

Thoracic Surgery Foundation  
for Research and Education

Financial Statements

February 29, 2012

**Thoracic Surgery Foundation for Research and Education  
Financial Statements  
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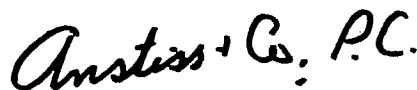
**Independent Auditor's Report**

To the Board of Directors of  
Thoracic Surgery Foundation for Research and Education

We have audited the accompanying statement of financial position of the Thoracic Surgery Foundation for Research and Education (the "Foundation") as of February 29, 2012, and the related statements of activities and cash flows for the eight months 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.

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 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 February 29, 2012, and the changes in its net assets and its cash flows for the eight months then ended, in conformity with accounting principles generally accepted in the United States of America.



Anstiss & Co., P.C.  
March 27, 2012

**Thoracic Surgery Foundation for Research and Education**  
**Statement of Financial Position**  
**As of February 29, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 584,691	\$ 34,056	\$ 618,747
Investments, at fair value (Note 4)	48,868	1,005,344	1,054,212
Pledges (Note 6)	-	151,284	151,284
Accounts receivable	5,000	-	5,000
Total current assets	<u>638,559</u>	<u>1,190,684</u>	<u>1,829,243</u>
Non-current assets			
Pledges (Note 6)	-	9,860	9,860
Total non-current assets	<u>-</u>	<u>9,860</u>	<u>9,860</u>
Total assets	<u>\$ 638,559</u>	<u>\$ 1,200,544</u>	<u>\$ 1,839,103</u>
<b>Liabilities and Net Assets</b>			
Current liabilities			
Accounts payable	\$ 124,557	\$ -	\$ 124,557
Grants payable (Note 7)	207,500	-	207,500
Total current liabilities	<u>332,057</u>	<u>-</u>	<u>332,057</u>
Non-current liabilities			
Grants payable (Note 7)	160,287	-	160,287
Total non-current liabilities	<u>160,287</u>	<u>-</u>	<u>160,287</u>
Total liabilities	<u>492,344</u>	<u>-</u>	<u>492,344</u>
Net assets			
Unrestricted	146,215	-	146,215
Temporarily restricted (Note 9)	-	1,200,544	1,200,544
Total net assets	<u>146,215</u>	<u>1,200,544</u>	<u>1,346,759</u>
Total liabilities and net assets	<u>\$ 638,559</u>	<u>\$ 1,200,544</u>	<u>\$ 1,839,103</u>

See the accompanying notes to these financial statements.

**Thoracic Surgery Foundation for Research and Education**  
**Statement of Activities and Changes in Net Assets**  
**For the Eight Months Ended February 29, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Operating Activities</b>			
<b>Revenue and Support</b>			
Contributions	\$ 162,233	\$ 1,000	\$ 163,233
Realized and unrealized gain (loss) on investments - net	(22,375)	12,241	(10,134)
Interest and dividends - net	23,400	26,828	50,228
Net assets released from restrictions (Note 9)	22,628	(22,628)	-
Total revenue	<u>185,886</u>	<u>17,441</u>	<u>203,327</u>
<b>Expenses</b>			
Program services			
Grants and awards	198,336	-	198,336
Education	13,045	-	13,045
Total program expenses	<u>211,381</u>	<u>-</u>	<u>211,381</u>
Supporting Expenses			
Development	14,323	-	14,323
Administrative	122,571	-	122,571
Total supporting expenses	<u>136,894</u>	<u>-</u>	<u>136,894</u>
Total expenses	348,275	-	348,275
<b>Change in net operating assets</b>	(162,389)	17,441	(144,948)
<b>Non-operating activity</b>			
Reclassifications - pledges	102,191	(102,191)	-
<b>Change in Net Assets</b>	(60,198)	(84,750)	(144,948)
<b>Net assets at July 1, 2011</b>	<u>206,413</u>	<u>1,285,294</u>	<u>1,491,707</u>
<b>Net assets at February 29, 2012</b>	<u>\$ 146,215</u>	<u>\$ 1,200,544</u>	<u>\$ 1,346,759</u>

See the accompanying notes to these financial statements.

