

International Children's Heart Foundation

Financial Statements

Year Ended June 30, 2017

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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 (the "Foundation"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes 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 audit. We conducted our audit 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, 2017, and the changes in its net deficit and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 a significant net deficit, 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
December 22, 2017**

International Children's Heart Foundation
Statement of Financial Position
June 30, 2017

	<u>2017</u>
ASSETS	
Cash	\$ 55,605
Prepaid expenses	2,653
Property and equipment, net	<u>43,362</u>
Total assets	<u>101,620</u>
LIABILITIES AND NET DEFICIT	
Accounts payable	176,228
Accrued expenses	3,247
Debt	<u>675,671</u>
Total liabilities	<u>855,146</u>
Net deficit:	
Unrestricted net deficit	<u>(753,526)</u>
Total liabilities and net deficit	<u>\$ 101,620</u>

International Children's Heart Foundation
Statement of Activities
Year Ended June 30, 2017

	<u>2017</u>
Support:	
Contributions and grants	\$ 877,996
Special events	259
Other income	2,387
In-kind donations	<u>1,568,050</u>
Total support	2,448,692
Other revenue:	
Program services	<u>31,650</u>
Total support and revenue	2,480,342
Expenses:	
Program services	2,132,155
General and administrative	131,898
Fundraising	<u>108,776</u>
Total expenses	<u>2,372,829</u>
Change in net deficit	107,513
Unrestricted net deficit, beginning of year	<u>(861,039)</u>
Unrestricted net deficit, end of year	<u><u>\$ (753,526)</u></u>

International Children's Heart Foundation
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	General and Administrative	Fundraising	Total Expenses
Accounting	-	\$ 47,003	-	\$ 47,003
Advertising, marketing, public relations	10,450	509	10,239	21,198
Bank fees	1,812	243	1,288	3,343
Computer software	220	370	5,000	5,590
Contract services	3,292	2,034	7,400	12,726
Fundraising and conferences	-	-	1,430	1,430
Insurance	5,065	6,762	993	12,820
Interest	28,262	92	11	28,365
Legal services	21,947	-	-	21,947
Medical services	127,322	-	-	127,322
In-kind medical services	1,432,760	-	-	1,432,760
Medical travel	216,202	-	-	216,202
Medical supplies	41,239	-	-	41,239
Medical - freight	2,743	-	-	2,743
Meetings and banquets	-	80	-	80
Memberships and licenses	612	72	400	1,084
Office supplies and equipment	1,147	862	106	2,115
Other	95	7,100	-	7,195
Postage and freight	59	104	732	895
Rent - office, warehouse, vehicles	3,763	-	-	3,763
Repairs & maintenance	3,975	1,172	-	5,147
Salaries and benefits	151,345	47,134	78,622	277,101
Telephone and technology	-	3,370	-	3,370
Travel, non-mission trips	-	591	2,555	3,146
Depreciation	5,074	-	-	5,074
In-kind space	14,400	-	-	14,400
In-kind services and supplies	60,371	14,400	-	74,771
	<u>\$ 2,132,155</u>	<u>\$ 131,898</u>	<u>\$ 108,776</u>	<u>\$ 2,372,829</u>
Total functional expenses	<u>\$ 2,132,155</u>	<u>\$ 131,898</u>	<u>\$ 108,776</u>	<u>\$ 2,372,829</u>

See accompanying notes.

International Children's Heart Foundation
Statement of Cash Flows
Year Ended June 30, 2017

	<u>2017</u>
Cash flows from operating activities:	
Change in net deficit	\$ 107,513
Adjustments to reconcile change in net deficit to net cash provided by operating activities:	
Depreciation	5,074
Changes in operating assets and liabilities:	
Accounts receivable	277,480
Prepaid expenses	(2,653)
Accounts payable and accrued expenses	(133,979)
Donations of property and equipment, net of sales	<u>(46,119)</u>
Net cash provided by operating activities	<u>207,316</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(2,317)</u>
Net cash used in investing activities	<u>(2,317)</u>
Cash flows from financing activities:	
Repayments of long-term debt	<u>(146,653)</u>
Net cash used in financing activities	<u>(146,653)</u>
Net increase in cash	58,346
Cash (bank overdraft), beginning of year	<u>(2,741)</u>
Cash, end of year	<u><u>\$ 55,605</u></u>
Supplementary disclosure of cash flow information:	
Cash paid during the year for interest	<u><u>\$ 28,365</u></u>

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 with no set due date for repayment.

