

Audited Financial Statements
Majella Cares dba Heroic Media
Year Ended December 31, 2011
with Report of Independent Auditors

Majella Cares dba Heroic Media

Audited Financial Statements

Year Ended December 31, 2011

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Reynolds & Franke, PC

CERTIFIED PUBLIC ACCOUNTANTS

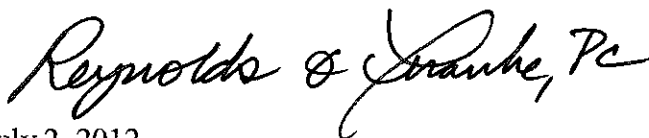
Report of Independent Auditors

To the Board of Directors
Majella Cares dba Heroic Media

We have audited the accompanying statement of financial position of Majella Cares dba Heroic Media (the "Organization"), a nonprofit organization, as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Majella Cares dba Heroic Media as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United State of America.



July 2, 2012

Majella Cares dba Heroic Media

Statement of Financial Position

December 31, 2011

Assets

Current assets:

Cash and cash equivalents \$ 16,554

Contributions receivable, net 183,852

Investments – other 200

Total current assets 200,606

Property and equipment, less accumulated
depreciation of \$91,432 59,998

Contributions receivable – non-current, net 71,366

Total assets \$ 331,970

Liabilities and Net Assets

Current liabilities:

Accounts payable and other current liabilities \$ 54,693

Accrued payroll expenses 28,523

Total current liabilities 83,216

Total liabilities 83,216

Net Assets:

Unrestricted net assets 248,754

Total net assets 248,754

Total liabilities and net assets \$ 331,970

See accompanying notes to the financial statements.

Majella Cares dba Heroic Media

Statement of Activities
For the year ended December 31, 2011

Unrestricted revenues:	
Contributions	\$ 342,061
In-kind contributions	17,980
Fundraising event income	412,050
Gain on sale of asset	540
Investment gains	373
	<hr/>
Total unrestricted revenues	773,004
Net assets released from restrictions	<hr/> 1,919,776
Total revenues, reclassifications, and transfers	<hr/> 2,692,780
Expenses:	
Educational program services	1,588,702
Supporting services	624,547
	<hr/>
Total expenses	2,213,249
Increase in unrestricted net assets	<hr/> 479,531
Changes in temporarily restricted net assets:	
Contributions	1,919,776
Net assets released from restrictions	(1,919,776)
Change in temporarily restricted net assets	<hr/> -
Increase in net assets	479,531
Beginning of the year	(360,402)
Net assets transferred from Majella Foundation	<hr/> 129,625
End of year	<hr/> <hr/> \$ 248,754

See accompanying notes to the financial statements.

Majella Cares dba Heroic Media

Statement of Functional Expenses

For the year ended December 31, 2011

	Educational Program Services		Support Services		Total
	Media Placement	Research and Events	Administrative	Fundraising	
Direct costs	\$ 379,848	\$ 404,553	\$ -	\$ 14,886	\$ 799,287
Wages	43,875	453,369	65,812	168,185	731,241
Payroll taxes	4,129	42,671	6,194	15,830	68,824
Employee benefits	1,293	13,364	1,940	4,957	21,554
Contract services	-	8,438	19,065	3,750	31,253
Credit card and bank charges	-	-	10,421	-	10,421
Consulting	-	43,939	6,131	52,113	102,183
Occupancy	3,173	42,659	9,166	15,512	70,510
Equipment rental	-	1,140	-	-	1,140
Supplies	-	5,369	767	1,534	7,670
Printing and supplies	-	11,296	1,614	3,227	16,137
Dues and subscriptions	-	1,335	42	73	1,450
Legal and professional	-	12,193	26,068	3,785	42,046
Insurance	2,132	6,783	291	484	9,690
Interest	-	-	42,243	-	42,243
Postage and delivery	-	4,255	608	1,216	6,079
Leadership expense	-	6,756	220	367	7,343
Staff development	-	-	220	-	220
Miscellaneous	-	-	55	-	55
Travel	-	44,333	3,213	16,705	64,251
Telephone and communication	-	5,612	3,231	8,163	17,006
Computers and Internet	-	12,735	3,820	8,916	25,471
Recruiting expense	-	20,422	2,553	28,081	51,056
Donations	-	328	11	18	357
Bad debt expense	-	-	60,358	-	60,358
Total expenses before depreciation	434,450	1,141,550	264,043	347,802	2,187,845
Depreciation expense	-	12,702	3,810	8,892	25,404
Total expenses	\$ 434,450	\$ 1,154,252	\$ 267,853	\$ 356,694	\$ 2,213,249

