

The Mended Hearts, Inc.
Financial Statements
For the Year Ended December 31, 2013

The Mended Hearts, Inc.

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For the year ended December 31, 2013

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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, 2013, 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, 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bloomer, Mary Ann Johnson & Co., P.C.

Dallas, Texas
June 16, 2014

THE MENDED HEARTS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 797,449	\$ 10,413	\$ -	\$ 807,862
Short-term investments	141,068	-	-	141,068
Accounts receivable, net	49,768	85,000	-	134,768
Inventory	-	76,982	-	76,982
Prepaid expenses and other assets	76,515	-	-	76,515
Total current assets	<u>1,064,800</u>	<u>172,395</u>	<u>-</u>	<u>1,237,195</u>
PROPERTY, PLANT & EQUIPMENT				
Property plant & equipment	25,191	-	-	25,191
Less: Accumulated depreciation	(16,565)	-	-	(16,565)
	<u>8,626</u>	<u>-</u>	<u>-</u>	<u>8,626</u>
OTHER ASSETS				
Restricted cash	-	-	58,126	58,126
TOTAL ASSETS	<u>\$ 1,073,426</u>	<u>\$ 172,395</u>	<u>\$ 58,126</u>	<u>\$ 1,303,947</u>
CURRENT LIABILITIES:				
Accounts payable	\$ 9,875	\$ -	\$ -	\$ 9,875
Accrued payroll and other expenses	63,408	-	-	63,408
Due to chapters	22,351	-	-	22,351
Deferred revenue	5,534	-	-	5,534
Total liabilities	<u>101,168</u>	<u>-</u>	<u>-</u>	<u>101,168</u>
NET ASSETS:				
Unrestricted	972,258	-	-	972,258
Temporarily restricted	-	172,395	-	172,395
Permanently restricted	-	-	58,126	58,126
Total net assets	<u>972,258</u>	<u>172,395</u>	<u>58,126</u>	<u>1,202,779</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,073,426</u>	<u>\$ 172,395</u>	<u>\$ 58,126</u>	<u>\$ 1,303,947</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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Support and Revenues				
Grants	\$ 162,600	\$ 824,800	\$ -	\$ 987,400
Membership dues	162,328	-	-	162,328
Conference income	72,450	-	-	72,450
Promotional materials	25,811	-	-	25,811
Endowment income	300	-	-	300
Contributions	85,750	-	-	85,750
Miscellaneous income	58,923	-	-	58,923
Investment income	20,672	-	-	20,672
Net assets released from restrictions				
Satisfaction of program restrictions	1,450,324	(1,450,324)	-	-
Total support and revenues	<u>2,039,158</u>	<u>(625,524)</u>	<u>-</u>	<u>1,413,634</u>
Expenses				
Program services	1,451,500	-	-	1,451,500
Management and general	287,752	-	-	287,752
Fundraising	49,677	-	-	49,677
Total expenses	<u>1,788,929</u>	<u>-</u>	<u>-</u>	<u>1,788,929</u>
Change in net assets	250,229	(625,524)	-	(375,295)
Net assets at beginning of year	<u>722,029</u>	<u>797,919</u>	<u>58,126</u>	<u>1,578,074</u>
Net assets at end of year	<u>\$ 972,258</u>	<u>\$ 172,395</u>	<u>\$ 58,126</u>	<u>\$ 1,202,779</u>

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, 2013

	Programs		Management and		Totals
	Education	Convention	General	Fundraising	
Salaries and wages	\$ 391,184	\$ -	\$ 85,915	\$ 32,215	\$ 509,314
Payroll taxes	34,798	-	7,643	2,866	45,307
Employee benefits	121,230	-	25,719	9,644	156,593
Professional services	61,907	9,297	41,501	-	112,705
Supplies	11,449	7,569	7,179	-	26,197
Telephone	9,908	289	9,111	-	19,308
Printing	359,772	867	6,632	-	367,271
Postage and shipping	13,312	3,691	8,290	-	25,293
Occupancy	22,446	-	18,605	4,952	46,003
Rental maintenance	4,510	18,904	1,080	-	24,494
Region expenses	68,575	280	2,145	-	71,000
Hotels, meals & travel	73,853	176,269	37,472	-	287,594
Promotional materials	14,389	-	18,694	-	33,083
Other	45,666	1,335	17,766	-	64,767
Total expenses	<u>\$ 1,232,999</u>	<u>\$ 218,501</u>	<u>\$ 287,752</u>	<u>\$ 49,677</u>	<u>\$ 1,788,929</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, 2013