**Thoracic Surgery Foundation for Research and Education**  
**Statement of Cash Flows**  
**For the Eight Months Ended February 29, 2012**

<b>Cash Flows from Operating Activities</b>	
Change in net assets	\$ (144,948)
Adjustments to reconcile decrease in net assets to net cash used by operating activities	
Realized and unrealized loss on investments	10,134
Decrease in pledges	102,191
Increase in accounts receivable	(5,000)
Decrease in investments - held for other organizations	1,499,246
Increase in accounts payable	109,462
Decrease in grants payable	(475,980)
Decrease in Graham foundation	<u>(1,584,002)</u>
Net cash used by operating activities	<u>(488,897)</u>
 <b>Cash Flows from Investing Activities</b>	
Proceeds from sale of investments	528,059
Purchase of investments	<u>(128,993)</u>
Net cash provided by investing activities	<u>399,066</u>
 <b>Net Decrease in Cash and Cash Equivalents</b>	 (89,831)
<b>Cash and Cash Equivalents at July 1, 2011</b>	<u>708,578</u>
<b>Cash and Cash Equivalents at February 29, 2012</b>	<u><u>\$ 618,747</u></u>

Supplemental information:

Cash paid during the period for:

Interest	\$ -
Income taxes	\$ -

See the accompanying notes to these financial statements.

**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 1 – Nature of Operations**

The Thoracic Surgery Foundation for Research and Education (the “Foundation”) was organized in 1992 as an educational, charitable and scientific corporation to provide services within the field of thoracic surgery and related fields. Incorporated in Illinois, the purposes of the Foundation are:

- To study and identify the educational needs in the field of thoracic surgery and related areas;
- To provide educational services, programs and materials concerning thoracic surgery and related areas to interested persons;
- To develop scholarships and assistance programs for members of the general public interested in pursuing a career in the field of thoracic surgery and related areas; and
- To encourage and promote research, development and education in the field of thoracic surgery and related areas.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual method, income and expenses are recognized when earned or accrued.

***Basis of Presentation***

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standard Codification (“ASC”) 958-205, “*Presentation of Financial Statements*.” Under ASC 958-205, the Foundation 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. In addition, the Foundation is required to present a statement of cash flows.

***Cash and Cash Equivalents***

The Foundation considers demand deposits, money market accounts and all other investments with an original maturity of three months or less to be cash and cash equivalents.

The Foundation maintains its cash in interest-bearing bank deposit accounts which are insured up to \$250,000 under the Federal Deposit Insurance Commission’s (“FDIC”) general deposit insurance rules and in noninterest-bearing bank deposit accounts which are insured in full under the FDIC’s Transaction Account Guarantee Program through December 31, 2012. After December 31, 2012, the Foundation’s noninterest-bearing bank deposit accounts will no longer be insured in full under the Transaction Account Guarantee Program, but will be insured up to \$250,000 under the FDIC’s general deposit insurance rules. The Foundation has not experienced any losses on such accounts and believes it is not exposed to any significant financial risk on cash.

**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Accounts Receivable***

The Foundation's accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for doubtful accounts. The Foundation does not charge interest on accounts receivable. On a periodic basis, the Foundation evaluates the accounts receivable, and establishes an allowance for doubtful accounts, based on the history of past write-offs, collections, and current credit conditions. As of February 29, 2012, there was no allowance for doubtful accounts.

***Investments***

The Foundation follows the provisions of ASC 958-320, "*Investments—Debt and Equity Securities*," whereby investments in marketable securities with readily determinable fair values are reported at their fair market values in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the accompanying statements of activities and changes in net assets.

The Foundation invests in professionally managed portfolios that contain equities, corporate bonds, government securities, real estate investment trusts, mutual funds and money market accounts. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

***Fair Value of Financial Instruments***

The Foundation follows the provisions of ASC 820-10, "*Fair Value Measurements and Disclosures*." ASC 820-10 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. ASC 820-10 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:



**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 2 – Summary of Significant Accounting Policies (continued)**

*Fair Value of Financial Instruments (continued)*

**Level 1** – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

**Level 2** – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

**Level 3** – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

ASC 825-10, "*Financial Instruments*," permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis.

