

ENDURING HEARTS, INC.

FINANCIAL STATEMENTS
(with the report of independent auditors)

YEAR ENDED DECEMBER 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Enduring Hearts, Inc.
Marietta, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Enduring Hearts, Inc. (a nonprofit organization) (the "Organization"), 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.

Auditors' 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 auditors' 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 Enduring Hearts, Inc. 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.



Atlanta, Georgia
August 31, 2018

ENDURING HEARTS, INC.

 STATEMENT OF FINANCIAL POSITION
 DECEMBER 31, 2017

	2017
<u>ASSETS</u>	
Cash and cash equivalents	\$ 148,271
Due from affiliate	18,060
Contributions receivable	269,911
Note receivable	4,939
Investments at fair value	6,095,912
Investment in unconsolidated affiliate	101,542
Beneficial interests in charitable funds	67,729
Other asset	135,813
Intangible asset	3,050
TOTAL ASSETS	\$ 6,845,227
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES:	
Accounts payable and accrued expenses	\$ 7,655
Grants payable	862,195
TOTAL LIABILITIES	869,850
NET ASSETS:	
Unrestricted net assets	5,792,466
Temporary restricted net assets	182,911
TOTAL NET ASSETS	5,975,377
TOTAL LIABILITIES AND NET ASSETS	\$ 6,845,227

See notes to financial statements.

ENDURING HEARTS, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE, GAINS, AND SUPPORT:			
Contributions:			
Campaign income	\$ 374,546	\$ 192,715	\$ 567,261
Public support	<u>445,033</u>	<u>-0-</u>	<u>445,033</u>
Total contributions	819,579	192,715	1,012,294
Investment income	642,013	-0-	642,013
Special events income	160,300	20,000	180,300
Equity in earnings of affiliates	(6,850)	-0-	(6,850)
Change in valuation of beneficial interests in charitable funds	17,348	-0-	17,348
Other income	<u>11,064</u>	<u>-0-</u>	<u>11,064</u>
Total revenue, gains, and support before net assets released	1,643,454	212,715	1,856,169
Net assets released from restrictions	<u>29,804</u>	<u>(29,804)</u>	<u>-0-</u>
TOTAL REVENUE, GAINS, AND SUPPORT	<u>1,673,258</u>	<u>182,911</u>	<u>1,856,169</u>
EXPENSES:			
Program expenses:			
Research grants	1,101,163	-0-	1,101,163
Other programs	<u>203,442</u>	<u>-0-</u>	<u>203,442</u>
Total program expenses	<u>1,304,605</u>	<u>-0-</u>	<u>1,304,605</u>
Support expenses:			
General and administrative	103,647	-0-	103,647
Fundraising	<u>92,854</u>	<u>-0-</u>	<u>92,854</u>
Total support expenses	<u>196,501</u>	<u>-0-</u>	<u>196,501</u>
TOTAL EXPENSES	<u>1,501,106</u>	<u>-0-</u>	<u>1,501,106</u>
CHANGE IN NET ASSETS	172,152	182,911	355,063
NET ASSETS, beginning of year as previously presented	1,789,030	-0-	1,789,030
Prior period adjustments	<u>3,831,284</u>	<u>-0-</u>	<u>3,831,284</u>
NET ASSETS, beginning of year as restated	<u>5,620,314</u>	<u>-0-</u>	<u>5,620,314</u>
NET ASSETS, end of year	<u>\$ 5,792,466</u>	<u>\$ 182,911</u>	<u>\$ 5,975,377</u>

See notes to financial statements.

ENDURING HEARTS, INC.

