

The Thoracic Surgery Foundation for Research and Education

*Financial Statements for the
Years Ended June 30, 2012 and 2011*

{ Financial Statements }

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The Thoracic Surgery Foundation for Research and Education

Years Ended June 30, 2012 and 2011

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Independent Auditor's Report

To the Board of Directors of
The Thoracic Surgery Foundation for Research and Education
Chicago, Illinois

We have audited the accompanying statement of financial position of **The Thoracic Surgery Foundation for Research and Education** as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the June 30, 2011 financial statements, which were audited by other auditors whose report dated October 17, 2011 expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of **The Thoracic Surgery Foundation for Research and Education** as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 22, 2013

The Thoracic Surgery Foundation for Research and Education

Years Ended June 30, 2012 and 2011

Financial Statements

The Thoracic Surgery Foundation for Research and Education

Statements of Financial Position

June 30, 2012 (With Comparative Totals for 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 240,080	\$ -	\$ 240,080	\$ 623,822
Pledges receivable	-	826,768	826,768	147,842
Total Current Assets	<u>240,080</u>	<u>826,768</u>	<u>1,066,848</u>	<u>771,664</u>
Noncurrent assets				
Cash and cash equivalents - Held for other organization	-	-	-	84,756
Investments - Held for other organization	-	-	-	1,499,246
Investments	419,656	1,064,186	1,483,842	1,463,412
Pledges receivable	-	624,472	624,472	115,493
Total Noncurrent Assets	<u>419,656</u>	<u>1,688,658</u>	<u>2,108,314</u>	<u>3,162,907</u>
Total Assets	<u><u>\$ 659,736</u></u>	<u><u>\$ 2,515,426</u></u>	<u><u>\$ 3,175,162</u></u>	<u><u>\$ 3,934,571</u></u>
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	\$ 204,665	\$ -	\$ 204,665	\$ 15,095
Grants payable	507,500	-	507,500	616,985
Total Current Liabilities	<u>712,165</u>	<u>-</u>	<u>712,165</u>	<u>632,080</u>
Noncurrent assets				
Grants payable	176,848	-	176,848	226,782
Funds held for other organization - Graham Foundation	-	-	-	1,584,002
Total Noncurrent Liabilities	<u>176,848</u>	<u>-</u>	<u>176,848</u>	<u>1,810,784</u>
Total Liabilities	<u>889,013</u>	<u>-</u>	<u>889,013</u>	<u>2,442,864</u>
Net Assets				
Unrestricted	(229,277)	-	(229,277)	206,413
Temporarily restricted	-	2,515,426	2,515,426	1,285,294
Total Net Assets	<u>(229,277)</u>	<u>2,515,426</u>	<u>2,286,149</u>	<u>1,491,707</u>
Total Liabilities and Net Assets	<u><u>\$ 659,736</u></u>	<u><u>\$ 2,515,426</u></u>	<u><u>\$ 3,175,162</u></u>	<u><u>\$ 3,934,571</u></u>

The Thoracic Surgery Foundation for Research and Education

Statements of Activities

Year Ended June 30, 2012 (With Comparative Totals for 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue				
Contributions	\$ 169,411	\$ 1,394,763	\$ 1,564,174	\$ 677,004
Realized and change in unrealized (loss) gains on investments	(14,931)	(34,565)	(49,496)	246,807
Interest and dividends (Net of investment fees of \$9,110 for 2012 and \$10,834 for 2011)	19,267	44,603	63,870	43,571
Net assets released from restrictions	174,669	(174,669)	-	-
Total Support and Revenue	348,416	1,230,132	1,578,548	967,382
Expenses				
Program expenses				
Grants and awards	514,898	-	514,898	233,234
Education	27,436	-	27,436	51,700
Reduction of grant obligation	-	-	-	(572,500)
Total Program Expenses	542,334	-	542,334	(287,566)
Supporting expenses				
Development	-	-	-	36,735
Administrative	241,772	-	241,772	250,601
Total Supporting Expenses	241,772	-	241,772	287,336
Total Expenses	784,106	-	784,106	(230)
Change in Net Assets	(435,690)	1,230,132	794,442	967,612
Net Assets, Beginning of Year	206,413	1,285,294	1,491,707	524,095
Net Assets, End of Year	\$ (229,277)	\$ 2,515,426	\$ 2,286,149	\$ 1,491,707

