

CHILDREN'S HEARTLINK
Minneapolis, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

June 30, 2011 and 2010

CHILDREN'S HEARTLINK

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's HeartLink
Minneapolis, Minnesota

We have audited the accompanying statements of financial position of Children's HeartLink (the Organization) as of June 30, 2011 and 2010, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Children's HeartLink's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's HeartLink as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 3, 2011

CHILDREN'S HEARTLINK

STATEMENTS OF FINANCIAL POSITION June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 1,325,822	\$ 1,246,984
Contributions and other receivables	40,308	11,021
Prepaid expenses and other assets	11,340	6,709
Property and equipment, net	<u>174,221</u>	<u>186,091</u>
TOTAL ASSETS	<u>\$ 1,551,691</u>	<u>\$ 1,450,805</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 72,515	\$ 17,805
Due to hospital sites	-	20,000
Accrued payroll and benefit liabilities	33,306	7,337
Deferred revenue	92,500	80,000
Beneficiary payable	-	21,848
Total Liabilities	<u>198,321</u>	<u>146,990</u>
NET ASSETS		
Unrestricted	852,069	803,419
Temporarily restricted	<u>501,301</u>	<u>500,396</u>
Total Net Assets	<u>1,353,370</u>	<u>1,303,815</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,551,691</u>	<u>\$ 1,450,805</u>

See accompanying notes to financial statements.

CHILDREN'S HEARTLINK

STATEMENTS OF ACTIVITIES Years Ended June 30, 2011 and 2010

	Unrestricted	Temporarily Restricted	2011 Total	Unrestricted	Temporarily Restricted	2010 Total
REVENUE AND OTHER SUPPORT						
Contributions	\$ 367,919	\$ 455,123	\$ 823,042	\$ 282,974	\$ 478,770	\$ 761,744
Donated goods and services	700,473	-	700,473	627,609	-	627,609
Special events and activities	786,075	-	786,075	725,696	-	725,696
Less: costs of direct benefits to donors	<u>(173,660)</u>	<u>-</u>	<u>(173,660)</u>	<u>(194,347)</u>	<u>-</u>	<u>(194,347)</u>
Net revenues from special events and activities	612,415	-	612,415	531,349	-	531,349
Interest and other income	3,485	-	3,485	4,803	-	4,803
Net assets released from restrictions	<u>454,218</u>	<u>(454,218)</u>	<u>-</u>	<u>386,462</u>	<u>(386,462)</u>	<u>-</u>
 Total Revenue and Other Support	 <u>2,138,510</u>	 <u>905</u>	 <u>2,139,415</u>	 <u>1,833,197</u>	 <u>92,308</u>	 <u>1,925,505</u>
EXPENSES						
Program related	1,691,897	-	1,691,897	1,579,753	-	1,579,753
Management and general	100,402	-	100,402	102,036	-	102,036
Special events and activities	96,108	-	96,108	104,800	-	104,800
Fundraising	<u>201,453</u>	<u>-</u>	<u>201,453</u>	<u>175,421</u>	<u>-</u>	<u>175,421</u>
Total Expenses	<u>2,089,860</u>	<u>-</u>	<u>2,089,860</u>	<u>1,962,010</u>	<u>-</u>	<u>1,962,010</u>
 CHANGE IN NET ASSETS	 48,650	 905	 49,555	 (128,813)	 92,308	 (36,505)
 NET ASSETS - Beginning of Year	 <u>803,419</u>	 <u>500,396</u>	 <u>1,303,815</u>	 <u>932,232</u>	 <u>408,088</u>	 <u>1,340,320</u>
 NET ASSETS - END OF YEAR	 <u>\$ 852,069</u>	 <u>\$ 501,301</u>	 <u>\$ 1,353,370</u>	 <u>\$ 803,419</u>	 <u>\$ 500,396</u>	 <u>\$ 1,303,815</u>

See accompanying notes to financial statements.

