



Human Resources Research Organization

Financial Statements, Independent Auditor's Report and Reports Required by *Government Auditing Standards* and the Uniform Guidance

Years Ended September 30, 2017 and 2016

Human Resources Research Organization

Financial Statements and Independent Auditor's Report
and Reports Required by *Government Auditing Standards*
and the Uniform Guidance
Years Ended September 30, 2017 and 2016

Human Resources Research Organization

Contents

Independent Auditor's Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to the Financial Statements	6-17
Schedule of Expenditures of Federal Awards	
Schedule of Expenditures of Federal Awards	18
Notes to the Schedule of Expenditures of Federal Awards	19
Independent Auditor's Reports Required by <i>Government Auditing Standards</i> and the Uniform Guidance	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	22-23
Schedule of Findings and Questioned Costs	24-25



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Independent Auditor's Report

Board of Directors
Human Resources Research Organization
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Human Resources Research Organization (the Organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 Human Resources Research Organization as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (the SEFA), as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2018 on our consideration of the Organization's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

BDO USA, LLP

McLean, Virginia
January 30, 2018

Financial Statements

Human Resources Research Organization

Statements of Financial Position

<i>September 30,</i>	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 8,038,605	\$ 6,197,432
Contract receivables	4,937,912	4,047,841
Other current assets	141,336	269,118
Total current assets	13,117,853	10,514,391
Investments	9,909,292	8,704,200
Property and equipment, net	290,864	373,319
Intangible assets, net	1,171,133	1,333,800
Restricted certificate of deposit	149,572	149,498
Other assets	37,333	37,333
Total assets	\$ 24,676,047	\$ 21,112,541
Liabilities and Net Assets		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 1,023,322	\$ 701,894
Capital lease obligation, current	47,064	47,064
Billings in excess of revenue recognized	5,506,953	3,678,720
Accrued compensation, benefits and related payroll taxes	2,533,522	2,246,582
Rent abatement liability, current	226,808	459,216
Acquisition payable	-	250,000
Total current liabilities	9,337,669	7,383,476
Capital lease obligation, non-current	20,593	67,657
Rent abatement liability, non-current	813,778	885,802
Total liabilities	10,172,041	8,336,935
Commitments		
Unrestricted net assets	14,504,006	12,775,606
Total liabilities and net assets	\$ 24,676,047	\$ 21,112,541

See accompanying notes to the financial statements.

Human Resources Research Organization
Statements of Activities and Changes in Net Assets

<i>Years Ended September 30,</i>	2017	2016
Contract revenue	\$ 29,510,047	\$ 26,849,798
Costs of revenue		
Direct costs	16,641,345	14,535,998
Indirect costs and selling expenses	12,025,739	11,001,401
Depreciation and amortization	321,907	305,480
Total costs of revenue	28,988,991	25,842,879
Operating income	521,056	1,006,919
Investment return and other income (expense)		
Interest expense	(3,583)	(4,972)
Investment income	1,210,026	1,275,408
Other income	901	143
Total investment return and other income (expense)	1,207,344	1,270,579
Change in unrestricted net assets	1,728,400	2,277,498
Unrestricted net assets at the beginning of the year	12,775,606	10,498,108
Unrestricted net assets at the end of the year	\$ 14,504,006	\$ 12,775,606

See accompanying notes to the financial statements.

Human Resources Research Organization

Statements of Cash Flows

<i>Years Ended September 30,</i>	2017	2016
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 1,728,400	\$ 2,277,498
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	321,907	305,480
Realized and unrealized gains on investments, net	(664,362)	(739,578)
Accrued interest on restricted certificate of deposit	(74)	(75)
Changes in operating assets and liabilities:		
Contract receivables	(890,071)	(841,375)
Other current assets	127,781	84,190
Accounts payable and other accrued liabilities	321,428	146,423
Billings in excess of revenue recognized	1,828,233	173,672
Accrued compensation, benefits and related payroll taxes	286,940	331,528
Rent abatement liability	(304,432)	607,735
Total adjustments	1,027,350	68,000
Net cash provided by operating activities	2,755,750	2,345,498
Cash flows from investing activities:		
Purchases of investments	(1,805,223)	(1,601,095)
Sales of investments	1,264,494	1,067,140
Purchases of property and equipment	(76,784)	(143,716)
Increase in other assets	-	4,215
Net cash used in investing activities	(617,513)	(673,456)
Cash flows from financing activities:		
Payments under acquisition payable	(250,000)	(350,000)
Payments under capital lease obligation	(47,064)	(47,064)
Net cash used in financing activities	(297,064)	(397,064)
Increase in cash and cash equivalents	1,841,173	1,274,978
Cash and cash equivalents at the beginning of the year	6,197,432	4,922,454
Cash and cash equivalents at the end of the year	\$ 8,038,605	\$ 6,197,432
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,583	\$ 4,972

See accompanying notes to the financial statements.

