

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
YEARS ENDED AUGUST 31, 2014 and 2013

**ROBERT C. BEZGIN**  
**CERTIFIED PUBLIC ACCOUNTANT**

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION

YEARS ENDED AUGUST 31, 2014 and 2013

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**Independent Auditor's Report**

Board of Directors  
International Health Economics Association  
Philadelphia, Pennsylvania

**Report on the Financial Statements**

I have audited the accompanying financial statements of International Health Economics Association which comprise the statement of assets and net assets - modified cash basis as of August 31, 2014 and 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 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 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***

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Basis for Qualified Audit Opinion***

The International Health Economics Association was unable to provide documentation of certain expenses incurred during the year ended August 31, 2014. I was unable to obtain sufficient appropriate audit evidence about the propriety of the expenses. Consequently, I was unable to determine whether any adjustments to these expenses were necessary.

### ***Qualified Opinion***

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Audit Opinion paragraph, the 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, 2014, 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***

I 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. My 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, 2013, were audited by other auditors whose report dated July 28, 2014 expressed an unmodified opinion on those statements

***Robert C. Bezgin, CPA***

Robert C. Bezgin, CPA  
July 6, 2015

International Health Economics Association  
Statements of Assets and Net Assets - Modified Cash Basis  
As of August 31, 2014 and 2013

	<u>08/31/2014</u>	<u>08/31/2013</u>
Assets:		
Cash and cash equivalents	\$58,642	\$273,258
Marketable securities	<u>954,969</u>	<u>941,236</u>
Total assets	<u>\$1,013,611</u>	<u>\$1,214,494</u>
Unrestricted	<u>\$1,013,611</u>	<u>\$1,214,494</u>

International Health Economics Association  
 Statements of Revenue and Expenses - Modified Cash Basis  
 For the Years Ended August 31, 2014 and 2013

	<u>08/31/2014</u>	<u>08/31/2013</u>
Support and Revenue:		
Program services	\$591,003	\$1,146,130
Grants		25,000
Contributions	110,299	104,183
Memberships	74,631	169,633
Unrealized gain (loss) on investments	128,997	61,397
Realized gain (loss) on investments	16,114	12,940
Dividend and interest income	23,739	28,732
	<hr/>	<hr/>
Total Support and Revenue	944,783	1,548,015
	<hr/>	<hr/>
Expenses:		
Program services	950,943	1,233,427
Management and general	120,243	98,057
Fundraising	74,480	53,439
	<hr/>	<hr/>
Total Expenses	1,145,666	1,384,923
	<hr/>	<hr/>
Change in net assets	(200,883)	163,092
Net assets - beginning of the year	1,214,494	1,051,402
	<hr/>	<hr/>
Net assets - end of the year	<u>\$1,013,611</u>	<u>\$1,214,494</u>

International Health Economics Association  
 Statements of Functional Expenses - Modified Cash Basis  
 For the Years Ended August 31, 2014 and 2013

	08/31/2014			08/31/2013			Total Expenses
	Program Services	Management and General	Fundraising	Program Services	Management and General	Fundraising	
Accounting		\$9,789			\$8,989		\$8,989
Bank charges	22,884	4,038		50,610	8,931		59,541
Conferences	386,171			680,642			680,642
Consultants	150,000	30,000	20,000	98,797	19,759	13,173	131,729
Scholarships and awards				77,614			77,614
Management fees	303,922	60,784	40,523	253,125	50,625	33,750	337,500
Office and occupancy	18,010	1,000	1,000	32,248	1,791	1,791	35,830
Technology	9,490	1,675		18,340	3,237		21,577
Travel	60,466	12,956	12,956	22,051	4,725	4,725	31,501
<b>Total expenses</b>	<b>\$950,943</b>	<b>\$120,243</b>	<b>\$74,480</b>	<b>\$1,233,427</b>	<b>\$98,057</b>	<b>\$53,439</b>	<b>\$1,384,923</b>

International Health Economics Association  
 Statements of Cash Flows - Modified Cash Basis  
 For the Years Ended August 31, 2014 and 2013

	<u>08/31/2014</u>	<u>08/31/2013</u>
Cash flows from operating activities:		
Change in net assets	(\$200,883)	\$163,092
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Reinvested dividends	(23,623)	(28,732)
Unrealized (gain) loss on investments	(128,997)	(61,397)
Realized (gain) loss on investments	(16,114)	(12,940)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(369,617)	60,023
	<hr/>	<hr/>
Cash flows from investing activities:		
Purchase of investments	(110,977)	(329,413)
Proceeds from sale of investments	265,977	429,416
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	155,000	100,003
	<hr/>	<hr/>
Net change in cash and cash equivalents	(214,617)	160,026
Cash and cash equivalents - beginning of the year	273,258	113,232
	<hr/>	<hr/>
Cash and cash equivalents - end of the year	<u>\$58,641</u>	<u>\$273,258</u>



INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

NOTE A - Summary of Significant Accounting Policies:

Nature of Organization - The International Health Economics Association ("iHEA") 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.

iHEA reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

iHEA's net assets are classified as unrestricted. 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. iHEA maintains its cash balances in two financial institutions. Accounts at one institution are insured by the Federal Deposit Insurance

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

Corporation (FDIC) up to \$250,000. iHEA also maintains an account at an institution in Canada, which is insured by the Canada Deposit Insurance Corporation (CDIC) up to \$100,000. iHEA has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

Investments - iHEA 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 iHEA, as well as fees received in support of other similar organizations.

Income Taxes - iHEA 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 iHEA in accordance with the provisions of Section 170(b)(1)(A) of the Code, and iHEA has been classified as an organization that is not a private foundation under the provisions of Section 509(a)(2) of the Code.

iHEA's tax filings for fiscal 2011, 2012 and 2013 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 - iHEA's biennial international conference produced approximately 74% and 80% of the total revenue for the years ended August 31, 2014 and 2013, respectively.

**NOTE B - Marketable Securities and Fair Value Measurements:**

Marketable securities consist of mutual funds. As of August 31, 2014 and 2013, the cost was \$748,837 and \$864,085 with an estimated fair value of \$954,969 and \$941,236 resulting in a net unrealized holding gain of \$206,132 and \$77,151 at August 31, 2014 and 2013, respectively. There was a realized gain of \$16,114 and \$12,940 on securities for the years ended August 31, 2014 and 2013, 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

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 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

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.

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

	<u>August 31, 2014</u>	<u>August 31, 2013</u>
Mutual funds:		
U.S. Stocks and equities	\$378,541	\$426,695
International stocks and equities	565,672	495,763
Bonds	<u>10,756</u>	<u>18,778</u>
Total marketable securities	<u>\$954,969</u>	<u>\$941,236</u>

NOTE C - Related Party Transactions:

iHEA'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, 2014 and 2013 was recorded as grant revenue and occupancy expense.

NOTE D - Deferred Compensation Commitment:

iHEA 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 iHEA for any reason other than termination for cause. During the year ended August 31, 2013, iHEA 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.

INTERNATIONAL HEALTH ECONOMICS ASSOCIATION  
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NOTE E - Subsequent Events:

In preparing these financial statements, iHEA has evaluated events and transactions for potential recognition or disclosure through July 6, 2015, the date these financial statements were available to be issued.