CHILDREN'S HEARTLINK

STATEMENTS OF CASH FLOWS Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 49,555	\$ (36,505)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	11,870	12,633
Changes in assets and liabilities		
Contributions and other receivables	(29,287)	93,397
Prepaid expenses and other assets	(4,631)	4,138
Accounts payable	54,710	(49,805)
Due to hospital sites	(20,000)	-
Accrued payroll and benefit liabilities	25,969	(28,189)
Deferred revenue	12,500	37,500
Beneficiary payable	(21,848)	-
Net Cash Flows from Operating Activities	<u>78,838</u>	<u>33,169</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	<u>-</u>	<u>(7,440)</u>
Net Change in Cash and Cash Equivalents	78,838	25,729
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,246,984</u>	<u>1,221,255</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,325,822</u>	<u>\$ 1,246,984</u>

See accompanying notes to financial statements.

CHILDREN'S HEARTLINK

STATEMENTS OF FUNCTIONAL EXPENSES Years Ended June 30, 2011 and 2010

	2011					2010				
	Program Related	Management and General	Special Events and Activities	Fundraising	Total	Program Related	Management and General	Special Events and Activities	Fundraising	Total
Salaries and wages	\$ 412,800	\$ 52,981	\$ 62,508	\$ 135,478	\$ 663,767	\$ 386,614	\$ 55,732	\$ 70,883	\$ 107,610	\$ 620,839
Employee benefits	32,506	5,803	5,126	11,333	54,768	24,945	6,454	3,855	10,783	46,037
Payroll taxes expense	29,002	4,771	7,912	7,378	49,063	31,001	4,447	5,700	8,637	49,785
Total Salaries and Related Expenses	474,308	63,555	75,546	154,189	767,598	442,560	66,633	80,438	127,030	716,661
Patient care	46,102	-	-	-	46,102	89,543	-	-	-	89,543
Education and training	94,742	6,058	722	2,820	104,342	65,270	3,183	855	2,261	71,569
Medical supplies - noncash	123,326	-	-	-	123,326	9,300	-	-	-	9,300
Travel expenses - cash	272,654	878	84	2,889	276,505	250,413	1,055	164	2,001	253,633
Travel expenses - noncash	15,277	-	-	-	15,277	8,337	-	-	-	8,337
Professional fees - cash	42,522	14,331	9,143	15,683	81,679	42,621	5,518	9,446	23,424	81,009
Professional fees and consulting - noncash	561,870	-	-	-	561,870	609,972	-	-	-	609,972
Depreciation	7,003	950	1,899	2,018	11,870	7,308	1,226	2,099	2,000	12,633
Office expenses	12,021	1,367	2,982	9,764	26,134	13,825	12,199	2,995	3,684	32,703
Utilities	18,431	2,191	2,068	2,286	24,976	12,926	1,156	1,980	1,886	17,948
Repairs and maintenance	10,174	2,932	2,759	1,380	17,245	10,390	1,744	2,984	2,843	17,961
Newsletter and annual report	7,707	-	-	2,869	10,576	10,692	1,154	2,199	2,330	16,375
Advertising and website	330	-	-	158	488	396	1,040	170	162	1,768
Other expense	5,430	8,140	905	7,397	21,872	6,200	7,128	1,470	7,800	22,598
Total Expenses	\$ 1,691,897	\$ 100,402	\$ 96,108	\$ 201,453	\$ 2,089,860	\$ 1,579,753	\$ 102,036	\$ 104,800	\$ 175,421	\$ 1,962,010

See accompanying notes to financial statements.

CHILDREN'S HEARTLINK

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

Children's HeartLink (the "Organization"), founded in 1969 and headquartered in Minneapolis, Minnesota, is an international medical non-profit organization dedicated to building sustainable programs to prevent, treat and cure heart disease among the needy children in developing countries by mobilizing extraordinary hearts, minds and resources around the world. Its mission is accomplished through working in partnership with cardiovascular centers in developing countries to provide treatment for children, prevention programs, education and training opportunities for health professionals, technical assistance to improve patient care and implement new technology, and providing medical equipment and supplies acquired through donation or assisted purchase.

