

International Children's Heart Foundation

Financial Statements

Years Ended June 30, 2016 and 2015

Table of Contents

Independent Auditors' Report 1

Financial Statements:

 Statements of Financial Position – Modified Cash Basis 3

 Statements of Activities – Modified Cash Basis 4

 Statements of Functional Expenses – Modified Cash Basis 5

 Statements of Cash Flows – Modified Cash Basis..... 7

 Notes to Financial Statements – Modified Cash Basis..... 8

Independent Auditors' Report

Board of Directors
International Children's Heart Foundation
Memphis, Tennessee

We have audited the accompanying financial statements of the International Children's Heart Foundation, which comprise the statements of financial position – modified cash basis as of June 30, 2016 and 2015, and the related statements of activities – 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 described in Note 2; 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.

Auditors' Responsibility

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 from 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 auditors' 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, 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 financial statements referred to above present fairly, in all material respects, the financial position of International Children's Heart Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 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.

Going Concern

The accompanying financial statements have been prepared assuming that the Foundation will continue as a going concern. As discussed in Note 1 to the financial statements, the Foundation has suffered a significant loss of revenue, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Dixon Hughes Goodman LLP

Memphis, Tennessee
February 27, 2017

International Children's Heart Foundation
Statements of Financial Position - Modified Cash Basis
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ -	\$ 9,271
Total assets	<u>\$ -</u>	<u>\$ 9,271</u>
LIABILITIES AND NET ASSETS		
Bank overdraft	\$ 2,740	\$ -
Long-term debt	<u>822,324</u>	<u>708,295</u>
Total liabilities	<u>825,064</u>	<u>708,295</u>
Net deficit:		
Unrestricted net deficit	<u>(825,064)</u>	<u>(699,024)</u>
Total liabilities and net deficit	<u>\$ -</u>	<u>\$ 9,271</u>

See accompanying notes.

International Children's Heart Foundation
Statements of Activities - Modified Cash Basis
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Support:		
Contributions and grants	\$ 637,971	\$ 1,127,421
Special events	-	746
Other income	<u>581</u>	<u>10,580</u>
Total support	638,552	1,138,747
Other revenue:		
Program services	<u>1,806</u>	<u>-</u>
Total support and revenue	640,358	1,138,747
Expenses:		
Program services	559,668	1,515,489
General and administrative	110,924	269,014
Fundraising	<u>95,806</u>	<u>104,135</u>
Total expenses	<u>766,398</u>	<u>1,888,638</u>
Change in net deficit	(126,040)	(749,891)
Unrestricted net assets (net deficit), beginning of year	<u>(699,024)</u>	<u>50,867</u>
Unrestricted net deficit, end of year	<u>\$ (825,064)</u>	<u>\$ (699,024)</u>

See accompanying notes.

International Children's Heart Foundation
Statement of Functional Expenses - Modified Cash Basis
Year Ended June 30, 2016

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Accounting	\$ -	\$ 12,163	\$ -	\$ 12,163
Advertising, marketing, public relations	-	11,800	1,036	12,836
Bank fees	-	777	-	777
Computer software	1,289	1,816	5,034	8,139
Contract services	12,000	16,804	6,620	35,424
Fundraising special events	-	-	2,445	2,445
Insurance - group	(2,906)	285	-	(2,621)
Interest	32,475	10	-	32,485
Legal services	-	14,519	-	14,519
Medical services	55,000	-	-	55,000
Medical supplies	44,867	-	-	44,867
Meetings and banquets	369	-	-	369
Memberships and licenses	2,666	1,566	70	4,302
Office supplies and equipment	4,500	7,950	-	12,450
Other	288	14,025	-	14,313
Postage and freight	6,410	8	20	6,438
Rent - office, warehouse	3,300	20,000	-	23,300
Salaries and benefits	207,567	5,847	78,934	292,348
Telephone and technology	-	2,938	1,647	4,585
Travel and related	191,843	416	-	192,259
	<u>\$ 559,668</u>	<u>\$ 110,924</u>	<u>\$ 95,806</u>	<u>\$ 766,398</u>
Total functional expenses	<u>\$ 559,668</u>	<u>\$ 110,924</u>	<u>\$ 95,806</u>	<u>\$ 766,398</u>

See accompanying notes.

International Children's Heart Foundation
Statement of Functional Expenses - Modified Cash Basis
Year Ended June 30, 2015

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Accounting	\$ -	\$ 15,250	\$ -	\$ 15,250
Advertising, marketing, public relations	4,687	-	21,455	26,142
Bank fees	10,320	1,421	-	11,741
Books and subscriptions	-	672	-	672
Computer software	6,679	1,361	5,090	13,130
Contract services	-	12,341	-	12,341
Fundraising and conferences	26,725	-	-	26,725
Fundraising special events	-	-	835	835
Insurance	-	21,753	-	21,753
Insurance - group	1,413	-	-	1,413
Interest	33,206	-	-	33,206
Legal services	-	37,537	-	37,537
Medical services	306,969	-	-	306,969
Medical travel	464,966	-	-	464,966
Medical supplies	89,711	-	-	89,711
Medical - freight	1,943	-	-	1,943
Meetings and banquets	210	-	-	210
Memberships and licenses	2,792	403	5,570	8,765
Office supplies and equipment	-	11,137	-	11,137
Other	16,028	10,940	-	26,968
Postage and freight	365	7,195	1,402	8,962
Printing	-	-	2,676	2,676
Rent - office	11,817	2,406	-	14,223
Salaries and benefits	536,858	141,671	67,107	745,636
Telephone and technology	800	4,927	-	5,727
	<u>\$ 1,515,489</u>	<u>\$ 269,014</u>	<u>\$ 104,135</u>	<u>\$ 1,888,638</u>

See accompanying notes.

