

ENDURING HEARTS, INC.

FINANCIAL STATEMENTS
(with the report of independent auditors)

YEAR ENDED DECEMBER 31, 2018

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 not-for-profit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

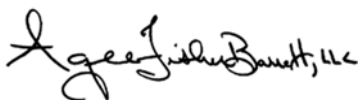
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2018, 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
June 11, 2019

ENDURING HEARTS, INC.

 STATEMENT OF FINANCIAL POSITION
 DECEMBER 31, 2018

	2018
<u>ASSETS</u>	
Cash and cash equivalents	\$ 227,281
Contributions receivable	357,920
Note receivable	3,454
Secondary participation interest	136,500
Investments at fair value	1,268,279
Investments at cost	510,244
Investment in unconsolidated affiliate	100,984
Beneficial interests in charitable funds	62,043
Intangible asset	3,050
 TOTAL ASSETS	 \$ 2,669,755
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES:	
Accounts payable and accrued expenses	\$ 62,131
Grants payable	1,006,273
 TOTAL LIABILITIES	 1,068,404
NET ASSETS:	
Without donor restrictions	1,235,811
With donor restrictions	365,540
 TOTAL NET ASSETS	 1,601,351
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,669,755

See notes to financial statements.

ENDURING HEARTS, INC.

 STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND SUPPORT:			
Contributions:			
Campaign income	\$ 456,864	\$ 254,735	\$ 711,599
Donated other investment	<u>395,244</u>	<u>-0-</u>	<u>395,244</u>
Total contributions	852,108	254,735	1,106,843
Investment return, net	(125,309)	-0-	(125,309)
Special events income	372,278	110,805	483,083
Equity in earnings of affiliate	5,251	-0-	5,251
Change in valuation of beneficial interests in charitable funds	(4,778)	-0-	(4,778)
Other income	<u>19,153</u>	<u>-0-</u>	<u>19,153</u>
Total revenue, gains, and support before net assets released	1,118,703	365,540	1,484,243
Net assets released from restrictions	<u>182,911</u>	<u>(182,911)</u>	<u>-0-</u>
TOTAL REVENUE, GAINS, AND SUPPORT	<u>1,301,614</u>	<u>182,629</u>	<u>1,484,243</u>
EXPENSES:			
Program expenses:			
Research grants	644,012	-0-	644,012
Other programs	<u>148,938</u>	<u>-0-</u>	<u>148,938</u>
Total program expenses	<u>792,950</u>	<u>-0-</u>	<u>792,950</u>
Support expenses:			
General and administrative	172,445	-0-	172,445
Fundraising	<u>169,924</u>	<u>-0-</u>	<u>169,924</u>
Total support expenses	<u>342,369</u>	<u>-0-</u>	<u>342,369</u>
TOTAL EXPENSES	<u>1,135,319</u>	<u>-0-</u>	<u>1,135,319</u>
CHANGE IN NET ASSETS	<u>166,295</u>	<u>182,911</u>	<u>348,924</u>
NET ASSETS, beginning of year as previously presented	5,792,466	182,911	5,975,377
Prior period adjustment	<u>(4,722,950)</u>	<u>-0-</u>	<u>(4,722,950)</u>
NET ASSETS, beginning of year as restated	<u>1,069,516</u>	<u>182,911</u>	<u>1,252,427</u>
NET ASSETS, end of year	<u>\$ 1,235,811</u>	<u>\$ 365,540</u>	<u>\$ 1,601,351</u>

See notes to financial statements.

ENDURING HEARTS, INC.

 STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED DECEMBER 31, 2018

	Program Expenses			Support Expenses		Total
	Research Grants	Other Programs	Total	General and Administrative	Fundraising	
Research grants	\$ 644,012	\$ -0-	\$ 644,012	\$ -0-	\$ -0-	\$ 644,012
Program management	-0-	81,083	81,083	121,625	-0-	202,708
Management expenses	-0-	22,718	22,718	31,660	22,717	77,095
Professional fees	-0-	7,150	7,150	6,060	6,278	19,488
Advertising and promotion	-0-	1,929	1,929	2,020	-0-	3,949
Outreach	-0-	22,488	22,488	-0-	17,275	39,763
Merchant and bank fees	-0-	-0-	-0-	-0-	18,019	18,019
Office expenses	-0-	2,273	2,273	2,040	-0-	4,313
Special events	-0-	-0-	-0-	-0-	104,018	104,018
Patient program	-0-	6,969	6,969	-0-	-0-	6,969
Meals and entertainment	-0-	826	826	1,534	-0-	2,360
Research conferences	-0-	3,502	3,502	7,506	1,617	12,625
	<u>\$ 644,012</u>	<u>\$ 148,938</u>	<u>\$ 792,950</u>	<u>\$ 172,445</u>	<u>\$ 169,924</u>	<u>\$ 1,135,319</u>

See notes to financial statements.

