Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collection trends that differ from scheduled collections on individual promises. As of June 30, 2017, management has determined that any allowance would be immaterial.

#### (i) *Fixed Assets*

Fixed assets are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Agency computes depreciation using the straight-line method over the following estimated lives:

Leasehold improvements	5-10 years
Furniture and equipment	3-10 years

## HEALTH RESOURCES in ACTION, INC.

### Notes to Financial Statements

June 30, 2017

#### **(1) Summary of Significant Accounting Policies - continued**

##### ***(i) Fixed Assets - continued***

The Agency is developing software for internal use. The software development costs are capitalized once the application stage has commenced and cease when the software product is available for general use. The project was completed in October 2017. Costs as of June 30, 2017 total \$500,000 and are included in fixed assets.

##### ***(j) Fair Value Measurements***

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

**Level 1:** Quoted prices for identical instruments traded in active markets.

**Level 2:** Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant inputs to the valuation model are unobservable.

##### **Recurring Fair Value Measurements**

In accordance with GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Agency's assets that are adjusted to fair value on a recurring basis are investments in equity and debt securities. The Agency currently has no liabilities that are adjusted to fair value on a recurring basis.

*Investments in Debt and Equity Securities:* The fair values of investments in debt and equity securities using quoted prices from daily exchange markets were based on the closing prices as of the statement of financial position date and were classified as Level 1. See Note 3 for the composition of investments.

The Agency's policy is to recognize transfers in and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels during the year ended June 30, 2017.

##### **Non-recurring Measurements**

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Agency records assets and liabilities at fair value on a non-recurring basis as required by GAAP. The Agency had no assets or liabilities measured at fair value on a non-recurring basis as of June 30, 2017.

# HEALTH RESOURCES in ACTION, INC.

## Notes to Financial Statements

June 30, 2017

### **(1) Summary of Significant Accounting Policies - continued**

#### ***(k) Functional Allocation of Expenses***

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Payroll and associated costs as well as occupancy costs are allocated to functions based upon actual time charges.

#### ***(l) Grants Payable***

Research grants awarded for a one year period are expensed at the time the Agency approves awards. Research grants that extend beyond one year are not recorded due to conditions as outlined in the agreements, upon satisfaction of the conditions the research grant is recorded (see Note 7(b)).

#### ***(m) Use of Estimates***

In preparing the Agency's financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***(n) Income Taxes***

The Agency qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to income tax. However, income from certain activities not directly related to the Agency's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Agency is not a private foundation under Section 509(a)(1).

#### ***(o) Summarized Financial Information for 2016***

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, there is no presentation of statement of functional expenses for the year ended June 30, 2016. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2016, from which the summarized information is derived.

## HEALTH RESOURCES in ACTION, INC.

### Notes to Financial Statements

June 30, 2017

#### (2) Promises to Give

The Agency has received unconditional promises to give related to the creation and management of customized grant programs that support public health and medical research from private individuals, foundations and bank trusts. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be received more than a year after June 30, 2017 are recorded at the present value of their future cash flows using discount rates. No present value discount was recorded as of June 30, 2017, as it was immaterial to the financial statements. Uncollectible amounts of pledges receivable are expected to be immaterial. Accordingly, no provision has been made for uncollectible amounts.

The following is an analysis of the promises to give as of June 30, 2017:

2018	\$ 322,069
2019	113,990

#### (3) Investments

The Board of Directors has designated \$1,250,000 to be set aside for an operating reserve. As of June 30, 2017, all investments are classified as long-term. Investments are valued at fair value using level 1 inputs, unadjusted quoted prices in active markets, and are comprised of the following as of June 30, 2017:

Debt Securities: Short-Term Corp. Bond Index Fund	\$ 1,294,260
Equity Securities: 500 Index Fund	<u>612,552</u>
Total	\$ <u>1,906,812</u>

The Short-Term Corp. Bond Index Fund consists of investment grade fixed rate securities issued primarily by domestic industrial, utility and financial companies with maturities between 1 - 5 years. The 500 Index Fund consists of stocks of large U.S. companies and is designed to track the performance of the Standard & Poor's 500 Index.

