

CHILDREN'S HEARTLINK
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

**CHILDREN'S HEARTLINK
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YEARS ENDED JUNE 30, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's HeartLink
Minneapolis, Minnesota

We have audited the accompanying financial statements of Children's HeartLink (Organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows 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 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 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.

Board of Directors
Children's HeartLink

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's HeartLink 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 accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 12, 2016

**CHILDREN'S HEARTLINK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 1,426,347	\$ 1,698,236
Contributions and Other Receivables	267,468	399
Prepaid Expenses	48,747	34,158
Property and Equipment, Net	155,756	167,359
Total Assets	\$ 1,898,318	\$ 1,900,152
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 29,122	\$ 61,121
Accrued Payroll and Benefit Liabilities	8,244	11,891
Deferred Revenue	160,000	183,986
Total Liabilities	197,366	256,998
NET ASSETS		
Unrestricted:		
Undesignated	500,441	595,876
Board Designated	1,000,000	1,000,000
Total Unrestricted	1,500,441	1,595,876
Temporarily Restricted	200,511	47,278
Total Net Assets	1,700,952	1,643,154
Total Liabilities and Net Assets	\$ 1,898,318	\$ 1,900,152

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT						
Contributions	\$ 642,264	\$ 416,500	\$ 1,058,764	\$ 719,666	\$ 85,400	\$ 805,066
Donated Goods and Services	727,262	-	727,262	501,101	-	501,101
Special Events and Activities	792,546	-	792,546	874,393	-	874,393
Less: Costs of Direct Benefits to Donors	<u>(134,617)</u>	<u>-</u>	<u>(134,617)</u>	<u>(160,370)</u>	<u>-</u>	<u>(160,370)</u>
Net Revenues from Special Events and Activities	657,929	-	657,929	714,023	-	714,023
Interest and Other Income (Loss)	1,683	-	1,683	(429)	-	(429)
Net Assets Released from Restriction	<u>263,267</u>	<u>(263,267)</u>	<u>-</u>	<u>163,253</u>	<u>(163,253)</u>	<u>-</u>
Total Revenue and Other Support	<u>2,292,405</u>	<u>153,233</u>	<u>2,445,638</u>	<u>2,097,614</u>	<u>(77,853)</u>	<u>2,019,761</u>
EXPENSES						
Program Related	2,063,823	-	2,063,823	1,655,854	-	1,655,854
Management and General	108,602	-	108,602	125,709	-	125,709
Special Events and Activities	59,034	-	59,034	59,497	-	59,497
Fundraising	<u>156,381</u>	<u>-</u>	<u>156,381</u>	<u>167,363</u>	<u>-</u>	<u>167,363</u>
Total Expenses	<u>2,387,840</u>	<u>-</u>	<u>2,387,840</u>	<u>2,008,423</u>	<u>-</u>	<u>2,008,423</u>
CHANGE IN NET ASSETS	(95,435)	153,233	57,798	89,191	(77,853)	11,338
Net Assets - Beginning of Year	<u>1,595,876</u>	<u>47,278</u>	<u>1,643,154</u>	<u>1,506,685</u>	<u>125,131</u>	<u>1,631,816</u>
NET ASSETS - END OF YEAR	<u>\$ 1,500,441</u>	<u>\$ 200,511</u>	<u>\$ 1,700,952</u>	<u>\$ 1,595,876</u>	<u>\$ 47,278</u>	<u>\$ 1,643,154</u>