The Thoracic Surgery Foundation for Research and Education

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 794,442	\$ 967,612
Adjustments to reconcile change in net assets to net cash used in operating activities		
Gifts of stock	-	(5,354)
Realized and change in unrealized loss (gain) on investments	49,496	(246,807)
Administrative fee	-	(3,850)
Reduction of grant obligation	-	(572,500)
(Increase) decrease in		
Pledges receivable	(1,187,905)	3,149
Investments - Held for other organization	1,499,246	(396,642)
Increase (decrease) in		
Accounts payable	189,570	15,095
Grants payable	(159,419)	(714,282)
Funds held for other organization - Graham Foundation	(1,584,002)	277,372
Total Adjustments	(1,193,014)	(1,643,819)
Net Cash Used in Operating Activities	(398,572)	(676,207)
Cash Flows from Investing Activities		
Proceeds from sales of investments	371,324	1,252,240
Purchases of investments	(441,250)	(620,265)
Net Cash (Used in) Provided by Investing Activities	(69,926)	631,975
Net Decrease in Cash and Cash Equivalents	(468,498)	(44,232)
Cash and Cash Equivalents, Beginning of Year	708,578	752,810
Cash and Cash Equivalents, End of Year	<u>\$ 240,080</u>	<u>\$ 708,578</u>

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 1 - Organization

The Thoracic Surgery Foundation for Research and Education (TSFRE) was established in 1988 as a 501(c)(3) not-for-profit charitable organization. Representatives from the four leading thoracic surgery societies – the American Association for Thoracic Surgery (AATS), the Society of Thoracic Surgeons (STS), the Southern Thoracic Surgical Association (STSA), and the Western Thoracic Surgical Association (WTSa) serve on the TSFRE Board of Directors.

The TSFRE supports research and educational initiatives to advance the broad spectrum of cardiothoracic surgery.

The mission of TSFRE is to foster the development of surgeon scientist in cardiothoracic surgery; increasing knowledge and innovation to benefit patient care.

TSFRE supports research and education initiatives to:

- Expand the specialty's knowledge about cardiothoracic surgical treatment options
- Enhance the care of patients with cardiothoracic diseases
- Develop the skills of cardiothoracic surgeons both as surgeon-scientist and as health policy leaders.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

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 (GAAPUSA).

Basis of Presentation

These financial statements have been prepared on the accrual basis of accounting in accordance with GAAPUSA. The separate classes of net assets are defined as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations or the donor-imposed stipulations have expired.

Temporarily Restricted - Net assets subject to donor-imposed stipulations that can be satisfied by actions of the Foundation or by the passage of time.

Permanently Restricted - Net assets subject to donor-imposed stipulations that can be maintained permanently by the Foundation. The Foundation currently does not have any permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, cash in banks and short-term highly liquid investments, which are readily convertible into cash, within 90 days of purchase. The Foundation maintains its cash and cash equivalents primarily in U.S. Bank accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

Effective July 1, 2010, the Foundation adopted new guidance that requires the Foundation to report significant transfers between Level 1 and Level 2 and the reasons for those transfers, as well as disclosing the reasons for transfers in or out of Level 3. Additionally, the guidance requires the Foundation to clarify existing disclosure requirements about the level of disaggregation and inputs and valuation techniques. The adoption of this guidance did not have an impact on the Foundation's financial statements, other than expanded disclosures.

The guidance also requires the reconciliation of changes in Level 3 fair value measurements to present purchases, sales and settlements separately on a gross basis rather than as a net amount, effective for fiscal years beginning after December 15, 2010. The adoption of this guidance did not have an impact on the Foundation's financial statements.

Investments

Investments are carried at fair value. Contributions of investments are recorded at fair value as of the date of the gift. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains and losses and changes in unrealized gains and losses are included in the statement of activities and are computed using the specific recorded cost of each security.

