MUELLER & CO., LLP

Certified Public Accountants – Business & Financial Advisors

ASSURANCE

THE CHILDREN'S HEART FOUNDATION
DECEMBER 31, 2019

AUDITED FINANCIAL STATEMENTS

MUELLER

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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, 2019, 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.

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, 2019, 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, 2019, The Children's Heart Foundation adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and Accounting Standards Update No. 2018-08, *Not-for –Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Mueller & Co., LLP

Elgin, Illinois
August 6, 2020

THE CHILDREN'S HEART FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS		
Cash and Cash Equivalents	$	2,024,443
Prepaids		102,222
Property and Equipment, Net		6,795
Security Deposit		8,806
Deposit on Trademarks and Patents		18,662
TOTAL ASSETS	$	2,160,928
LIABILITIES		
Accounts Payable and Accrued Expenses	$	355,004
Grants Payable		509,367
Contract Liabilities		34,533
TOTAL LIABILITIES		898,904
NET ASSETS		
Without Donor Restriction		1,161,029
With Donor Restrictions		100,995
		1,262,024
TOTAL LIABILITIES AND NET ASSETS	$	2,160,928

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, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
WITHOUT DONOR RESTRICTIONS			
Revenues and Other Support:			
Donations	$ 820,210	$ 100,995	$ 921,205
External Special Events, Net of Direct Expenses (Note 5)	2,694,681	-	2,694,681
Total Support	3,514,891	100,995	3,615,886
Interest and Dividend Income	612	-	612
Loss on Investments	(489)	-	(489)
Excess of Net Assets Acquired Over Consideration Paid	250,108	-	250,108
Other Income	7,638	-	7,638
Total Other Revenue	257,869	-	257,869
Total Support and Other Revenue	3,772,760	100,995	3,873,755
Expenses:			
Program Services	2,450,854	-	2,450,854
Management and General	744,732	-	744,732
Fundraising	821,773	-	821,773
Total Expenses	4,017,359	-	4,017,359
INCREASE (DECREASE) IN NET ASSETS	(244,599)	100,995	(143,604)
NET ASSETS - BEGINNING OF THE YEAR	1,405,628	-	1,405,628
NET ASSETS - END OF THE YEAR	$ 1,161,029	$ 100,995	$ 1,262,024

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, 2019

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Research Funding	$ 1,400,166	$ -	$ -	$ 1,400,166
Public Education and Advocacy	49,152	-	-	49,152
Salaries, Taxes and Benefits	248,074	184,465	203,548	636,087
Insurance	3,538	2,631	2,904	9,073
Office Supplies and Postage	16,904	12,570	13,870	43,344
Professional Fees	106,624	79,285	87,487	273,396
Travel	10,970	8,157	9,001	28,128
Rent	27,180	20,211	22,301	69,692
Marketing	44,116	32,804	36,198	113,118
Fundraising	475,393	353,497	390,066	1,218,956
Meetings and Conferences	19,325	14,370	15,856	49,551
Depreciation	977	726	801	2,504
Information Technology	48,197	35,839	39,546	123,582
Miscellaneous	238	177	195	610
Total Functional Expenses	$ 2,450,854	$ 744,732	$ 821,773	$ 4,017,359
Direct Costs of Special Events	-	-	99,571	99,571
Total Expenses	$ 2,450,854	$ 744,732	$ 921,344	$ 4,116,930

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

THE CHILDREN'S HEART FOUNDATION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2019

CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Changes in Net Assets	$	(143,604)
Adjustments to Reconcile Changes in Net Assets		
to Net Cash Provided By Operating Activities:		
Depreciation		2,504
Loss on Investments		489
Excess of Net Assets Acquired Over Consideration Paid		(250,108)
Changes in:		
Decrease in Accounts Receivable		61,389
Increase in Prepaids		(27,954)
Increase in Security Deposit		(8,806)
Increase in Deposit on Trademarks and Patents		(1,570)
Increase in Accounts Payable and Accrued Expenses		268,322
Increase in Grants Payable		434,367
Decrease in Contract Liabilities		(28,452)
NET CASH PROVIDED BY OPERATING ACTIVITIES		306,577
NET CASH USED IN INVESTING ACTIVITIES		
Proceeds from Sales of Investments		14,456
Purchase of Equipment		(7,138)
Cash Received from Acquisition of Regions		71,057
NET CASH PROVIDED BY INVESTING ACTIVITIES		78,375
INCREASE IN CASH AND EQUIVALENTS		384,952
CASH AND CASH EQUIVALENTS - BEGINNING		1,639,491
CASH AND CASH EQUIVALENTS - ENDING	$	2,024,443

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 112 research projects, totaling approximately $13 million to date. Each year the Foundation, through its regions, partners, and other supporters, supports, promotes, and/or receives benefits from fundraisers held throughout the country.

As of January 1, 2019, the Foundation had ten local chapters activity combine into the Foundation and treated as an acquisition. These chapters all ceased operations as of December 31, 2018 and the regions remaining cash was transferred to the Foundation. As a result of this transaction, cash was increased and the Foundation recognized the gain of $250,108 which is included in excess of net assets acquired over consideration paid on the statement of activities. There were no other assets or liabilities transferred. As of December 31, 2018, $179,051 was received by the Foundation and the remaining funds of $71,057 were transferred to the Foundation during 2019. In addition, the New York chapter is still in the process of getting state approval to dissolve the organization.

