

CHILDREN'S SURGICAL CENTRE

**STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE
FOR THE YEAR ENDED 31 DECEMBER 2017**

CHILDREN'S SURGICAL CENTRE

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FOR THE YEAR ENDED 31 DECEMBER 2017**

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CHILDREN'S SURGICAL CENTRE

**Rehabilitation Surgery for Disabled Cambodians
National Rehabilitation Centre, Kien Khleang**

STATEMENT BY BOARD OF DIRECTORS

I, James G. Gollogly, the Chief Executive Officer of Children's Surgical Centre, representing the Board of Directors, do hereby state that in my opinion:

The accompanying statement of income, expenditures and fund balance together with the notes thereon, of Children's Surgical Centre (the Organisation) for the year ended 31 December 2017 has been prepared, in all material respects, in accordance with the basis set out in Note 2 to the statement of income and expenditure and fund balance.

On behalf of board of directors


Dr. James G. Gollogly
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 06 NOV 2018

Children's Surgical Centre (INGO), Registered in Alaska USA.

P.O. Box 1060, Phnom Penh, Cambodia, 12110

(National Rehabilitation Centre, Kien Khleang, Route 6A, Chroy Changvar, Phnom Penh, Cambodia).

Tel: +855 23 430 202 E-mail: info@csc.org; Website: www.csc.org

Independent auditor's report

To the Board of Directors of Children's Surgical Centre

Our opinion

In our opinion,

In our opinion, the financial statement of Children's Surgical Centre (the Organisation) is prepared, in all material respects, in accordance with the accounting policies described in Note 2 to the financial statement.

What we have audited

The Organisation's financial statement comprises:

- the statement of income, expenditures and fund balance for the year ended 31 December 2017
- the notes to the financial statement, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (CISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statement* section of our report.

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

Independence

We are independent of the Organisation accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the requirements of Kampuchea Institute of Certified Public Accountants and Auditors' Code of Ethics for Certified Public Accountants and Auditors (KICPAA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and ethical requirements of KICPAA Code.

Emphasis of Matter - Basis of accounting and restriction on distribution and use

We draw attention to Note 2 to the financial statement, which describe the basis of accounting. The financial statement is prepared in accordance with the accounting policies described in Note 2 to the financial statement. As a result, the financial statement may not be suitable for another purpose.

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come. Our opinion is not modified in respect to this matter.

Responsibilities of management and those charged with governance for the financial statement

Management is responsible for the preparation of the financial statement in accordance with accounting policies described in Note 2 to the financial statement, for determining that the basis of preparation is acceptable in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Organisation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organisation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organisation's financial reporting process.

Auditor's responsibilities for the audit of the financial statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statement.

As part of an audit in accordance with CISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organisation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For PricewaterhouseCoopers (Cambodia) Ltd.


By Benilda Fernando
Director



Phnom Penh, Kingdom of Cambodia
Date: 06 November 2018

CHILDREN'S SURGICAL CENTRE

STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
Income			
Income from donors	3	1,622,386	1,699,697
Interest income	4	21,499	21,214
Pharmacy income		-	8,325
Other income	5	5,125	2,599
		<u>1,649,010</u>	<u>1,731,835</u>
Expenditures			
Staff salaries	6	875,705	848,549
Medical consumables	7	247,295	270,528
Operating costs	8	84,758	90,695
Repairs and maintenance	9	70,226	82,528
Grant to NGOs	10	63,000	417,232
Medical equipment	11	48,732	25,132
Utilities		36,330	36,003
Training for medical staff		21,071	23,272
Depreciation	15	14,339	100,934
Professional fees		8,844	4,674
Security and cleaning		6,500	5,400
Payment for services		2,200	1,400
Office equipment		1,333	2,530
Gain on fair value	12	(37,998)	(4,298)
		<u>1,442,335</u>	<u>1,904,579</u>
SURPLUS/(DEFICIT) OF INCOME OVER EXPENDITURES		206,675	(172,744)
FUND BALANCE, BEGINNING OF THE YEAR		<u>1,281,324</u>	<u>1,454,068</u>
FUND BALANCE, END OF THE YEAR		<u>1,487,999</u>	<u>1,281,324</u>
Represented by:			
Cash and bank balances	13	893,787	784,613
Publicly traded equities	14	516,923	447,729
Property and equipment	15	51,913	26,727
Advances and other receivables		26,200	8,283
Deposits and prepayments	16	465	19,365
Accrued tax liabilities and other payables		(1,289)	(5,393)
		<u>1,487,999</u>	<u>1,281,324</u>

The accompanying notes on pages 6 to 15 form an integral part of the statement of income, expenditures and fund balance.