Human Resources Research Organization

Notes to the Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

Human Resources Research Organization (the Organization) was incorporated in 1969 in the District of Columbia as a private non-profit corporation organized to improve human performance through behavioral and social science research, development, consultation and instruction.

On July 31, 2015, the Organization acquired Human Performance Systems, Inc. (HPS) under the terms of an asset purchase agreement. See Note 2.

Basis of presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates under different assumptions or conditions.

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered or goods delivered, the contract price is fixed or determinable, and collectability is reasonably assured. Revenue associated with work performed prior to the completion and signing of contract documents is recognized only when it can be reliably estimated and realization is probable. The Organization bases its estimates on previous experiences with the customer, communications with the customer regarding funding status, and its knowledge of available funding for the contract.

Revenue on cost-plus-fee contracts is recognized to the extent of costs incurred plus a proportionate amount of the fee earned. The Organization considers fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract. The Organization considers performance-based fees, including award fees, under any contract type to be earned when it can demonstrate satisfaction of performance goals, based upon historical experience, or when the Organization receives contractual notification from the customer that the fee has been earned. Revenue on time-and-materials contracts is recognized based on the hours incurred at the negotiated contract billing rates, plus the cost of any allowable material costs and out-of-pocket expenses. Revenue on fixed-price contracts where the Organization performs systems design, development and integration is recognized using the percentage-of-completion method of contract accounting. Unless it is determined as part of the Organization's regular contract performance review that overall progress on a contract is not consistent with costs expended to date, the Organization determines the percentage completed

Human Resources Research Organization

Notes to the Financial Statements

based on the percentage of costs incurred to date in relation to total estimated costs expected upon completion of the contract. Revenue on fixed-price service contracts is generally recognized on a straight-line basis over the contractual service period, unless the revenue is earned, or obligations fulfilled, in a different manner.

Contract revenue recognition involves estimation. Provisions for estimated losses on uncompleted construction or production contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and revenue, and are recognized in the period in which such revisions are determined.

Multiple agencies of the federal government directly or indirectly provided the majority of the Organization's contract revenue during the years ended September 30, 2017 and 2016.

Federal government contract costs for 2014 through 2017, including indirect costs, are subject to audit and adjustment by the Defense Contract Audit Agency. Contract revenue has been recorded in amounts that are expected to be realized upon final settlement.

Measure of operations

The Organization's operating income includes contract revenue and the costs of earning the contract revenue including direct costs, indirect costs and selling expenses and depreciation and amortization expense.

Costs of revenue

Costs of revenue include all direct contract costs, as well as indirect overhead costs and selling, general and administrative expenses that are allowable and allocable to contracts under federal procurement standards. Costs of revenue also include costs and expenses that are unallowable under applicable procurement standards, and are not allocable to contracts for billing purposes. Such costs and expenses do not directly generate revenue, but are necessary for business operations.

Cash equivalents

The Organization considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents.

Investments

The Organization records investments at fair value. Interest and dividend income is accounted for on the accrual basis. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities and changes in net assets.

Contract receivables

Contract receivables are generated from prime and subcontracting arrangements with federal governmental agencies and various commercial entities. Billed amounts represent invoices that have been prepared and sent to the customer. Unbilled amounts represent costs and anticipated profits not yet billed or awaiting milestones to bill. Management determines the allowance for

Human Resources Research Organization

Notes to the Financial Statements

doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Management records reserves as considered necessary. Uncollectible amounts will be written off when all efforts to collect these receivables have been exhausted or when management receives notification that an amount will not be collected.

Billed contract receivables are considered past due if the invoice has been outstanding more than 30 days. The Organization does not charge interest on billed contract receivables; however, federal governmental agencies generally pay interest on invoices outstanding more than 30 days. The Organization records interest income from federal governmental agencies when received. Management considers all billed contract receivables to be collectible. Accordingly, no allowance for doubtful accounts has been recorded as of September 30, 2017 and 2016.