Investment return consisted of the following for the year ended June 30, 2017:

Interest and dividends, net of management fees	\$ 35,790
Net realized and unrealized gain	<u>74,515</u>
Total net gain on investments	\$ <u>110,305</u>

## HEALTH RESOURCES in ACTION, INC.

### Notes to Financial Statements

June 30, 2017

#### (3) Investments - continued

A reconciliation of investment activity by net asset classification is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Investments
Beginning balance	\$ 1,150,818	\$ 306,937	\$ 278,752	\$ 1,736,507
Investment return				
Investment income	29,139	-	6,651	35,790
Net unrealized gain	60,668	-	13,847	74,515
Investment management fees	-	-	-	-
	89,807	-	20,498	110,305
Permanently restricted released:				
Investment Income	6,651	-	(6,651)	-
Net unrealized gain	-	13,847	(13,847)	-
Investment Management Fees	-	-	-	-
	6,651	13,847	(20,498)	-
Total investment return, net	96,458	13,847	-	110,305
Release of cumulative earnings	294,081	(294,081)	-	-
Transfer from operating cash	60,000	-	-	60,000
Ending balance	\$ 1,601,357	\$ 26,703	\$ 278,752	\$ 1,906,812

#### (4) Operating Lease Commitments

The Agency occupies office and warehouse space under non-cancelable, operating lease agreements with various expiration dates through 2019. The Agency is also liable for certain real estate tax increases and operating cost adjustments under the lease terms. The minimum annual operating non-cancelable lease commitments on facilities for the Agency are as follows:

2018	\$ 266,795
2019	24,624

Facility rental expense for the year ended June 30, 2017 was \$632,236.

In addition, the Agency rents equipment under non-cancelable, operating lease agreements with various expiration dates through 2018. The minimum annual operating non-cancelable lease commitments on equipment for the Agency are as follows:

2018	\$ 19,603
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Equipment rental expense for the year ended June 30, 2017 was \$22,223.

# HEALTH RESOURCES in ACTION, INC.

## Notes to Financial Statements

June 30, 2017

### (5) Grants and Administered Grants

The Agency awards grants through a variety of programs. The Agency directly awarded \$1,027,534 of grants for its Medical Foundation program for the year ended June 30, 2017. The Agency also awarded \$1,745,423 of grants for its Community Health program for the year ended June 30, 2017.

### (6) Commitments and Contingencies

#### (a) Funding Sources

The Agency receives a portion of its funding from government agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed, if any, and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Agency's operations are concentrated in the social service provider field. As such, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to the following:

United States Department of Health and Human Services  
United States Environmental Protection Agency  
United States Department of Education  
Massachusetts Department of Public Health  
Massachusetts Department of Children and Families

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by the United States Departments or Commonwealth of Massachusetts Departments listed above. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

#### (b) Conditional Grants

The Agency has awarded conditional grants extending beyond one year totaling \$913,384 as of June 30, 2017. The Agency reserves the right to discontinue multi-year funding if satisfactory progress reports, as defined in each grant agreement, have not been provided by the respective grantees. These amounts are not reported as liabilities on the Agency's statement of financial position as the conditions have not been met as of June 30, 2017.

Future obligations under the conditional grants expected to be paid out, if the conditions are met, by the Agency are as follows:

2018	\$ 702,534
2019	210,850

## HEALTH RESOURCES in ACTION, INC.

### Notes to Financial Statements

June 30, 2017

#### (7) Restricted Net Assets

##### (a) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2017:

	Balance 2016	Additions	Releases	Balance 2017
Community Health	\$ 880,574	\$ 2,014,401	\$ (1,753,739)	\$ 1,141,236
Medical Foundation	286,888	1,331,862	(1,083,275)	535,475
Working capital	200,000	-	-	200,000
Unrealized and realized gains on permanently restricted net assets (see Note 7(b))	<u>306,937</u>	<u>13,847</u>	<u>(294,081)</u>	<u>26,703</u>
Total	\$ <u>1,674,399</u>	\$ <u>3,360,110</u>	\$ <u>(3,131,095)</u>	\$ <u>1,903,414</u>

##### (b) Permanently Restricted Net Assets

Permanently restricted net assets are restricted by donors against any expenditure of principal. Interest and dividends earned on these funds is restricted to support postdoctoral research scholarships. In accordance with GAAP and Massachusetts state law, unrealized and realized gains earned on the permanently restricted net assets are reported in temporarily restricted net assets.

For the year ended June 30, 2017, income earned on the permanently restricted net assets was \$20,498. The Agency satisfied the restrictions relating to the interest and dividends earned on these net assets during the year ended June 30, 2017 and \$6,651 has been reflected as unrestricted investment income on the accompanying financial statements. Realized and unrealized earnings and fees on these net assets for the year ended June 30, 2017 totaled \$13,847 and has been reflected as temporarily restricted investment income on the accompanying financial statements.