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

	2016				
	Program Related	Management and General	Special Events and Activities	Fundraising	Total
Salaries and Wages	\$ 470,404	\$ 50,560	\$ 14,895	\$ 97,530	\$ 633,389
Employee Benefits	36,111	2,059	743	12,394	51,307
Payroll Tax Expense	35,898	3,836	1,138	7,460	48,332
Total Salaries and Related Expenses	<u>542,413</u>	<u>56,455</u>	<u>16,776</u>	<u>117,384</u>	<u>733,028</u>
Patient Care	103,580	-	-	-	103,580
Education and Training	312,347	1,226	780	518	314,871
Medical Supplies - Noncash	42,911	-	-	-	42,911
Travel Expenses - Cash	200,419	1,296	1,651	251	203,617
Professional Fees - Cash	98,162	41,427	27,368	12,360	179,317
Professional Fees and Consulting - Noncash	684,351	-	-	-	684,351
Depreciation	8,757	881	384	1,581	11,603
Office Expenses	29,989	1,103	10,591	6,627	48,310
Utilities	11,732	1,024	490	2,099	15,345
Repairs and Maintenance	15,552	1,564	682	2,807	20,605
Other Expenses	13,610	3,626	312	12,754	30,302
Total Expenses	<u>\$ 2,063,823</u>	<u>\$ 108,602</u>	<u>\$ 59,034</u>	<u>\$ 156,381</u>	<u>\$ 2,387,840</u>
	86.5%	4.5%	2.5%	6.5%	100%

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015**

	2015				
	Program Related	Management and General	Special Events and Activities	Fundraising	Total
Salaries and Wages	\$ 498,989	\$ 65,191	\$ 31,732	\$ 93,557	\$ 689,469
Employee Benefits	37,865	3,035	4,518	9,410	54,828
Payroll Tax Expense	36,605	4,749	2,331	6,865	50,550
Total Salaries and Related Expenses	<u>573,459</u>	<u>72,975</u>	<u>38,581</u>	<u>109,832</u>	<u>794,847</u>
Patient Care	1,872	-	-	-	1,872
Education and Training	217,645	1,513	294	979	220,431
Medical Supplies - Noncash	78,824	-	-	-	78,824
Travel Expenses - Cash	183,044	695	279	10,142	194,160
Professional Fees - Cash	94,164	35,725	2,056	19,004	150,949
Professional Fees and Consulting - Noncash	422,277	-	-	-	422,277
Depreciation	8,981	966	851	1,438	12,236
Office Expenses	34,530	1,296	14,156	8,881	58,863
Utilities	9,661	5,605	744	1,258	17,268
Repairs and Maintenance	17,058	1,835	1,617	2,732	23,242
Other Expenses	14,339	5,099	919	13,097	33,454
Total Expenses	<u>\$ 1,655,854</u>	<u>\$ 125,709</u>	<u>\$ 59,497</u>	<u>\$ 167,363</u>	<u>\$ 2,008,423</u>
	82.4%	6.3%	3.0%	8.3%	100.0%

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 57,798	\$ 11,338
Adjustments to Reconcile Change in Net Assets to Net Cash		
Flows Provided (Used) by Operating Activities:		
Depreciation	11,603	12,236
(Increase) Decrease in Assets:		
Contributions and Other Receivables	(267,069)	102,890
Prepaid Expenses	(14,589)	(21,792)
Increase (Decrease) in Liabilities:		
Accounts Payable	(31,999)	25,649
Accrued Payroll and Benefit Liabilities	(3,647)	4,907
Deferred Revenue	(23,986)	106,486
Net Cash Provided (Used) by Operating Activities	(271,889)	241,714
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	-	(25,975)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(271,889)	215,739
Cash and Cash Equivalents - Beginning of Year	1,698,236	1,482,497
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,426,347	\$ 1,698,236

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Children's HeartLink (the Organization), founded in 1969 and headquartered in Minneapolis, Minnesota, is an international medical non-profit organization dedicated to assuring that children around the world have access to high-quality heart care. The Organization's mission is to save the lives of children with heart disease. Children's HeartLink partners with organizations to train medical teams, provide education, and transform health care in underserved parts of the world.

The principal activity of the Organization is to improve cardiovascular care for children in Brazil, China, India, Malaysia, Ukraine and Vietnam. Children's HeartLink works in partnership with pediatric cardiac programs in these countries and focuses efforts on programs and training for medical personnel, including clinical, organizational and community capacity-building initiatives, direct treatment of children, and technical support

The Organization's revenues come from a broad base of support from individual, corporate and foundation donors, along with special-event fundraising activities.

