

The Mended Hearts, Inc.
Financial Statements
For the Year Ended December 31, 2017

The Mended Hearts, Inc.

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For the year ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Mended Hearts, Inc.

We have audited the accompanying financial statements of The Mended Hearts, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and 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.

Auditor's 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 auditor's 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.

Basis for Qualified Opinion

No documentation was retained to support inventory quantity and there was no independent observation of physical inventory at December 31, 2017. We were engaged to audit The Mended Hearts, Inc. subsequent to December 31, 2017. Consequently, we were unable to determine the physical quantity and valuation of inventory and whether any related adjustments were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Mended Hearts, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Evans & Knauth, PLLC

Frisco, Texas
April 8, 2019

THE MENDED HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 476,866
Short-term investments	31,211
Accounts receivable, net	70,909
Inventory	100,000
Prepaid expenses	17,025
Total current assets	696,011

PROPERTY, PLANT & EQUIPMENT

Property plant & equipment, net	10,805
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OTHER ASSETS

Restricted cash	58,126
Intangible assets, net	102,370
	160,496

TOTAL ASSETS

\$ 867,312

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 12,017
Accrued expenses	84,020
Due to chapters	31,132
Deferred revenue	76,353
Total current liabilities	203,522

NET ASSETS:

Unrestricted net assets	(179,310)
Temporarily restricted net assets	784,974
Permanently restricted net assets	58,126
Total net assets	663,790

TOTAL LIABILITIES AND NET ASSETS

\$ 867,312

The accompanying notes are an integral part of these financial statements.

THE MENDED HEARTS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Support and Revenues	
Grants	\$ 848,421
Membership dues	119,066
Conference income	37,706
Promotional materials	45,383
Contributions	283,637
Miscellaneous income	48,743
Investment income	2,658
	<u>1,385,614</u>
Net assets released from restrictions	312,677
Total unrestricted revenues, support and reclassifications	<u>1,698,291</u>
 Expenses	
Program services	1,130,863
Conventions	234,963
Management and general	383,079
Fundraising	107,682
Total expenses	<u>1,856,587</u>
 Other losses	
Loss on abandonment of intangible assets	<u>156,751</u>
 Change in unrestricted net assets	(315,047)
 Temporarily restricted net assets	
Contributions	690,067
Net assets released from restrictions	(312,677)
Change in temporarily restricted net assets	<u>377,390</u>
 Change in net assets	62,343
 Net assets at beginning of year	<u>601,447</u>
 Net assets at end of year	<u><u>\$ 663,790</u></u>

The accompanying notes are an integral part of these financial statements.

THE MENDED HEARTS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 62,343
Adjustments to reconcile change in net assets to cash used in operating activities:	
Depreciation expense	2,035
Amortization expense	58,039
Loss on abandonment on intangible assets	156,751
Realized and unrealized gains on investments - net	677
(Increase)/decrease in assets:	
Receivables	(36,052)
Inventory	12,427
Prepaid expenses	39,402
Increase/(decrease) in liabilities:	
Accounts payable and accrued expenses	30,346
Due to chapters	15,216
Deferred revenue	(469,897)
Net cash used in operating activities	<u>(128,713)</u>
Cash flows from investing activities:	
Purchases of investments	(2,967)
Purchases of intangible assets	(34,494)
Net cash used in investing activities	<u>(37,461)</u>
Net decrease in cash and cash equivalents	(166,174)
Cash and cash equivalents at beginning of year	<u>643,040</u>
Cash and cash equivalents at end of year	<u>\$ 476,866</u>

No interest or income taxes were paid during the year ended December 31, 2017.

The accompanying notes are an integral part of these financial statements.