See accompanying notes to the financial statements.

Majella Cares dba Heroic Media

Statement of Cash Flows

For the year ended December 31, 2011

Cash flows from operating activities:	
Change in net assets	\$ 479,531
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	25,404
Net assets transferred from Majella Foundation	129,625
Contribution revenue from forgiveness of notes payable – related party	(1,022,078)
Contribution revenue from forgiveness of payables – Majella Foundation	(838,198)
Change in assets and liabilities:	
Decrease in contributions receivable	4,969
Decrease in prepaid expenses	19,905
Increase in accounts payable and other current liabilities	5,179
Increase in accrued payroll expenses	21,635
Increase in amount due to Majella Foundation	550,146
	<hr/>
Net cash used in operating activities	(623,882)
	<hr/>
Cash flows from investing activities:	
Proceeds from sale of investments, net	6,224
Purchases of property and equipment, net	(54,425)
	<hr/>
Net cash used in investing activities	(48,201)
	<hr/>
Cash flows from financing activities:	
Proceeds from notes payable – related party	258,824
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Net cash provided by financing activities	258,824
	<hr/>
Change in cash and cash equivalents	(413,259)
Cash and cash equivalents, beginning of year	429,813
	<hr/>
Cash and cash equivalents, end of year	<u>\$ 16,554</u>

See accompanying notes to the financial statements.

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 1 – Purpose of Organization

Majella Cares dba Heroic Media (the “Organization”), a Texas non-profit corporation, was incorporated on March 31, 2004 (formerly known as Majella Society until October 9, 2009). The Organization is organized to promote positive life-affirming mass media education campaigns in selected metropolitan areas (currently Austin, Houston, San Antonio, Dallas/Fort Worth, and Midwest USA markets). The Organization conducts research and utilizes educational materials and broadcasts to present its message of a caring and compassionate life-affirming voice by inspiring the heroism of motherhood.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Organization are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

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

Income Taxes

Majella Cares dba Heroic Media is a non-profit corporation as described in Internal Revenue Code (IRC), and is exempt from federal income taxes under IRC Section 501(c)(3) on earnings received for exempt purposes. In addition, under IRC Section 509(a)(1), the Organization is a public charity and, thus, donations to the Organization qualify for the maximum allowable charitable deduction.

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The most significant tax position of the Organization is its determination of whether any amounts are subject to unrelated business income tax (UBIT). Management has determined the Organization had no activities subject to UBIT in the year ended December 31, 2011. All significant tax positions have been considered by management and it has determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

The Organization is required to file the Form 990 (Return of Organization Exempt from Income Tax) which is subject to examination by the Internal Revenue Service (IRS), generally up to three years from the later of the original due date or date the tax return was filed. The Forms 990 for 2010, 2009 and 2008 are open to examination by the IRS as of December 31, 2011.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Financial statement presentation follows the recommendations of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958).

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – These types of net assets are not subject to donor-imposed stipulations. This also includes Board-designated net assets for specific purposes, since these restrictions may be reversed by the Board at anytime in the future.

Temporarily restricted net assets – These types of net assets are subject to donor-imposed stipulations, which limit their use by the Organization to a specific purpose and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Permanently restricted net assets – These types of net assets are subject to donor-imposed stipulations, which require them to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific use.

