

**THE CHILDREN'S HEART FOUNDATION
DECEMBER 31, 2012 AND 2011**

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION
(With Independent Auditors' Report)**

**THE CHILDREN'S HEART FOUNDATION
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
DECEMBER 31, 2012 AND 2011**

CONTENTS

	Page Number
FINANCIAL STATEMENTS	
Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 10
 ADDITIONAL INFORMATION	
Statement of Functional Expenses - 2012	11
Statement of Functional Expenses - 2011	12



The CPA. Never Underestimate The Value.SM

Florian J. Kordas, CPA
Robert D. Olson, CPA
Jacen R. Maleck, CPA

Andrew J. Schwarz, CPA
Ronald J. Degner Jr., CPA

Theodore I. Weber, CPA
1989-2010

Allen R. Hochfelder, CPA
1957-2007

Ernest J. Hochfelder, CPA
1933-1984

H&W HOCHFELDER & WEBER, P.C.
Certified Public Accountants & Consultants
525 West Monroe • Suite 910 • Chicago, IL 60661-3629
Telephone: 312/715-0101 • Facsimile: 312/715-1512

*“SERVING OUR CLIENTS
SINCE 1933”*

August 8, 2013

INDEPENDENT AUDITORS’ REPORT

To the Board of Directors of
The Children’s Heart Foundation
P.O. Box 244
Lincolnshire, IL 60069

We have audited the accompanying financial statements of the Children’s Heart Foundation (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years 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 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 11 and 12 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 relates 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 audit 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.



HOCHFELDER & WEBER, P.C.
Certified Public Accountants
Chicago, Illinois

**THE CHILDREN'S HEART FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 554,657	\$ 413,259
Investments	2,208	0
Net Fixed Assets	<u>7,536</u>	<u>0</u>
 TOTAL ASSETS	 <u>\$ 564,401</u>	 <u>\$ 413,259</u>
 LIABILITIES		
Accrued Expenses	<u>\$ 100,000</u>	<u>\$ 200,000</u>
 TOTAL LIABILITIES	 <u>100,000</u>	 <u>200,000</u>
 NET ASSETS		
Unrestricted	<u>464,401</u>	<u>213,259</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 564,401</u>	 <u>\$ 413,259</u>

The accompanying notes are an integral part of these financial statements

THE CHILDREN'S HEART FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
UNRESTRICTED NET ASSETS		
Revenues and Other Support:		
Donations	\$ 161,871	\$ 160,826
Contributions from Affiliates	640,642	432,847
External Special Events (Note 7)	912,402	1,344,481
Grants	64,795	19,750
Total Support	1,779,710	1,957,904
Interest and Dividend Income	1,065	726
Loss on Investments	(143)	0
Other Income	111,926	63,668
Net Assets Released from Restrictions	0	14,930
Total Other Revenues	112,848	79,324
Total Support and Other Revenues	1,892,558	2,037,228
Expenses:		
Program Services	1,287,538	1,576,780
Management and General	67,552	67,121
Fund Raising	286,326	255,868
Total Expenses	1,641,416	1,899,769
Increase in Unrestricted Net Assets	251,142	137,459
TEMPORARILY RESTRICTED NET ASSETS		
Net Assets Released from Restrictions		
Program Services	0	14,930
Decrease in Temporarily Restricted Net Assets	0	(14,930)
INCREASE IN NET ASSETS	251,142	122,529
NET ASSETS – BEGINNING OF THE YEAR	213,259	90,730
NET ASSETS – END OF THE YEAR	\$ 464,401	\$ 213,259

The accompanying notes are an integral part of these financial statements

**THE CHILDREN'S HEART FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 251,142	\$ 122,529
Adjustments to Reconcile Changes in Net Assets To Net Cash from Operating Activities:		
Depreciation	1,090	0
Decrease in Accrued Expenses	(100,000)	0
Unrealized Loss on Investments	<u>146</u>	<u>0</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	152,378	122,529
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(2,354)	0
Purchase of Equipment	<u>(8,626)</u>	<u>0</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(10,980)</u>	<u>0</u>
INCREASE IN CASH AND EQUIVALENTS	141,398	122,529
CASH AND EQUIVALENTS - BEGINNING	<u>413,259</u>	<u>290,730</u>
CASH AND EQUIVALENTS - ENDING	<u>\$ 554,657</u>	<u>\$ 413,259</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>
Interest	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements

**THE CHILDREN'S HEART FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

1. ORGANIZATION

The Children's Heart Foundation (an Illinois not-for-profit corporation) is a national organization 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 53 research projects, totaling \$5.2 million to date. Each year the Foundation hosts multiple fundraisers in the Chicagoland area. They are also the beneficiaries of numerous events held throughout the country.

