

The Mended Hearts, Inc.
Financial Statements
For the Year Ended December 31, 2018

The Mended Hearts, Inc.

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For the year ended December 31, 2018

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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, 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Mended Hearts, Inc. as of December 31, 2018, 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
November 18, 2019

THE MENDED HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 259,603
Investments	32,295
Support receivables, net	219,177
Inventory	129,862
Prepaid expenses	16,313
Total current assets	<u>657,250</u>
 PROPERTY, PLANT & EQUIPMENT	
Property plant & equipment, net	8,800
 OTHER ASSETS	
Intangible assets, net	54,288
	<u>54,288</u>
 TOTAL ASSETS	 <u><u>\$ 720,338</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 156,212
Accrued expenses	30,992
Due to chapters	47,449
Deferred revenue	178,756
Grants payable to others	20,000
Total current liabilities	<u>433,409</u>
 NET ASSETS:	
Net assets without donor restrictions	182,929
Net assets with donor restrictions	104,000
Total net assets	<u>286,929</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 720,338</u></u>

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

THE MENDED HEARTS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Support and Revenues	
Grants	\$ 680,430
Membership dues	112,425
Conference income	52,541
Promotional materials	15,965
Contributions	260,977
Miscellaneous income	50,302
Investment income	1,417
	<u>1,174,057</u>
Net assets released from restrictions	814,100
Total unrestricted revenues, support and reclassifications	<u>1,988,157</u>
 Expenses	
Program services	1,077,851
Conventions	209,857
Management and general	235,030
Fundraising	103,180
Total expenses	<u>1,625,918</u>
 Change in unrestricted net assets	362,239
 Net assets with donor restrictions	
Contributions	75,000
Net assets released from restrictions	(814,100)
Change in net assets with donor restrictions	<u>(739,100)</u>
 Change in net assets	(376,861)
 Net assets at beginning of year	<u>663,790</u>
 Net assets at end of year	<u>\$ 286,929</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, 2018

Cash flows from operating activities:	
Change in net assets	\$ (376,861)
Adjustments to reconcile change in net assets to cash used in operating activities:	
Depreciation expense	2,005
Amortization expense	48,082
(Increase)/decrease in assets:	
Receivables	(148,268)
Inventory	(29,862)
Prepaid expenses	712
Increase/(decrease) in liabilities:	
Accounts payable and accrued expenses	91,167
Due to chapters	16,317
Deferred revenue	102,403
Grant payable to others	20,000
Net cash used in operating activities	<u>(274,305)</u>
Cash flows from investing activities:	
Purchases of investments	<u>(1,084)</u>
Net cash used in investing activities	<u>(1,084)</u>
Net decrease in cash and cash equivalents	(275,389)
Cash and cash equivalents at beginning of year	<u>534,992</u>
Cash and cash equivalents at end of year	<u>\$ 259,603</u>

No interest or income taxes were paid during the year ended December 31, 2018.

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, 2018

	Programs		Management and		Totals
	Education	Conferences	General	Fundraising	
Salaries and wages	\$ 296,620	\$ 10,089	\$ 57,276	\$ 51,827	\$ 415,812
Payroll taxes	24,946	848	4,817	4,359	34,970
Employee benefits	70,264	2,390	13,568	12,277	98,499
Professional services	58,740	-	50,835	-	109,575
Supplies	985	219	15,714	92	17,010
Telephone	-	-	23,015	-	23,015
Printing	207,050	-	-	-	207,050
Postage and shipping	59,698	18	3,330	-	63,046
Occupancy	55,547	1,889	10,726	9,706	77,868
Database and software maintenance	38,559	-	1,486	-	40,045
Region expenses	49,883	1,246	-	-	51,129
Travel, conferences and meetings	62,527	192,525	-	-	255,052
Promotional materials	40,543	-	-	-	40,543
Other	12,760	-	19,649	21,665	54,074
Depreciation and amortization	50,086	-	-	-	50,086
Insurance	18,624	633	3,596	3,254	26,107
Contract labor	31,019	-	31,018	-	62,037
Total expenses	<u>\$ 1,077,851</u>	<u>\$ 209,857</u>	<u>\$ 235,030</u>	<u>\$ 103,180</u>	<u>\$ 1,625,918</u>

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

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2018

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 Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence or nature of any donor or grantor restrictions.