Property and equipment

The Organization's policy is to capitalize property and equipment purchases in excess of \$2,500. Property and equipment is stated at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the assets of three to ten years. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the underlying assets or the term of the related lease.

Intangible assets

Intangible assets represent the excess of the purchase price of a company acquired over the fair value of the net identifiable assets acquired and liabilities assumed (see Note 2). Intangible assets consist of contract rights acquired as part of the acquisition of Human Performance Systems, Inc. (HPS). The Organization has determined that they represent finite-lived intangible assets with a useful life of 36 months. The assets are being amortized on a straight-line basis over their estimated useful life, which is based on a forecast of approximately equal annual customer orders over the 36-month period. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount is not recoverable. At September 30, 2017 and 2016, the Organization has determined that no adjustment for impairment loss for these finite-lived intangible assets is required.

In addition, intangible assets also consist of technology-based intangible assets which represent internally developed databases. The Organization has determined that they represent finite-lived intangible assets with a useful life of 120 months. The acquired intangible assets are subject to impairment tests performed at least annually. At September 30, 2017 and 2016, the Organization has determined that no adjustment for impairment loss for these intangible assets is required.

Human Resources Research Organization

Notes to the Financial Statements

Restricted certificate of deposit

The restricted certificate of deposit represents a certificate of deposit required as collateral for a letter-of-credit related to a long-term operating lease. The restricted certificate of deposit is recorded at cost, which approximates fair value.

Net assets

The Organization classifies its net assets into the three categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets

Unrestricted net assets are those net assets that are not subject to donor-imposed stipulations or board designations.

Temporarily restricted net assets

Temporarily restricted net assets generally result from net contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and the restriction removed by actions of the Organization pursuant to those stipulations. When a donor 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 accompanying statements of activities as net assets released from restrictions. The Organization does not have any temporarily restricted net assets.

Permanently restricted net assets

Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Organization. Generally, the donors of these assets permit the Organization to use the income earned on related investments for general or specific purposes. The Organization does not have any permanently restricted net assets.

Functional allocation of expenses

The costs of providing the programs and other activities have been summarized in the table below. Accordingly, certain costs have been allocated among the activities benefited. The disclosure of expenses related to providing services on a functional basis is as follows for the years ended September 30:

	2017	2016
Program services	\$ 16,641,345	\$ 14,535,998
General and administrative	12,347,646	11,306,881
	<u>\$ 28,988,991</u>	<u>\$ 25,842,879</u>

Human Resources Research Organization

Notes to the Financial Statements

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC) and from District of Columbia franchise tax under applicable tax regulations. No provision for income taxes was recorded during the years ended September 30, 2017 and 2016 since the Organization had no significant unrelated business income. The Organization is not a private foundation pursuant to Section 509(a)(1) of the IRC.

In accordance with authoritative guidance issued by the Financial Accounting Standards Board (the FASB), the Organization recognizes tax liabilities when, despite the management's belief that tax return positions are supportable, the Organization believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended September 30, 2013 and prior. Management has evaluated the Organization's tax positions and has concluded that the Organization has taken no material uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Financial instruments

The fair value of the Organization's short-term financial instruments, including cash and cash equivalents, restricted certificate of deposit, contract receivables, accounts payable, other accrued liabilities, accrued compensation benefits and related payroll taxes, and billings in excess of revenue recognized approximate their carrying amounts due to the short maturity of these instruments.

Concentrations of credit risk

The Organization's assets that are exposed to credit risk consist primarily of cash and cash equivalents, long-term investments, and contract receivables. Cash and cash equivalents are maintained at high-quality financial institutions and the Organization believes the credit risk related to these cash and cash equivalents balances is minimal. Interest-bearing amounts on deposit in excess of federally insured limits at September 31, 2017 approximate \$8,000,000. The Organization invests its excess cash and cash equivalents, and maintains its investments with high-quality financial institutions. The Organization performs yearly evaluations of these institutions for relative credit standing. Management regularly monitors the composition and maturities of investments. The Organization limits the amount of credit exposure to any one financial institution. Contract receivables consist primarily of amounts due from various agencies of the federal government or prime contractors doing business with the federal government. Historically, the Organization has not experienced significant losses related to contract receivables and, therefore, believes that the credit risk related to these receivables is minimal.