THE MENDED HEARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Programs		Management and	Fundraising	Totals
	Education	Conferences	General		
Salaries and wages	\$ 340,374	\$ 16,875	\$ 137,498	\$ 65,357	\$ 560,104
Payroll taxes	27,888	1,383	11,266	5,355	45,892
Employee benefits	80,496	3,991	32,517	15,456	132,460
Professional services	103,442	994	34,646	11,140	150,222
Supplies	3,612	8,502	4,215	-	16,329
Telephone	16,984	1,658	4,231	9	22,882
Printing	203,578	4,092	38,172	444	246,286
Postage and shipping	68,590	677	3,348	28	72,643
Occupancy	34,393	1,705	13,894	6,604	56,596
Rental maintenance	26,600	27,318	7,121	-	61,039
Region expenses	20,335	-	2,573	-	22,908
Hotels, meals & travel	124,958	166,510	21,145	-	312,613
Promotional materials	(9,226)	(28)	4,662	2,323	(2,269)
Bad debt expense	-	-	524	-	524
Other	8,764	1,286	37,218	966	48,234
Depreciation and amortization	58,039	-	2,035	-	60,074
Insurance	10,030	-	15,590	-	25,620
Contract labor	12,006	-	12,424	-	24,430
Total expenses	<u>\$ 1,130,863</u>	<u>\$ 234,963</u>	<u>\$ 383,079</u>	<u>\$ 107,682</u>	<u>\$ 1,856,587</u>

The accompanying notes are an integral part of these financial statements.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Mended Hearts, Inc. (“MHI”) is a not-for-profit organization founded to aid, inform, and encourage heart disease patients and their families, and to assist professional organizations and physicians in their services to heart patients throughout the United States of America. The Organization’s primary sources of revenues are grants, dues and contributions. The organization was founded in 1951 and incorporated in 1955.

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, management made certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of MHI and changes therein are classified and reported as follows:

Unrestricted – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – net assets subject to donor-imposed stipulations that may or will be met, either by actions of MHI and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted – net assets required to be maintained in perpetuity.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Contributed Services and Equipment

MHI is a direct service nonprofit organization with the objectives and services provided by unpaid volunteers, who make the mission possible. Without the volunteers, MHI would require additional financial resources to hire staff to provide these services. Volunteers conduct over 200,000 visits annually to heart patients, families, and caregivers. The value of the volunteers’ time for these visits is not reflected in these statements.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Contributions are recognized when the donor makes a promise to give to MHI that are, in substance, unconditional. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

MHI uses the allowance method to determine uncollectible support receivable. The allowance is based on prior years' experience and management analysis of specific accounts receivable. Management has determined that no allowance was required as of December 31, 2017.

Cash and Cash Equivalents

For purposes of the statement of cash flows, MHI considers all currency on hand, demand deposits with banks or financial institutions, and highly liquid short-term investments with a maturity of three months or less to be cash and cash equivalents.

Investments

Investments, consisting primarily of stocks, bonds, and short-term reserves with readily determinable fair values are reported at their fair values in the statement of financial position. Fair market value is based upon quoted market prices. Unrealized gains and losses are included in the change in net assets.

Inventory

Inventory, consisting primarily of medical brochures, pamphlets and supplies, is carried at cost. Inventory is valued based on the first-in first-out method.

Intangibles

Purchased intangibles are capitalized at cost. Amortization is computed on the straight-line basis over the estimated useful lives of assets, which range from three to seven years.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchased property and equipment costing \$5,000 or greater is capitalized at cost. Donated property and equipment is recorded at its fair market value at the date of gift. Depreciation is computed on the straight-line basis over the estimated useful lives of assets, which range from three to seven years for furniture and equipment and leasehold improvements, and thirty years for buildings.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

MHI is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and does not have any unrelated business income for the year ended December 31, 2016. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

NOTE 2: INTANGIBLE ASSETS

Intangible assets together with their amortizable lives in years consist of the following at December 31, 2017:

In service:		
Online Support on Demand	\$	126,762
Website rebuild		68,989
In development		
Voices in America videos		26,900
Chapter link module		11,425
		<u>234,076</u>
Less accumulated amortization		(131,706)
	\$	<u><u>102,370</u></u>

Amortization expense was \$58,039 for the year ended December 31, 2017. Loss on abandonment of intangibles was \$156,751 for the year ended December 31, 2017.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2017

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment together with their depreciable lives in years consists of the following at December 31, 2017:

Office furniture and equipment	\$ 12,966
Leasehold improvements	4,698
	<u>17,664</u>
Less accumulated depreciation	(6,859)
	<u><u>\$ 10,805</u></u>

Depreciation expense was \$2,035 for the year ended December 31, 2017.