Basis of Presentation

Children's HeartLink presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting standards generally accepted in the United States of America. The Organization is required to report 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, on the accrual basis of accounting. Accordingly, the Organization's net assets are classified in accordance with the absence or existence of donor-imposed restrictions as follows:

Unrestricted – Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. These net assets also include those funds that are designated for specific purposes by the board of directors.

Temporarily Restricted – Temporarily restricted net assets include gifts of cash and other assets received with donor stipulations that limit the use of the donated assets. When a time restriction expires or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released after satisfaction from restrictions.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Permanently Restricted – Permanently restricted net assets include funds that have been restricted by the donor to be held in perpetuity.

At June 30, 2016 and 2015, the Organization had only unrestricted and temporarily restricted net assets.

At June 30, 2016 and 2015, \$1,000,000 of unrestricted net assets had been designated by the board and consisted of a \$500,000 future operating reserve and a \$500,000 strategic initiatives reserve.

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. The Organization maintains cash accounts in commercial banks in the United States primarily at one financial institution. Accounts at the banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC). At various times throughout the year, the Organization had cash balances in excess of FDIC insurance limits. The Organization has not experienced any losses on these accounts.

Contributions and Other Receivables

The Organization follows a policy of providing an allowance for uncollectible receivables; however, based on historical collection experience and the current composition of receivables, management is of the belief that such receivables are collectible in all material respects and thus an allowance is not considered necessary as of June 30, 2016 and 2015.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. As of June 30, 2016 and 2015, all pledges receivable were considered current and, accordingly, no discount was recorded.

Property and Equipment

Property and equipment are stated at the lower of cost or fair value if purchased and the lower of fair value at date of the gift or current fair value if donated. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Children's HeartLink's capitalization threshold is \$2,000.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation and amortization are computed on the straight-line basis over the assets' estimated useful lives as follows:

Buildings	39 Years
Building Improvements	5-10 Years
Furniture and Equipment	3-10 Years

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use and eventual disposition of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Deferred Revenue

Deferred revenue consists primarily of sponsorships received in advance of the annual gala event, which will be held subsequent to year-end.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Contributions and Pledges

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 statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as temporarily restricted support and then released upon being spent.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Medical Supplies, Program Services and Supporting Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

The Organization receives contributions of supplies, patient care services, and other supporting services. The estimated fair value of professional (primarily medical) services, which require specialized skills and would have been purchased if not provided by contributors, is reported as revenue and expense in the period in which the services are provided and totaled \$684,351 and \$429,377 for the years ended June 30, 2016 and 2015, respectively.

Donated professional fees and consulting which consist of patient care and other supporting services on the statement of activities represent significant estimates to the financial statements, which may change in the near term.

Donated medical supplies are recognized as revenue when received at their fair value. Subsequently, they are valued at the lower of their current fair value or their fair value when donated. Expense related to donated medical supplies totaled \$42,911 and \$71,724 for the years ended June 30, 2016 and 2015, respectively.

In addition to the above, a substantial number of unpaid nonprofessional volunteers have made significant contributions of their time to the Organization. The value of this contributed time is not reflected in these statements since the value, while clearly substantial, cannot be readily quantified.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. When possible, expenses are charged to program costs or supporting services based on direct expenditures incurred. Any expenses that are not directly chargeable are allocated to program costs or supporting services based on management's estimates of how employees utilize their time. Fundraising and special events costs totaled \$215,416 and \$226,860 for the years ended June 30, 2016 and 2015, respectively, exclusive of the costs of direct benefits to donors for the special events and activities. The Organization conducted activities that included requests for contributions as well as program related components.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Although estimates are considered fairly stated, actual results could differ from those estimates.

Advertising Expenses

Advertising expenses are expensed as incurred. Advertising expense for the years ended June 30, 2016 and 2015 were \$104 and \$32, respectively.