***Concentration of Credit Risk***

As of February 29, 2012, two donors have remaining pledges that total \$160,550, which represent 42% of the total pledges receivable.

***Classification of Net Assets***

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**Unrestricted Net Assets**

Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets**

Net assets subject to donor imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Classification of Net Assets (continued)***

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes. As of February 29, 2012, the Foundation had no permanently restricted net assets.

The Foundation has interpreted relevant state law as generally permitting the spending of gains on endowment funds over a stipulated period of time. State law allows the Board to appropriate a portion of earnings on endowment as is prudent considering the Foundation's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Currently, the Foundation records unrealized gains on the permanently restricted net assets as temporarily restricted until appropriated by the Foundation.

Occasionally the invested balance of a permanently restricted fund will drop below its "historic value". In these situations an entry is recorded on the financial statements to reflect a liability from the unrestricted net asset balance to the permanently restricted net asset balance in an amount necessary to restore the permanently restricted fund to its historic amount. This "liability" is not legally enforceable against the unrestricted net assets of the Foundation.

***Revenue Recognition***

The Foundation follows ASC 958-605, "*Revenue Recognition*." In accordance with ASC 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Management has established an allowance for uncollectible promises which represent an estimate, discounted for present value, of promises to give which will be written off. Conditional promises to give are not included in support until the conditions are met.

Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets by fulfillment of the donor-stipulated purpose or by passage of the stipulated time period are reported as reclassifications between the applicable classes of net assets.

**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Donated Services***

No amounts have been reflected in the financial statements for donated services. The Foundation pays for most services requiring specific expertise. However, many members volunteer their time and perform a variety of tasks that assist the Foundation with its activities. Substantially all of these tasks are performed through donated services.

***Income Taxes and Uncertain Tax Positions***

The Foundation has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3) and is, therefore, generally exempt from federal and state income taxes. Accordingly, no provision for income taxes has been provided for in the accompanying financial statements.

ASC 740-10, “*Income Taxes*,” requires the Foundation to evaluate and disclose tax positions that could have an effect on the Foundation's financial statements. The Foundation reports its activities to the Internal Revenue Service, the State of Illinois, and the Commonwealth of Massachusetts on an annual basis. These informational returns are generally subject to audit and review by the governmental agencies for a period of three years after filing. Substantially all of the Foundation's income, expenditures and activities relate to its exempt purpose, therefore, management has determined that the Foundation is not subject to unrelated business income taxes and will continue to qualify as a tax-exempt not-for-profit entity.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 3 – Management Agreement**

The Professional Relations and Research Institute (“PRRI”) of Beverly, Massachusetts, maintained the books and records of the Foundation and performed other related managerial and administrative functions for which it was compensated. During the eight months ended February 29, 2012, PRRI service fees incurred were \$100,398.

**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 4 – Fair Value of Financial Instruments**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures (see Note 2). The following table presents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of February 29, 2012:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Investments:				
Equities	\$ 345,869	\$ 345,869	\$ -	\$ -
Mutual funds:				
Exchange traded mutual funds	248,334	248,334	-	-
International mutual funds	32,580	32,580	-	-
Closed-end bonds	11,378	11,378	-	-
Long-term bonds	4,826	4,826	-	-
Total mutual funds	297,118	297,118	-	-
Corporate bonds	239,194	-	239,194	-
International equity funds	144,681	144,681	-	-
Government and agency bonds	27,350	27,350	-	-
Total investments	<u>\$ 1,054,212</u>	<u>\$ 815,018</u>	<u>\$ 239,194</u>	<u>\$ -</u>

**Note 5 – Investment Income (Loss)**

Investment income (loss) for the eight months ended February 29, 2012 is summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 23,797	\$ 32,701	\$ 56,498
Unrealized gains (losses) - net	(5,138)	(7,318)	(12,456)
Investment fees	(397)	(5,873)	(6,270)
Realized gains (losses) - net	(17,237)	19,559	2,322
Total investment income	<u>\$ 1,025</u>	<u>\$ 39,069</u>	<u>\$ 40,094</u>

**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 6 – Pledges**

Pledges receivable at February 29, 2012 are as follows:

