



# MUELLER & CO., LLP

*Certified Public Accountants – Business & Financial Advisors*

ASSURANCE

## THE CHILDREN'S HEART FOUNDATION DECEMBER 31, 2017 AND 2016

### FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (With Independent Auditor's Report)

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## CONTENTS

	<u>PAGE</u>
<b>Basic Financial Statements</b>	
Independent Auditor's Report.....	1-2
Statements of Financial Position.....	3
Statements of Activities .....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-10
<b>Supplementary Information</b>	
Independent Auditor's Report on Supplementary Information .....	11
Statements of Functional Expenses.....	12-13

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the financial statements of The Children's Heart Foundation, which comprise the statement of financial position as of December 31, 2017 and the related statements of activities 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 the 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.

### **Basis for Qualified Opinion**

There was a misappropriation of assets by a former employee (See Note 8). We were unable to obtain sufficient appropriate audit evidence regarding expense allocations related to the misappropriations. Consequently, we were unable to determine if any adjustments to the expense allocations were necessary. Based on the information in Note 8 concerning the nature and amounts of the misappropriation, any potential reallocation of expenses would not have any effect on the assets, liabilities or increase (decrease) in net assets reported on the above referenced financial statements.

### **Qualified Opinion**

In our Opinion, except for the possible effects of the matter described in the basis of Qualified Opinion paragraph, 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, 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.

### **Other Matter**

The financial statements of The Children's Heart Foundation, as of and for the year ended December 31, 2016, were audited by other auditors whose report, dated June 8, 2018, on those statements was qualified because of the matter described in the Basis for Qualified Opinion paragraph.

*Muller & Co., LLP*

Elgin, Illinois  
October 15, 2018

**THE CHILDREN'S HEART FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash	\$ 1,174,654	\$ 347,400
Contributions Receivable	24,651	122,000
Investments	15,628	8,982
Net Fixed Assets	4,659	10,012
<b>TOTAL ASSETS</b>	<b>\$ 1,219,592</b>	<b>\$ 488,394</b>
 <b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 590,942	\$ -
Deferred Revenue	4,000	-
<b>TOTAL LIABILITIES</b>	<b>594,942</b>	<b>-</b>
 <b>NET ASSETS</b>		
Unrestricted	624,650	488,394
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,219,592</b>	<b>\$ 488,394</b>

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

**THE CHILDREN'S HEART FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>UNRESTRICTED NET ASSETS</b>		
Revenues and Other Support:		
Donations	\$ 509,236	\$ 287,818
Contributions from Affiliates	694,992	719,007
External Special Events (Note 7) Net of Expenses of \$525,094 and \$292,327 for 2017 and 2016, Respectively.	1,385,495	1,100,121
Total Support	2,589,723	2,106,946
Interest and Dividend Income	400	285
Gain (Loss) on Investments	341	(729)
Other Income	2,322	1,340
Total Other Revenue	3,063	896
Total Support and Other Revenue	2,592,786	2,107,842
Expenses:		
Program Services	1,884,157	1,992,217
Management and General	130,195	72,433
Fundraising	321,415	206,003
Total Expenses	2,335,767	2,270,653
Other Loss (See Note 8)	120,763	192,164
Total Expenses and Losses	2,456,530	2,462,817
<b>INCREASE (DECREASE) IN NET ASSETS</b>	136,256	(354,975)
<b>NET ASSETS - BEGINNING OF THE YEAR</b>	488,394	843,369
<b>NET ASSETS - END OF THE YEAR</b>	\$ 624,650	\$ 488,394

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

**THE CHILDREN'S HEART FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Increase (Decrease) in Net Assets	\$ 136,256	\$ (354,975)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities		
Depreciation	5,353	6,441
Loss (Gain) on Investments	(341)	729
Changes in:		
Decrease in Contributions Receivable	97,349	157,982
Increase (Decrease) in Accrued Expenses	590,942	(20,000)
Increase in Deferred Revenue	4,000	-
	<b>833,559</b>	<b>(209,823)</b>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Proceeds from Sales of Investments	100,000	-
Purchase of Investments	(106,305)	-
Purchase of Equipment	-	(5,901)
	<b>(6,305)</b>	<b>(5,901)</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>827,254</b>	<b>(215,724)</b>
<b>CASH AND EQUIVALENTS - BEGINNING</b>	<b>347,400</b>	<b>563,124</b>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ 1,174,654</b>	<b>\$ 347,400</b>

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

**THE CHILDREN'S HEART FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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 100 research projects, totaling \$10.6 million to date. Each year the Foundation, through its chapters, partners, and other supporters, assists, promotes, and/or receives benefits from fundraisers held throughout the country.