 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 355,063
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributed other investment	(404,750)
Net realized gain on investments	(30,998)
Unrealized gain on investments	(546,984)
Equity in earnings of affiliates	6,850
Change in valuation of beneficial interests in charitable funds	(17,348)
Amortization of intangible asset	7,347
Change in operating assets and liabilities:	
Due from affiliate	(18,060)
Contributions receivable	(269,911)
Other asset	(133,457)
Accounts payable and accrued expenses	7,471
Grants payable	<u>624,791</u>
Net cash used in operating activities	<u>(419,986)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net advance of note receivable	(1,640)
Proceeds from sales of investments	1,028,534
Purchases of investments	(715,961)
Distribution from affiliate	<u>22,298</u>
Net cash provided by investing activities	<u>333,231</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(86,755)
CASH AND CASH EQUIVALENTS, beginning of year	<u>235,026</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 148,271</u>

See notes to financial statements.

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

1. Organization and Summary of Significant Accounting Policies:

Enduring Hearts, Inc. (the "Organization") is a not-for-profit corporation which was incorporated under the laws of the state of Georgia on April 17, 2013. The Organization was created to fund research that increases the longevity of pediatric heart transplants, improve the quality of life for transplant recipients, and eliminate pediatric heart diseases that may result in transplant. The Organization's funding is primarily through direct donor contributions and through fundraising events.

Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis of Presentation

The preparation of the financial statements in accordance with GAAP require, among other things, the reporting of the changes in and total of each of the net asset classes, based upon donor restrictions, if applicable. Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted. At December 31, 2017, the Organization had temporarily restricted net assets of \$182,911. There were no permanently restricted net assets at December 31, 2017.

Estimates and Assumptions

The preparation of the financial statements in conformity with GAAP requires management to make use of estimates and assumptions in preparing the accompanying financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported revenues and expenses during the reporting periods. Actual results could differ from these estimates and such differences could be material. The Organization's principal estimate is the valuation of other investments in privately-held companies.

Cash and Cash Equivalents

The Organization considers all highly liquid investments, which are to be used for current operations and which have initial maturities of three months or less, to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values are reported at fair values in the accompanying statement of financial position.

Other investments in equity securities of privately-owned companies are reported at their estimated fair values in the accompanying statement of financial position using the income approach as these securities do not have readily determinable fair values. The Organization does not have the ability to influence the operations of these companies. The estimated fair values may be valued differently than if readily determinable markets existed for such investments. Because of inherent uncertainties in the valuation of these investments, the reported fair values of such investments may differ significantly from the realized values.

The Organization holds equity ownership interests in two affiliates. The Organization accounted for these investments under the equity method of accounting. The Organization's pro rata interest in the net assets of each investment is based upon on financial information determined and reported by the affiliates in conjunction with other information evaluated periodically by the Organization. Distributive shares of the affiliate's income or loss are recorded as earnings in the reporting year by the Organization and are reported as adjustments to the initial cost basis of the investments. The carrying value of these investments is presented as "investment in unconsolidated affiliate" in the accompanying statement of financial position. The Organization's share of the earnings of the affiliates is presented as "equity in earnings of affiliates" in the accompanying statement of activities.

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

1. Organization and Summary of Significant Accounting Policies (continued):

Investments (continued)

Marketable and other investments are exposed to various risks that may cause the reported value of the Organization's investment assets to fluctuate from reporting period to reporting period and result in a material change to the net assets of the Organization. Investments in equity securities fluctuate in value in response to many factors, such as the activities and financial conditions of individual companies, business and industry market conditions, and the general economic environment. The value of bond securities and other fixed-income securities fluctuates in response to changing interest rates, creditworthiness of issuers, and overall economic policies that impact market conditions.

Interest and dividend income are recorded when earned. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Unrealized gains and losses are recorded as the change in the fair value of investments. Investment expenses are included in general administrative expenses in the accompanying statement of activities for the year ended December 31, 2017.

Contributions Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends, or a purpose restriction is accomplished) in the same reporting period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions receivable expected to be collected beyond one year are discounted to present value at an appropriate rate, which management has determined to be 3% for the year ended December 31, 2017. Amortization of the present value discount amount is recorded as additional contribution revenue.