International Children's Heart Foundation
Statements of Cash Flows - Modified Cash Basis
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net deficit	<u>\$ (126,040)</u>	<u>\$ (749,891)</u>
Net cash used in operating activities	<u>(126,040)</u>	<u>(749,891)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(30,071)	-
Proceeds from the issuance of debt	<u>144,100</u>	<u>708,295</u>
Net cash provided by financing activities	<u>114,029</u>	<u>708,295</u>
Net decrease in cash	(12,011)	(41,596)
Cash, beginning of year	<u>9,271</u>	<u>50,867</u>
Cash (bank overdraft), end of year	<u>\$ (2,740)</u>	<u>\$ 9,271</u>
Supplementary disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 32,485</u>	<u>\$ 33,206</u>

See accompanying notes.

1. Nature of Organization

Description of organization

International Children's Heart Foundation (the "Foundation") is a non-profit corporation whose mission is to provide medical care for children born with congenital heart disease by sending medical professionals, knowledge and technology to developing countries.

The Foundation receives support from a variety of sources, including private contributions, contractual agreements with foreign countries for program services, and in-kind donations of medical services and medical supplies.

Loss of revenue and liquidity

The violence in Iraq and Libya resulted in the cancellation of certain mission trips beginning June 2014 and the delay of certain contractual payments to the Foundation. The resulting negative impact on cash flow required the Foundation to borrow \$315,000 from another foundation in July 2014 (the "Foundation Loan"). The promissory note was unsecured, bore interest at 15% per annum, and was payable in six equal monthly installments of principal and interest payments beginning October 28, 2014. In October 2014, several key Foundation employees abruptly resigned and created a competing nonprofit organization, resulting in a sudden and significant loss of revenue to the Foundation. As a result of the loss of revenue, the Foundation only made the first monthly payment on the Foundation Loan. In March 2015, the Foundation Loan was renegotiated into a new unsecured promissory note bearing interest at 12% per annum, payable in 60 equal monthly principal and interest payments of approximately \$4,950 beginning April 15, 2015. Also, as a result of the loss of revenue, certain Foundation board members have loaned the Foundation \$575,600 through June 30, 2016.

In October 2014, the Foundation hired a new physician as CEO of Clinical Operations. Management has developed a new business model using mostly volunteer medical professionals to perform medical mission trips more economically and efficiently. As of June 2016, the Foundation has 15 medical mission trips scheduled in six different countries for the 2017 calendar year.

In addition, the Foundation has downsized its paid staff commensurate with the new business model at a fraction of the salary similar professionals earn in other organizations and taken other cost-saving measures to ensure the Foundation continues by eliminating all unnecessary spending. Management also continues to pursue existing and new sources of philanthropic support in furthering the Foundation's mission.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been 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 ("GAAP"). That basis differs from GAAP in that revenues are recorded when received rather than when earned and expenses are recorded when paid rather than when an obligation is incurred. Modifications to the cash basis of accounting include recording debt. In the year ended June 30, 2014, the Foundation prepared its financial statements using GAAP.

Support and revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Support that is restricted by the donor is reported as an increase in unrestricted net assets in the reporting period in which the restriction expires. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets,

International Children's Heart Foundation
Notes to Financial Statements - Modified Cash Basis

depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

At June 30, 2016 and 2015, all net assets were unrestricted. Program income includes fees received under contractual agreements with foreign countries and is recognized when payment for services is received.

Donated services

The Foundation receives donated services throughout the year. The value of these services has not been determined or recorded because they do not meet the criteria for recognition.

Functional allocation of expenses

The costs of providing the various programs and other activities of the Foundation are summarized on a functional basis in the statement of activities. Expenses are charged to each program based upon direct expenditures incurred. Any expenditures not specifically identifiable by program are allocated based upon the relative direct cost method.

Income taxes

The Foundation is a not-for-profit private foundation as described in Section 501(c)(3) of the Internal Revenue Code. The Foundation has determined that it does not have any material unrecognized tax positions as of June 30, 2016 and 2015.

Advertising

All advertising is expensed as incurred and totaled approximately \$13,000 and \$26,000 for the years ended June 30, 2016 and 2015.

Subsequent events

The Foundation evaluated the effect subsequent events would have on the financial statements through February 27, 2017, which is the date the financial statements were available to be issued.

3. Related Party Transactions

The Foundation received advances from a member of the board of directors during the years ended June 30, 2016 and 2015, as discussed in Note 4.

International Children’s Heart Foundation
Notes to Financial Statements - Modified Cash Basis

4. Long-Term Debt

The Foundation borrowed \$315,000 from another foundation in July 2014. The promissory note was unsecured and bore interest at 15% per annum. In March 2015, the loan was renegotiated into a new unsecured promissory note bearing interest at 12% per annum, payable monthly in 60 equal installments of principal and interest of approximately \$4,950 beginning April 15, 2015. The note balance at June 30, 2016 and 2015 was \$246,724 and \$276,795, respectively.

As of June 30, 2016, a member of the board of directors has advanced the Foundation a total of \$575,600. The advances are non-interest bearing with no set repayment terms. No payments have been made on these advances as of June 30, 2016.

Amounts due on long-term debt are payable as follows:

<u>Year Ending June 30,</u>	
2017	\$ 604,265
2018	35,066
2019	39,513
2020	<u>143,480</u>
	<u>\$ 822,324</u>