The Foundation has twelve local chapters. The chapters are located in Florida, Oregon, Ohio, Iowa, Indiana, Arizona, Pennsylvania, Illinois, Missouri, Colorado, Virginia and New York. 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 organization 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 2010.

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.

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.

Organizations 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, 2012.

**THE CHILDREN'S HEART FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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, 2012.

The following is a description of the methodologies used in valuing investments at fair value as of December 31, 2012.

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.

E. Property and Equipment

The Organization 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 Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to thirty years. Depreciation expense was \$1,090 and \$0, respectively, for the years ended December 31, 2012 and 2011.

F. Concentration of Credit Risk

The Foundation maintains its cash balances at two high credit quality financial institutions located in Illinois. At December 31, 2012, the cash balance is \$639,820 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.

H. Reclassifications

Certain reclassifications have been made to conform the 2011 financial statements to the 2012 presentation.

**THE CHILDREN'S HEART FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

3. DONATED SERVICES

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fund raising and special projects. The Foundation received donated audit services in 2012 and 2011 of \$1,500 which meet the criteria under SFAS 116, and are therefore recognized in the statement of activities.

4. GRANTS

During 2012 the Foundation approved six research grants totaling \$572,719 to fund studies on congenital heart defects. The grants for 2012 were as follows: \$100,000 to Daniel Bernstein, MD from Stanford Medical Center, \$100,000 to Jeffrey Jacobs, MD from the Society of Thoracic Surgeons with the Congenital Heart Surgeon's Database, \$100,000 to Brian W. McCrindle, MD, MPH from the Hospital for Sick Children – Toronto, \$72,719 to Andrew C. Glaz, MD from The Children's Hospital of Philadelphia, \$100,000 to Douglas Cowen BSc, MSc, PhD from Children's Hospital Boston, and \$100,000 to Conrad Epting, MD from Northwestern University.

During 2011 the Foundation approved 11 research grants totaling \$862,755 to fund studies on congenital heart defects. The grants for 2011 were as follows: \$100,000 to Jeffrey Jacobs, MD from The Society of Thoracic Surgeons, \$50,000 to Jeffrey Jacobs, MD from The Congenital Heart Institute of Florida, \$100,000 to Bradley Marino, MD from Cincinnati Children's Hospital, \$100,000 to Daniel Bernstein, MD from Stanford Medical Center, \$49,047 to Meryl Cohen, MD from Children's Hospital of Philadelphia, \$93,118 to Ross Ungerleider, MD from Brenner Children's Hospital, \$100,000 to Sunjay Kaushal, MD, PhD from University of Maryland Medical Center, \$100,000 to Patrick Jay, MD, PhD from Washington University School of Medicine, \$50,000 to Constantine Mavroudis, MD from Cleveland Clinic Foundation, \$75,000 to Paul Grossfield, MD from The Regents of the University of California, and \$45,590 to Jane Newburger, MD, MPH at Children's Hospital Corporation.

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.

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Beginning Temporarily Restricted Net Assets	\$ 0	\$ 14,930
Less: Expenditures for Parent Book	<u>0</u>	<u>(14,930)</u>
Ending Temporarily Restricted Net Assets	<u>\$ 0</u>	<u>\$ 0</u>

**THE CHILDREN'S HEART FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

6. RELATED PARTY TRANSACTIONS

The Foundation has eleven chapters in Arizona, Colorado, Florida, Illinois, Iowa, Michigan, Missouri, New York, Ohio, Oregon and Pennsylvania. Related party transactions between the national chapter and the other chapters are as follows:

