

CHILDREN'S HEARTLINK
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

**CHILDREN'S HEARTLINK
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YEARS ENDED JUNE 30, 2018 AND 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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 17, 2018

**CHILDREN'S HEARTLINK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 1,025,608	\$ 1,692,647
Contributions and Other Receivables	564,834	112,500
Prepaid Expenses	41,257	112,008
Property and Equipment, Net	164,066	178,991
Total Assets	\$ 1,795,765	\$ 2,096,146
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 81,482	\$ 69,014
Accrued Payroll and Benefit Liabilities	27,900	9,141
Deferred Revenue	280,590	400,000
Total Liabilities	389,972	478,155
NET ASSETS		
Unrestricted:		
Undesignated	51,635	180,374
Board Designated	652,200	970,034
Total Unrestricted	703,835	1,150,408
Temporarily Restricted	701,958	467,583
Total Net Assets	1,405,793	1,617,991
Total Liabilities and Net Assets	\$ 1,795,765	\$ 2,096,146

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT						
Contributions	\$ 390,406	\$ 684,109	\$ 1,074,515	\$ 281,811	\$ 577,746	\$ 859,557
Donated Goods and Services	756,571	-	756,571	629,859	-	629,859
Special Events and Activities	1,123,891	-	1,123,891	937,685	-	937,685
Less: Costs of Direct Benefits to Donors	<u>(175,257)</u>	-	<u>(175,257)</u>	<u>(165,383)</u>	-	<u>(165,383)</u>
Net Revenues from Special Events and Activities	948,634	-	948,634	772,302	-	772,302
Interest and Other Income	4,659	-	4,659	2,737	-	2,737
Net Assets Released from Restriction	<u>449,734</u>	<u>(449,734)</u>	<u>-</u>	<u>310,674</u>	<u>(310,674)</u>	<u>-</u>
Total Revenue and Other Support	<u>2,550,004</u>	<u>234,375</u>	<u>2,784,379</u>	<u>1,997,383</u>	<u>267,072</u>	<u>2,264,455</u>
EXPENSES						
Program Related	2,359,132	-	2,359,132	1,888,855	-	1,888,855
Management and General	179,025	-	179,025	84,451	-	84,451
Special Events and Activities	109,176	-	109,176	111,850	-	111,850
Fundraising	<u>349,244</u>	-	<u>349,244</u>	<u>262,260</u>	-	<u>262,260</u>
Total Expenses	<u>2,996,577</u>	<u>-</u>	<u>2,996,577</u>	<u>2,347,416</u>	<u>-</u>	<u>2,347,416</u>
CHANGE IN NET ASSETS	(446,573)	234,375	(212,198)	(350,033)	267,072	(82,961)
Net Assets – Beginning of Year	<u>1,150,408</u>	<u>467,583</u>	<u>1,617,991</u>	<u>1,500,441</u>	<u>200,511</u>	<u>1,700,952</u>
NET ASSETS – END OF YEAR	<u>\$ 703,835</u>	<u>\$ 701,958</u>	<u>\$ 1,405,793</u>	<u>\$ 1,150,408</u>	<u>\$ 467,583</u>	<u>\$ 1,617,991</u>

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Related	Management and General	2018 Special Events and Activities	Fundraising	Total
Salaries and Wages	\$ 612,450	\$ 75,721	\$ 69,082	\$ 226,616	\$ 983,869
Employee Benefits	58,789	8,765	7,627	24,911	100,092
Payroll Tax Expense	47,910	5,799	5,452	17,558	76,719
Total Salaries and Related Expenses	<u>719,149</u>	<u>90,285</u>	<u>82,161</u>	<u>269,085</u>	<u>1,160,680</u>
Patient Care	-	-	-	-	-
Training and Education	350,246	4,708	1,304	2,860	359,118
Medical Supplies – Noncash	-	-	-	-	-
Travel Expenses	327,139	1,157	2,176	8,108	338,580
Professional Fees – Cash	104,007	66,215	3,559	22,417	196,198
Professional Fees and Consulting – Noncash	755,966	-	605	-	756,571
Depreciation	9,403	1,194	1,194	3,134	14,925
Office Expenses	43,836	1,611	10,743	5,821	62,011
Utilities	15,087	1,515	1,543	4,251	22,396
Repairs and Maintenance	14,086	1,789	1,789	4,695	22,359
Other Expenses	20,213	10,551	4,102	28,873	63,739
Direct Benefit to Donors	-	-	-	175,257	175,257
Total Expenses Including Direct Benefit to Donors	<u>\$ 2,359,132</u>	<u>\$ 179,025</u>	<u>\$ 109,176</u>	<u>\$ 524,501</u>	<u>3,171,834</u>
Less: Direct Benefit to Donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>(175,257)</u>	<u>(175,257)</u>
Total Expenses	<u>\$ 2,359,132</u>	<u>\$ 179,025</u>	<u>\$ 109,176</u>	<u>\$ 349,244</u>	<u>\$ 2,996,577</u>
	74.4%	5.6%	3.5%	16.5%	100%