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 2016.

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 without donor restricted 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
- 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, 2019.
- 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, 2019.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019.

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.

During 2019, the Foundation liquidated all of its investments and there was no balance as of December 31, 2019.

For the year ended December 31, 2019, 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 without donor restricted 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 with donor 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 net assets with donor restriction to net assets without donor restrictions 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 $2,504 for the year ended December 31, 2019.

F. Concentration of Credit Risk

The Foundation maintains its cash balances at two high credit quality financial institutions located in Illinois. At times the Foundations balance may exceed the Federal Deposit Insurance Corporation limits. The Foundation has not experienced, nor does it expect to experience, any losses in such accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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 as it relates to research. Restrictions that are met in the same reporting period are classified as net assets without donor restrictions.

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 accounting principles generally accepted in the United State of America.

J. Advertising Costs

Advertising costs are expensed as incurred were $81,682 during the year ended December 31, 2019 and are recorded in marketing expense on the statement of functional expenses.

K. Functional Expenses

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

The financial statements report certain categories of expenses that are attributable to more than one category on the statement of functional expenses. 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 for all expenses except for research funding and public education and advocacy which are program related.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Going Concern Evaluation

In accordance with accounting principles generally accepted in the United States of America, 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 for the one-year period from the date the consolidated financial statements are available to be issued. 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 6, 2020 to August 6, 2021.

M. Change in Accounting Principle – Revenue from Contracts

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in accounting principles generally accepted in the United States of America. ASU No. 2014-09 also required expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation early adopted ASU No. 2014-09 effective January 1, 2019, the first day of the Foundation's fiscal year, however it had no impact on how the Foundation recognizes revenue due to the Foundation not having any revenue streams meeting the requirements of Topic 606.

N. Change in Accounting Principle – 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 as of January 1, 2019. ASU No. 2018-08 improves the current guidance on determining whether transactions are contributions or exchange transactions. It 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. The Foundation has implemented the provisions of ASU No. 2018-08 in the financial statements on a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU No. 2018-08.

O. 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, 2021 and interim periods within those fiscal years beginning after December 15, 2022. 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 AVAILABILITY

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	$ 2,024,443
Total Financial assets at year end	$ 2,024,443
Less amounts not available to be used within one year - Restricted by donor with purpose restrictions	(100,995)
Total Financial assets available to meet cash needs for General expenditures within one year	$ 1,923,448

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

4. GRANTS

During 2019, the Foundation approved seven research grants totaling $1,445,968 to fund studies on congenital heart defects and a refund of an award of $45,802. The grants for 2019 were as follows: $601,601 to American Heart Association, $300,000 to University of Michigan, $196,409 to University of Maryland Children's Hospital, $192,958 to Johns Hopkins University School of Medicine, $120,000 to University of Pittsburgh and $35,000 to American Academy of Pediatrics.

During 2019, the Foundation awarded two conditional grants (included in amounts above) which the expenses cannot be recognized by the Foundation until the awardees meet the conditions in the agreement. During 2019, the Foundation awarded grants to the American Heart Association and to the University of Michigan in the amounts of approximately $ 6,800,000 and $1,500,000, respectively. As of December 31, 2019, the remaining conditional payments were approximately $6,200,000 and $1,200,000, respectively.

5. EXTERNAL SPECIAL EVENTS

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

Children Heart Foundation – Walk Events	$ 1,567,486
Children Heart Foundation – Non Walk Events	1,020,211
Third Party Events	206,555
	2,794,252
Less Direct Expenses	(99,571)
	$ 2,694,681

6. OPERATING LEASES

The Foundation is obligated under certain operating leases for office space which expire on June 30, 2021.

Total rent expense under operating leases amounted to $69,692 for the year ended December 31, 2019.

The aggregate future minimum lease commitment on these leases as of December 31, 2019 is as follows:

2020	$	78,000
2021		39,000

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 6, 2020, the date that the financial statements were available for issue.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States of America. The extent of the impact of COVID-19 on the remaining operational and financial performance of the Foundation will depend on certain developments, including the duration and spread of the outbreak, impact on the contributions and vendors of the Foundation, all of which are uncertain and cannot be predicted. COVID-19 has impacted the walks for the summer and fall and needed to be cancelled due to the social distancing requirements. The Foundation has moved these walks to virtual events which will result in a decline in revenues for fiscal year 2020. It is anticipated that individual giving will be higher for fiscal year 2020. At this time, the extent to which COVID-19 may impact the financial condition or result of operations of the Foundation is uncertain.

In March 2020, the President of the United States of America signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act makes significant changes in the tax laws and provides direct economic assistance to businesses via the Paycheck Protection Program (PPP). In May 2020, the Foundation received a loan through the PPP of $110,000. Based on current provisions of the PPP, the Foundation expects the majority of the loan received to be forgiven. As of the date the financial statements were available for issue, the extent to which the other provisions of the CARES Act may impact the Foundation financial condition or results of operations is uncertain.