Receivable in less than one year	\$ 151,284
Receivable in one to five years	152,599
Receivable in more than five years	<u>79,203</u>
Total unconditional promises to give	383,086
Less: discounts to net present value (8%)	(62,942)
Less: allowance for uncollectible promises	<u>(159,000)</u>
Net pledges receivable	<u>\$ 161,144</u>

**Note 7 – Grants Payable**

Grants authorized but unpaid as of the date of the Statement of Financial Position are reported as liabilities in accordance with ASC 958-720-25, “Contributions Made.” Grants to be paid in more than one year are discounted. The following is a summary of grants authorized and payable as of February 29, 2012:

	<u>Gross Value</u>	<u>Present Value</u>
NIH/K08 Grants	\$ 325,000	\$ 308,528
NCI	<u>60,000</u>	<u>59,259</u>
Total grants payable	<u>\$ 385,000</u>	<u>\$ 367,787</u>

Future grants payable as of February 29<sup>th</sup> are summarized as follows:

	<u>Gross Value</u>	<u>Present Value</u>
2013	\$ 207,500	\$ 207,500
2014	127,500	118,055
2015	40,000	34,294
2016	<u>10,000</u>	<u>7,938</u>
Total grants payable	<u>\$ 385,000</u>	<u>\$ 367,787</u>

**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 8 – Endowment**

The Foundation's endowment consists of the donor-restricted Nina-Starr Braunwald Memorial Fund which was established to make career development awards and research fellowships for women in academic cardiothoracic surgery. Under the Foundation's investment policy, 73% of endowment assets are invested in equities, 24% are invested in bonds, and 3% are invested in cash. Distributions from endowment funds are made at the discretion of the Board of Directors. Net earnings (losses) of the fund (including realized and unrealized gains and losses, interest and dividend income and administration fees) amounting to \$28,375 have been included in Investment Income for the eight months ended February 29, 2012 (Note 5).

Endowment net asset composition by fund type as of February 29, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 751,091	\$ -	\$ 751,091
Total endowment funds	\$ -	\$ 751,091	\$ -	\$ 751,091

Changes in endowment net assets for the eight months ended February 29, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2011	\$ -	\$ 731,485	\$ -	\$ 731,485
Investment return:				
Investment income	-	33,941	-	33,941
Net appreciation (depreciation) – realized and unrealized	-	(5,566)	-	(5,566)
Total investment return	-	28,375	-	28,375
Contributions	-	500	-	500
Grants	-	-	-	-
Administrative expenses	-	(9,269)	-	(9,269)
Endowment net assets at February 29, 2012	\$ -	\$ 751,091	\$ -	\$ 751,091

**Thoracic Surgery Foundation for Research and Education**  
**Notes to Financial Statements**  
**February 29, 2012**

**Note 9 – Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

<i>Nina-Starr Braunwald Memorial Fund</i> – to make career development awards and research fellowships for women in academic cardiothoracic surgery	\$ 751,091
<i>Alley-Sheridan Fund</i> – to make awards to support surgeons participating in continuing education	288,309
<i>Pledges receivable</i> – time restricted	161,144
	\$ 1,200,544

Temporarily restricted net assets released from restrictions for the eight months ended February 29, 2012 are as follows:

	Grants and Awards	Administrative Expenses	Total
Nina-Starr Braunwald Memorial Fund	\$ -	\$ 9,269	\$ 9,269
Alley-Sheridan Fund	5,000	8,359	13,359
Total released from restrictions			\$ 22,628

The Foundation’s policy is to charge all development costs to unrestricted net assets. Administrative expenses are allocated based upon a percentage of an adjusted fund balance as of the end of the period. The administrative expense allocation to restricted net assets cannot exceed 50% of the total administrative expenses.

**Note 10 – Subsequent Events**

ASC 855-10, “Subsequent Events,” defines further disclosure requirements for events that occur after the statement of financial position date but before financial statements are issued. In accordance with ASC 855-10, the Foundation’s management has evaluated events subsequent from February 29, 2012 through March 27, 2012, which is the date the financial statements were available to be issued. There has been no material event noted during this period that would either impact the results reflected in this report or the Foundation’s results going forward.