#### (8) Endowment

The Agency accepts endowment gifts under the stipulation that the funds are invested in perpetuity. Unless otherwise restricted by the donor, the investment income is to be used in accordance with the Agency's endowment spending policy. The goals of the endowment fund are to enhance existing programs, create new programs, make additional funding opportunities for donors and support capital improvements. The Agency's Investment Committee (Committee) oversees the establishment and revision of goals, spending plans and asset allocations for endowments.

The Agency's endowment consists of one individual fund established to provide interest to support post-doctoral research scholarships. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

## HEALTH RESOURCES in ACTION, INC.

### Notes to Financial Statements

June 30, 2017

#### **(8) Endowment - continued**

##### ***(a) Uniform Prudent Management of Institutional Funds Act***

The Agency's management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to states to use enacting legislation. UPMIFA was adopted by the Commonwealth of Massachusetts effective June 30, 2009. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending.

The Board has interpreted the UPMIFA 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 stipulations to the contrary. Further, per the interpretation, the UPMIFA classifies as permanently restricted net assets (a) the original value of 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 as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by UPMIFA.

##### ***(b) Appropriation of Endowment Assets for Expenditure***

The Agency considers the following factors in making a determination to appropriate endowment funds for expenditure:

- (1) The duration and preservation of the fund
- (2) The purposes of the Agency and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Agency
- (7) The investment policies of the Agency
- (8) The role of each investment in the whole portfolio group

##### ***(c) Return Objectives and Risk Parameters***

The Agency has adopted investment and spending policies for endowment assets that invest in a thoughtful and prudent manner to preserve and/or enhance the Agency's ability to help provide for the future benefit of post-doctoral research scholarships. The oversight of the endowment funds is the responsibility of the Finance Committee, a committee of the Agency's Board of Directors. Endowment assets include those assets of donor-restricted funds that the Agency must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve the endowment funds' principal, considering inflation and to regulate the long term ability and short term needs to distribute income.

## HEALTH RESOURCES in ACTION, INC.

### Notes to Financial Statements

June 30, 2017

#### **(8) Endowment - continued**

##### ***(d) Strategies Employed for Achieving Investment Objectives***

To satisfy its objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Agency targets a diversified asset allocation by investing a prudently determinable portion (currently 80%) of the endowment funds in equity investments (to produce long-term appreciation) and a portion (currently 20%) to fixed income investments (to produce a consistent level of income and reduce overall volatility). Guidelines have been set forth in the investment policy.

##### ***(e) Spending Policy and Investment Objectives***

The Agency records 100% of the annual investment return as temporarily restricted net assets. The Agency has a policy of appropriating for distribution from the total investment balance including the endowment portion, an amount as determined by the board of directors based on the prior years audited financial statements. In establishing this policy, the Agency considered the long-term expected return on its endowment. Accordingly, over the long term, the Agency expects the current spending policy to allow its endowment to grow. This is consistent with the Agency's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment.

##### ***(f) Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Agency to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies may result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of June 30, 2017.

##### ***(g) Composition and Reconciliation of Endowment Funds***

The endowment fund is solely comprised of donor-restricted contributions. There are no board-designated endowment funds. A reconciliation of the Agency's investment activity by net asset class is presented in Note 3. Additional information pertaining to the endowment fund is presented in Note 7b.

## HEALTH RESOURCES in ACTION, INC.

### Notes to Financial Statements

June 30, 2017

#### **(9) Defined Contribution Plans**

The Agency has a defined contribution pension plan that qualifies as a tax-sheltered account under Section 401(a) of the IRC for the benefit of eligible employees. Employees of at least twenty one years of age with at least 1,000 hours of credited service are eligible to participate in this plan. Under the plan, the Agency contributes a percentage of each eligible participant's salary to the plan. The employees are not taxed on contributions or earnings until they receive distributions from the account. The Agency's contributions under this plan amounted to \$266,657 for the year ended June 30, 2017, which are included in employee benefits on the accompanying statement of functional expenses.

The Agency also has a defined contribution pension plan that qualifies as a tax-sheltered account under Section 403(b) of the IRC for the benefit of eligible employees, as defined in the plan agreement. Under the plan, benefit eligible employees can invest pre-tax dollars. The employees are not taxed on contributions or earnings until they receive distributions from the account. There are no provisions for employer contributions into the plan.

#### **(10) Subsequent Events**

The Agency has performed an evaluation of subsequent events through December 13, 2017, which is the date the Agency's financial statements were available to be issued. No material subsequent events, other than the items disclosed below, have occurred since June 30, 2017 that required recognition or disclosure in these financial statements.

Subsequent to year end, the Agency entered into a new non-cancelable lease agreement for office space. The lease term begins April 1, 2018.