Human Resources Research Organization

Notes to the Financial Statements

Recently adopted authoritative guidance

In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The update provides guidance about management's ability to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This guidance is effective for annual periods ending after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. This update did not have a material impact on the financial statements upon adoption.

Recent accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The update establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance. Under the guidance, all entities should recognize revenue to depict the transfer of promised goods and services under a contract to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for the Organization's fiscal year beginning after December 15, 2019. Management is currently evaluating the impact of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Organization's fiscal year beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Organization's fiscal year beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional

Human Resources Research Organization

Notes to the Financial Statements

practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on its financial statements.

2. Asset Purchase

Under the terms of an asset purchase agreement (the Asset Purchase Agreement) dated July 31, 2015, the Organization acquired Human Performance Systems, Inc. (HPS) in a business combination accounted for under the acquisition method. The primary reason for the Organization's acquisition of HPS was to allow the Organization to carve out a niche within the human resource consulting industry. The aggregate purchase price was \$1,200,000, which included a net cash payment of \$600,000 in 2015 and two installments due at the first and second anniversary of the date of the acquisition. The first installment of \$350,000 was due on July 31, 2016, while the second installment of \$250,000 was due on July 31, 2017. The payments were contingent upon two employees' agreements. The results of operations of HPS have been included in the accompanying financial statements since the acquisition date.

A summary of the acquisition date fair value of the assets acquired and liabilities assumed in the acquisition were as follows:

Property and equipment	\$	67,088
Customer-related intangible assets		31,000
Technology-based intangible assets		1,451,000
<hr/>		
Total assets acquired		1,549,088
<hr/>		
Liabilities		-
<hr/>		
Net assets acquired	\$	1,549,088

Estimated amortization related to the finite-lived intangible assets and software is as follows:

Years ending September 30,

2018	\$	155,000
2019		145,000
2020		145,000
2021		145,000
2022		145,000
Thereafter		436,000
<hr/>		
	\$	1,171,000

Amortization related to the intangible assets was \$163,228 and \$139,606 for the years ended September 30, 2017 and 2016, respectively.

Human Resources Research Organization

Notes to the Financial Statements

3. Investments

Investments consist of the following at September 30:

	2017	2016
Mutual funds	\$ 6,122,985	\$ 5,478,082
Common stock	3,786,307	3,226,118
	<u>\$ 9,909,292</u>	<u>\$ 8,704,200</u>

Investment income (loss), net of fees, consists of the following at September 30:

	2017	2016
Interest and dividends	\$ 592,628	\$ 596,139
Net realized and unrealized gain on investments	664,362	739,578
Investment fees to investment advisor	(46,964)	(60,609)
	<u>\$ 1,210,026</u>	<u>\$ 1,275,408</u>

4. Contract Receivables and Billings in Excess of Revenue Recognized

Contract receivables and billings in excess of revenue recognized consist of the following at September 30:

	2017	2016
Billed receivables	\$ 2,423,611	\$ 2,493,658
Unbilled receivables	2,514,301	1,554,183
	<u>\$ 4,937,912</u>	<u>\$ 4,047,841</u>

Unbilled receivables at September 30, 2017 and 2016 consist primarily of amounts billed subsequent to year-end and milestone billings. Billings in excess of revenue recognized are comprised primarily of amounts billed for which the related revenue has not yet been recognized.

5. Property and Equipment

Property and equipment consists of the following at September 30:

	2017	2016
Office equipment	\$ 1,723,289	\$ 1,646,505
Leasehold improvements	286,468	286,468
Office furniture and fixtures	247,776	247,776
Equipment under capital lease	235,320	235,320
	<u>2,492,853</u>	<u>2,416,069</u>
Less: accumulated depreciation and amortization	<u>(2,201,989)</u>	<u>(2,042,750)</u>
	<u>\$ 290,864</u>	<u>\$ 373,319</u>

Human Resources Research Organization

Notes to the Financial Statements

Depreciation and amortization of property and equipment (including equipment under capital leases) was \$158,679 and \$165,874 for the years ended September 30, 2017 and 2016, respectively. Accumulated amortization associated with equipment under capital leases at September 30, 2017 and 2016 was \$167,663 and \$120,599, respectively.