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based upon on prior years' experience and management's analysis of specific promises made.

Beneficial Interests in Charitable Funds

The Organization is the beneficiary of charitable funds with the Cobb County Foundation (the "Foundation"). The beneficial interests are reported at fair value and are included in unrestricted net assets as the Organization may, at its discretion, request the distribution of the full balance of the funds at any time.

Grants Payable

Grants are charged against operations when authorized by the Organization. The actual payment of the grant may not necessarily occur in the year of authorization. Grants which are expected to be paid beyond one year are discounted to their present value amounts at an appropriate rate, which management has determined to be 3% for the year ended December 31, 2017. Amortization of the present value discount amount is recorded as additional grant expense.

Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor related restrictions.

Contributed Services

No amounts have been reflected in the accompanying financial statements for contributed services. Contributed services would be recorded at their estimated fair values at the date of donation if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

1. Organization and Summary of Significant Accounting Policies (continued):

Contributed Services (continued)

by donation. The Organization generally pays for services requiring specific expertise. However, various individuals volunteer their time and perform a variety of tasks that assist in carrying out the Organization's operations, but these services do not meet the criteria for recognition as contributed services.

Advertising

Advertising and promotion costs are expensed as incurred.

Functional Allocation of Expenses

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

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes is presented in the accompanying financial statements.

Recently Issued Accounting Pronouncements

New accounting rules and disclosure requirements can impact the results and the comparability of the Organization's financial statements. The following recently issued accounting pronouncements are relevant to the Organization's financial statements.

ASU 2016-14: In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to all not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; and requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations and requires disclosure of expenses by both their natural and function classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017 with early adoption allowed. Entities should apply the amendment in this ASU retrospectively to all periods presented. At this time, management is evaluating the potential impact of adopting ASU 2016-14 in the Organization's financial statements.

ASU 2018-08: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profits (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendment applies to all entities that receive or make contributions of cash or other assets. The amendment provides clarifying guidance on accounting for the grants and contracts of not-for-profit organizations as they relate to the new revenue standard (ASU 2014-09, *Revenue from Contracts with Customers (Subtopic 606)*). The amendment clarifies and improves current guidance about whether a transfer of assets (or a reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The criteria for evaluating whether contributions are unconditional (and thus

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

1. Organization and Summary of Significant Accounting Policies (continued):

Recently Issued Accounting Pronouncements (continued)

recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. The amendment is effective for fiscal years beginning after December 15, 2018 with early adoption allowed. Entities should apply in this ASU on a modified prospective basis. At this time, management is evaluating the potential impact of adopting ASU 2018-08 in the Organization's financial statements.

Date of Management's Review

Subsequent events have been evaluated through August 31, 2018, which is the date the financial statements were available to be issued.

2. Concentration of Risks:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, cash equivalents, non-U.S. government investment securities, and contributions receivable. The Organization maintains its cash and marketable securities at two financial institutions. The Federal Deposit Insurance Corporation insures deposits up to \$250,000 and the Securities Investor Protection Corporation insures cash and securities up to \$500,000, which includes a \$250,000 limit for cash. During the normal course of business, the Organization may have on deposit with these financial institutions cash and securities balances in excess of the insured limits. The Organization has not experienced any losses as a result of uninsured deposits and securities with these respective financial institutions. Non-U.S. government investment securities are diversified and no one investment accounts for a significant portion of the Organization's invested assets. Credit risk with respect to contributions receivable is considered low due to the creditworthiness of the donors comprising the Organization's contribution base.

Contributions receivable from four donors represented 55% of total contributions receivable at December 31, 2017. Contributions related to these donors are 25% of total contributions for the year ended December 31, 2017.

3. Investments:

The Organization's marketable and other investment securities are stated at fair value, which is the price that would be received to sell the asset in an orderly transaction between willing market participants as of the measurement date.

