



# International Hospital for Children

Financial Statements

June 30, 2009 and 2008

# THE INTERNATIONAL HOSPITAL FOR CHILDREN

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors  
The International Hospital for Children  
Richmond, Virginia:

We have audited the accompanying statements of financial position of The International Hospital for Children (the "Organization") as of June 30, 2009 and 2008 and the related statements of activities, functional expenses and cash flows 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. Those standards require that we plan and perform the audits 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The International Hospital for Children as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Keiter, Stephens, Hurst, Gary & Shreaves, P.C.*

August 19, 2009

**THE INTERNATIONAL HOSPITAL FOR CHILDREN**

Statements of Financial Position  
June 30, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 873,938	\$ 993,022
Pledges receivable	24,000	26,000
Prepaid expenses	<u>5,902</u>	<u>3,970</u>
Total current assets	<u>903,840</u>	<u>1,022,992</u>
Property and equipment:		
Furniture and equipment	90,704	123,524
Website	<u>30,175</u>	<u>30,175</u>
	120,879	153,699
Less: accumulated depreciation and amortization	<u>(82,834)</u>	<u>(92,453)</u>
Net property and equipment	<u>38,045</u>	<u>61,246</u>
Other assets:		
Investments	54,052	68,404
Pledges receivable, noncurrent	-	27,000
Security deposit	<u>735</u>	<u>735</u>
Total other assets	<u>54,787</u>	<u>96,139</u>
Total assets	<u>\$ 996,672</u>	<u>\$ 1,180,377</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	<u>\$ 35,686</u>	<u>\$ 76,165</u>
Total liabilities	<u>35,686</u>	<u>76,165</u>
Net assets:		
Unrestricted:		
Undesignated	728,762	794,752
Board designated endowment	54,052	68,404
Temporarily restricted	<u>178,172</u>	<u>241,056</u>
Total net assets	<u>960,986</u>	<u>1,104,212</u>
Total liabilities and net assets	<u>\$ 996,672</u>	<u>\$ 1,180,377</u>

See accompanying notes to financial statements.

**THE INTERNATIONAL HOSPITAL FOR CHILDREN**

Statement of Activities  
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Auction income	\$ 459,447	\$ -	\$ 459,447
Contributions	961,964	473,040	1,435,004
In-kind contributions	6,879,929	-	6,879,929
Interest income	24,951	2,126	27,077
Other income	34,947	-	34,947
Amounts released from restrictions	538,050	(538,050)	-
Total revenues and other support	8,899,288	(62,884)	8,836,404
Expenses:			
Program services	8,209,426	-	8,209,426
Management and general	229,487	-	229,487
Fund raising	540,717	-	540,717
Total expenses	8,979,630	-	8,979,630
Increase (decrease) in net assets	(80,342)	(62,884)	(143,226)
Net assets, beginning of year	863,156	241,056	1,104,212
Net assets, end of year	\$ 782,814	\$ 178,172	\$ 960,986

See accompanying notes to financial statements.

**THE INTERNATIONAL HOSPITAL FOR CHILDREN**

Statement of Activities  
Year Ended June 30, 2008

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Revenues and other support:			
Auction income	\$ 588,223	\$ -	\$ 588,223
Contributions	861,470	569,492	1,430,962
In-kind contributions	5,631,936	-	5,631,936
Interest income	41,947	-	41,947
Amounts released from restrictions	<u>537,890</u>	<u>(537,890)</u>	<u>-</u>
Total revenues and other support	<u>7,661,466</u>	<u>31,602</u>	<u>7,693,068</u>
Expenses:			
Program services	7,013,079	-	7,013,079
Management and general	160,149	-	160,149
Fund raising	<u>648,834</u>	<u>-</u>	<u>648,834</u>
Total expenses	<u>7,822,062</u>	<u>-</u>	<u>7,822,062</u>
Increase (decrease) in net assets	(160,596)	31,602	(128,994)
Net assets, beginning of year	<u>1,023,752</u>	<u>209,454</u>	<u>1,233,206</u>
Net assets, end of year	<u>\$ 863,156</u>	<u>\$ 241,056</u>	<u>\$ 1,104,212</u>

See accompanying notes to financial statements.