6. Bank Line-of-Credit

The Organization maintains a bank line-of-credit facility with a financial institution providing available credit up to \$1,000,000. Outstanding balances under the bank line-of-credit are payable on demand and bear interest at the bank's prime rate plus 0.5% (4.25% at September 30, 2017). Beginning in December 2015, the interest rate floor of the line-of-credit was amended to 3.50%. The bank line-of-credit is secured by all assets of the Organization, and expires, if not renewed, on March 31, 2018. At September 30, 2017 and 2016, the outstanding balance under the bank line-of-credit is \$0.

7. Retirement Plan

All regular Organization employees are eligible to participate in a defined contribution retirement plan (the Plan), which invests in retirement annuity contracts and is administered by an insurance group. Contributions by the Organization are made on an equal or double matching basis (depending upon the years of service of the employee) to amounts contributed by employees, subject to plan limitations. The Organization recorded contributions to the Plan of \$907,611 and \$726,032 for the years ended September 30, 2017 and 2016, respectively.

8. Rent Abatement Liability

The Organization has a lease for office space. The net cost under the lease is approximately \$16,447,860 over a rental term of 124 months including rent abatements and cash incentives. The Organization is recognizing the cost of this lease on a straight-line basis evenly throughout the lease term in accordance with U.S. GAAP, resulting in a monthly expense of \$124,605. The rent abatement liability, which aggregated \$1,040,586 and \$1,345,018 at September 30, 2017 and 2016, respectively, represents the cumulative difference between the straight-line monthly rent expense and rent paid.

In October 2015, the lease was extended through February 29, 2024.

9. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

Human Resources Research Organization

Notes to the Financial Statements

The Organization's assets recorded at fair value are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 - Inputs to the valuation methodology include
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
 - If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset'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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following section describes the valuation methodologies the Organization uses to measure its assets at fair value. There have been no changes in the methodologies used at September 30, 2017 and 2016.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are held with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Certificate of deposit: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Human Resources Research Organization

Notes to the Financial Statements

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2017 and 2016:

<i>Description</i>	As of September 30, 2017			Total
	Level 1	Level 2	Level 3	
Certificate of deposit	\$ -	\$ 149,572	\$ -	\$ 149,572
Mutual funds				
Diversified Emerging Markets	\$ 3,363,956	\$ -	\$ -	\$ 3,363,956
Large Blend	2,267,876	-	-	2,267,876
Foreign Large Value	257,496	-	-	257,496
Mid-Cap Blend	233,657	-	-	233,657
Common stocks	3,786,307	-	-	3,786,307
Total mutual funds and common stocks	\$ 9,909,292	\$ -	\$ -	\$ 9,909,292
Total investments at fair value	\$ 9,909,292	\$ 149,572	\$ -	\$ 10,058,864

<i>Description</i>	As of September 30, 2016			Total
	Level 1	Level 2	Level 3	
Certificate of deposit	\$ -	\$ 149,498	\$ -	\$ 149,498
Mutual funds				
Diversified Emerging Markets	\$ 3,063,447	\$ -	\$ -	\$ 3,063,447
Large Blend	1,993,954	-	-	1,993,954
Foreign Large Value	220,881	-	-	200,881
Mid-Cap Blend	199,800	-	-	199,800
Common stocks	3,226,118	-	-	3,226,118
Total mutual funds and common stocks	\$ 8,704,200	\$ -	\$ -	\$ 8,704,200
Total investments at fair value	\$ 8,704,200	\$ 149,498	\$ -	\$ 8,853,698

10. Commitments

The Organization leases certain office space under non-cancelable lease agreements that are recorded as operating leases, which expire at various dates through February 2024. Certain leases require the Organization to reimburse the landlord for its pro rata share of the increase in the annual operating expenses and real estate taxes. Aggregate minimum rental commitments

Human Resources Research Organization

Notes to the Financial Statements

required under operating leases with initial or remaining terms of greater than one year at September 30, 2017 are summarized as follows:

<i>Years ending September 30,</i>	Operating Leases
2018	\$ 2,060,000
2019	1,544,000
2020	1,842,000
2021	1,887,000
2022	1,890,000
Thereafter	2,578,000
	<hr/>
	\$ 11,801,000

The Organization subleases office space under the terms of month-to-month sublease agreements.

Rent expense, net of sublease income, totaled \$1,885,870 and \$1,714,033 for the years ended September 30, 2017 and 2016, respectively.