The Organization uses various valuation techniques and assumptions when estimating fair value, which are in accordance with accounting principles for fair value measurement of assets and liabilities that are recognized or disclosed in the financial statements on a recurring basis. These principles establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR DECEMBER 31, 2017

3. Investments (continued):

Level 1 - Quoted (unadjusted) prices for identical assets in active markets.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.);
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

The estimated fair values of marketable bonds and common stocks are based on quoted market prices where available. The Organization obtains one price for each security primarily from its investment custodian, which generally uses quoted prices or other observable inputs for the determination of fair value. The investment custodian normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the investment custodian may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities.

Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. As the Organization is responsible for the determination of fair value, it performs analyses on the prices received from the investment custodian to determine whether the prices are reasonable estimates of fair value.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Organization's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Other Investments

The Organization owns common stock shares in Sionic Mobile Corporation ("Sionic"), a privately-owned mobile commerce company. At December 31, 2017, the fair value of the Organization's common stock investment in Sionic was \$3,318,950, which was estimated using the income approach to value the security.

Additionally, the Organization holds 50,000 common stock warrants in Sionic. The warrants were issued in October 2014 and must be exercised prior to the 10-year anniversary from the issuance date. The exercise price of each warrant is \$2 and the conversion rate between warrants and the related common stock shares of Sionic is 1:1. The warrants were fully vested at the issuance date. At December 31, 2017, the fair value of the warrants was \$1,519,000, which was estimated using the income approach to value the security.

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2017

3. Investments (continued):

Investments at fair value consisted of the following at December 31, 2017:

Cash equivalents	\$ 26,337
Equity securities:	
U.S. equities	845,888
International equities	66,293
Bond securities:	
U.S. bond securities	309,113
International bond securities	<u>10,331</u>
Total marketable securities	<u>1,257,962</u>
Other investments:	
Sionic common stock shares	3,318,950
Sionic warrants	<u>1,519,000</u>
Total other investments	<u>4,837,950</u>
Total	<u>\$ 6,095,912</u>

Equity Method Investments

The Organization held a 35% ownership interest in Enduring Holdings, LLC (“Holdings”), an affiliate. The Organization had accounted for its investment interest in Holdings under the equity method of accounting. Under the equity method of accounting, the Organization’s distributive share of the net loss of Holdings for the year ended December 31, 2017 is included in “equity in earnings of affiliates” in the accompanying statement of activities. At December 31, 2017, the operations of Holdings were discontinued and the net assets of the affiliate were liquidated.

In June 2017, the Organization purchased a 20% equity interest in CESteak, LLC (“CESteak”), a newly formed affiliated company. The Organization has accounted for its investment interest in CESteak under the equity method of accounting. The carrying value of the Organization’s interest in the affiliate is presented as “investment in unconsolidated affiliate” in the accompanying statement of financial position. The Organization’s distributive share of the income of CESteak for the year ended December 31, 2017 is included in “equity in earnings of affiliates” in the accompanying statement of activities.

The carrying values and the changes in the investments for the year ended December 31, 2017 are as follows:

	Holdings	CESteak	Total
Carrying value, beginning of year	\$ 28,966	\$ -0-	\$ 28,966
Equity contributions	1,224	100,500	101,724
Equity in earnings of affiliates	(7,892)	1,042	(6,850)
Equity distribution	<u>(22,298)</u>	<u>-0-</u>	<u>(22,298)</u>
Carrying value, end of year	<u>\$ -0-</u>	<u>\$ 101,542</u>	<u>\$ 101,542</u>

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2017

3. Investments (continued):

The components of investment income are as follows for the year ended December 31, 2017:

Dividends and interest income	\$	64,031
Net unrealized gain on valuation of investments		546,984
Net realized gain on sales of investments		<u>30,998</u>
Investment income	\$	<u>642,013</u>

4. Contributions Receivable:

During the year ended December 31, 2017, the Organization began a three-year \$3.1 million campaign (the "Campaign") in order to (1) fund all current and future research projects, (2) foster the development of standards designed to minimize rejection, (3) establish pediatric heart transplant symposium to allow research collaboration that focuses on accomplishing the Organization's mission, (4) establish rejection and pediatric heart disease thought leadership at major medical science conferences through focused grant-making, and (5) appoint a chief science officer to represent and facilitate the Organization's interest in the broader research community.

