

# **The Thoracic Surgery Foundation for Research and Education**

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**Financial Report  
December 31, 2015**

# **The Thoracic Surgery Foundation for Research and Education**

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## **Contents**

<b>Report Letter</b>	<b>I</b>
<b>Financial Statements</b>	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-11

## 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 December 31, 2015 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.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Thoracic Surgery Foundation for Research and Education as of December 31, 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

May 10, 2016

# The Thoracic Surgery Foundation for Research and Education

## Statement of Financial Position December 31, 2015

	Unrestricted	Temporarily Restricted	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 644,356	\$ -	\$ 644,356
Pledges receivable - Net	-	114,000	114,000
Prepaid expenses	5,077	-	5,077
Due from related party	245,875	-	245,875
<b>Noncurrent Assets</b>			
Investments	39,163	1,192,787	1,231,950
Pledges receivable - Net	-	13,500	13,500
Total assets	<u>\$ 934,471</u>	<u>\$ 1,320,287</u>	<u>\$ 2,254,758</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 11,337	\$ -	\$ 11,337
Grants payable	245,000	-	245,000
Total liabilities	256,337	-	256,337
<b>Net Assets</b>			
Unrestricted:			
Undesignated	275,134	-	275,134
Board designated	403,000	-	403,000
Temporarily restricted	-	1,320,287	1,320,287
Total net assets	<u>678,134</u>	<u>1,320,287</u>	<u>1,998,421</u>
Total liabilities and net assets	<u>\$ 934,471</u>	<u>\$ 1,320,287</u>	<u>\$ 2,254,758</u>

# The Thoracic Surgery Foundation for Research and Education

## Statement of Activities and Changes in Net Assets Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
<b>Revenue, Gains, and Other Support</b>			
Contributions	\$ 274,663	\$ 192,759	\$ 467,422
Contributions from related party	413,000	-	413,000
Interest and dividends (net of investment fees of \$10,735 for the year ended December 31, 2015)	1,615	37,166	38,781
Net realized and unrealized losses on investments	(5,358)	(115,720)	(121,078)
Net assets released from restrictions	251,650	(251,650)	-
Total revenue, gains, and other support	935,570	(137,445)	798,125
<b>Expenses</b>			
Program - Education	481,043	-	481,043
Administrative	301,264	-	301,264
Total expenses	782,307	-	782,307
<b>Increase (Decrease) in Net Assets</b>	153,263	(137,445)	15,818
<b>Net Assets</b> - Beginning of Year	524,871	1,457,732	1,982,603
<b>Net Assets</b> - End of Year	<u>\$ 678,134</u>	<u>\$ 1,320,287</u>	<u>\$ 1,998,421</u>

# The Thoracic Surgery Foundation for Research and Education

## Statement of Cash Flows Year ended December 31, 2015

### Cash Flows from Operating Activities

Increase in net assets	\$	15,818
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized and unrealized loss on investments		121,078
Increase in assets:		
Pledges receivable		28,266
Prepaid expenses		17,967
Due from related party		184,125
Increase (decrease) in liabilities:		
Accounts payable		2,724
Grants payable		(84,312)
Bad debt expense		29,451
Net cash provided by operating activities		<u>315,117</u>

### Cash Flows from Investing Activities

Proceeds from sales of investments		401,688
Purchases of investments		<u>(511,902)</u>
Net cash used in investing activities		<u>(110,214)</u>

**Net Increase in cash** 204,903

**Cash - Beginning of year** 439,453

**Cash - End of year** \$ 644,356

# The Thoracic Surgery Foundation for Research and Education

## Notes to Financial Statements December 31, 2015

### Note 1 - Nature of Business and Significant Accounting Policies

**Nature of Organization** - The Thoracic Surgery Foundation for Research and Education (TSFRE or the "Foundation") was first established in 1988 as a 501(c)(3) not-for-profit charitable organization. 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.

On October 1, 2014, TSFRE became the charitable arm of The Society of Thoracic Surgeons. Prior to this time, the TSFRE board of directors was composed of members of 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). The Society of Thoracic Surgeons has issued consolidated financial statements, which include TSFRE's activity for the period from January 1, 2015 to December 31, 2015.

On January 25, 2015, a resolution was adopted by the TSFRE board of directors to change the TSFRE fiscal year to occur from January 1 through December 31, instead of from July 1 through June 30.

**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 December 31, 2015, there was one contribution above 10 percent of contribution revenue, including \$150,000 for the Edwards Lifesciences Every Heartbeat Matters Fund.

**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

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**Notes to Financial Statements**  
**December 31, 2015**

## **Note 1 - 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 individuals and 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 for the year ended December 31, 2015.