As of December 31, 2017 and 2016, the Foundation had eleven and thirteen chapters, respectively, in Arizona (2016 only), California (2017 only), Colorado, Florida (2016 only), Georgia, Illinois, Iowa (2016 only), 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 2014.

**C. Cash and Cash Equivalents**

For purposes of the statements 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.

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, Fair Value Measurements: 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, 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.



**THE CHILDREN'S HEART FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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, 2017.
- 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, 2017.

Within the fair value hierarchy, The Foundation assets consist of Level 1 inputs which had a fair value of \$15,628 and \$8,982 as of December 31, 2017 and 2016, respectively.

**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. Depreciation expense was \$5,353 and \$6,441, respectively, for the years ended December 31, 2017 and 2016.

**F. Concentration of Credit Risk**

The Foundation maintains its cash balances at two high credit quality financial institutions located in Illinois. At December 31, 2017, the cash balance is \$687,140 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. 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 temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted 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 unrestricted contributions.

**H. Functional Expenses**

The costs of providing the program and support services have been reported on a functional basis in the statements of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**THE CHILDREN'S HEART FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**I. Reclassifications**

Certain reclassifications have been made to conform the 2016 financial statements to the 2017 presentation.

**J. Going Concern Evaluation**

In accordance with Accounting Standards Board (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 October 15, 2018 to October 15, 2019.

**K. New Accounting Standard – Presentation of Financial Statements**

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). ASU No. 2016-14 is intended to simplify how the Foundation classifies its net assets, and also improve the information it presents in the financial statements and notes about liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods with fiscal years beginning after December 15, 2018. The Foundation is currently evaluating the methods of adoption allowed by ASU No. 2016-14 and the effect that ASU No. 2016-14 is expected to have on its financial position, results of operations and cash flows and related disclosures.

**3. DONATED SERVICES**

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 GAAP to record.

**4. GRANTS**

During 2017, the Foundation approved seven research grants totaling \$1,019,127 to fund studies on congenital heart defects. The grants for 2017 were as follows: \$558,718 to American Heart Association, \$100,000 to Mark Rodefeld from Indiana University, \$100,000 to Sunjay Kaushal, MD from University of Maryland Medical, \$99,290 to Karl Degenhardt, MD from Children's Hospital of Philadelphia \$99,000 to Connie Bezzina, MD from Academic Medical Center, \$40,000 to Lisa Bergersen, MD from Children's Hospital of Boston and \$22,119 to Sara Pasquali, MD from C.S. Mott Children's Hospital.

During 2016, the Foundation approved eleven research grants totaling \$1,278,972 to fund studies on congenital heart defects. The grants for 2016 were as follows: \$579,539 to American Heart Association, \$100,000 to Sunjay Kaushal, MD from University of Maryland Medical, \$100,000 to Ming-Sing Si, MD from Mott Children's Hospital, \$99,290 to Karl Degenhardt, MD from Children's Hospital of Philadelphia, \$98,500 to Connie Bezzina, MD from Academic Medical Center, \$97,742 to Nobuyuki Ishibashi, MD from Center of Neuroscience, \$90,026 to Jane Newburger, MD from Children's Hospital, \$50,000 to Michael Ronemus, MD from Cold Spring Harbor Laboratory,

**THE CHILDREN'S HEART FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**4. GRANTS, CONTINUED**

\$18,077 to Dr. Bradley Marino from Lurie Children's Hospital and \$10,798 to Caroline Burns, MD from Massachusetts General Hospital.

As of December 31, 2017 and 2016, there were \$460,409 and \$0, respectively, of accrued grants payable included in accounts payable and accrued expenses on the statement of financial position.

**5. RESTRICTIONS ON NET ASSETS**

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 unrestricted net assets. There are no restricted net assets at December 31, 2017 and 2016.

**6. RELATED PARTY TRANSACTIONS**

As of December 31, 2017 and 2016, the Foundation had eleven and thirteen chapters in Arizona (2016 only), California (2017 only), Colorado, Florida (2016 only), Georgia, Illinois, Iowa (2016 only), Michigan, Missouri, New York, Ohio, Oregon, Pennsylvania and Texas. Related party transactions between the national chapter and the other chapters are as follows:

	<u>2017</u>	<u>2016</u>
Contributions to the CHF National Foundation by:		
California Chapter	\$ 17,061	\$ -
Colorado Chapter	6,485	6,434
Georgia Chapter	7,969	8,771
Illinois Chapter	210,500	276,715
Michigan Chapter	14,917	16,843
Missouri Chapter	148,072	114,326
New York Chapter	39,535	44,335
Ohio Chapter	2,600	65,955
Oregon Chapter	51,630	40,275
Pennsylvania Chapter	135,700	75,674
Texas Chapter	55,108	66,851
Chapter Fundraising - Other	<u>5,415</u>	<u>2,828</u>
Total Contributions from Affiliates	<u>\$ 694,992</u>	<u>\$ 719,007</u>