The Foundation's investments are exposed to various risks such as interest rate, credit and overall market volatility. Due to these risks factors, it is reasonably possible that changes in the value of the investments will occur in the near term and that such changes could materially affect the amount reported in the financial statements.

Pledges Receivable

Cash contributions are recognized in the period received. Pledges are recognized in the period pledged. Contributions to be received over more than one year are recorded by the Foundation as pledges receivable at fair value. An allowance for uncollectible pledges receivable is provided based on management's judgment considering factors such as prior collection history, type of contribution and nature of fundraising activity.

Revenue Recognition

Public support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets (i.e. the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) is reported as a reclassification between applicable classes of net assets.

Contributions, including unconditional promises to give, are measured at their fair values and are reported as an increase in net assets. Donor restricted contributions are recorded as either temporarily restricted or permanently restricted net assets when received. Temporarily restricted contributions are transferred to unrestricted net assets when the restrictions have been satisfied.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Grants Payable

The Foundation awards grants to selected organizations for research and educational initiatives to advance the broad spectrum of cardiothoracic surgery, which may be granted for periods that extend beyond one fiscal year. Grants are recorded by the Foundation in the period awarded and approved by the board of directors. The expenditures included in the accompanying financial statements include the amounts expended during fiscal 2012 and 2011.

In fiscal 2011, a grantee agreed that the Foundation would not be obligated to pay a future grant commitment totaling \$572,500.

Management Estimates

The preparation of financial statements in conformity with GAAPUSA requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

Management Function

Through January 31, 2012, the Foundation's managerial and administrative functions were performed by The Professional Relations and Research Institute. Effective February 1, 2012, the Foundation's managerial and administrative functions were performed by The Society of Thoracic Surgeons (STS).

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The Foundation's application of GAAPUSA regarding uncertain tax positions had no effect on its financial position as management believes the Foundation has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit tax status. The Foundation would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. The Foundation is no longer subject to examination by federal, state or local tax authorities for periods before 2009.

Subsequent Events

The Foundation has evaluated subsequent events through January 22, 2013, the date the financial statements were available to be issued.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 3 - Pledges Receivable

Pledges receivable are composed of the following amounts due as of June 30:

	<u>2012</u>	<u>2011</u>
Pledges	\$ 1,615,586	\$ 503,627
Less: Allowance for uncollectibles	(159,000)	(159,000)
Less: Present value discount	<u>(5,346)</u>	<u>(81,292)</u>
Total	<u><u>\$ 1,451,240</u></u>	<u><u>\$ 263,335</u></u>
Receivable in less than one year	\$ 826,768	\$ 147,842
Receivable in one to five years	705,316	270,833
Receivable in over five years	83,502	84,952
Less: Allowance for uncollectibles	(159,000)	(159,000)
Less: Present value discount	<u>(5,346)</u>	<u>(81,292)</u>
Total	<u><u>\$ 1,451,240</u></u>	<u><u>\$ 263,335</u></u>

The discount rate used in determining the net present value of unconditional pledges receivable is .41% and 8.00% as of June 30, 2012 and 2011, respectively. During 2012, the Foundation changed the discount rate to reflect U.S. Treasury rates to reflect changing payment patterns from the donors.

Note 4 - Fair Value Measurements

GAAPUSA defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAPUSA describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach, each of which include multiple valuation techniques. GAAPUSA does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 4 - Fair Value Measurements (Continued)

Financial assets and liabilities carried at fair value are classified in one of the following three categories based upon the inputs to the valuation technique used:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following tables set forth by level within the fair value hierarchy the Foundation's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2012 and 2011. As required by GAAPUSA, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect their placement within the fair value hierarchy levels.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 4 - Fair Value Measurements (Continued)

Description	Fair Value as of June 30, 2012	Recurring Fair Value Measurements as Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 455,132	\$ 455,132	\$ -	\$ -
Fixed Income				
Government and Agency Bonds	27,212	-	27,212	-
Corporate Bonds	244,824	-	244,824	-
Mutual Funds	13,680	13,680	-	-
Equities				
Large Cap	306,015	306,015	-	-
Mutual Funds	344,395	344,395	-	-
Foreign Assets				
Equities	28,744	28,744	-	-
Mutual Funds	11,468	11,468	-	-
Other				
Mutual Funds	52,372	52,372	-	-
Total Investments	\$ 1,483,842	\$ 1,211,806	\$ 272,036	\$ -

