MUELLER & CO., LLP

Certified Public Accountants – Business & Financial Advisors

THE CHILDREN'S HEART FOUNDATION
DECEMBER 31, 2018

FINANCIAL STATEMENTS

ASSURANCE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Children's Heart Foundation
Northbrook, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of The Children's Heart Foundation, which comprise the statement of financial position as of December 31, 2018, 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.

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 of 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.

Certified Public Accountants ■ Business & Financial Advisors
Offices in Elgin, Orland Park & Chicago

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Heart Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 of the financial statements, for the year ended December 31, 2018, The Children's Heart Foundation adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Mueller & Co., LLP

Elgin, Illinois
August 26, 2019

THE CHILDREN'S HEART FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS		
Cash and Cash Equivalents	$	1,639,491
Accounts Receivable		61,389
Prepaids		74,268
Investments		14,945
Property and Equipment, Net		2,161
Deposit on Intellectual Property		17,092
TOTAL ASSETS	$	1,809,346
LIABILITIES		
Accounts Payable and Accrued Expenses	$	161,682
Deferred Revenue		62,985
Funds Received in Advance for Chapter Mergers		179,051
TOTAL LIABILITIES		403,718
NET ASSETS		
Without Donor Restriction		1,405,628
TOTAL LIABILITIES AND NET ASSETS	$	1,809,346

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

THE CHILDREN'S HEART FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

WITHOUT DONOR RESTRICTIONS	
Revenues and Other Support:	
Donations	$ 1,026,300
Contributions from Affiliates	769,339
External Special Events (Note 6) Net of Expenses of $94,183 for 2018	731,439
Total Support	2,527,078
Interest and Dividend Income	83
Loss on Investments	(683)
Other Income	30,507
Total Other Revenue	29,907
Total Support and Other Revenue	2,556,985
Expenses:	
Program Services	1,025,157
Management and General	537,511
Fundraising	213,339
Total Expenses	1,776,007
INCREASE IN NET ASSETS	780,978
NET ASSETS - BEGINNING OF THE YEAR	624,650
NET ASSETS - END OF THE YEAR	$ 1,405,628

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

THE CHILDREN'S HEART FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
Research Funding	$ 529,239	$ -	$ -	$ 529,239
Public Education and Advocacy	27,553	-	2,074	29,627
Salaries, Taxes and Benefits	174,990	58,907	94,057	327,954
Insurance	1,865	9,442	350	11,657
Office Supplies and Postage	4,778	11,946	4,996	21,720
Professional Fees	136,655	436,770	53,559	626,984
Printing	-	1,021	836	1,857
Travel	12,610	430	1,289	14,329
Rent and Utilities	24,000	1,500	4,500	30,000
Marketing	35,252	2,203	6,610	44,065
Fundraising	62,546	993	35,741	99,280
Meetings and Conferences	11,964	2,761	3,681	18,406
Depreciation	-	3,246	-	3,246
Miscellaneous	3,705	8,292	5,646	17,643
Total	$ 1,025,157	$ 537,511	$ 213,339	$ 1,776,007

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

THE CHILDREN'S HEART FOUNDATION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2018

CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Changes in Net Assets	$ 780,978
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By Operating Activities:	
Depreciation	3,246
Loss on Investments	683
Changes in:	
Increase in Accounts Receivable	(36,738)
Increase in Prepaids	(74,268)
Increase in Deposit on Intellectual Property	(17,092)
Decrease in Accounts Payable and Accrued Expenses	(429,260)
Increase in Deferred Revenue	58,985
Increase in Funds Received in Advance for Chapter Mergers	179,051
NET CASH PROVIDED BY OPERATING ACTIVITIES	465,585
NET CASH USED IN INVESTING ACTIVITIES	
Purchase of Equipment	(748)
NET CASH USED IN INVESTING ACTIVITIES	(748)
INCREASE IN CASH AND EQUIVALENTS	464,837
CASH AND CASH EQUIVALENTS - BEGINNING	1,174,654
CASH AND CASH EQUIVALENTS - ENDING	$ 1,639,491

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

THE CHILDREN'S HEART FOUNDATION
NOTES TO FINANCIAL STATEMENTS

1. FOUNDATION

The Children's Heart Foundation (Foundation), an Illinois not-for-profit corporation, is a national foundation that supports research toward discovering the causes and improving the methods of diagnosing, treating and preventing congenital heart defects. The Foundation began operations in 1996 and has funded 105 research projects, totaling $11 million to date. Each year the Foundation, through its chapters, partners, and other supporters, supports, promotes, and/or receives benefits from fundraisers held throughout the country.