**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 December 31, 2015

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

**Federal Income Taxes** - The Foundation is exempt from income tax under the 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 the year ended December 31, 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

**Functional Allocation of Expenses** - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including May 10, 2016, 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 December 31, 2015.

Receivable in less than one year	\$ 114,000
Receivable in one to five years	97,000
Receivable in over five years	<u>55,000</u>
Total	266,000
Less allowance for uncollectible pledges	<u>(138,500)</u>
Net unconditional promises to give	<u><u>\$ 127,500</u></u>

# **The Thoracic Surgery Foundation for Research and Education**

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## **Notes to Financial Statements December 31, 2015**

### **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 following tables present information about TSFRE's assets measured at fair value on a recurring basis at December 31, 2015 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.

# The Thoracic Surgery Foundation for Research and Education

## Notes to Financial Statements December 31, 2015

### Note 3 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Investments:				
Money market funds	\$ 40,139	\$ -	\$ -	\$ 40,139
Fixed income - Mutual funds	523,252	-	-	523,252
Equities - Mutual funds	449,532	-	-	449,532
Other - Mutual funds	219,027	-	-	219,027
Total assets	<u>\$ 1,231,950</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,231,950</u>

The Foundation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the beginning of the year of change in circumstances that caused the transfer. There were no transfers recognized during the year ended December 31, 2015.

### Note 4 - Investment Income

The details of the Foundation's investment income are as follows at December 31:

Interest and dividends	\$ 49,516
Net realized gains on investments	12,572
Unrealized losses on investments	(133,650)
Investment fees	(10,735)
Total	<u>\$ (82,297)</u>

### Note 5 - Grants Payable

Total grants awarded for the year ended December 31, 2015 amounted to \$480,355. The following is a schedule by year of remaining payments under grants awarded as of December 31, 2015:

<u>Years Ending December 31</u>	<u>Amount</u>
2016	\$ 95,000
2017	100,000
2018	40,000
2019	10,000
Total	<u>\$ 245,000</u>

# The Thoracic Surgery Foundation for Research and Education

## Notes to Financial Statements December 31, 2015

### Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2015 are available for the following purposes:

Purpose-restricted:

Nina-Starr Braunwald Memorial Fund - To make career development awards and research fellowships available for women in academic cardiothoracic surgery	\$ 562,373
Alley-Sheridan Fund - To make awards to support surgeons participating in continuing education	302,868
Carolyn Reed Traveling Fellowship Fund - To provide support for clinically established women thoracic or cardiac surgeons or women residents in their last year of cardiothoracic surgery residency to travel to another institution for the purpose of learning a new skill or technology	81,654
Edwards Lifesciences Every Heart Beat Matters Fund - To make awards to support qualified surgeons to conduct charitable outreach to underserved regions and populations	150,000
Michael Davidson Fellowship - To support cardiothoracic surgeons who have completed their formal residency training and who are seeking to enhance their surgical skills in transcatheter valve techniques	26,750
Acelity Research Grant - To support the research efforts by cardiothoracic surgeons who have completed their formal training and who are seeking support and recognition for their research program related to wound care management	25,000
Watkins Fellowship - To support travel to a center of excellence to acquire additional clinical, translational, or leadership training to enhance skills and practice in an area of innovation or surgical significance	15,000
Time restricted - Pledges receivable	51,642
Time and purpose restricted:	
Graham Grant - To fund 2012 awards with funding obligations through 2016	30,000
STSA - To provide operational support of original research efforts by cardiothoracic surgeons who have completed their formal training and who are seeking initial support and recognition for their research program	<u>75,000</u>
Total	<u>\$ 1,320,287</u>

# **The Thoracic Surgery Foundation for Research and Education**

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## **Notes to Financial Statements December 31, 2015**

### **Note 7 - Related Party Transactions**

During the year ended December 31, 2015, STS made \$413,000 of funding support to TSFRE. STS made payments on its related party receivable of \$190,000 during the year ended December 31, 2015. TSFRE had a total of \$245,875 due from STS as of December 31, 2015. TSFRE incurred \$194,222 in STS management fees during the year ended December 31, 2015, none of which was included in accrued expenses as of December 31, 2015.

### **Note 8 - Reclassification**

Effective August 20, 2014, TSFRE's bylaws were amended and its board members are now appointed by the STS board of directors. Due to the bylaws amendment, temporarily restricted net assets totaling \$443,574 that resulted from cumulative but unreleased contributions received from STS through December 31, 2014 have been reclassified to board-designated net assets because they no longer qualify as temporarily restricted net assets under accounting principles generally accepted in the United States of America.