NOTE 4: INVESTMENTS

MHI's investments are stated at fair value and consist of stocks, bonds and short-term reserves at December 31, 2017 as follows:

Stocks	\$ 13,387
Bonds	6,825
Short-term reserves	10,999
	<u>\$ 31,211</u>

Investment income consists of the following for the year ended December 31, 2017:

Dividend income	\$ 82
Interest income	332
Unrealized gain on investments	2,244
	<u><u>\$ 2,658</u></u>

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2017

NOTE 5: RESTRICTED NET ASSETS

Permanently restricted net assets of \$58,126 as of December 31, 2017 consist of endowment funds to be held indefinitely, the income from which is expendable to support program services.

Temporarily restricted net assets were as follows at December 31, 2017:

Life Dues	\$	29,342
Tita Hutchins Fund		8,272
Dreyfus Harken Fund		2,141
Valve Disease Education		110,806
Patient Advocacy Network		442,627
Afib Online Support & Educational Program		128,386
Your Sweetheart Diabetes Campaign		25,900
Heart Failure Patients Education and Support Program		37,500
	\$	<u>784,974</u>

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both as a result of the Organization's noncompliance with the terms of funding.

NOTE 6: CONTINGENCY FOR NONCOMPLIANCE OF DONOR RESTRICTIONS

The Organization has a contingency related to the noncompliance of donor restrictions in the amount of \$442,627 at December 31, 2017. The Organization accepted grants and donations that were restricted for the Patient Advocacy Network and has not complied with the terms of the agreements as of December 31, 2017.

NOTE 7: ECONOMIC DEPENDENCY AND MAJOR SUPPORTERS

During the year ended December 31, 2017, MHI's support and revenues included major grants from one company in the medical industry which represent 18% of total support and revenues. At December 31, 2017, receivables from three entities represented approximately 100% of total accounts receivable. These and other grants have represented significant sources of support to fund the activities and programs of MHI, and there are no assurances that such fundings will continue to be available.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2017

NOTE 8: RETIREMENT PLAN

MHI provides contributions for eligible employees to a defined contribution retirement plan. Employees are eligible to enroll benefits at the time of their employment. Contributions will be made on an employee's base salary. The plan provides eligibility credit for past service with the American Heart Association. In addition, employees presently have the opportunity to accumulate additional tax deferred retirement savings by participating in Tax-Deferred Annuities (TDA) under Section 403(b) of the Internal Revenue Service Code. Total MHI contributions to the plan amounted to \$53,614 for the year ended December 31, 2017.

NOTE 9: OPERATING LEASE OBLIGATIONS

MHI leases office building space and office equipment under a non-cancelable operating leases expiring through July 2020. Future minimum lease payments under this lease for the years ending December 31 are as follows:

2018	\$ 56,181
2019	55,873
2020	33,161
	<u>\$ 145,215</u>

Rent expense charged to operations totaled \$47,501 for the year ended December 31, 2017.

NOTE 10 – ADVERTISING

The Organization follows the policy of charging the costs of advertising to expense as incurred. For the year ended December 31, 2017, advertising expense was \$8,500.

NOTE 11 – CONCENTRATION OF CREDIT RISK

The Organization places its cash accounts with high-quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Such account balances may, at times, exceed the federal insured limit. Deposit amount in excess of insured limits were \$208,366 at December 31, 2017. Management does not believe that these funds are at risk.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2017

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, receivables, investments and accounts payable approximate their respective fair values as of December 31, 2017, due to the short maturities of these instruments.

Investments, consisting primarily of stocks, bonds, and short-term reserves with readily determinable fair values are reported at their fair values in the statement of financial position. Fair market value is based upon quoted market prices. Unrealized gains and losses are included in the change in net assets.

NOTE 13 – SUBSEQUENT EVENTS

The management of The Mended Hearts, Inc. evaluated subsequent events through April 8, 2019 which is the date that the financial statements were available to be issued.