Additionally, the Organization participates in the annual Georgia Give Day, which is a part of the National Giving Tuesday event. The event brings awareness and funds to charities across the United States of America.

At December 31, 2017, contributions receivable consisted of the following:

Georgia Give Day contributions	\$	164,297
Campaign contributions		66,000
Special events contributions		20,000
Individual other contributions		<u>24,407</u>
		274,704
Less unamortized discount		<u>4,793</u>
	\$	<u>269,911</u>

At December 31, 2017, contributions receivable is estimated to be collected in the following years:

Year Ending <u>December 31,</u>		
2018	\$	178,364
2019		74,503
2020		<u>21,837</u>
	\$	<u>274,704</u>

5. Beneficial Interests in Charitable Funds:

In May 2014, a related party donor established two funds with the Foundation naming the Organization as the beneficiary of the charitable funds. The two funds consist of a general purpose fund and a long-term fund. The assets of the funds consist of readily determinable equity and bond marketable securities that are held and managed by the Foundation. The Organization has no control over the management of those assets. The fair value of the funds is measured as the Organization's share of the fair value of the underlying assets managed by the Foundation.

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2017

5. Beneficial Interests in Charitable Funds (continued):

The Organization expects to only receive the earnings of the funds on a periodic basis, but the Organization has the right to receive the corpus of the funds and may request a distribution of the full balance of the funds at its discretion. At the death, incapacity, or resignation of the donor in his management of the funds, another member of management of the Organization has been appointed as successor to oversee these funds. The fair value of the funds at December 31, 2017 was \$67,729. The following is a summary of beneficial interests in the charitable funds for the year ended December 31, 2017:

Beneficial interests in charitable funds, beginning of year	\$ 50,746
Dividend income	1,648
Change in valuation of beneficial interests	17,348
Investment fees	<u>(2,013)</u>
Beneficial interests in charitable funds, end of year	<u>\$ 67,729</u>

6. Other Asset:

During the year ended December 31, 2017, the Organization purchased variable flight operating costs totaling \$193,195 related to a donation of flight hours to be used with a private jet company. The donated flight hours and the related variable costs may be used by interested parties through December 31, 2018. During the year ended December 31, 2017, the Organization recorded other income related to the sale of the costs totaling \$10,117. The balance of the costs at December 31, 2017 was \$135,813 and is presented as "other asset" in the accompanying statement of financial position.

7. Grants Payable:

Grants awarded by the Organization are recorded as expenses and liabilities when they are approved. Grants scheduled for payment more than one year in the future are discounted to their present value amounts. The following is a summary of grants payable activity for the year ended December 31, 2017:

Grants payable balance, beginning of year	\$ 237,404
Grants authorized during the year	1,120,729
Payments	(476,372)
Change in present value discount	<u>(19,566)</u>
Grants payable balance, end of year	<u>\$ 862,195</u>

At December 31, 2017, grants payable are expected to be paid in in the following years:

Year Ending December 31,	
2018	\$ 484,272
2019	314,899
2020	<u>82,590</u>
	881,761
Less unamortized discount	<u>19,566</u>
	<u>\$ 862,195</u>

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2017

8. Line of Credit:

The Organization has a line of credit agreement with a financial institution in the amount of \$1,050,000. Amounts drawn on the line of credit are due on demand with interest payable monthly. Under the terms of the agreement, outstanding borrowings bear interest at the prime rate (4.5% at December 31, 2017) less a margin, as defined, and not less than 2.25%. The agreement is secured by the marketable equity and debt securities held with a financial institution. There were no borrowings under the line of credit as of and during the year ended December 31, 2017. The agreement originated in April 2014 and has no set maturity date.