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2017

1. BACKGROUND AND PRINCIPAL ACTIVITIES

Children's Surgical Centre is a US Non-Governmental Organisation (CSC or the Organisation) registered with the Department of Community and Economic Development in the state of Alaska, United States of America. It was incorporated as ROSE Charities Cambodia on 31 May 2002. Subsequently, ROSE Charities Cambodia's name was changed to CSC on 12 February 2008.

In implementing the program activities in Cambodia, the Organisation is also registered with various ministries, including the Ministry of Foreign Affairs, Ministry of Health, Ministry of Social Affairs, Veterans and Youth Rehabilitation, and Council for Development of Cambodia.

On 12 November 2010, the Organisation obtained 501(c) (3) tax-exempt status with the United States Internal Revenue Service which allows U.S. donors to receive a tax deduction for qualified donations made to the Organisation. The retroactive effective date of this status is 6 October 2009. Prior to this period and since 31 May 2002, the Organisation was accorded the status as a 501(c) (4) tax-exempt entity.

The objectives of the Organisation are as follows:

- To maintain reasonable output of free operations to help rehabilitate poor and disabled people in Cambodia.
- To provide postgraduate surgical training to Cambodian surgeons and other support personnel so that a range of rehabilitation operations can be done for common disabling conditions.
- To establish and sustain a rehabilitation surgery unit which will eventually be completely under the control of Cambodians, without the needs for permanent expatriate directors.
- To eventually find a way to make the unit self-supporting, so that it can be financially independent of outside assistance.
- To support and encourage the development of some Referral Hospitals to improve surgical rehabilitation services to rural Cambodians.

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Basis of accounting*

The statement of income, expenditures and fund balance, expressed in United States dollars (US\$), has been prepared in accordance with CSC's internal accounting policies. The financial statement has been generally prepared under the historical cost convention.

Significant accounting policies of CSC are outlined below.

b. *New financial reporting framework*

On 27 March 2018, the Ministry of Economy and Finance (MoEF) issued Prakas No. 335 MoEF.BK on the implementation of Cambodian Financial Reporting Standard for Not-for-profit Entities (CFRS for NFPEs) which follows cash-based accounting. NFPEs are required to prepare their financial statement in accordance with CFRS for NFPEs for accounting period beginning on or after 1 January 2018.

Note 2 to the financial statement which is based on the Organisation's internal policies, the current basis of accounting, is different to CFRS for NFPEs in a number of areas. Consequently, the adoption of CFRS for NFPEs might have some impacts on the financial statement of the Organisation.

The Organisation has not yet assessed CFRS for NFPEs' full impact but will prepare the financial statement for the year ending 31 December 2018 in accordance with CFRS for NFPEs.

c. *Income*

Income is defined as the receipts of funds from donors, interest income and pharmacy income.

- (1) Receipts of funds from donors are recognised using the cash basis in which receipts are recognised when received rather than when earned.
- (2) Interest incomes included the interest income earned from the deposits with the banks and the income from the invest with public traded equities using the cash basis in which the incomes are recognized when received rather than when earned.

d. *Expenditures*

Expenditure is recognised when it is paid rather than when it is incurred except for rental deposits, prepayments, advances and receivables, property, plant and equipment, investment in security stocks and accrued tax liabilities and other payables.

e. *Cash and bank balances*

Cash and bank balances consist of cash on hand , cash at bank and money market cash with insignificant risk of changes in value.

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE
FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. *Inventory*

The cost of inventory, purchased medical supplies, is recorded as an expense when paid.

g. *Property and equipment*

Cost of property and equipment purchased during the year at the price of less than US\$10,000 is expensed in the statement of income, expenditures and fund balance in the year of purchase. Items costing US\$10,000 and above are capitalised and depreciated over the useful life of the assets.

Property and equipment are stated at cost less accumulated depreciation. The cost is the purchased price based on invoice.

Property and equipment are depreciated using the straight-line method at rates calculated to write off the cost of each asset over its expected useful life as follows:

Building	4 years (equivalent to lease term)
Medical equipment	4 years
Vehicle	4 years

h. *Publicly traded equities*

Publicly traded equities are recorded at fair value at the date of acquisition and subsequently recognised at fair value. Change in fair value is recognised as currency exchange (gain)/loss under the expenditures in the statement of income, expenditures and fund balance. Those equities are actively traded in the United States on the New York Stock Exchange

i. *Foreign currency translations*

Transactions denominated in currencies other than US\$ are converted into US\$ at the exchange rate prevailing on the date of the transaction. Fund balances denominated in currencies other than US\$ are retranslated using exchange rates as at 31 December 2017.

All exchange differences arising on settlement or restatement are recognised in the statement of income, expenditures and fund balance.

j. *Related parties*

Related parties are those individuals and organisations where one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2017

3. INCOME FROM DONORS

	2017 US\$	2016 US\$
Income from international donors	1,613,648	1,655,904
Income from local donors	8,738	43,793
	<u>1,622,386</u>	<u>1,699,697</u>

Overseas donors are corporate companies, foundations and individuals; mainly from the United States of America, Hong Kong, Singapore, Australia, Canada and the United Kingdom.

