

The Thoracic Surgery Foundation for Research and Education

**Financial Report
June 30, 2014**

The Thoracic Surgery Foundation for Research and Education

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Independent Auditor's Report

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

We have audited the accompanying financial statements of The Thoracic Surgery Foundation for Research and Education (TSFRE or the "Foundation"), which comprise the statement of financial position as of June 30, 2014 and 2013 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Thoracic Surgery Foundation for Research and Education as of June 30, 2014 and 2013 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.

Plante & Moran, PLLC

January 8, 2015

The Thoracic Surgery Foundation for Research and Education

Statement of Financial Position

	June 30, 2014			June 30, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Assets						
Current Assets						
Cash	\$ 532,790	\$ -	\$ 532,790	\$ 394,752	\$ -	\$ 394,752
Pledges receivable - Net	-	279,933	279,933	-	424,936	424,936
Prepaid expenses	1,653	-	1,653	16,958	-	16,958
Noncurrent Assets						
Investments	271,640	1,186,624	1,458,264	372,420	1,037,642	1,410,062
Pledges receivable - Net	-	273,217	273,217	-	539,141	539,141
Total assets	\$ 806,083	\$ 1,739,774	\$ 2,545,857	\$ 784,130	\$ 2,001,719	\$ 2,785,849
Liabilities and Net Assets						
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	\$ 10,916	\$ -	\$ 10,916	\$ 133,838	\$ -	\$ 133,838
Grants payable	346,250	-	346,250	317,500	-	317,500
Noncurrent - Grants payable	299,312	-	299,312	304,348	-	304,348
Total liabilities	656,478	-	656,478	755,686	-	755,686
Net Assets						
Unrestricted	149,605	-	149,605	28,444	-	28,444
Temporarily restricted	-	1,739,774	1,739,774	-	2,001,719	2,001,719
Total net assets	149,605	1,739,774	1,889,379	28,444	2,001,719	2,030,163
Total liabilities and net assets	\$ 806,083	\$ 1,739,774	\$ 2,545,857	\$ 784,130	\$ 2,001,719	\$ 2,785,849

The Thoracic Surgery Foundation for Research and Education

Statement of Activities and Changes in Net Assets

	Year Ended					
	June 30, 2014			June 30, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support						
Contributions	\$ 159,459	\$ 68,940	\$ 228,399	\$ 150,763	\$ 102,374	\$ 253,137
Interest and dividends (net of investment fees of \$8,289 for 2014 and \$7,754 for 2013)	736	28,192	28,928	-	26,179	26,179
Net realized and unrealized gains and losses on investments	5,813	165,097	170,910	-	78,977	78,977
Net assets released from restrictions	524,174	(524,174)	-	721,237	(721,237)	-
Total revenue, gains, and other support	690,182	(261,945)	428,237	872,000	(513,707)	358,293
Expenses						
Program:						
Grants and awards	359,964	-	359,964	345,000	-	345,000
Education	25,817	-	25,817	36,497	-	36,497
Administrative	183,240	-	183,240	232,782	-	232,782
Total expenses	569,021	-	569,021	614,279	-	614,279
Increase (Decrease) in Net Assets	121,161	(261,945)	(140,784)	257,721	(513,707)	(255,986)
Net Assets - Beginning of year	28,444	2,001,719	2,030,163	(229,277)	2,515,426	2,286,149
Net Assets - End of year	\$ 149,605	\$ 1,739,774	\$ 1,889,379	\$ 28,444	\$ 2,001,719	\$ 2,030,163

The Thoracic Surgery Foundation for Research and Education

Statement of Cash Flows

	Year Ended	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (140,784)	\$ (255,986)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Realized and unrealized gain on investments	(170,910)	(78,977)
Decrease (increase) in:		
Pledges receivable	410,927	487,163
Prepaid expenses	15,305	(16,958)
(Decrease) increase in:		
Accounts payable	(122,922)	(70,827)
Grants payable	23,714	(62,500)
Net cash provided by operating activities	<u>15,330</u>	<u>1,915</u>
Cash Flows from Investing Activities		
Proceeds from sales of investments	303,329	410,395
Purchases of investments	<u>(180,621)</u>	<u>(257,638)</u>
Net cash provided by investing activities	<u>122,708</u>	<u>152,757</u>
Net Increase in Cash	138,038	154,672
Cash - Beginning of year	<u>394,752</u>	<u>240,080</u>
Cash - End of year	<u><u>\$ 532,790</u></u>	<u><u>\$ 394,752</u></u>

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements June 30, 2014 and 2013

Note I - Nature of Business and Significant Accounting Policies

Nature of Organization - The Thoracic Surgery Foundation for Research and Education (TSFRE or the "Foundation") 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.

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-scientists in cardiothoracic surgery, increasing knowledge and innovation to benefit patient care.

TSFRE supports research and education initiatives to:

- (a) Expand the specialty's knowledge about cardiothoracic surgical treatment options
- (b) Enhance the care of patients with cardiothoracic diseases
- (c) Develop the skills of cardiothoracic surgeons both as surgeon-scientists and as health policy leaders

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 and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Major Contributors - During the year ended June 30, 2014 and 2013, there were no individual contributions that were greater than 10 percent of total contribution revenue. The pledge receivable balances from related parties approximated \$470,000 and \$882,000 as of June 30, 2014 and 2013, respectively.