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Program Related	Management and General	2017 Special Events and Activities	Fundraising	Total
Salaries and Wages	\$ 511,525	\$ 25,919	\$ 54,020	\$ 178,729	\$ 770,193
Employee Benefits	42,399	2,799	5,495	15,879	66,572
Payroll Tax Expense	37,574	1,938	3,971	12,602	56,085
Total Salaries and Related Expenses	591,498	30,656	63,486	207,210	892,850
Patient Care	57,081	-	-	-	57,081
Training and Education	277,259	1,494	1,437	4,987	285,177
Medical Supplies – Noncash	43,151	-	-	-	43,151
Travel Expenses	171,522	280	50	4,421	176,273
Professional Fees – Cash	86,343	37,325	25,682	14,285	163,635
Professional Fees and Consulting – Noncash	586,708	-	-	-	586,708
Depreciation	6,443	293	879	2,148	9,763
Office Expenses	30,562	606	13,859	9,393	54,420
Utilities	7,485	5,927	893	2,204	16,509
Repairs and Maintenance	13,384	608	1,825	4,461	20,278
Other Expenses	17,419	7,262	3,739	13,151	41,571
Direct Benefit to Donors	-	-	-	165,383	165,383
Total Expenses Including Direct Benefit to Donors	\$ 1,888,855	\$ 84,451	\$ 111,850	\$ 427,643	2,512,799
Less: Direct Benefit to Donors	-	-	-	(165,383)	(165,383)
Total Expenses	\$ 1,888,855	\$ 84,451	\$ 111,850	\$ 262,260	\$ 2,347,416
	75.1%	3.4%	4.5%	17.0%	100%

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (212,198)	\$ (82,961)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	14,925	9,763
(Increase) Decrease in Assets:		
Contributions and Other Receivables	(452,334)	154,968
Prepaid Expenses	70,751	(63,261)
Increase (Decrease) in Liabilities:		
Accounts Payable	12,468	39,892
Accrued Payroll and Benefit Liabilities	18,759	897
Deferred Revenue	(119,410)	240,000
Net Cash Provided (Used) by Operating Activities	(667,039)	299,298
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	-	(32,998)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(667,039)	266,300
Cash and Cash Equivalents – Beginning of Year	1,692,647	1,426,347
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 1,025,608	\$ 1,692,647

See accompanying Notes to Financial Statements.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 nonprofit organization. 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, 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 as well as temporarily restricted gifts which meet restrictions within the year they are donated.

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, 2018 AND 2017**

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, 2018 and 2017, the Organization had only unrestricted and temporarily restricted net assets.

At June 30, 2017, \$970,034 of unrestricted net assets had been designated by the board and consisted of a \$500,000 future operating reserve and a \$470,034 strategic initiatives reserve. At June 30, 2018, there was a remaining balance of \$652,200. The balance consisted of \$500,000 and \$152,500 in the future operating reserve and strategic initiatives reserve, respectively.

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, 2018 and 2017.

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, 2018 and 2017, the discount to net present value was \$18,766 and \$-, respectively.

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. The Organization's capitalization threshold is \$2,000.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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, 2018 AND 2017

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 \$756,571 and \$586,708 for the years ended June 30, 2018 and 2017, 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 \$- and \$43,151 for the years ended June 30, 2018 and 2017, 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 \$458,420 and \$374,110 for the years ended June 30, 2018 and 2017, 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, 2018 AND 2017**

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.

Tax-Exempt Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) 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, 2018.

Subsequent Events

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure through September 17, 2018, 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:

	2018	2017
Building	\$ 300,000	\$ 300,000
Building Improvements	82,899	82,899
Furniture and Equipment	59,828	76,268
Subtotal	<u>442,727</u>	<u>459,167</u>
Less: Accumulated Depreciation	<u>(278,661)</u>	<u>(280,176)</u>
Property and Equipment, Net	<u><u>\$ 164,066</u></u>	<u><u>\$ 178,991</u></u>

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 LEASE OBLIGATIONS

The Organization leases storage space and office equipment under cancelable and noncancelable 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 \$3,260 and \$3,428 for the years ended June 30, 2018 and 2017, respectively.

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 noncancelable 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>
2019	3,260
2020	3,100
2021	2,450
Total	<u>\$ 8,810</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>2018</u>	<u>2017</u>
Program Services:		
China	\$ 41,414	\$ 6,995
Southeast Asia	216,810	306,150
Scientific Communications Project	-	14,393
Other Program Restrictions	-	35,045
Time Restrictions	<u>462,500</u>	<u>105,000</u>
Total	<u>\$ 720,724</u>	<u>\$ 467,583</u>

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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:

	2018	2017
Program Restrictions Accomplished:		
China	\$ 65,581	\$ 160,005
Southeast Asia	215,340	62,062
Scientific Communications Project	14,393	13,607
Other Program Restrictions	71,920	-
Time Restrictions	82,500	75,000
Total	\$ 449,734	\$ 310,674

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:

	2018	2017
Donated Medical Devices	\$ -	\$ 43,151
Donated Professional Services	756,571	586,708
Total	\$ 756,571	\$ 629,859

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 \$14,904 and \$12,215 were made for the years ended June 30, 2018 and 2017, respectively.

**CHILDREN'S HEARTLINK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 CONCENTRATIONS

Three donors constituted approximately 64% and 56% of the contribution revenue for the years ended June 30, 2018 and 2017, respectively.

For the years ended June 30, 2018 and 2017, 34% and 34% of total revenue came from special events and activities.

For the year ended June 30, 2018, one donor constituted approximately 86% of receivables. For the year ended June 30, 2017, two donors constituted 100% 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 \$148,930 and \$112,502 for the years ended June 30, 2018 and 2017, respectively.