ENDURING HEARTS, INC.

 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2018

	2018
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 348,924
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Donated other investment	(395,244)
Net realized loss on investments	8,349
Unrealized loss on investments	162,270
Equity in earnings of affiliate	(5,251)
Change in valuation of beneficial interests in charitable funds	4,778
Change in operating assets and liabilities:	
Due from affiliate	18,060
Contributions receivable	(88,009)
Other asset	135,813
Accounts payable and accrued expenses	54,476
Grants payable	<u>144,078</u>
Net cash provided by operating activities	<u>388,244</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net repayment of note receivable	1,485
Purchase of secondary participation interest	(136,500)
Proceeds from sales of investments	1,295,774
Purchases of investments	(1,475,802)
Equity distribution from affiliate	<u>5,809</u>
Net cash used in investing activities	<u>(309,234)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	79,010
CASH AND CASH EQUIVALENTS, beginning of year	<u>148,271</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 227,281</u>

See notes to financial statements.

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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 accompanying financial statements of the Organization have been prepared in accordance with GAAP which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors which are temporary in nature. These donor restrictions will be met by actions of the Organization or by the passage of time.

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 difference could be material.

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 a privately-owned company are accounted using the cost method as these securities do not have readily determinable fair values. The Organization does not have the ability to influence the operations of the company.

The Organization holds an equity ownership interest in an affiliate. The Organization accounted for the investment under the equity method of accounting. The Organization's pro rata interest in the net assets of the investment is based upon financial information determined and reported by the affiliate 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 investment. The carrying value of the investment is presented as "investment in unconsolidated affiliate" in the accompanying statement of financial position. The Organization's share of the earnings of the affiliate is presented as "equity in earnings of affiliate" in the accompanying statement of activities.

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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

Investments (continued)

Investments in marketable securities 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.

Net investment return, as presented in the accompanying statement of activities, includes interest and dividend income, realized gains and losses, and unrealized gains and losses, net of investment expenses. 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.

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 net assets without donor restrictions 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 net assets with donor restrictions depending upon the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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, 2018. 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. The allowance for doubtful accounts at December 31, 2018 was \$-0-.

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 net assets without donor restrictions 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, 2018. Amortization of the present value discount amount is recorded as additional grant expense.

Contributions

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor related restrictions. Donated securities are recorded as contributions to the Organization in the reporting period of the donation at fair value.

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR DECEMBER 31, 2018

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

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 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 have been 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. Such allocations are determined by management on an equitable basis. Program management, management expenses, meals and entertainment, and research conferences are allocated on a time and effort basis. Professional fees, advertising and promotion, outreach, and office expenses are allocated based upon a full-time equivalent basis.

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 Adopted Accounting Pronouncement

The Organization adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended December 31, 2018. 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 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 adoption of ASU 2016-14 did not have a material impact on 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.

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR DECEMBER 31, 2018

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

Recently Issued Accounting Pronouncements (continued)

ASU 2016-01: In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in ASU 2016-01 require among other things that equity investments be measured at fair value in the statement of financial position with the exception that if an equity security does not have a readily determinable fair value and does qualify for the practical expedient to estimate fair value using net asset value, an organization may elect to measure that equity security at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The amendments in this ASU are effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. At this time, management is evaluating the potential impact of the adopting ASU 2016-01 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 amendments in ASU 2018-08 apply 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 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 amendments in this ASU are effective for fiscal years beginning after December 15, 2018. Entities should apply 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.