As of September 30, 2017 and 2016, the Organization has an outstanding letter-of-credit in the amount of \$101,584, related to its existing office space lease. A certificate of deposit (restricted) in the amount of \$149,572 and \$149,498 as of September 30, 2017 and 2016, respectively, was originally acquired in 2008 as collateral for the letter-of-credit. The letter-of-credit was renewed during the current fiscal year, and is scheduled to expire on February 20, 2018.

11. Subsequent Events

The Organization has evaluated its September 30, 2017 financial statements for subsequent events through January 30, 2018, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Schedule of Expenditures of Federal Awards

Human Resources Research Organization

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2017

<i>Federal Grantor/Pass-through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number/ Contract No.</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed Through to Subrecipients</i>	<i>Total Federal Expenditures</i>
Direct Programs:				
U.S. Department of Labor				
RTI International, Inc. / O*Net Data Collection Program (O*NET 98-01)	17.U01	N/A	\$ -	\$ 307,120
DOL TAP Evaluation (GS-23F-8182H)	17.U02	N/A	-	1,573
DEA Working Group (DJD-17-HQ-P-0253)	17.U03	N/A	-	4,723
Total U.S. Department of Labor			-	313,416
U.S. Department of State				
Office of Acquisition Management/Foreign Service Officer Test (SAQMMMA14C0019)	19.U01	N/A	-	2,088,294
Total U.S Department of State			-	2,088,294
U.S. Department of Justice				
Understanding Military Suicide Bereavement and Postvention Needs for Suicide Survivors: A Controlled Study (7W-CIV02-0456)	16.U01	N/A	-	2,714
Total U.S Department of Justice			-	2,714
U.S. Department of Defense				
Understanding Military Suicide Bereavement and Postvention Needs for Suicide Survivors: A Controlled Study (D10PC20006)	12.U01	N/A	-	6,511
Total U.S Department of Defense			-	6,511
Pass-through Programs:				
U.S. Department of National Intelligence				
Scientific Advances to Continuous Insider Threat Evaluation (SCITE): Inference Enterprise Modelling (IEM)	12.U01	2016-16031400006	-	525,004
Personality, Cognitive Ability, and Psychological Well-Being Measurement	12.U02	1516NP2A-MO	-	113,786
Total U.S. Department of National Intelligence			-	638,790
Total Expenditures of Federal Awards			\$ -	\$ 3,049,725

See Notes to Schedule of Expenditures of Federal Awards.

Human Resources Research Organization

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2017

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs entered into directly and via pass-through between Human Resources Research Organization (the Organization) and agencies and departments of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Expenses are recognized as incurred using the cost accounting principles contained in the U.S. Federal Acquisition Regulations. Under those cost principles, certain types of expenses are not allowable or are limited as to reimbursement. Moreover, expenses include a portion of costs associated with general activities (indirect costs) which are allocated to federal awards under negotiated formulas referred to as indirect cost rates.

3. Indirect Cost Rate

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation of Schedule of Expenditures of Federal Awards to the Statements of Activities and Changes in Net Assets

The following presents the reconciliation of the total expenditures of federal awards per the Schedule to total contract and grant revenue shown on the statement of activities and changes in net assets for the year ended September 30, 2017:

Contract revenue as shown on the statement of activities and changes in net assets	\$ 29,510,047
Less: contract fees	(2,298,249)
Less: non-federal and firm fixed price contracts	(24,162,073)
<hr/>	
Total per the Schedule	\$ 3,049,725

Independent Auditor's Reports Required by
Government Auditing Standards
and the Uniform Guidance



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Human Resources Research Organization
Alexandria, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Human Resources Research Organization (the Organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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

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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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

McLean, Virginia
January 30, 2018



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Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Human Resources Research Organization
Alexandria, Virginia

Report on Compliance for Each Major Federal Program

We have audited Human Resources Research Organization's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Organization'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Organization'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

McLean, Virginia
January 30, 2018

Human Resources Research Organization

Schedule of Findings and Questioned Costs Year Ended September 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

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 federal 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 federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of major program:

CFDA/Contract Number

Name of Federal Program or Cluster

19.U01

Office of Acquisition Management/
Foreign Service Officer Test

12.U01/12.U02

Scientific Advances to Continuous
Insider Threat Evaluation (SCITE),
Personality, Cognitive Ability, and
Psychological Well-Being Measurement

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

Human Resources Research Organization

Schedule of Findings and Questioned Costs Year Ended September 30, 2017

Section II - Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS).

Section III - Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in section 2 CFR 200.516(a) of the Uniform Guidance that are required to be reported.