

Research!America

Financial Report
December 31, 2014

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Independent Auditor's Report

To the Board of Directors
Research!America
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Research!America (the Organization) which comprise the balance sheet as of December 31, 2014, the related statements of activities, functional expenses, and cash flows 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.

Auditor's 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. 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 Organization as of December 31, 2014, 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 Organization's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 12, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGladrey LLP

McLean, Virginia
May 5, 2015

Research!America

Balance Sheet

December 31, 2014

(With Comparative Totals for 2013)

	2014	2013
Assets		
Cash and Cash Equivalents	\$ 1,325,147	\$ 1,157,927
Contributions and Grants Receivable, Net	645,600	593,513
Investments	282,732	287,750
Prepaid Expenses	31,097	20,937
Deposits and Other Assets	36,820	21,410
Property and Equipment, Net	158,455	93,021
Deferred Compensation Investments	197,887	160,711
	<u>\$ 2,677,738</u>	<u>\$ 2,335,269</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 40,743	\$ 29,729
Accrued expenses	175,982	165,849
Deferred rent	74,781	115,215
Deferred compensation	197,887	160,711
Refundable advances	7,464	-
Total liabilities	<u>496,857</u>	<u>471,504</u>
Commitments (Notes 6 and 9)		
Net Assets		
Unrestricted		
Undesignated	651,521	543,442
Board designated	399,472	399,472
	<u>1,050,993</u>	<u>942,914</u>
Temporarily restricted	1,129,888	920,851
	<u>2,180,881</u>	<u>1,863,765</u>
	<u>\$ 2,677,738</u>	<u>\$ 2,335,269</u>

See Notes to Financial Statements.

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Statement of Activities
 Year Ended December 31, 2014
 (With Comparative Totals for 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue				
Dues	\$ 1,352,585	\$ -	\$ 1,352,585	\$ 1,386,935
Advocacy Awards Gala	574,970	232,500	807,470	863,957
National Forum	277,800	-	277,800	353,800
Grants	195,000	-	195,000	336,063
General contributions	232,966	317,587	550,553	243,239
Partner programs	190,000	150,000	340,000	102,500
In-kind support	111,754	-	111,754	76,545
Polls	5,000	-	5,000	65,000
Other	29,400	-	29,400	5,402
Investment income	2,924	-	2,924	4,516
Net assets released from restrictions	491,050	(491,050)	-	-
Total support and revenue	3,463,449	209,037	3,672,486	3,437,957
Expenses				
Program	2,471,848	-	2,471,848	2,512,653
Operating	414,635	-	414,635	388,256
Fundraising	468,887	-	468,887	444,488
Total expenses	3,355,370	-	3,355,370	3,345,397
Change in net assets	108,079	209,037	317,116	92,560
Net Assets				
Beginning	942,914	920,851	1,863,765	1,771,205
Ending	\$ 1,050,993	\$ 1,129,888	\$ 2,180,881	\$ 1,863,765

See Notes to Financial Statements.

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**Statement of Functional Expenses
Year Ended December 31, 2014
(With Comparative Totals for 2013)**

	2014				2013
	Program	Operating	Fundraising	Total	Total
Salaries	\$ 1,199,079	\$ 316,017	\$ 325,186	\$ 1,840,282	\$ 1,852,375
Fringe Benefits	206,532	67,433	59,512	333,477	344,893
Rent and Parking	220,913	13,461	35,000	269,374	271,533
Events	200,601	-	-	200,601	168,621
Advertising/News Placement	135,937	-	28	135,965	90,955
Meetings and Workshops	111,341	1,103	21	112,465	123,775
Computers and Equipment	68,748	2,620	6,812	78,180	71,410
Accounting and Legal	53,426	3,258	8,470	65,154	53,540
Travel	39,023	3	12,396	51,422	48,418
Printing and Publications	42,398	2,117	3,138	47,653	45,207
Dues, Subscriptions and Registration Fees	32,656	3,084	5,648	41,388	44,830
Depreciation	29,486	1,798	4,675	35,959	62,400
Professional Services	27,653	1,019	296	28,968	17,548
Other Lobbying	20,092	-	-	20,092	38,828
Supplies	17,549	398	1,034	18,981	8,682
Contributions to Other Organizations	17,000	-	-	17,000	20,000
Board Meetings	10,877	343	1,016	12,236	9,297
Telephone and Fax	8,665	494	1,283	10,442	10,574
Public Opinion Polls	9,900	-	-	9,900	35,900
Taxes and Licenses	5,104	311	810	6,225	4,184
Insurance	5,074	206	536	5,816	5,807
Maintenance and Repairs	4,654	284	738	5,676	5,611
Postage and Delivery	2,495	686	1,824	5,005	6,350
Miscellaneous	2,645	-	464	3,109	4,659
Total expenses	\$ 2,471,848	\$ 414,635	\$ 468,887	\$ 3,355,370	\$ 3,345,397

See Notes to Financial Statements.