9. Fair Value Measurements:

The table below presents the level within the fair value hierarchy generally utilized by the Organization to estimate the fair value of assets disclosed on a recurring basis as of December 31, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 26,337	\$ 26,337	\$ -0-	\$ -0-
Equity securities:				
Domestic	845,888	845,888	-0-	-0-
International	66,293	66,293	-0-	-0-
Bond securities:				
Domestic	309,113	-0-	309,113	-0-
International	10,331	-0-	10,331	-0-
Other investments:				
Sionic common stock	3,318,950	-0-	-0-	3,318,950
Sionic warrants	1,519,000	-0-	-0-	1,519,000
Beneficial interests in charitable funds	<u>67,729</u>	<u>-0-</u>	<u>67,729</u>	<u>-0-</u>
	<u>\$ 6,163,641</u>	<u>\$ 938,518</u>	<u>\$ 387,173</u>	<u>\$ 4,837,950</u>

The changes in other investments for which the Organization has used Level 3 inputs to determine fair values are as follows:

Balance, beginning of year	\$ 3,939,000
Donation of common stock shares	404,750
Unrealized gain on valuation of securities	<u>494,200</u>
Balance, end of year	<u>\$ 4,837,950</u>

The Organization recognizes transfers between levels of the fair value hierarchy at the end of the period in which the events occur causing changes in the availability of fair value inputs. There were no transfers between levels during the year ended December 31, 2017.

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR DECEMBER 31, 2017

10. Temporarily Restricted Net Assets:

Temporarily restricted net assets consisted of the following at December 31, 2017:

Georgia Give Day contributions	\$	75,519
Campaign contributions		64,331
Special events contributions		19,566
Individual other contributions		<u>23,495</u>
	\$	<u>182,911</u>

The contributions included in temporarily restricted net assets are restricted as to purpose and/or timing of receipt of the contributions.

11. Related Party Transactions:

During the year ended December 31, 2017, the Organization sold variable flight operating costs to an affiliated company and recognized income in the amount of \$9,373. The amount due from the affiliate at December 31, 2017 was \$18,060.

12. Income Taxes:

The Organization has applied the provisions of ASC 740, *Income Taxes*, for the year ended December 31, 2017. ASC 740 prescribes a recognition threshold and measurement attribute with respect to uncertainty in income tax positions. In applying ASC 740, the Organization has evaluated its various tax positions taken and has determined that based solely on the technical merits, each tax position on a current and deferred basis has a more-likely-not probability that the tax position will be sustained by taxing authorities. The Organization is not presently under audit by any taxing authority and there are no other uncertainties and events that are reasonably possible in the next twelve months that would cause a significant change in the amounts of unrecognized tax benefits.

The Organization did not recognize any interest and penalties the accompanying statement of activities for the year ended December 31, 2017. The Organization remains subject to examination by the Internal Revenue Service for tax years 2014 through and 2016.

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR DECEMBER 31, 2017

13. Prior Period Adjustments:

During the year ended December 31, 2017, management of the Organization determined that the valuation of other investments at December 31, 2016 was stated at cost basis rather than at fair value and unpaid 2015 and 2016 grants were not included in grants payable at December 31, 2016. The correction of these errors increased unrestricted net assets by \$3,831,284 at December 31, 2016 as follows:

	2016, as originally reported	2016, as corrected	Effect of change
Other investments	\$ 90,000	\$ 3,939,000	\$ 3,849,000
Total assets	\$ 2,008,902	\$ 5,857,902	\$ 3,849,000
Grants payable	\$ 219,688	\$ 237,404	\$ 17,716
Total liabilities	219,872	237,588	17,716
Unrestricted net assets	1,789,030	5,620,314	3,831,284
Total liabilities and net assets	\$ 2,008,902	\$ 5,857,902	\$ 3,849,000