**THE CHILDREN'S HEART FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**7. 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:

	<u>2017</u>	<u>2016</u>
Congenital Heart Walks	\$ 684,920	\$ 632,608
Alpine Children's Charity	45,000	45,100
TEAM CHF Athletics	7,291	2,992
Miscellaneous Outside Fundraisers	<u>648,284</u>	<u>419,421</u>
	<u>\$ 1,385,495</u>	<u>\$ 1,100,121</u>

The Congenital Heart Walks is an annual series the Foundation holds in partnership with its chapters and in conjunction with Adult Congenital Heart Association. The total net proceeds raised by this event in 2017 and 2016 amounted to \$1,369,840 and \$1,265,216, respectively, of which the Foundation received half, or \$684,920 and \$632,608, respectively, as per the agreement.

**8. OTHER LOSS**

From December 2011 through December 2017, evidence indicates that the Foundation's former Executive Director mishandled and misappropriated approximately \$770,000 of Foundation funds while he was with the Foundation. The Foundation reported this matter to the Illinois Attorney General's office in February 2018 and to the U.S. Attorney's Office in March 2018.

The Foundation has since implemented stronger internal controls in its accounting, cash disbursement and financial management functions, including segregation of accounting and disbursement functions, proper review procedures for cash disbursements, elimination of ATM cash withdrawals from Foundation accounts and replacement of external accountants and auditors.

**9. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 15, 2018, the date that the financial statements were available for issue.

**S U P P L E M E N T A R Y   I N F O R M A T I O N**



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**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

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

Our report on our audit of the financial statements of The Children's Heart Foundation for the year ended December 31, 2017 appears on pages 1 and 2. That audit was made for the purpose of forming an opinion on such financial statements taken as a whole. The 2017 information on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our Opinion, except for the possible effects of the matter described in the Basis of Qualified Opinion paragraph, the financial statement referred to above present fairly, in all material respects, the financial position of The Children's Heart Foundation as of December 31, 2017, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted.

The financial statements of The Children's Heart Foundation, as of and for the year ended December 31, 2016, were audited by other auditors whose report, dated June 8, 2018, expressed a qualified opinion on those statements which was qualified because of the matter described in the Basis for Qualified Opinion paragraph on the Independent Auditor's Report.

*Mueller & Co., LLP*

Elgin, Illinois  
October 15, 2018

**THE CHILDREN'S HEART FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Research Funding	\$ 1,019,127	\$ -	\$ -	\$ 1,019,127
Public Education and Advocacy	68,908	-	12,160	81,068
Salaries, Taxes and Benefits	278,674	17,417	52,251	348,342
Insurance	1,908	9,660	358	11,926
Office Supplies and Postage	2,886	7,215	3,018	13,119
Professional Fees	-	60,531	-	60,531
Printing	-	382	312	694
Travel	28,101	958	2,874	31,933
Rent and Utilities	19,231	1,202	3,606	24,039
Marketing	39,950	2,497	7,491	49,938
Fundraising	387,884	6,157	221,648	615,689
Meetings and Conferences	32,421	7,482	9,975	49,878
Depreciation	-	5,353	-	5,353
Miscellaneous	5,067	11,341	7,722	24,130
Total	<u>\$ 1,884,157</u>	<u>\$ 130,195</u>	<u>\$ 321,415</u>	<u>\$ 2,335,767</u>

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, 2016**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Research Funding	\$ 1,278,972	\$ -	\$ -	\$ 1,278,972
Public Education and Advocacy	78,929	-	19,732	98,661
Salaries, Taxes and Benefits	297,990	18,625	55,873	372,488
Insurance	1,698	8,385	319	10,402
Office Supplies and Postage	3,794	9,480	3,964	17,238
Professional Fees	-	10,535	-	10,535
Printing	-	466	381	847
Travel	85,269	5,329	15,988	106,586
Rent and Utilities	19,200	1,200	3,600	24,000
Marketing	71,138	4,446	13,339	88,923
Fundraising	147,764	375	87,002	235,141
Meetings and Conferences	7,463	1,607	2,410	11,480
Depreciation	-	6,441	-	6,441
Miscellaneous	-	5,544	3,395	8,939
Total	<u>\$ 1,992,217</u>	<u>\$ 72,433</u>	<u>\$ 206,003</u>	<u>\$ 2,270,653</u>

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