The principal program of the Organization is as follows:

Improving cardiovascular care for children in developing countries, which currently include China, Malaysia, Ecuador, Kenya, South Africa, Ukraine, India, Vietnam and Brazil. Children's HeartLink works in a cooperative manner with medical personnel in these countries and focuses efforts on direct treatment of children, rheumatic fever prevention education, programs and training for medical personnel, acquisition of medical supplies and equipment, and technical support.

The Organization's revenues come from a broad base of support from individual, corporate and foundation donors, along with special event fundraising activities.

Contributions and Pledges

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as temporarily restricted support and then released upon being spent.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

CHILDREN'S HEARTLINK

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. The Organization maintains its accounts primarily at one financial institution. At times throughout the year, the Organization's cash balances may occasionally exceed federally insured limits. The Organization has not experienced any losses in these accounts. The Organization also maintains cash in business money market index accounts which are not insured. The total amount of cash in these money market accounts were \$1,208,351 and \$1,178,889 at June 30, 2011 and 2010, respectively.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). The Organization follows a policy of converting donated stock to cash within a few days of the donation and it is recorded as a contribution for the value of the stock on date of transfer.

Contributions and Other Receivables

The Organization follows a policy of providing an allowance for uncollectible receivables, however, based on historical collection experience and the current composition of receivables, management is of the belief that such receivables are collectible in all material respects and thus an allowance is not considered necessary as of June 30, 2011 and 2010. Receivables are recorded at their estimated net realizable value. Such receivables are expected to be collected within the following year and interest is generally not reflected. Accounts are considered past due if payment is not made on a timely basis. Accounts considered uncollectible are written off.

Property and Equipment

Property and equipment are stated at the lower of cost or fair value if purchased or the lower of fair value at date of the gift or current fair value if donated. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Property and equipment are depreciated using the straight-line method over their estimated useful lives of 39 years for the building, 5 to 10 years for building improvements and 3 to 10 years for furniture and equipment.

CHILDREN'S HEARTLINK

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 - Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use and eventual disposition of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Deferred Revenue

Deferred revenue consists primarily of sponsorships received in advance for the annual gala event which will be held subsequent to year-end.

Net Assets

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

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets. The Organization has no permanently restricted net assets.

Tax-Exempt Status

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation.

In accordance with the accounting standard on Accounting for Uncertainty in Income Taxes, the Organization addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. There were no significant unrecognized tax benefits identified or recorded as liabilities during fiscal years 2011 and 2010. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2008 to 2010, which statutes expire in 2011 to 2013, respectively.

CHILDREN'S HEARTLINK

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Donated Medical Supplies, Program Services and Supporting Services

The Organization receives contributions of supplies, patient care services, and other supporting services. The estimated fair value of professional (primarily medical services), which require specialized skills and would have been purchased if not provided by contributors, is reported as revenue and expense in the period in which the services are provided and totaled \$561,870 and \$609,972 for the years ended June 30, 2011 and 2010, respectively.

In addition to the above, a substantial number of unpaid nonprofessional volunteers have made significant contributions of their time to the Organization. The value of this contributed time is not reflected in these statements since it does not meet the requirements for recording under generally accepted accounting principles.

Donated medical supplies are recognized as revenue when received at their fair value. Subsequently, they are valued at the lower of their current fair value or their fair value when donated. Expense related to donated medical supplies totaled \$123,326 and \$9,300 for the years ended June 30, 2011 and 2010, respectively.

Donated professional fees and consulting which consist of patient care and other supporting services on the statement of activities represent significant estimates to the financial statements, which may change in the near term.