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Statement of Cash Flows
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 317,116	\$ 92,560
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	35,959	62,400
Partnership income	(2,390)	(3,275)
Deferred rent	(40,434)	(32,613)
Purchase of deferred compensation investments	16,060	-
Change in present value discount of contributions receivable	-	10,595
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions and grants receivable	(52,087)	(91,400)
Prepaid expenses	(10,160)	2,426
Deposits and other assets	(15,410)	1,469
Increase (decrease) in:		
Accounts payable	11,014	6,240
Accrued expenses	10,133	(11,036)
Refundable advances	7,464	(304,040)
Net cash provided by (used in) operating activities	277,265	(266,674)
Cash Flows from Investing Activities		
Purchase of property and equipment	(101,393)	(6,052)
Purchase of investments – interest earned	(217)	(624)
Purchase of deferred compensation investments	(16,060)	-
Proceeds from partnership distributions	7,625	-
Net cash used in investing activities	(110,045)	(6,676)
Net increase (decrease) in cash and cash equivalents	167,220	(273,350)
Cash and Cash Equivalents		
Beginning	1,157,927	1,431,277
Ending	\$ 1,325,147	\$ 1,157,927

See Notes to Financial Statements.

Research!America

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Research!America (the Organization) was incorporated in the District of Columbia as a not-for-profit organization. Its mission is to achieve better health for all through education and support for medical research as a national priority; to increase resources available for medical research; to make medical research a highly visible, urgent and understandable priority on the national agenda; to increase public awareness of the importance of research and research careers; and to enhance the nation's scientific leadership in biology and medicine.

The following is a summary of the Organization's significant accounting policies:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Not-for-Profit Entities Topic of the FASB ASC, *Financial Statements of Not-for-Profit Organizations*, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets at December 31, 2014.

Cash and cash equivalents: For the purpose of reporting cash flows, the Organization considers money market accounts to be cash equivalents.

Financial risk: The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash and cash equivalents.

Investments: Investments consist of two certificates of deposits totaling \$282,732 and \$0 in limited partnerships at December 31, 2014. Certificates of deposit are not subject to the provisions of fair value measurements as they are recorded at cost. Limited partnerships are accounted for under the equity method. Deferred compensation plan assets are recorded at fair value.

Contributions receivable: Unconditional contributions receivable are recognized as support and revenue in the period acknowledged. Unconditional contributions receivable expected to be collected within one year are carried at original amount promised and are recognized as support and revenue or gains in the period acknowledged. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows using a discount rate commensurate with the risk of the contributions receivable. Management determines the allowance for doubtful accounts by regularly evaluating individual contributions receivable and considering the prior history of donors and proven collectability of past donations. Management believes all contributions receivable are fully collectable and as such, there was no allowance for doubtful promises at December 31, 2014. Contributions receivable are written off against the allowance for doubtful promises when deemed uncollectable. Recoveries of receivables previously written off are recorded when received.

Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. Until that point, any amounts received are reported as refundable advances.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed over the estimated useful lives of the respective assets on a straight-line basis. Leasehold improvements are recorded at cost and amortized over the shorter of the asset's useful life or the term of the lease. The Organization capitalizes all property and equipment purchased with a cost of \$500 or more.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Board designated net assets: In prior years, the Board of Directors designated an amount of \$500,000 for a future use to be determined at a later time and only upon approval of the Board. During the year ended December 31, 2014, the Board did not approve any expenditures from the designated funds. At December 31, 2014, the remaining balance is \$399,472.

Deferred rent: The Organization has a lease agreement for rental space in Alexandria, Virginia. Under the terms of the lease agreement, the Organization received a landlord improvement allowance for leasehold improvements. The benefits that the Organization received from the allowance and rent increases in future years are being allocated on a straight-line basis over the term of the lease. The difference between the expense and the cash payments is reported as deferred rent.

Support and revenue recognition: Amounts received for Dues, Advocacy Awards Gala, the National Forum, and partner programs are accounted for as contributions in the year received. Costs of direct benefits to donors related to the Advocacy Awards Gala totaled approximately \$66,000 and are included in expenses.

Contributions received, including the majority of grants, are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions that are met by the Organization in the year in which they were received are recognized as unrestricted support.

Donated services: The Organization receives contributions of services from businesses toward the fulfillment of program objectives, specifically for internet advertising. Those services have been included in revenue and expense categories and are recorded at their estimated fair values as of the date of the donation.

Expenses: Direct costs associated with specific programs are recorded as program expenses. Administrative overhead expenses are allocated to the various programs based on personnel time spent on these activities. Fringe benefits are allocated based on labor dollars spent on these activities. Personnel and administrative costs and rent have been allocated between program, fundraising and operating expenses based on level of effort. Operating expenses consist of general and administrative expenses. Fundraising expenses consist of development expenses.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income taxes: The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Organization did not have any net unrelated business income for the year ended December 31, 2014.

The Organization complies with the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance. Generally, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior period information: The financial statements include certain prior year summarized comparative information in total but not by net assets. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Subsequent events: The Organization evaluated subsequent events through May 5, 2015, which is the date the financial statements were available to be issued.