ASU 2018-13: In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in ASU 2018-13 revises the disclosure requirements for recurring and nonrecurring fair value measurements by removing, modifying, and adding certain disclosures. The amendments are to improve the effectiveness of disclosures about fair value measurements required under ASC 820 in the notes to the financial statements. A not-for-profit entity is no longer required to disclose the amount and reasons for transfers between Level 1 and Level 2 investments of the fair value hierarchy, the policy for the timing of transfers between levels of the fair value hierarchy, its valuation processes for Level 3 fair value measurements, and changes in unrealized gains and losses for the reporting period included in earnings for recurring Level 3 fair value measurements. In lieu of a rollforward of Level 3 investments, the amendments in the ASU require disclosure of transfers into and out of Level 3 investments, and purchases and issuances of Level 3 assets and liabilities. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 with early adoption permitted. At this time, management is evaluating the potential impact of the adopting ASU 2018-13 in the Organization's financial statements.

Date of Management's Review

Subsequent events have been evaluated through June 11, 2019, which is the date the financial statements were available to be issued.

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2018

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 from one donor represented 12.5% of total contributions for the year ended December 31, 2018. There was no amount due from this donor at December 31, 2018. Three other donors represented 45.0% of contributions receivable at December 31, 2018, but their contributions for the year were less than 10% of total contributions.

3. Availability and Liquidity:

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year-end:	
Cash and cash equivalents	\$ 227,281
Contributions receivable	357,920
Investments at fair value	<u>1,268,279</u>
Total financial assets	1,853,480
Less amounts not available to be used within one year:	
Net assets with donor restrictions	365,540
Less net assets with restrictions to be met in less than one year	<u>(223,085)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,711,025</u>

As discussed in note 10, the Organization has a \$1,050,000 line of credit available to meet the cash needs of the Organization.

4. Contributions Receivable:

The Organization has 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) to appoint a chief science officer to represent and facilitate the Organization's interest in the broader research community.

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2018

4. Contributions Receivable (continued):

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, 2018, contributions receivable consisted of the following:

Georgia Give Day contributions	\$	62,787
Campaign contributions		130,971
Special events contributions		105,500
Individual other contributions		<u>68,488</u>
		367,746
Less unamortized discount		<u>9,826</u>
	\$	<u><u>357,920</u></u>

At December 31, 2018, contributions receivable is estimated to be collected in the following years:

Year Ending December 31,		
2019	\$	220,908
2020		144,786
2021		<u>2,052</u>
	\$	<u><u>367,746</u></u>

5. Investments:

The Organization's marketable 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:

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.);

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2018

5. Investments (continued):

- 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.

Investments at fair value consisted of the following at December 31, 2018:

Cash equivalents	\$	24,331
Equity securities:		
Domestic equities		776,526
International equities		228,176
Bond securities:		
Domestic bond securities		203,229
International bond securities		36,017
Total		\$ 1,268,279

Other Investments

The Organization owns common stock shares in Sionic Mobile Corporation ("Sionic"), a privately-owned mobile commerce technology company. At December 31, 2018, the cost basis of the Organization's common stock investment in Sionic was \$510,244. During the year ended December 31, 2018, the Organization received donated shares of Sionic common stock, which was recorded at the fair value amount of \$395,244.

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, 2018, the warrants have no basis as the estimated fair value of the common stock share is equivalent to the exercise price.

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2018

5. Investments (continued):

The components of net investment return are as follows for the year ended December 31, 2018:

Dividends and interest income	\$ 63,288
Net unrealized loss on valuation of investments	(162,270)
Net realized loss on sales of investments	<u>(8,349)</u>
	(107,331)
Less investment expenses	<u>17,978</u>
Net investment return	\$ <u><u>(125,309)</u></u>

Equity Method Investment

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, 2018 is included in “equity in earnings of affiliates” in the accompanying statement of activities.

The carrying value and the changes in the investment of CESteak for the year ended December 31, 2018 are as follows:

Carrying value, beginning of year	\$ 101,542
Equity in earnings of affiliate	5,251
Equity distribution	<u>(5,809)</u>
Carrying value, end of year	\$ <u><u>100,984</u></u>

ENDURING HEARTS, INC.

NOTES TO FINANCIAL STATEMENTS
YEAR DECEMBER 31, 2018

6. Secondary Participation Interest:

During the year ended December 31, 2018, the Organization entered into a secondary participation agreement related to a promissory note with advances up to \$30,000,000 executed between Cortland Holdings, LLC ("Cortland") and an unrelated company. Under a master participation agreement, the lead participating creditors under the promissory note sold a portion of their interests to other participants. One of these participants, USSC Advisors CP, LLC ("USSC"), sold a \$136,500 participation interest to the Organization during the year ended December 31, 2018. Under the terms of the secondary participation agreement, the Organization earns interest income at a net rate of 14.5% (excluding a 1.5% rate for fees due to USSC). The balance of the interest at December 31, 2018 was \$136,500. The Organization's participation interest in the Cortland note receivable was repaid on May 6, 2019. During the year ended December 31, 2018, the Organization earned participation interest income of \$1,060.