Cash - The Foundation maintains its cash in U.S. bank accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

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.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements June 30, 2014 and 2013

Note I - Nature of Business and Significant Accounting Policies (Continued)

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 are included in the statement of activities and changes in net assets 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 risk 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 amounts reported in the financial statements.

Grants Payable - The Foundation awards grants to selected organizations for research and educational initiative 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 expensed during fiscal years 2014 and 2013.

Classification of Net Assets - Net assets of the Foundation are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Foundation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. The Foundation currently does not have any permanently restricted net assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements June 30, 2014 and 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Federal Income Taxes - The Foundation is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2011.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including January 8, 2015, which is the date the financial statements were available to be issued.

Note 2 - Pledges Receivable

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

	2014	2013
Receivable in less than one year	\$ 279,933	\$ 424,936
Receivable in one to five years	317,500	586,913
Receivable in over five years	66,500	90,500
Total	663,933	1,102,349
Less allowance for uncollectible pledges	(109,049)	(135,799)
Less present value discount	(1,734)	(2,473)
Net unconditional promises to give	\$ 553,150	\$ 964,077

The discount rate used in determining the net present value of unconditional pledges receivable is .88 percent and .66 percent as of June 30, 2014 and 2013, respectively.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Fair Value Measurements (Continued)

The following tables present information about TSFRE's assets measured at fair value on a recurring basis at June 30, 2014 and 2013 and the valuation techniques used by TSFRE to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that TSFRE has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. The Foundation currently does not utilize any Level 3 inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. TSFRE's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2014
Investments:				
Money market funds	\$ 23,010	\$ -	\$ -	\$ 23,010
Fixed income - Mutual funds	607,107	-	-	607,107
Equities - Mutual funds	633,293	-	-	633,293
Other - Mutual funds	194,854	-	-	194,854
Total assets	<u>\$ 1,458,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,458,264</u>

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2013
Investments:				
Money market funds	\$ 319,241	\$ -	\$ -	\$ 319,241
Fixed income - Government and agency bonds	-	10,992	-	10,992
Fixed income - Corporate bonds	-	239,111	-	239,111
Fixed income - Mutual funds	13,067	-	-	13,067
Equities - Large-cap	343,705	-	-	343,705
Equities - Mutual funds	344,184	-	-	344,184
Foreign assets - Equities	85,141	-	-	85,141
Foreign assets - Mutual funds	9,306	-	-	9,306
Other	45,315	-	-	45,315
Total assets	<u>\$ 1,159,959</u>	<u>\$ 250,103</u>	<u>\$ -</u>	<u>\$ 1,410,062</u>

The fair values of fixed income - government and agency bonds and fixed income - corporate bonds were based on similar investments that are traded on a secondary market.

Note 4 - Investment Income

The details of the Foundation's investment income are as follows at June 30:

	2014	2013
Interest and dividends	\$ 37,217	\$ 33,933
Net realized gains on investments	50,425	37,108
Unrealized gain on investments	120,485	41,869
Investment fees	(8,289)	(7,754)
Total	<u>\$ 199,838</u>	<u>\$ 105,156</u>

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements June 30, 2014 and 2013

Note 5 - Grants Payable

Total grants awarded in 2014 and 2013 amounted to \$359,964 and \$345,000, respectively. The following is a schedule by year of remaining payments under grants awarded as of June 30, 2014.

Years Ending June 30	Amount
2015	\$ 346,250
2016	200,000
2017	60,000
2018	30,000
2019	10,000
Total	646,250
Less present value discount	(688)
Net	<u>\$ 645,562</u>

The discount rate used in determining the net present value of unconditional pledges payable is .88 and .67 percent as of June 30, 2014 and 2013, respectively.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Purpose-restricted:		
Nina-Starr Braunwald Memorial Fund - To make career development awards and research fellowships for women in academic cardiothoracic surgery	\$ 730,095	\$ 733,996
Alley-Sheridan Fund - To make awards to support surgeons participating in continuing education	357,458	303,646
Carolyn Reed Traveling Fellowship Fund - To make awards to allow a clinically established woman thoracic surgeon to travel to another institution for the purpose of learning a new skill or technology	99,071	-
Time-restricted - Pledges receivable	<u>553,150</u>	<u>964,077</u>
Total	<u>\$ 1,739,774</u>	<u>\$ 2,001,719</u>

The Thoracic Surgery Foundation for Research and Education

Notes to Financial Statements June 30, 2014 and 2013

Note 7 - Related Party Transactions

During the years ended June 30, 2014 and 2013, STS made no contributions to TSFRE. STS made payments on its pledge of \$357,707 and \$230,000 during fiscal years 2014 and 2013, respectively. A total of \$430,000 and \$740,000 were included in pledges receivable as of June 30, 2014 and 2013, respectively. TSFRE incurred \$189,562 and \$186,578 in STS management fees during the years ended June 30, 2014 and 2013, respectively, none of which was included in accrued expenses as of June 30, 2014 and 2013, respectively.

Effective August 20, 2014, TSFRE's bylaws were amended, and its Board members are now appointed by the STS Board of Directors.