Note 2. Contributions and Grants Receivable

Contributions and grants receivable at December 31, 2014, consist of general contributions as well as contributions and grants promised to fund specific programs.

These amounts are expected to be received as follows:

Due in one year or less	\$ 432,585
Due in one to five years	241,000
	<u>673,585</u>
Less present value discount	27,985
	<u><u>\$ 645,600</u></u>

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Notes to Financial Statements

Note 3. Investments

Investments at December 31, 2014, consist of the following:

Certificates of deposit	\$ 282,732
Limited partnerships	-
	<u>\$ 282,732</u>

Investment income for the year ended December 31, 2014, consists of the following:

Limited partnerships gain	\$ 2,390
Interest and dividends	534
	<u>\$ 2,924</u>

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2014, and depreciation expense for the year ended December 31, 2014, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and equipment	3 to 10 years	\$ 335,947	\$ 232,624	\$ 103,323	\$ 9,132
Website development	5 years	274,387	246,454	27,933	8,696
Leasehold improvements	7 years	140,767	113,568	27,199	18,131
		<u>\$ 751,101</u>	<u>\$ 592,646</u>	<u>\$ 158,455</u>	<u>\$ 35,959</u>

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted funds, which are available for program services or restricted for time. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2014, due to the time restriction ending or the purpose restriction being accomplished.

Changes in temporarily restricted net assets during the year ended December 31, 2014, are as follows:

	Balance December 31, 2013	Additions	Releases	Balance December 31, 2014
Time restricted				
Awards Dinner	\$ 615,000	\$ 232,500	\$ 420,000	\$ 427,500
Campaign for the Future	91,500	317,587	45,500	363,587
Purpose restricted				
Internship Program	214,351	-	25,550	188,801
Communications Science Program	-	150,000	-	150,000
	<u>\$ 920,851</u>	<u>\$ 700,087</u>	<u>\$ 491,050</u>	<u>\$ 1,129,888</u>

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Notes to Financial Statements

Note 6. Office Lease

The Organization has a lease agreement for office space in Alexandria, Virginia through June 30, 2016. Rent expense is being recognized on a straight-line basis over the term of the lease. The difference between the expense and the cash payments, which was \$74,781 at December 31, 2014, is reported as deferred rent in the accompanying financial statements. The total future minimum lease payments at December 31, 2014, are as follows:

Years Ending December 31,

2015	\$ 276,600
2016	140,344
	<u>\$ 416,944</u>

Under the terms of the lease agreement for its office space, the Organization was required to enter into two letters of credit with a financial institution, which are secured by certificates of deposit. The landlord is the beneficiary in case of default on rental payments. At December 31, 2014, the one remaining certificate of deposit was valued at \$16,883. Rent expense, including parking, for the year ended December 31, 2014, was \$269,374.

Note 7. Retirement Plans

The Organization has a defined contribution pension plan (the Plan) that currently covers all full-time employees after one year of service. Contributions to the Plan are based on 7% of participants' salaries. For the year ended December 31, 2014, pension expense was \$115,581.

The Organization has a funded, non-qualified deferred compensation plan, to provide deferred compensation for selected key employees. Contributions to the plan were \$16,060 for the year ended December 31, 2014. The balance of deferred compensation at December 31, 2014, is \$197,887.

Note 8. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. This topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic requires disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. It 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. This topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1 Quoted market prices in active markets for identical assets or liabilities
- Level 2 Observable market-based inputs or unobservable inputs corroborated by market data
- Level 3 Unobservable inputs that are not corroborated by market data

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Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to ASC Topic 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the Organization at December 31, 2014.

The table below presents the balance of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Deferred compensation assets:				
Investments – large blend equity index	\$ 197,887	\$ -	\$ 197,887	\$ -
Deferred compensation liability	\$ 197,887	\$ -	\$ 197,887	\$ -

The Organization's deferred compensation plan assets consist of separate investment accounts holding pools of mutual funds in which the value of the investment account is calculated based on the net assets of the underlying pool of the mutual funds. The assets are classified as Level 2 based on the ability of the Organization to redeem amounts as a net asset value per share in the near term.

Deferred compensation liability is based on the fair market value of the deferred compensation plan assets that are observable inputs, but the liability is not publicly traded and is, therefore, classified as Level 2.

Note 9. Commitments

Employee contract: The Organization has an employment contract with the President through February 1, 2018. The contract contains a non-cancelable commitment in the event of termination under certain circumstances. At December 31, 2014, the maximum non-cancelable commitment was \$405,000.

Note 10. Related Party Transactions

During the year ended December 31, 2014, the Organization incurred fees for legal services in the amount of \$10,000 to a law firm in which a Board member is a partner.

During the year ended December 31, 2014, the Organization gave \$10,000 to the Campaign for Public Health Foundation (CPHF) a 501(c)(3) organization, of which a Board member is Chairman. The contribution supports CPHF's efforts to educate the public, the media, policymakers and others about the important role public health plays in the nation's health system.

During the year ended December 31, 2014, the Organization received \$67,150 in contributions from Directors.