**THE INTERNATIONAL HOSPITAL FOR CHILDREN**

Statement of Functional Expenses  
Year Ended June 30, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries and related expenses	\$ 375,223	\$ 129,327	\$ 283,543	\$ 788,093
Nonemployee compensation	120	-	13,349	13,469
Payroll processing	-	1,807	-	1,807
Staff development	1,256	82	412	1,750
In-country personnel	83,235	-	380	83,615
Patient expenses	488,793	36	-	488,829
Volunteer program	1,610	-	-	1,610
Ortiz Children's Fund expenses	7,040	-	21,721	28,760
Medical missions	149,234	-	-	149,234
Program development	132,774	-	-	132,774
Auction expense	-	-	113,530	113,530
Professional Fees	2,244	14,687	-	16,931
Marketing	8,132	939	22,581	31,652
Communications expense	8,431	1,442	2,672	12,545
Facility and equipment	17,420	19,902	20,082	57,404
Office expenses	5,329	2,889	27,573	35,790
Travel and related expenses	26,045	1,569	15,881	43,495
Other business expense	10,365	35,641	10,530	56,535
Depreciation	12,112	6,339	8,464	26,915
Medical fees-in-kind	6,879,929	-	-	6,879,929
Miscellaneous	137	14,827	-	14,964
	<u>\$ 8,209,426</u>	<u>\$ 229,487</u>	<u>\$ 540,717</u>	<u>\$ 8,979,630</u>

See accompanying notes to financial statements.

**THE INTERNATIONAL HOSPITAL FOR CHILDREN**

Statement of Functional Expenses  
Year Ended June 30, 2008

	Program Services	Management and General	Fund Raising	Total
Salaries and related expenses	\$ 355,808	\$ 107,533	\$ 268,722	\$ 732,063
Payroll processing	-	1,699	-	1,699
Staff development	2,044	280	998	3,322
In-country personnel	75,428	-	-	75,428
Patient expenses	512,727	-	-	512,727
Volunteer program	1,785	-	-	1,785
Ortiz Children's Fund expenses	224	-	3,208	3,432
Medical missions	202,672	-	-	202,672
Program development	121,691	-	738	122,429
Auction expense	-	-	141,725	141,725
Special events	-	-	120,006	120,006
Professional fees	500	13,355	378	14,233
Marketing	9,415	466	7,560	17,441
Communications expense	13,250	1,253	4,753	19,256
Facility and equipment	29,311	12,345	33,638	75,294
Office expenses	9,777	4,806	26,104	40,687
Travel and related expenses	25,781	1,665	12,835	40,281
Other business expense	5,028	10,603	11,838	27,469
Depreciation	14,145	4,140	16,215	34,500
Medical fees - in kind	5,631,936	-	-	5,631,936
Miscellaneous	1,557	2,004	116	3,677
	<u>\$ 7,013,079</u>	<u>\$ 160,149</u>	<u>\$ 648,834</u>	<u>\$ 7,822,062</u>

See accompanying notes to financial statements.

**THE INTERNATIONAL HOSPITAL FOR CHILDREN**

Statements of Cash Flows  
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (143,226)	\$ (128,994)
Adjustments to reconcile the decrease in net assets to net cash used by operations:		
Depreciation and amortization	26,915	34,500
Loss on disposal of equipment	15,822	20,518
Investment income reinvested	(1,542)	(1,773)
Unrealized loss on investments	15,893	8,146
Change in operating assets and liabilities:		
Decrease (increase) in pledges receivable	29,000	(16,793)
Decrease (increase) in prepaid expenses	(1,932)	(3,970)
Increase (decrease) in accounts payable	<u>(40,479)</u>	<u>57,947</u>
Net cash used by operating activities	<u>(99,549)</u>	<u>(30,419)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(19,535)</u>	<u>(6,931)</u>
Net cash used in investing activities	<u>(19,535)</u>	<u>(6,931)</u>
Net decrease in cash and cash equivalents	(119,084)	(37,350)
Cash and cash equivalents, beginning of year	<u>993,022</u>	<u>1,030,372</u>
Cash and cash equivalents, end of year	<u>\$ 873,938</u>	<u>\$ 993,022</u>

See accompanying notes to financial statements.

# THE INTERNATIONAL HOSPITAL FOR CHILDREN

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies:

**Organization:** The International Hospital for Children (the “Organization”) was formed as a nonprofit organization to link the surgical needs of children to advanced medical skills and facilities around the world. The Organization provides the necessary resource management to combine medical staff, hospitals and medicine with the children in need.

**Financial Statement Presentation:** The Organization has adopted Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The accounting and reporting policies of The International Hospital for Children conform to generally accepted accounting principles.

