

WeiserMazars LLP

International Health Economics Association

**Financial Statements
August 31, 2012 and 2011**



International Health Economics Association

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August 31, 2012 and 2011

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Independent Auditors' Report

To the Board of Directors of
International Health Economics Association

We have audited the accompanying statements of assets and net assets - modified cash basis of International Health Economics Association (the "Organization") as of August 31, 2012 and 2011, and the related statements of revenues and expenses – modified cash basis, functional expenses – modified cash basis and cash flows - modified cash basis for the years then ended. These financial statements are the responsibility of the Organization's management. 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 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 audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of assets and net assets of International Health Economics Association as of August 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

WeiserMazars LLP

January 23, 2013

International Health Economics Association
Statements of Assets and Net Assets - Modified Cash Basis
August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash	\$ 113,232	\$ 727,735
Marketable securities	<u>938,170</u>	<u>1,070,060</u>
Total assets	<u>\$ 1,051,402</u>	<u>\$ 1,797,795</u>
Net assets		
Unrestricted	\$ 1,002,705	\$ 1,640,870
Temporarily restricted	<u>48,697</u>	<u>156,925</u>
Total net assets	<u>\$ 1,051,402</u>	<u>\$ 1,797,795</u>

The accompanying notes are an integral part of these financial statements.

International Health Economics Association
Statements of Revenues and Expenses - Modified Cash Basis
Years Ended August 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Program services	\$ 65,470	\$ -	\$ 65,470	\$ 1,141,304	\$ -	\$ 1,141,304
Grants	4,800	-	4,800	55,392	31,250	86,642
Contributions	105,000	-	105,000	218,960	-	218,960
Memberships	67,216	-	67,216	209,792	-	209,792
Unrealized (loss) gain on investments	(240)	-	(240)	63,760	-	63,760
Realized loss on investments	(3,957)	-	(3,957)	-	-	-
Dividend and interest income	22,307	-	22,307	24,269	-	24,269
Net assets released from restrictions by satisfaction of program restrictions	108,228	(108,228)	-	-	-	-
Total support and revenue	368,824	(108,228)	260,596	1,713,477	31,250	1,744,727
Expenses						
Program services	922,016	-	922,016	1,043,769	-	1,043,769
Management and general	84,973	-	84,973	129,816	-	129,816
Total expenses	1,006,989	-	1,006,989	1,173,585	-	1,173,585
Change in net assets	(638,165)	(108,228)	(746,393)	539,892	31,250	571,142
Net assets						
Beginning	1,640,870	156,925	1,797,795	1,100,978	125,675	1,226,653
Ending	<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>

The accompanying notes are an integral part of these financial statements.

International Health Economics Association

Statements of Cash Flows - Modified Cash Basis

Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$(746,393)	\$ 571,142
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Reinvested dividends	(22,307)	(23,852)
Unrealized loss (gain) on investments	240	(63,760)
Realized loss on investments	<u>3,957</u>	<u>-</u>
Net cash (used in) provided by operating activities	(764,503)	483,530
Cash flows from investing activities		
Proceeds from sale of marketable securities	<u>150,000</u>	<u>-</u>
Net (decrease) increase in cash	(614,503)	483,530
Cash		
Beginning	<u>727,735</u>	<u>244,205</u>
Ending	<u>\$ 113,232</u>	<u>\$ 727,735</u>

The accompanying notes are an integral part of these financial statements.

International Health Economics Association
Statements of Functional Expenses - Modified Cash Basis
Years Ended August 31, 2012 and 2011

	2012			2011		
	Program Services	Management and General	Total Expenses	Program Services	Management and General	Total Expenses
Accounting	\$ -	\$ 9,084	\$ 9,084	\$ -	\$ 14,396	\$ 14,396
Bank charges	5,648	997	6,645	40,235	7,100	47,335
Conferences	484,371	-	484,371	315,766	-	315,766
Consultants	89,153	15,733	104,886	135,062	23,835	158,897
Management fees	302,593	53,399	355,992	322,856	56,974	379,830
Office and occupancy	9,937	523	10,460	24,803	1,305	26,108
Printing and publications	643	-	643	2,155	-	2,155
Technology	6,537	1,154	7,691	100,106	17,666	117,772
Travel	23,134	4,083	27,217	48,391	8,540	56,931
Scholarship	-	-	-	54,395	-	54,395
Total	<u>\$ 922,016</u>	<u>\$ 84,973</u>	<u>\$ 1,006,989</u>	<u>\$ 1,043,769</u>	<u>\$ 129,816</u>	<u>\$ 1,173,585</u>

The accompanying notes are an integral part of these financial statements.

International Health Economics Association
Notes to Financial Statements – Modified Cash Basis
Years Ended August 31, 2012 and 2011

1. Organization and Nature of Activities

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.

2. Summary of Significant Accounting Policies

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 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 statement of revenues and expenses - modified cash basis.

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 accompanying financial statements are prepared on the modified cash basis of accounting which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at 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.

Cash

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. At times, the balances exceeded the FDIC limit. The Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

The Organization also maintains accounts at one institution in Canada, which is insured by the Canada Deposit Insurance Corporation (CDIC) up to \$100,000. At times, the balances exceeded the CDIC limit. 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 their fair values in the Statements of Assets and Net Assets – Modified Cash Basis.

International Health Economics Association
Notes to Financial Statements – Modified Cash Basis
Years Ended August 31, 2012 and 2011

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.

Memberships

Memberships are recorded as revenue on a cash basis. No determination has been made concerning the amount of deferred dues income at year-end.

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 files informational returns in the U.S. Federal jurisdiction. The Organization is no longer subject to U.S. Federal income tax examinations by tax authorities for years ended before 2009.

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 65% and 79% of the total revenue for the years ended August 31, 2012 and 2011, respectively.

Subsequent Events

The Organization has evaluated subsequent events through January 23, 2013, the date these financial statements were available for issuance.

3. Marketable Securities

Marketable securities consist of mutual funds. As of August 31, 2012 and 2011, the cost was \$922,416 and \$1,054,066 with an estimated fair value of \$938,170 and \$1,070,060, resulting in a net unrealized holding gain of \$15,754 and \$15,994 at August 31, 2012 and 2011, respectively. There was a realized loss of \$3,957 on securities classified as available-for-sale for the year ended August 31, 2012.

The Organization's investments are stated at fair value. 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.

International Health Economics Association
Notes to Financial Statements – Modified Cash Basis
Years Ended August 31, 2012 and 2011

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.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes that its valuation methods are appropriate and consistent with other markets’ participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the Organization’s fair value hierarchy for the above assets measured at fair value on a recurring basis as of August 31, 2012 and 2011:

	Quoted Market Prices in Active Markets For Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	<u> </u>	<u> </u>	<u> </u>
Mutual funds, August 31, 2012	\$ 938,170	\$ -	\$ -
Mutual funds, August 31, 2011	\$ 1,070,060	\$ -	\$ -

4. 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>2012</u>	<u>2011</u>
Establishment of a program in Africa	\$ -	\$ 56,775
Production of an e-journal	22,297	68,900
Healthcare entrepreneurship research	26,400	31,250
	<u>\$ 48,697</u>	<u>\$ 156,925</u>

International Health Economics Association
Notes to Financial Statements – Modified Cash Basis
Years Ended August 31, 2012 and 2011

5. 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 odd year. Management fees for the year ended August 31, 2012 and 2011 were \$324,250 and \$308,000, 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, 2012 and 2011 was recorded as grant revenue and occupancy expense.

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