Cash flows from operating activities:	
Change in net assets	\$ (375,295)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation expense	3,395
Realized and unrealized gains on investments - net	(17,671)
(Increase)/decrease in assets:	
Receivables	261,959
Inventory	321,423
Prepays and other	(58,818)
Increase/(decrease) in liabilities:	
Accounts payable and accrued expenses	26,234
Due to chapters	(12,282)
Deferred revenue	5,003
Net cash provided by operating activities	<u>153,948</u>
Cash flows from investing activities:	
Purchases of investments	<u>(2,345)</u>
Net cash used in investing activities	<u>(2,345)</u>
Net increase in cash and cash equivalents	151,603
Cash and cash equivalents at beginning of year	<u>656,259</u>
Cash and cash equivalents at end of year	<u><u>\$ 807,862</u></u>

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

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2013

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. The organization was founded in 1951 and incorporated in 1955.

Basis of Presentation

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

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

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

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

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Donations of equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 equipment are reported as restricted support. Absent donor stipulation regarding how long these donated assets must be maintained, MHI reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The value of miscellaneous contributed equipment is not reflected in these statements because it is not susceptible to objective measurement or valuation.

Promises to Give

MHI accounts for contributions in accordance with FASB Accounting Standards Codification 958 Not-for-Profit Entities. In conformity with FASB ASC 958, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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 temporarily restricted or permanently restricted net assets depending on the nature of the restrictions in the reporting period in which the support is recognized. 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, 2013.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Property and Equipment

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

Functional Allocation of Expenses

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

Income Taxes

MHI is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and does not have any unrelated business income for the year ended December 31, 2013. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2013

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment together with their depreciable lives in years consists of the following at December 31, 2013:

		<u>Lives</u>
Office furniture and equipment	\$ 20,493	5 years
Leasehold improvements	4,698	10 years
Less accumulated depreciation	<u>(16,565)</u>	
	<u>\$ 8,626</u>	

Depreciation expense was \$3,395 for the year ended December 31, 2013.

NOTE 3: INVESTMENTS

MHI's investments are stated at fair value and consist of stocks, bonds and short-term reserves at December 31, 2013 as follows:

Stocks	\$ 85,745
Bonds	32,300
Short-term reserves	<u>23,023</u>
	<u>\$ 141,068</u>

Investment income consists of the following for the year ended December 31, 2013:

Dividend income	\$ 2,345
Interest income	656
Unrealized gain on investments	<u>17,671</u>
	<u>\$ 20,672</u>

NOTE 4: RESTRICTED NET ASSETS

Permanently restricted net assets of \$58,126 as of December 31, 2013 consist of endowment funds to be held indefinitely, the income from which is expendable to support program services.

Temporarily restricted net assets were as follows at December 31, 2013:

Brochures inventory	\$ 76,982
Grants receivable	85,000
Tita Hutchins Fund	8,272
Dreyfus Harken Fund	<u>2,141</u>
	<u>\$ 172,395</u>

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2013

NOTE 5: ECONOMIC DEPENDENCY AND MAJOR SUPPORTERS

During the year ended December 31, 2013, MHI's support and revenues included major grants from 2 companies in the pharmaceutical and medical industry which represent 21% of total support and revenues. At December 31, 2013, receivables from 2 entities represented approximately 82% 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 6: 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 \$44,347 for the year ended December 31, 2013.

NOTE 7: OPERATING LEASE OBLIGATIONS

MHI leases office building space under a non-cancelable operating lease which was renewed through July 2017. Future minimum lease payments under this lease for the years ending December 31 are as follows:

2014	\$	33,440
2015		36,227
2016		40,128
2017		16,720
	\$	<u>126,515</u>

Rent expense charged to operations totaled \$33,440 for the year ended December 31, 2013.

NOTE 8 – TRANSACTIONS WITH CHAPTERS

MHI bills, receives and records the membership dues as an agent for the individual chapters and then forwards the monies to the individual chapters on a monthly basis. During 2013, MHI collected \$45,887 of chapter dues and remitted \$45,910 to the Chapters. The amounts due to chapters were \$22,351 at December 31, 2013.

The individual chapters' activities are not included in these financial statements.

The Mended Hearts, Inc.
Notes to Financial Statements
December 31, 2013

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, receivables, investments and accounts payable approximate their respective fair values as of December 31, 2013, 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 10 – CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in national financial institution branches located in Dallas, Texas. The aggregate balances in each depository are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposit amounts in excess of insured limits were \$19,630 at December 31, 2013. Management does not believe that these funds are at risk.

NOTE 11 – SUBSEQUENT EVENTS

The management of The Mended Hearts, Inc. evaluated subsequent events through June 16, 2014 which is the date that the financial statements were available to be issued.