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 4 - Fair Value Measurements (Continued)

Description	Fair Value as of June 30, 2011	Recurring Fair Value Measurements as Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Brokered Certificates of Deposit Fixed Income	\$ 190,225	\$ 190,225	\$ -	\$ -
Government and Agency Bonds	59,006	-	59,006	-
Corporate Bonds	523,680	-	523,680	-
Mutual Funds	33,759	33,759	-	-
Equities				
Large cap	882,737	882,737	-	-
Mutual Funds	487,394	487,394	-	-
Foreign Assets				
Equities	585,145	585,145	-	-
Mutual Funds	26,754	26,754	-	-
Other				
Mutual Funds	173,958	173,958	-	-
Total Investments	\$ 2,962,658	\$ 2,379,972	\$ 582,686	\$ -

Level 1 Inputs

Fair values for the Foundation's money market funds, brokered certificates of deposit, fixed income mutual funds, equities large cap, equities mutual funds, foreign assets equities, foreign assets mutual funds and other mutual funds were based on quoted market prices.

Level 2 Inputs

Estimated fair values for fixed income government and agency bonds and fixed income corporate bonds were based on similar investments that are traded on the secondary market.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 5 - Investment Income

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 72,980	\$ 54,405
Net realized gains on investments	8,256	57,406
Change in unrealized (loss) gain on investments	(57,752)	189,401
Investment fees	<u>(9,110)</u>	<u>(10,834)</u>
	<u>\$ 14,374</u>	<u>\$ 290,378</u>

Note 6 - Grants Payable

Total grants awarded in 2012 and 2011 amounted to \$510,000 and \$114,485, respectively. The following is a schedule by year of remaining payments under grants awarded as of June 30, 2012.

Year Ending June 30:	
2013	\$ 507,500
2014	127,500
2015	40,000
2016	10,000
Less: Present value discount	<u>(652)</u>
	<u>\$ 684,348</u>

The discount rate used in determining the net present value of unconditional pledges payable is .41% and 8.00% as of June 30, 2012 and 2011, respectively. During 2012, the Foundation changed the discount rate to reflect U.S. Treasury rates.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2012 and 2011 are available for the following:

	<u>2012</u>	<u>2011</u>
Nina-Starr Braunwald Memorial Fund - To make career development awards and research fellowships for women in academic cardiothoracic surgery	\$ 765,984	\$ 731,485
Alley-Sheridan Fund - To make awards to support surgeons participating in continuing education	298,202	290,474
Pledges receivable - Time restricted	<u>1,451,240</u>	<u>263,335</u>
	<u><u>\$ 2,515,426</u></u>	<u><u>\$ 1,285,294</u></u>

Note 8 – Fiscal Agency Funds

Through February 2012, the Foundation acted as a fiscal agent for the Evarts A. Graham Foundation, established by the American Association for Thoracic Surgery in 1951 for the purposes of supporting education and research. The fiscal agency funds representing undisbursed funds held by the Foundation as of June 30, 2011 totaled \$1,584,002. During January and February 2012, the Foundation returned the undisbursed funds to the Evarts A. Graham Foundation.

Note 9 – Concentration

During the year ended June 30, 2012, 82% of contribution revenue was provided by two donors. The related pledge receivable balances totaled \$1,207,500 as of June 30, 2012.

Note 10 – Related Parties

During the year ended June 30, 2012, STS made contributions to the Foundation totaling \$985,000. Of these contributions, \$77,500 was paid during fiscal 2012, and \$907,500 was included in pledges receivable as of June 30, 2012. The Foundation incurred \$79,247 in STS management fees during the year ended June 30, 2012, which was included in accrued expenses as of June 30, 2012.

Note 11 - Reclassifications

For comparability, the 2011 financial statements contain reclassifications where appropriate to conform to the financial statement presentation used in 2012.