As of December 31, 2018, the Foundation has eleven local chapters. The chapters are located in California, Colorado, Georgia, Illinois, Michigan, Missouri, New York, Ohio, Oregon, Pennsylvania, and Texas. These chapters are run autonomously by board members elected at their respective local levels.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting.

B. Income Taxes

The Foundation qualifies as a tax-exempt Foundation under Section 501(C)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in the financial statements.

The Foundation files income tax returns in the U.S. federal jurisdiction. The Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015.

C. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

D. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Fair Value Measurements: Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Foundations are required to disclose fair value of certain assets and liabilities according to a fair value hierarchy. This hierarchy ranks the quality and reliability of the inputs used to determine fair values, which are then classified and disclosed in one of three categories. The three levels of the fair value hierarchy are:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Level 2 – Quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable. The Foundation did not have any investments in Level 2 at December 31, 2018.

- Level 3 – Model-derived valuations with unobservable inputs that are supported by little or no market activity. The Foundation did not have any investments in Level 3 at December 31, 2018.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

Investments: Investments in securities are recorded at current values, which are based upon published market prices. The change in the difference between current value and the cost of investments, if any, is reflected in the statement of activities as gain or loss on investments.

Within the fair value hierarchy, the Foundation investments consist of Level 1 inputs which had a fair value of $14,945 as of December 31, 2018.

For the year ended December 31, 2018, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

E. Property and Equipment

The Foundation capitalizes property and equipment over $1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to thirty years. Depreciation expense was $3,246 for the year ended December 31, 2018.

F. Concentration of Credit Risk

The Foundation maintains its cash balances at two high credit quality financial institutions located in Illinois. At December 31, 2018, the cash balance is $1,088,953 in excess of the Federal Deposit Insurance Corporation limits. The Foundation has not experienced, nor does it expect to experience, any losses in such accounts.

G. Net Assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Net Assets (continued)

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – From time to time, the Foundation receives contributions that are designated by the donor with restrictions as to use. It is the Foundation's policy to disclose the nature of the restriction in net assets. Restrictions that are met in the same reporting period are classified as net assets without donor restrictions. There are no net assets with donor restrictions at December 31, 2018.

H. Contributions

Contributions and promises to contribute are recognized as income when received or when they become unconditional promises to give. Contributions receivable are all due in less than one year.

All donor-restricted support is reported as an increase in with donor restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restrictions ends or a purpose restriction is accomplished), with donor restricted net assets, they are reclassified to without donor restricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions for which restrictions are met in the same accounting period are recorded as without donor restricted contributions.

I. Donated Services and In-Kind Contributions

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. These services are not recognized in the financial statements as they do not meet criteria under Generally Accepted Accounting Principles to record.

J. Advertising Costs

Advertising costs are expensed as incurred, and approximated $30,543 during the year ended December 31, 2018 and are recorded in marketing expense in the statement of functional expenses.

K. Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of functional expenses. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. These expenses have been allocated on the basis of estimates of time and effort.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Going Concern Evaluation

In accordance with Accounting Standards Update (ASU) No. 2014-15 management performed an evaluation to determine if adverse conditions or events, considered in the aggregate, raise substantial doubt about the Foundation's ability to continue as a going concern. Management's assessment did not identify any conditions or events raising substantial doubt about the Foundation's ability to continue as a going concern for the period from August 26, 2019 to August 26, 2020.

M. Change in Accounting Principle – Presentation of Financial Statements

On August 18, 2016, the Financial Accounting Standard Board (FASB) issued ASU No.2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU No. 2016-14 and has adjusted the presentation in these financial statements accordingly. The primary differences between these and previously-issued financial statements, as they relate to the Foundation, are: 1) the renaming of the captions in the statement of financial position and statement of activities from unrestricted to net assets without donor restrictions; 2) the inclusion of a statement of functional expenses; and 3) the new footnote disclosure of quantitative and qualitative information concerning the Foundation's liquidity.

N. New Accounting Standard – Revenue from Contracts

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU No. 2014-09 provides for a single five-step model to be applied to all revenue contracts with customers. ASU No. 2014-09 also requires additional financial statement disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Foundation is currently evaluating the methods of adoption allowed by ASU No. 2014-09 and the effect that ASU No. 2014-09 is expected to have on its financial position, results of operations and cash flows and related disclosures.