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. During 2017, the Foundation had fifteen medical mission trips in six different countries. Medical missions have not been finalized for the 2018 year. It is expected that fifteen medical missions will be scheduled.

In addition, during 2016 the Foundation downsized its paid staff commensurate with the new business model and has taken other cost-saving measures to ensure the Foundation continues by eliminating all unnecessary spending. Expenditures continue to be kept at a minimum and salary levels continue to remain flat. There is no plan on increasing salary levels in the coming year keeping administrative costs at a minimum.

Management also continues to pursue existing and new sources of philanthropic support in furthering the Foundation's mission. Grant commitments from Edwards Life Sciences have been finalized and other support from current donors continue to fund the mission of the Foundation.

Management believes that without the ability to maintain a reduced cost structure and without the requisite continued funding, the Foundation would be unable to continue normal business operations. Management is not certain the actions discussed above will generate the liquidity needed to satisfy the Foundation's debt obligations for the 12 months following the issuance of the financial statements. Management believes substantial doubt exists related to the Foundation's ability to continue as a going concern.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with the American Institute of Certified Public Accountants and Accounting Guide, Not-For-Profit Entities, which is in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of estimates

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, the actual results could differ from estimated amounts.

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, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. At June 30, 2017, all net assets were unrestricted. Program income includes fees received under contractual agreements with foreign countries and is recognized as services are performed under the contracts.

In-Kind Donations

The Foundation records various types of in-kind donations received in the course of daily operations, including contributed professional services and medical equipment. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. These values are included in the accompanying financial statements as in-kind donations and offsetting expenses.

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.

Donated medical supplies

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

Property and equipment

Purchased fixed assets are stated at cost, and assets donated are recorded at estimated fair market value when received. Depreciation is computed using the straight-line method over a five year estimated useful life of the assets which consist of medical equipment.

International Children’s Heart Foundation Notes to Financial Statements

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded.

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, 2017.

Advertising

All advertising is expensed as incurred and totaled approximately \$21,000 for the year ended June 30, 2017.

Subsequent events

The Foundation evaluated the effect subsequent events would have on the financial statements through December 22, 2017, which is the date the financial statements were available to be issued.

New accounting pronouncements

The Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-15, *Presentation of Financial Statements- Going Concern (Subtopic 205-40)*, which clarifies management’s responsibility to evaluate and provide related disclosures if there are any conditions or events, as a whole, that raise substantial doubt about the entity’s ability to continue as a going concern for one year after the date the financial statements are issued (or available to be issued). The effective date of the amendment for the Foundation is for annual reporting periods ending after December 15, 2016. The Foundation adopted the amendment during the year ended June 30, 2017 and concluded that substantial doubt does exist- see Note 1- *Loss of revenue and liquidity*.

3. Property and equipment

Property and equipment consisted of the following at June 30:

Medical equipment	\$ 48,435
Less accumulated depreciation	<u>(5,073)</u>
	<u>\$ 43,362</u>

4. Related Party Transactions

During the year ended June 30, 2017, the Foundation made payments on a note payable to a member of the board of directors, as discussed in Note 5.

International Children’s Heart Foundation
Notes to Financial Statements

5. Debt

The Foundation has an unsecured promissory note payable to another foundation, bearing interest at 12% per annum, payable monthly in 60 equal installments of principal and interest of approximately \$4,950, beginning April 15, 2015 and maturing in March 2020. The note balance at June 30, 2017 was \$215,293.

As of June 30, 2017, the Foundation has a note payable to a member of the board of directors with a remaining balance of \$460,378. This note is non-interest bearing with no set repayment terms. Payments on this note of \$115,222 were made during the year ended June 30, 2017.

Amounts due on debt are payable as follows:

<u>Year Ending</u> <u>June 30,</u>	
2018	\$ 495,444
2019	39,513
2020	<u>140,714</u>
	<u>\$ 675,671</u>