Tax-Exempt Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. However, income from certain activities not directly related to the Organization's tax-exempt purpose could result in taxable income. The Children's HeartLink follows guidance in the income tax standard regarding the recognition of uncertain tax positions. The Organization has identified no significant income tax uncertainties and has no current obligation for unrelated business income tax.

The Organization had no income tax expense or cash payments for income taxes for the year ended June 30, 2016.

Subsequent Events

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure through September 12, 2016, which is the date that the financial statements were available to be issued. During this period, there were no events that required recognition or disclosure in the financial statements.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2016	2015
Building	\$ 300,000	\$ 300,000
Building Improvements	82,899	82,899
Furniture and Equipment	43,270	43,270
Subtotal	426,169	426,169
Less: Accumulated Depreciation	(270,413)	(258,810)
Property and Equipment, Net	<u>\$ 155,756</u>	<u>\$ 167,359</u>

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 LEASE OBLIGATIONS

The Organization leases storage space and office equipment under cancelable and non-cancelable operating leases. The Organization is obligated to pay costs of insurance, taxes, repairs and maintenance pursuant to the terms of the leases. Lease expense was \$4,017 and \$4,456 for the years ended June 30, 2016 and 2015.

The Organization's building was gifted to it and as part of the gift; it is required to pay for the maintenance of the parking lot. The Organization has a commitment to pay an unrelated party \$1,200 per month as long as it remains in the building. If it were to move or sell the building, the commitment would stay with the building and move to the new owner.

Future minimum lease payments due under non-cancelable operating leases with terms greater than one year as follows for the years ending June 30:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 3,294
2018	2,940
2019	2,940
2020	2,940
2021	2,450
Total	<u>\$ 14,564</u>

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are restricted for various purposes and consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Program Services:		
China	\$ -	\$ 18,106
Southeast Asia	22,511	16,184
Ukraine	-	12,988
Scientific Communications Project	28,000	-
Time Restrictions	150,000	-
Total	<u>\$ 200,511</u>	<u>\$ 47,278</u>

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net Assets Released from Restriction

Net assets released from donor restrictions consist of the following for the years ended June 30:

	2016	2015
Program Restrictions Accomplished:		
China	\$ 216,107	\$ 42,777
India	4,000	63,447
Ukraine	12,988	3,750
Brazil	-	42,463
Other	30,172	10,816
Total	\$ 263,267	\$ 163,253

NOTE 5 DONATED GOODS AND SERVICES

Donated goods and services are reflected as a contribution in the financial statements at their estimated value at the date of receipt and include the following at June 30:

	2016	2015
Donated Medical Devices	\$ 42,911	\$ 78,824
Donated Professional Services	684,351	422,277
Total	\$ 727,262	\$ 501,101

NOTE 6 RETIREMENT BENEFITS

The Organization has established a 403(b) retirement plan, which covers all employees who have been employed by the Organization for at least one year and are at least 21 years old. Matching contributions are made at 50% of employee contributions up to 6% of the employee's compensation. Matching contributions of \$14,369 and \$17,173 were made for the years ended June 30, 2016 and 2015, respectively.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 7 CONCENTRATIONS

Three donors constituted approximately 61% of the contribution revenue for the year ended June 30, 2016. One donor constituted approximately 37% of the contribution revenue for the year ended June 30, 2015.

For the years ended June 30, 2016 and 2015, 27% and 35% of total revenue came from special events and activities. These events and activities consist of one main fundraiser in 2016: HeartLink Gala. Additionally, for the year ended June 30, 2015, these events and activities also included the Heart-to-Heart Campaign.

For the year ended June 30, 2016, one donor constituted approximately 56% of receivables.

NOTE 8 RELATED PARTY TRANSACTIONS

Children's HeartLink received contributions from those who were board members and employees at any time during the year totaling \$125,957 and \$134,040 for the years ended June 30, 2016 and 2015, respectively.