O. New Accounting Standard – Contributions Received and Made

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU No. 2018-08 improves the current guidance on determining whether transactions are contributions or exchange transactions. ASU No. 2018-08 also requires determining if a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. ASU No. 2018-08 is effective for resource recipients for annual reporting periods beginning after December 15, 2018 and for resource providers for annual reporting periods beginning after December 15, 2019. The Foundation is currently evaluating the methods of adoption permitted by ASU No. 2018-08 and the effect that ASU No. 2018-08 is expected to have on its financial position, results of operations, and cash flows and related disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. New Accounting Standard – Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to improve financial reporting about leasing transactions. ASU No. 2016-02 requires that leased assets be recognized as assets on the statement of financial position and the liabilities for the obligations under the lease also be recognized on the statement of financial position. ASU No. 2016-02 requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The required disclosures include qualitative and quantitative requirements. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years beginning after December 15, 2020. Early adoption is permitted. ASU No. 2016-02 must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Foundation is currently evaluating the methods of adoption allowed by ASU No. 2016-02 and the effect that ASU No. 2016-02 is expected to have on its financial position, results of operations, and cash flows and related disclosures.

3. LIQUIDITY AND AVAILABLITIY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$ 1,639,491
Accounts Receivable	61,389
Investments	14,945
	$ 1,715,825

As part of the Foundation's liquidity management plan, cash in excess of current needs for expenses are invested or kept in cash. Investments are released to cover operating expenses as needed upon management approval. The foundation aims to have enough liquid funds on hand to pay for one year of budgeted research expenditures.

4. GRANTS

During 2018, the Foundation approved seven research grants totaling $529,239 to fund studies on congenital heart defects. The grants for 2018 were as follows: $419,239 to American Heart Association, $40,000 to Lisa Bergersen, MD from Children's Hospital of Boston, a $35,000 Research Fellowship Award for Jessica Garben from Harvard University, and $35,000 to American Academy of Pediatrics.

As of December 31, 2018 there was $75,000 of accrued grants payable included in accounts payable and accrued expenses on the statement of financial position.

5. RELATED PARTY TRANSACTIONS

As of December 31, 2018, the Foundation has eleven chapters in California, Colorado, Georgia, Illinois, Michigan, Missouri, New York, Ohio, Oregon, Pennsylvania, and Texas. Related party contributions transactions between the national chapter and the other chapters are as follows:

Contributions to the CHF National Foundation by:

California Chapter	$ 36,937
Colorado Chapter	10,166
Georgia Chapter	16,000
Illinois Chapter	211,481
Michigan Chapter	42,922
Missouri Chapter	63,715
New York Chapter	61,905
Ohio Chapter	-
Oregon Chapter	36,774
Pennsylvania Chapter	259,509
Texas Chapter	29,930
Total Contributions from Affiliates	$ 769,339

6. EXTERNAL SPECIAL EVENTS

The Foundation is the beneficiary of several fundraising events throughout the country. The net income from these special events is as follows:

ACHA - CHF Walks	$ 615,641
Klubs for Kate	7,250
Build a Bear Campaign	1,752
Graeme’s Run	39,441
Miscellaneous Outside Fundraisers	67,355
	$ 731,439

The Congenital Heart Walk is an event the Foundation and its chapters hold in conjunction with Adult Congenital Heart Association. The total net proceeds raised by this event until the partnership ended in mid-2018 amounted to $1,231,282, of which the Foundation received half, or $615,641, as per the agreement. The partnership ended in 2018 and the Foundation began an independent Congenital Heart Walk series with roughly 20 walks planned for 2019.

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 26, 2019, the date that the finical statements were available for issue. The Association has the following items of note:

The Foundation began its own walk series in 2019.

The chapters of the Foundation ceased operations as of December 31, 2018 and were legally consolidated into the Foundation as of January 1, 2019, except for New York. New York will be consolidated during the year ending December 31, 2019. All finances of the chapters will be handled by the national office in Northbrook, Illinois going forward. As of December 31, 2018, there were $179,051 of funds received in advance of the merger date. These funds have been included in the liabilities on the statement of financial position as funds received in advance for chapter mergers.

In June 2019, the Foundation entered into a collaborative agreement with an association to advance congenital heart defect research for ten years. Under the terms of the agreement, the Foundation will provide funding for the research of no less than approximately $6.7 million dollars for the ten year agreement period and no less than $300,000 annually, including the 12% administrative costs to the association for administering the grant awards. The Association will provide funding of no less than $7.5 million dollars for the ten year agreement period and will contribute approximately $750,000 annually.

In July 2019, the Foundation entered into a partnership to advance the diagnosis, treatment, and prevention of congenital heart defects. The Foundation has committed $1.5 million in funding over the next five years to the University of Michigan Congenital Heart Center at C.S. Mott Children's Hospital to support large scale research and quality improvement initiatives led by Cardiac Network United. Under the terms of the agreement, the Foundation will provide funding of $300,000 each year of the five year agreement. This Gift Agreement shall not establish a binding payment obligation upon the Foundation. The Foundation reserves the right to discontinue funding and terminate the Gift Agreement by giving sixty (60) days notice to the University.