**Cash and Cash Equivalents:** The Organization considers as cash equivalents all short term, highly liquid investments with maturities of three months or less at date of acquisition.

**Property and Equipment:** Property and equipment and website are recorded at cost for purchased assets and at fair value for donated items. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to seven years. Upon retirement or sale of an asset, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

**Investments:** The Organization’s investments are reported at readily determinable fair value in the statements of financial position. The fair value of marketable equity and debt securities is determined using quoted market prices. Unrealized gains and losses are included in the statements of activities (see Note 6).

**Net Assets:** The Organization classifies its net assets into three categories: unrestricted, temporarily restricted, and permanently restricted:

Unrestricted funds include funds that impose no restrictions on the Organization as to their use or purpose. Such funds are expended for charitable purposes as deemed appropriate by the Board of the Directors and for operating purposes. If the Board specifies a purpose where none has been stated by the original donor, such assets are classified as Board designated within unrestricted net assets.

Temporarily restricted funds include funds that are primarily restricted for use or purpose. All grant funds received are recorded as an increase in temporarily restricted net assets. As the activities are performed, the restrictions to these net assets are released and subsequently reclassified to unrestricted net assets.

## THE INTERNATIONAL HOSPITAL FOR CHILDREN

### Notes to the Financial Statements, Continued

#### 1. Summary of Significant Accounting Policies, Continued:

##### Net Assets, Continued:

Permanently restricted funds include gift arrangements that provide that the principal assets of such funds are to be maintained inviolate and in perpetuity. Endowment income is transferred to unrestricted funds for charitable or operating purposes to the extent permitted by the Organization's spending policy or as specified in the gift agreement. There were no permanently restricted funds during the years ended June 30, 2009 and 2008.

**Credit Risk:** The Organization maintains its cash and cash equivalent balances in three financial institutions. The balances in the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. Funds held by brokerage houses are insured by the Securities Investors Protection Corporation up to \$250,000. As of June 30, 2009, the Organization has no balances in excess of federally-insured limits.

**Income Taxes:** The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Pledges Receivable:** The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional promises, which include pledges and grants receivable at their net present value in the year promised, are recognized as unrestricted, temporarily restricted, or permanently restricted support as appropriate. Conditional promises are recorded when donor stipulations are substantially met.

**Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

## THE INTERNATIONAL HOSPITAL FOR CHILDREN

### Notes to the Financial Statements, Continued

#### 1. Summary of Significant Accounting Policies, Continued:

**Contributed Materials, Hospital Charges and Services:** The value of contributed materials and the value of contributed services and hospital charges that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and are of the type that would have been purchased if not contributed, amounted to \$6,519,640 for 2009 and \$5,631,936 for 2008, and have been recognized in the financial statements. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, campaign solicitations and various committee assignments. The value of these services could not be estimated and is not recognized in the financial statements.

**Adoption of New Accounting Principles:** As of July 1, 2008, the Organization adopted FASB Staff Position 117-1, *Endowments of Non-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures of All Endowment Funds (the "FSP")*. The FSP requires expanded disclosures for all endowment funds (see Note 5). The Organization also adopted as of July 1, 2008 certain provisions of Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* ("SFAS 157"), related to disclosures for financial assets and liabilities and any other assets and liabilities that are carried at fair value on a recurring basis in the financial statements (see Note 6).

**Reclassifications:** Certain prior year balances have been reclassified to conform with the current year presentation.

**Subsequent events:** Management has evaluated subsequent events through August 19, 2009 and has determined there are no subsequent events to be reported in the accompanying financial statements.

#### 2. Temporarily Restricted Net Assets:

In 2009 and 2008, the Organization received donor-imposed restricted contributions for direct costs of program services for children needing critical care. The Organization received temporarily restricted gifts of \$473,040 during 2009 and \$569,492 during 2008. Included in these amounts are the net proceeds of a fund raising event which benefits children in the Dominican Republic. The Organization is not involved with the operation of the event. The amounts released from restrictions and expended were \$538,050 during 2009 and \$537,890 during 2008.