Basis of Accounting

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.

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, 2018

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, 2018.

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.

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.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

The Organization adopted Accounting Standards Update 2016-14 Presentation of Financial Statements of Not-for-Profit Entities during the year ended December 31, 2018. These standards were updated to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows.

Functional Expenses

Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, interest and insurance, which are allocated on a departmental basis, as well as salaries, wages and employee benefits, which are allocated based on estimates of time and effort.

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, 2018:

Online Support on Demand	\$ 126,000
Website rebuild	68,989
Voices in America videos	26,900
Chapter link module	11,425
	<u>233,314</u>
Less accumulated amortization	<u>(179,026)</u>
	<u>\$ 54,288</u>

Amortization expense was \$48,082 for the year ended December 31, 2018.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2018

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment together with their depreciable lives in years consists of the following at December 31, 2018:

Office furniture and equipment	\$ 12,965
Leasehold improvements	4,698
	<u>17,663</u>
Less accumulated depreciation	(8,863)
	<u><u>\$ 8,800</u></u>

Depreciation expense was \$2,005 for the year ended December 31, 2018.

NOTE 4: INVESTMENTS

MHI's investments are stated at fair value and consist of stocks, bonds and short-term reserves at December 31, 2018 as follows:

Stocks	\$ 14,473
Bonds	6,550
Short-term reserves	11,127
Other	145
	<u>\$ 32,295</u>

Investment income consists of the following for the year ended December 31, 2018:

Dividend income	\$ 648
Short term capital gain	86
Long term capital gain	662
Other	21
	<u><u>\$ 1,417</u></u>

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2018

NOTE 5 — NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following purpose restricted contributions at December 31, 2018:

Amato/Shuman endowment fund	\$ 15,000
Dreyfus Harken endowment fund	14,000
Webex Series	75,000
	<u>\$ 104,000</u>

Restricted donations received but not spent during the year ended December 31, 2018 are as follows:

Patient Advocacy Network	\$ 75,000
	<u>\$ 75,000</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose specified by donors during the year ended December 31, 2018 are as follows:

Shirley Kass endowment	\$ (29,126)
Patient Advocacy Network	(442,627)
AFIB Online Support & Educational Program	(128,386)
Valve Disease Education	(110,806)
Your Sweetheart Diabetes Campaign	(25,900)
Heart Failure Patients Education and Support Program	(37,500)
Other	(39,755)
	<u>\$ (814,100)</u>

NOTE 6 — LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization has approximately \$511,075 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of \$259,603 in cash, \$32,295 in short-term investments, \$219,177 in support receivables. At December 31, 2018, the Organization owed \$187,204 of accounts payable and \$20,000 of grants payables to other organizations.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2018

NOTE 7: ECONOMIC DEPENDENCY AND MAJOR SUPPORTERS

During the year ended December 31, 2018, MHI's support and revenues included major grants from two companies in the medical industry which represent 31% of total support and revenues. At December 31, 2018, receivables from three entities represented approximately 74% 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.

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 \$39,674 for the year ended December 31, 2018.

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:

2019	\$	87,673
2020		33,161
	\$	<u>120,834</u>

Rent expense charged to operations totaled \$75,151 for the year ended December 31, 2018.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, receivables, investments and accounts payable approximate their respective fair values as of December 31, 2018, 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 11 – SUBSEQUENT EVENTS

The management of The Mended Hearts, Inc. evaluated subsequent events through November 18, 2019, which is the date that the financial statements were available to be issued.