The Organization also receives donated airline miles from individuals and an airline carrier. The airline miles are valued at their fair value on the date of purchase of the airline ticket. Expense related to donated airline miles totaled \$15,277 and \$8,337 for the years ended June 30, 2011 and 2010, respectively.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. When possible, expenses are charged to program costs or supporting services based on direct expenditures incurred. Any expenses that are not directly chargeable are allocated to program costs or supporting services based on management's estimates. Fundraising and special events costs totaled \$297,561 and \$280,221 for the years ended June 30, 2011 and 2010, respectively, exclusive of the costs of direct benefits to donors for the special events and activities. The Organization conducted activities that included requests for contributions, as well as program related components. Those activities included an annual report and newsletters. For the years ended June 30, 2011 and 2010, the costs of conducting those activities totaled \$10,576 and \$16,375, respectively, of which \$2,869 and \$2,330, respectively, was allocated to fundraising.

CHILDREN'S HEARTLINK

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 1 - Summary of Significant Accounting Policies (continued)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - Subsequent Events

The Organization has evaluated subsequent events through October 3, 2011 which is the date that the financial statements were available to be issued.

NOTE 3 - Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Building	\$ 300,000	\$ 300,000
Building improvements	56,924	56,924
Furniture and equipment	<u>40,598</u>	<u>47,319</u>
	397,522	404,243
Less: accumulated depreciation	<u>223,301</u>	<u>218,152</u>
Property and equipment, net	<u>\$ 174,221</u>	<u>\$ 186,091</u>

NOTE 4 - Lease Obligations

The Organization leases storage space and office equipment under cancelable and non-cancelable operating leases. The Organization is obligated to pay costs of insurance, taxes, repairs and maintenance pursuant to the terms of the leases. Lease expense was \$4,672 and \$4,593 for the years ended June 30, 2011 and 2010, respectively.

The Organization's building was gifted to them and as part of the gift, they are required to pay for the maintenance of the parking lot. The Organization has a commitment to pay an unrelated party \$1,200 per month as long as they remain in the building. If they were to move or sell the building, the commitment would stay with the building and move to the new owner.

CHILDREN'S HEARTLINK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 4 - Lease Obligations (continued)

Future minimum lease payments due under non-cancelable operating leases with terms greater than one year as follows for the years ending June 30:

2012	\$	4,188
2013		3,657
2014		3,480
2015		3,480
2016		<u>2,900</u>
	\$	<u>17,705</u>

NOTE 5 - Retirement Benefits

The Organization has established a 403(b) retirement plan, which covers all employees who have been employed by the Organization for at least one year and are at least 21 years old. Matching contributions are made at 50% of employee contributions up to 6% of the employee's compensation. Matching contributions of \$20,513 and \$13,318 were made for the years ending June 30, 2011 and 2010, respectively.

NOTE 6 - Concentrations

One donor constituted approximately 48% and 51% of the contribution revenue for the years ending June 30, 2011 and 2010, respectively. Contributions from board members and employees totaled \$79,988 and \$161,060 for the years ended June 30, 2011 and 2010, respectively.

Special events and activities revenue during fiscal years 2011 and 2010 were derived from three events.

NOTE 7 - Net Assets

Temporarily restricted net assets are limited by donor restrictions to support program activities as follows at June 30:

	<u>2011</u>	<u>2010</u>
Program services:		
South Africa	\$ -	\$ 95,306
China	196,951	154,819
India	168,567	116,087
Ukraine	56,437	55,771
Brazil	<u>79,346</u>	<u>78,413</u>
	<u>\$ 501,301</u>	<u>\$ 500,396</u>

CHILDREN'S HEARTLINK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 8 - Net Assets Released from Restrictions

Net assets released from donor restrictions during the years ended June 30 are as follows:

	<u>2011</u>	<u>2010</u>
Program restrictions accomplished:		
Program Services		
South Africa	\$ 45,429	\$ 29,558
China	107,869	97,773
India	152,520	123,022
Ukraine	35,334	11,985
Kenya	4,000	31,070
Brazil	109,066	78,054
Vietnam	-	<u>15,000</u>
Total restrictions released	<u>\$ 454,218</u>	<u>\$ 386,462</u>

During the year, the Organization ceased to support program activities in South Africa. As a result, the Organization returned funds restricted for South Africa to the donor. These funds were included in temporarily restricted net assets at June 30, 2010. The Organization's temporarily restricted contributions were reduced by this amount during 2011.