## THE INTERNATIONAL HOSPITAL FOR CHILDREN

### Notes to the Financial Statements, Continued

#### 3. Pledges Receivable:

Total unconditional promises to give, which are unrestricted, were as follows at June 30:

	2009	2008
Less than one year	\$ 24,000	\$ 26,000
One to five years	-	27,000
	\$ 24,000	\$ 53,000

#### 4. Investments:

The costs of investments and their related carrying values (market) by major investment type were as follows at June 30:

	2009		2008	
	Cost	Market	Cost	Market
Cash equivalents	\$ 2,289	\$ 2,289	\$ 2,251	\$ 2,251
Equity securities	56,685	38,547	55,762	53,703
Fixed income	12,979	13,216	12,398	12,450
	\$ 71,953	\$ 54,052	\$ 70,411	\$ 68,404

#### 5. Endowment Funds:

The Board of Directors has designated certain assets of the Organization to function as an endowment fund. The net assets associated with endowment funds, including funds designated by the Board of Directors as endowments, are classified and reported based on the existence or absence of Board or donor-imposed restrictions. During 2009 and 2008, the Organization's Board-designated funds were unrestricted.

*Interpretation of Relevant Law:* The Organization has interpreted the Virginia State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of original gifts received and designated as endowments. As a result of this interpretation, the Organization would classify as permanently restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

## THE INTERNATIONAL HOSPITAL FOR CHILDREN

### Notes to the Financial Statements, Continued

#### 5. Endowment Funds, Continued:

The remaining portion of the donor-restricted endowment funds not classified as permanently restricted net assets would be classified as temporarily restricted net assets until those amounts appropriated for expenditure are disbursed in accordance with the donor restrictions in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate funds in the endowment funds designated by the Board of Directors:

- The duration and preservation of the fund
- The purposes of the Organization and a donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

*Return Objectives and Risk Parameters:* The Organization has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to the Organization's programs supported by endowments. In addition to providing a predictable stream of funding, the adopted investment and spending policies also seek to maintain the purchasing power of the endowment assets. Endowment assets include Board-designated funds and may in the future include assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds over time to provide an average rate of return of more than five percent annually. Actual returns in any given year may vary from this amount.

Some donor-restricted endowment funds could restrict annual distributions to net income. The Organization would use the same investment policies and intends to produce the same investment results as described above for any such donor-restricted endowment funds.

*Strategies Employed for Achieving Objectives:* To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

## THE INTERNATIONAL HOSPITAL FOR CHILDREN

### Notes to the Financial Statements, Continued

#### 5. Endowment Funds, Continued:

*Spending Policy and How the Investment Objectives Relate to Spending Policy:* The Organization has a policy of limiting spending to generally five percent of the value of endowment funds. In establishing this policy, the Organization considered the long-term expected return on endowments. Accordingly, over the long term the Organization expects the current spending policy to allow the endowment fund to grow consistent with the objective of maintaining the purchasing power of the endowment assets.

#### 6. Fair Value Measurements:

As of July 1, 2008, the Organization adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which provides a framework for measuring fair value under generally accepted accounting principles, for all financial assets and liabilities measured at fair value on a recurring basis. The initial adoption of SFAS 157 did not have a material impact on the financial position of the Organization. There are no material assets or liabilities recognized or disclosed at fair value for which the Organization has not applied the provisions of SFAS 157.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 assets and liabilities include debt and equity securities traded in an active exchange market, as well as certain U.S. Treasury securities that are traded by dealers or brokers in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 – Valuation is determined using model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Organization's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

## THE INTERNATIONAL HOSPITAL FOR CHILDREN

### Notes to the Financial Statements, Continued

#### 6. Fair Value Measurements, Continued:

The fair value of the Organization's investments in securities of \$54,052 was based upon Level 1 valuation criteria.

#### 7. Leases:

The Organization leases office space and equipment under operating lease agreements. Rental expense was \$46,387 for 2009 and \$50,681 for 2008. The office lease expires in May 2011 and contains renewal options for three additional one-year periods.

Future minimum payments under operating lease obligations consisted of the following at June 30, 2008:

2010	\$	47,315
2011		<u>44,166</u>
Total	\$	<u>91,481</u>

#### 8. Functional Allocation of Expenses:

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### 9. Guarantees:

Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45") requires the disclosures of certain guarantees and clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of certain types of guarantee obligations.

Pursuant to its Articles of Incorporation, the Organization has certain obligations to indemnify its officers and directors for certain events or occurrences while serving at the Organization's request in such capacities. The maximum liability under these obligations is unlimited; however, the Organization's insurance policies serve to limit its exposure. The Organization believes that the estimated fair value of these indemnification obligations is minimal.