	<u>2012</u>	<u>2011</u>
Contributions to the CHF National Organization by:		
The Arizona Chapter	\$ 7,693	\$ 27,651
The Colorado Chapter	175	0
The Florida Chapter	63,850	19,937
The Illinois Chapter	345,827	231,191
The Iowa Chapter	24	0
The Michigan Chapter	250	0
The Missouri Chapter	24,491	15,263
The New York Chapter	15,857	0
The Ohio Chapter	19,584	35,736
The Oregon Chapter	52,000	27,700
The Pennsylvania Chapter	104,479	71,335
CHF Developing Chapters	<u>6,412</u>	<u>4,034</u>
Total Contributions from Affiliates	<u>\$ 640,642</u>	<u>\$ 432,847</u>

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>2012</u>	<u>2011</u>
ACHA/CHF Walk	\$ 397,410	\$ 261,685
Alpine Children's Charity	45,000	50,000
Bovis Golf Outing	178,469	89,361
DC Ranch Golf Outing	1,000	0
Team CHF Athletics	16,392	47,048
Arizona Golf Outing	5,770	0
Build-a-Bear Campaign	179,526	185,192
Northwestern University Dance Marathon 2011	0	646,463
Miscellaneous Outside Fundraisers	<u>88,835</u>	<u>64,732</u>
Total	<u>\$ 912,402</u>	<u>\$ 1,344,481</u>

The ACHA/CHF Walk is an event the Foundation holds in conjunction with Adult Congenital Heart Association and various CHF Chapters. The total proceeds raised by this event in 2012 amounted to \$794,820, of which the Foundation received half. Included in the \$397,410 raised from the ACHA/CHF Walk during 2012 are the following amounts raised by individual chapters: \$63,814 from the Ohio Chapter, \$8,683 from the Colorado Chapter, \$37,793 from the Arizona Chapter, \$41,682 from the Pennsylvania Chapter, \$5,920 from the Virginia Chapter, \$33,841 from the Missouri Chapter, \$10,535 from the Florida Chapter, \$58,391 from the New York Chapter, \$9,631 from the Illinois Chapter, \$27,616 from the Michigan Chapter, \$8,251 from the Oregon Chapter, \$19,999 from the Texas Chapter. The remaining \$71,254 was raised from walks held by non-chapter affiliates.

**THE CHILDREN'S HEART FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

8. SUBSEQUENT EVENTS

The Foundation did not have any subsequent events through August 8, 2013, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2012.

ADDITIONAL INFORMATION

**THE CHILDREN'S HEART FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Research Funding	\$ 572,719	\$ 0	\$ 0	\$ 572,719
Public Education and Advocacy	208,335	1,450	58,810	268,595
Salaries, Taxes and Benefits	211,235	23,801	62,480	297,516
Insurance	1,900	5,540	563	8,003
Office Supplies and Postage	7,672	8,707	8,168	24,547
Professional Fees	27,867	12,275	8,243	48,385
Printing	0	1,735	1,420	3,155
Travel	44,235	4,334	11,378	59,947
Rent and Utilities	13,632	1,536	4,032	19,200
Marketing	32,777	3,196	9,451	45,424
Fund Raising	159,027	600	120,254	279,881
Meetings and Conferences	8,139	2,453	1,527	12,119
Depreciation	0	1,090	0	1,090
Miscellaneous	<u>0</u>	<u>835</u>	<u>0</u>	<u>835</u>
Total	<u>\$ 1,287,538</u>	<u>\$ 67,552</u>	<u>\$ 286,326</u>	<u>\$ 1,641,416</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, 2011**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Research Funding	\$ 862,755	\$ 0	\$ 0	\$ 862,755
Public Education and Advocacy	230,515	665	52,145	283,325
Salaries, Taxes and Benefits	210,822	23,754	62,355	296,931
Insurance	1,007	5,522	298	6,827
Office Supplies and Postage	2,986	10,897	4,730	18,613
Professional Fees	19,507	11,538	6,127	37,172
Printing	0	926	758	1,684
Travel	29,308	3,302	8,669	41,279
Rent and Utilities	13,632	1,536	4,032	19,200
Marketing	17,033	1,827	5,670	24,530
Fund Raising	179,299	600	109,879	289,778
Meetings and Conferences	9,916	6,099	1,205	17,220
Miscellaneous	<u>0</u>	<u>455</u>	<u>0</u>	<u>455</u>
Total	<u>\$ 1,576,780</u>	<u>\$ 67,121</u>	<u>\$ 255,868</u>	<u>\$ 1,899,769</u>

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

