

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

# INTERNATIONAL HEALTH ECONOMICS ASSOCIATION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
International Health Economics Association  
Philadelphia, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the International Health Economics Association (the "Organization"), which comprise the statement of assets and net assets - modified cash basis as of August 31, 2013, and the related statements of revenues and expenses - modified cash basis, functional expenses - modified cash basis, and cash flows - modified cash basis 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 the modified cash basis of accounting as described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 of 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 Organization'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 Organization'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 2013 financial statements referred to above present fairly, in all material respects, the statement of assets and net assets of the International Health Economics Association as of August 31, 2013, and its revenues and expenses and its cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note A.

## **Basis of Accounting**

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

## **Prior Period Financial Statements**

The financial statements of the International Health Economics Association as of and for the year ended August 31, 2012, were audited by other auditors whose report dated January 23, 2013 expressed an unmodified opinion on those statements.

*Elko & Associates Ltd*

Media, Pennsylvania  
July 28, 2014

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
STATEMENTS OF ASSETS AND NET ASSETS - MODIFIED CASH BASIS

		AUGUST 31,	
		2013	2012
<b>ASSETS</b>			
Cash and cash equivalents		\$ 273,258	\$ 113,232
Marketable securities		941,236	938,170
<b>TOTAL ASSETS</b>		<b>\$ 1,214,494</b>	<b>\$ 1,051,402</b>
<b>NET ASSETS</b>			
Unrestricted		\$ 1,214,494	\$ 1,002,705
Temporarily restricted		-	48,697
<b>TOTAL NET ASSETS</b>		<b>\$ 1,214,494</b>	<b>\$ 1,051,402</b>

The accompanying Notes are an integral part of these statements.

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
 STATEMENTS OF REVENUE AND EXPENSES - MODIFIED CASH BASIS  
 FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	2013			2012		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
Support and Revenue						
Program services	\$ 1,146,130	\$ -	\$ 1,146,130	\$ 65,470	\$ -	\$ 65,470
Grants	25,000	-	25,000	4,800	-	4,800
Contributions	104,183	-	104,183	105,000	-	105,000
Memberships	169,633	-	169,633	67,216	-	67,216
Unrealized gain (loss) on investments	61,397	-	61,397	(240)	-	(240)
Realized gain (loss) on investments	12,940	-	12,940	(3,957)	-	(3,957)
Dividend and interest income	28,732	-	28,732	22,307	-	22,307
Net assets released from restriction	48,697	(48,697)	-	108,228	(108,228)	-
Total Support and Revenue	<u>1,596,712</u>	<u>(48,697)</u>	<u>1,548,015</u>	<u>368,824</u>	<u>(108,228)</u>	<u>260,596</u>
Expenses:						
Program services	1,233,427	-	1,233,427	922,016	-	922,016
Management and general	98,057	-	98,057	84,973	-	84,973
Fundraising	53,439	-	53,439	-	-	-
Total Expenses	<u>1,384,923</u>	<u>-</u>	<u>1,384,923</u>	<u>1,006,989</u>	<u>-</u>	<u>1,006,989</u>
CHANGE IN NET ASSETS	211,789	(48,697)	163,092	(638,165)	(108,228)	(746,393)
NET ASSETS - BEGINNING OF YEAR	<u>1,002,705</u>	<u>48,697</u>	<u>1,051,402</u>	<u>1,640,870</u>	<u>156,925</u>	<u>1,797,795</u>
NET ASSETS - END OF YEAR	<u>\$ 1,214,494</u>	<u>\$ -</u>	<u>\$ 1,214,494</u>	<u>\$ 1,002,705</u>	<u>\$ 48,697</u>	<u>\$ 1,051,402</u>

The accompanying Notes are an integral part of these statements.

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
 STATEMENTS OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS  
 FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	2013				2012		
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Total Expenses
Accounting	\$ -	\$ 8,989	\$ -	\$ 8,989	\$ -	\$ 9,084	\$ 9,084
Bank charges	50,610	8,931	-	59,541	5,648	997	6,645
Conferences	680,642	-	-	680,642	484,371	-	484,371
Consultants	98,797	19,759	13,173	131,729	89,153	15,733	104,886
Scholarships and awards	77,614	-	-	77,614	-	-	-
Management fees	253,125	50,625	33,750	337,500	302,593	53,399	355,992
Office and occupancy	32,248	1,791	1,791	35,830	9,937	523	10,460
Printing and publications	-	-	-	-	643	-	643
Technology	18,340	3,237	-	21,577	6,537	1,154	7,691
Travel	22,051	4,725	4,725	31,501	23,134	4,083	27,217
<b>TOTAL</b>	<b>\$ 1,233,427</b>	<b>\$ 98,057</b>	<b>\$ 53,439</b>	<b>\$ 1,384,923</b>	<b>\$ 922,016</b>	<b>\$ 84,973</b>	<b>\$ 1,006,989</b>

The accompanying Notes are an integral part of these statements.

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

	FOR THE YEARS ENDED	
	AUGUST 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 163,092	\$ (746,393)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Reinvested dividends	(28,732)	(22,307)
Unrealized (gain) loss on investments	(61,397)	240
Realized (gain) loss on investments	(12,940)	3,957
Net Cash Provided by (Used in) Operating Activities	60,023	(764,503)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(329,413)	-
Proceeds from sale of investments	429,416	150,000
Net Cash Provided by Investing Activities	100,003	150,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	160,026	(614,503)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	113,232	727,735
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 273,258	\$ 113,232

The accompanying Notes are an integral part of these statements.



INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE A - Summary of Significant Accounting Policies

Nature of Organization - The International Health Economics Association ("IHEA") (the "Organization") was formed to increase communication among health economists, foster a higher standard of debate in the application of economics to health and health care systems, and assist young researchers at the start of their careers. IHEA awards the annual Kenneth J. Arrow Award for the best paper in health economics, and the Kauffman Award for the best paper in healthcare entrepreneurship. IHEA distributes health economics-related journals and information to members and maintains the World Directory of Health Economists. IHEA also holds biennial international conferences on health economics.

Basis of Presentation - The accompanying financial statements have been prepared on the modified cash basis of accounting. Accordingly, revenue is recorded when received rather than when earned, and expenses are recorded when paid rather than when the obligation is incurred. In addition, marketable securities are stated at fair value, with the corresponding unrealized gains and losses recognized in the statements of revenues and expenses - modified cash basis. Also, deferred compensation for the benefit of the Executive Director is not recognized until it is paid. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Organization's net assets are classified as unrestricted and temporarily restricted.

Unrestricted net assets are those not subject to any donor-imposed restrictions. Temporarily restricted net assets are those subject to donor-imposed use or time restrictions that expire either when the contributions are used for their stipulated purposes or when the time restrictions expire. Permanently restricted net assets are those subject to donor-imposed restrictions that neither expire with the passage of time nor can be met and removed by actions of the Organization.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions which affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the statement of cash flows, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents. The Organization maintains its cash balances in two financial institutions. Accounts at one institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of August 31, 2013, the uninsured balance was \$5,771. The Organization also maintains an account at an institution in Canada, which is insured by the Canada Deposit Insurance Corporation (CDIC) up to \$100,000. The Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

Investments - The Organization carries investments in marketable securities with readily determinable fair values at fair value based on quoted prices in active markets.

Program Service Revenue - Program service revenue includes registrations for conferences held by the Organization, as well as fees received in support of other similar organizations.

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE A - Summary of Significant Accounting Policies - continued

**Income Taxes** - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from state income taxes under the provisions of the Pennsylvania Nonprofit Corporation Law. Donors may deduct contributions to the Organization in accordance with the provisions of Section 170(b)(1)(A) of the Code, and the Organization has been classified as an organization that is not a private foundation under the provisions of Section 509(a)(2) of the Code.

The Organization's tax filings for fiscal 2010, 2011 and 2012 are subject to examination, generally for three years after they were filed.

**Functional Allocation of Expenses** - The cost of providing various programs and other activities has been summarized on a functional basis in the Statements of Revenues and Expenses — Modified Cash Basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Concentration of Income Sources** - The Organization's biennial international conference produced approximately 80% and 65% of the total revenue for the years ended August 31, 2013 and 2012, respectively.

NOTE B - Marketable Securities and Fair Value Measurements

Marketable securities consist of mutual funds. As of August 31, 2013 and 2012, the cost was \$864,085 and \$922,416 with an estimated fair value of \$941,236 and \$938,170, resulting in a net unrealized holding gain of \$77,151 and \$15,754 at August 31, 2013 and 2012, respectively. There was a realized gain of \$12,940 and a realized loss of \$3,957 on securities for the years ended August 31, 2013 and 2012, respectively.

Fair value is 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. The asset or liability'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 of measurement. Valuation techniques used to measure fair value need to maximize the use of observable inputs and minimize the use of unobservable inputs. Valuation techniques used to measure fair value are defined 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: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in inactive markets; (c) inputs other than quoted prices that are observable for the asset or liability and (d) 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.

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

## NOTE B - Marketable Securities and Fair Value Measurements - continued

The following table sets forth the Organization's investments (all are carried at fair value and are based on Level 1 inputs):

	<u>2013</u>	<u>2012</u>
Mutual funds		
U.S. stocks and equities	\$ 426,695	\$ 419,101
International stocks and equities	495,763	519,069
Bonds	<u>18,778</u>	<u>-</u>
Total marketable securities	<u>\$ 941,236</u>	<u>\$ 938,170</u>

## NOTE C - Restrictions on Net Assets

Temporarily restricted net assets represents grants received, and are available for project expenses to be incurred for the following purposes:

	<u>2013</u>	<u>2012</u>
Production of an e-journal	\$ -	\$ 22,297
Healthcare entrepreneurship research	<u>-</u>	<u>26,400</u>
Total temporarily restricted net assets	<u>\$ -</u>	<u>\$ 48,697</u>

## NOTE D - Related Party Transactions

The Organization engaged a consulting firm (whose owners include certain directors of the Organization) to perform services related to coordinating the conferences that are held every other year. Management fees paid to this consulting firm for the years ended August 31, 2013 and 2012 were \$337,500 and \$324,250, respectively.

The Organization's facilities are provided at no charge by the executive director. The estimated fair rental value of \$4,800 for each of the years ended August 31, 2013 and 2012 was recorded as grant revenue and occupancy expense.

## NOTE E - Deferred Compensation Commitment

The Organization has a deferred compensation agreement for the benefit of the current Executive Director. The agreement requires a benefit equal to one-twelfth of annual compensation for each year of service beginning with 1994, to be paid upon separation from the Organization for any reason other than termination for cause. During the year ended August 31, 2013, the Organization transferred \$169,413, representing the commitment as of December 2012, into a dedicated account, which is included in marketable securities on the statement of assets and net assets - modified cash basis.

## NOTE F - Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 28, 2014, the date these financial statements were available to be issued.