Details of income from donors.

	2017 US\$	2016 US\$
Watsi.org	547,268	421,798
Vanda Promotions	231,170	168,738
DAK Foundation	102,549	113,975
Dreyfus Charitable Foundation	101,760	-
Royal City of Dublin Hospital Turst	63,953	63,968
Iherb Charitable Foundation	63,000	94,600
Smile Train	53,706	43,323
Monat, Charles	50,000	50,000
Simply Giving Pte. Ltd.	47,682	-
WonderWork Inc.	30,000	-
Lutz & Hedda F Ltd	25,000	-
Moser, Mark	20,000	10,113
Vision Beyond Australia	17,325	16,910
Pink Umbrella (O'Neil, Sue)	13,695	-
Gall, Nick	10,000	12,000
Credit Lyonnais Securities Asia (CLSA)	-	119,214
Peter Bennett Foundation	-	75,000
Kadoorie Charitable Foundation	-	69,989
Computershare	-	66,263
Rotary Club Phnom Penh	-	26,681
Rotary Club Australia	-	22,358
Singapore Asset Managers and Brokers Awards	-	18,212
Morris, Anthony	-	15,000
SX Foundation	-	10,501
Heimberg Law Group LLP	-	10,400
Chris Sandford	-	10,000
Others (*)	<u>245,278</u>	<u>260,654</u>
	<u>1,622,386</u>	<u>1,699,697</u>

(*) The balance represents donations under US\$10,000 per donor.

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE
FOR THE YEAR ENDED 31 DECEMBER 2017

4. INTEREST INCOME

	2017 US\$	2016 US\$
Financial income from publicly traded equities	20,414	20,519
Interest from cash at banks	1,085	695
	<u>21,499</u>	<u>21,214</u>

5. OTHER INCOME

	2017 US\$	2016 US\$
Cost recovery (*)	5,125	2,599
	<u>5,125</u>	<u>2,599</u>

(*) Cost recovery represents the actual time charge of CSC's doctors who provided service at Chenda Polyclinic. Doctor's salary is fully charged from CSC under payroll costs hence they can earn other income by providing surgical and other services at Chenda Polyclinic during working hours. The actual time will be calculated and recognised as other incomes in the statement of income, expenditures and fund balance.

6. STAFF COSTS

	2017 US\$	2016 US\$
Medical staff salaries	646,103	617,177
Administration salaries	170,192	169,981
Staff benefits	59,410	61,391
	<u>875,705</u>	<u>848,549</u>

7. MEDICAL CONSUMABLES

	2017 US\$	2016 US\$
Medical supplies	172,289	185,339
Food for patients	44,606	42,871
Cleaning materials	13,572	9,379
Fuel	12,715	10,355
Other patient expenses	4,113	11,615
Purchase of pharmaceutical products	-	10,969
	<u>247,295</u>	<u>270,528</u>

CHILDREN'S SURGICAL CENTRE

**NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE
FOR THE YEAR ENDED 31 DECEMBER 2017**

8. OPERATING COSTS

	2017 US\$	2016 US\$
Expenses related to CSC's lease house	14,780	18,527
Bank charges	14,768	15,913
Communications	9,239	8,938
Office supplies and printing	5,965	6,576
Entertainment	2,804	2,317
Others	37,202	38,424
	<u>84,758</u>	<u>90,695</u>

9. REPAIRS AND MAINTENANCE

	2017 US\$	2016 US\$
Vehicles	30,138	33,658
Building and structure	23,758	29,883
Medical equipment	16,330	18,987
	<u>70,226</u>	<u>82,528</u>

10. GRANT TO NGOs

	2017 US\$	2016 US\$
Grant to:		
The Sunrise Cambodia	63,000	256,740
The Australia Cambodia Foundation	-	140,931
The Cambodian Children's Charity: CamKids	-	19,561
	<u>63,000</u>	<u>417,232</u>

Grants to NGOs are made from CSC bank accounts segregated to benefit the other NGOs in Cambodia for which CSC collects funds in the USA and makes grants to those NGOs.

11. MEDICAL EQUIPMENT

This represents medical equipment and other assets that cost less than US\$10,000.

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE
FOR THE YEAR ENDED 31 DECEMBER 2017

12. GAIN ON FAIR VALUE

This relates to gain on fair value as a result of higher market price of CSC's common shares in the US market and the minor currency exchange gain or loss.