7. 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.

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, 2018 was \$62,043. The following is a summary of beneficial interests in the charitable funds for the year ended December 31, 2018:

Beneficial interests in charitable funds, beginning of year	\$ 67,729
Change in valuation of beneficial interests	(4,778)
Investment fees	<u>(908)</u>
Beneficial interests in charitable funds, end of year	<u>\$ 62,043</u>

8. Variable Flight Operating Costs:

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 balance of the costs at December 31, 2017 was \$135,813. During the year ended December 31, 2018, the Organization sold the remaining variable flight operating costs to an affiliate and recorded other income related to the sales of \$19,152. The balance of the costs was reduced to \$0- at December 31, 2018.

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2018

9. 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, 2018:

Grants payable balance, beginning of year	\$ 862,195
Grants authorized during the year	650,170
Payments during the year	(499,934)
Change in present value discount	<u>(6,158)</u>
Grants payable balance, end of year	<u>\$ 1,006,273</u>

At December 31, 2018, grants payable is expected to be paid in in the following years:

Year Ending <u>December 31,</u>	
2019	\$ 677,922
2020	<u>354,075</u>
	1,031,997
Less unamortized discount	<u>25,724</u>
	<u>\$ 1,006,273</u>

10. 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 (5.5% at December 31, 2018) 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, 2018. The agreement originated in April 2014 and has no set maturity date.

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2018

11. 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, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 24,331	\$ 24,331	\$ -0-	\$ -0-
Equity securities:				
Domestic	776,526	776,526	-0-	-0-
International	228,176	228,176	-0-	-0-
Bond securities:				
Domestic	203,229	-0-	203,229	-0-
International	36,017	-0-	36,017	-0-
Beneficial interests in charitable funds	<u>62,043</u>	<u>-0-</u>	<u>62,043</u>	<u>-0-</u>
	<u>\$ 1,330,322</u>	<u>\$ 1,029,033</u>	<u>\$ 301,289</u>	<u>\$ -0-</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, 2018.

12. Net Assets with Donor Restrictions:

Net assets with donor restrictions consisted of the following at December 31, 2018:

Georgia Give Day contributions	\$ 61,223
Campaign contributions	126,871
Special events contributions	110,805
Individual other contributions	<u>66,641</u>
	<u>\$ 365,540</u>

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

13. Related Party Transactions:

During the year ended December 31, 2018, the Organization sold variable flight operating costs to an affiliated company and recognized income in the amount of \$19,153. There was no amount due from the affiliate at December 31, 2018.

ENDURING HEARTS, INC.

 NOTES TO FINANCIAL STATEMENTS
 YEAR DECEMBER 31, 2018

14. Income Taxes:

The Organization has applied the provisions of ASC 740, *Income Taxes*, for the year ended December 31, 2018. 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, 2018. The Organization remains subject to examination by the Internal Revenue Service for tax years 2016 through and 2018.

15. Change in Accounting Principle:

Due to the substantial volatility of future financial performance included within the income projections for Sionic, during the year ended December 31, 2018 management of the Organization determined that these securities should be reported at their cost bases rather than at their fair values. The change in accounting principle resulted in a decrease to total net assets of \$4,722,950 at December 31, 2017 as follows:

	<u>2017, as originally reported</u>	<u>2017, as restated</u>	<u>Effect of change</u>
Other investments	\$ 4,837,950	\$ 115,000	\$ 4,722,950
Total assets	\$ 6,845,227	\$ 2,122,277	\$ 4,722,950
Total net assets	\$ 5,975,377	\$ 1,252,427	\$ 4,722,950
Total liabilities and net assets	\$ 6,845,227	\$ 2,122,277	\$ 4,722,950

16. Subsequent Events:

In January 2019, the Organization formed two subsidiaries, EH SPE 1, LLC and AO SPE 2, LLC, for the purpose of acquiring or otherwise investing in private debt and equity securities or other private operations to generate investment income.