	2017 US\$	2016 US\$
Gain on fair value	(37,677)	(5,960)
Exchange loss/(gain)	(321)	1,662
	<u>(37,998)</u>	<u>(4,298)</u>

13. CASH AND BANK BALANCES

	2017 US\$	2016 US\$
Cash on hand	1,070	3,001
Cash at banks	862,738	737,705
Money market cash	29,979	43,907
	<u>892,717</u>	<u>781,612</u>
	<u>893,787</u>	<u>784,613</u>

The balances of cash at bank and money market cash are at various banks, below:

Balance with local banks

	2017 US\$	2016 US\$
Cambodian Commercial Bank in Cambodia	110,502	222,538
ANZ Bank in Cambodia	13,792	15,459
	<u>124,294</u>	<u>237,997</u>

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2017

13. CASH AND BANK BALANCES (continued)

Balance with oversea banks

	2017 US\$	2016 US\$
Wells Fargo Bank in USA	660,841	363,518
PayPal (*)	77,603	55,193
Money Market Cash from Publicly Traded Equities	29,979	43,907
HSBC in Hong Kong	-	80,997
	<u>768,423</u>	<u>543,615</u>

Cash at bank is maintained in current accounts, savings accounts and fixed deposit account. Current accounts are non-interest bearing whereas savings accounts are interest bearing and earned interest from 0.03% to 0.20% per annum (2016: 0.03% to 0.20%). Fixed deposit account is required by the bank for its credit card usage which earned interest at 2.6% per annum (2016: 2.6%).

(*) This account is the online account which is used for donation transactions.

14. PUBLICLY TRADED EQUITIES

	Common stocks	
	# of shares	Cost in US\$
Beginning balances, as at 1 January 2016	14,068	416,155
Add/(Deduct)		
Exchange traded funds	(1,132)	20,023
Fair value adjustment (*)	-	11,551
	<u>(1,132)</u>	<u>31,574</u>
Ending balance, as at 31 December 2016	<u>12,936</u>	<u>447,729</u>
Beginning balances, as at 1 January 2017	12,936	447,729
Add/(Deduct)		
Exchange traded funds	(1,728)	34,535
Fair value adjustment (*)	-	34,659
	<u>(1,728)</u>	<u>69,194</u>
Ending balance, as at 31 December 2017	<u>11,208</u>	<u>516,922</u>

(*) Fair value adjustment represents the adjustments made resulting from the changes in the market price (fair value) of the publicly traded equity.

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2017

15. PROPERTY AND EQUIPMENT

	Medical equipment US\$	Vehicle US\$	Building US\$	Total US\$
Opening net book amount At 1 January 2016	29,486	-	87,174	116,660
Additions	11,000	-	-	11,000
Depreciation charge	(13,759)	-	(87,174)	(100,933)
Closing net book amount	26,727	-	-	26,727
As at 31 December 2016				
Cost	341,180	10,000	376,647	727,827
Accumulated depreciation	(314,453)	(10,000)	(376,647)	(701,100)
Net book amount	26,727	-	-	26,727
Opening net book amount At 1 January 2017	26,727	-	-	26,727
Additions	18,899	20,626	-	39,525
Depreciation charge	(14,339)	-	-	(14,339)
Closing net book amount	31,287	20,626	-	51,913
As at 31 December 2017				
Cost	360,079	30,626	376,647	767,352
Accumulated depreciation	(328,792)	(10,000)	(376,647)	(715,439)
Net book amount	31,287	20,626	-	51,913

16. DEPOSITS AND PREPAYMENTS

	2017 US\$	2016 US\$
Deposit for water supply	465	465
Deposit for purchasing of digital X-Ray	-	18,900
	465	19,365

CHILDREN'S SURGICAL CENTRE

NOTES TO STATEMENT OF INCOME, EXPENDITURES AND FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2017

17. RELATED PARTY TRANSACTIONS

Significant related party transactions during the year were as follows:

	2017 US\$	2016 US\$
(a) <i>Chenda Polyclinic</i>		
Other income - cost recovery	5,125	2,599
Expenditures - purchase of fixed assets	(20,625)	-
Expenditures - payment for services	(7,192)	(1,400)
Expenditures - staff insurance	(2,200)	(6,844)
Expenditures - other medical supplies	-	(800)
	<u>(24,892)</u>	<u>(6,445)</u>
(b) <i>Key management remuneration</i>		
Salaries and per diem	145,148	139,565
House allowances	11,294	13,011
Insurance	24,124	22,528
	<u>180,566</u>	<u>175,104</u>

18. SUBSEQUENT EVENTS

In June 2018, the Cambodian government amended the Labour Law introducing the seniority pay scheme. Subsequently in 21 September 2018, Prakas No. 443 K.B/Br.K.Kh.L, was issued providing guidelines on the implementation of the law. In accordance with the law/prakas, each entity is required to pay each employee the following seniority scheme:

- a) Annual service – effective January 2019, 15 days of their monthly salary each year.
- b) Past years of seniority service – employees are entitled to 15 days of their salary per year of service since the commencement of employment up to maximum of six months.