The Organization did not have any temporarily or permanently restricted net assets as of December 31, 2011.

Cash and Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Contributions Receivable

The Organization reports promises to give (pledges) in accordance with the *Contributions Received* subsection of the FASB ASC 958-605, in which the Organization is required to record unconditional promises to give as revenue when the promise is made. The Organization maintains an allowance for potentially uncollectible pledges using a percentage of outstanding receivables at year-end. When management determines that a receivable is uncollectible the balance is removed from the receivables balance and is charged against the allowance. Subsequent recoveries of amounts previously written off are credited directly to revenues.

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 statement of activities. Investment earnings are reported as an increase in unrestricted net assets in the reporting period in which the income is recognized.

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 2 – Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are capitalized at cost, including costs of significant improvements. Donated fixed assets are recorded at estimated fair value on the date of receipt. Depreciation is computed on a straight-line basis using estimated useful lives of three, five, and seven years for the following categories: machinery & equipment, furniture & fixtures, software, and vehicles.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the statement of activities as net assets released from restrictions.

Donated Services and Materials

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

In addition, the Organization receives donated services from a variety of unpaid volunteers assisting the Organization in its mission. However, no amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such a volunteer effort under the *Contributed Services* subsection FASB ASC 958-605-25 has not been satisfied.

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 2 – Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various promotional programs and other activities of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. Overhead costs have been allocated based on periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Fair Value of Financial Instruments

The Organization follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which relates to the Organization's financial assets and liabilities carried at fair value and the Organization's fair value disclosures related to financial assets and liabilities. FASB ASC 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs.

The Organization's financial instruments consist principally of cash and cash equivalents and investments – other. The Organization believes all of the financial instruments' recorded values approximate current market values due to the short maturity of these instruments.

Subsequent Events Review

These financial statements considered subsequent events through July 2, 2012, the date the financial statements were available to be issued.

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 3 – Contributions Receivable

Contributions receivable has been analyzed and a reasonable allowance for uncollectable contributions has been made. Receivable balances have been discounted to their present values as of December 31, 2011, assuming an interest rate of 2.00%. Net contributions receivable comprised of the following as of December 31, 2011:

Contributions receivable, gross	\$ 284,818
Allowance for uncollectable receivables	(27,707)
Discounts to present value	<u>(1,893)</u>
Contributions receivable, net	<u>\$ 255,218</u>

As of December 31, 2011, future payments on these contributions receivable balances are expected as follows:

Less than one year	\$ 211,559
One to five years	<u>73,259</u>
Contributions receivable, gross	<u>\$ 284,818</u>

Note 4 – Investments – Other

At December 31, 2011, investments – other consist of a money market fund in the amount of \$200.

The following schedule summarizes the investment gains and its classification in the statement of activities for the year ended December 31, 2011:

Realized gains	<u>\$ 373</u>
Total investment gains	<u>\$ 373</u>

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 5 – Temporarily Restricted Net Assets

The Organization had the following temporarily restricted activity during 2011:

	Beginning Balance	Support Received	Released from Restrictions	Ending Balance
Media Expenses in Chicago Market	\$ -	\$ 40,000	\$ (40,000)	\$ -
Billboard Expenses in Austin Market	-	19,500	(19,500)	-
Outstanding Debt Balances in National Market	-	1,022,078	(1,022,078)	-
Outstanding Balances Owed to Majella Foundation	-	838,198	(838,198)	-
	<u>\$ -</u>	<u>\$ 1,919,776</u>	<u>\$ (1,919,776)</u>	<u>\$ -</u>

Note 6 – Property and Equipment

At December 31, 2011, property and equipment consisted of the following:

Machinery & equipment	\$ 46,435
Furniture & fixtures	25,436
Software	76,459
Leasehold improvements	3,100
Total cost	<u>151,430</u>
Less: accumulated depreciation	<u>(91,432)</u>
Property and equipment, net	<u>\$ 59,998</u>

Total depreciation expense was \$25,404 for the year ended December 31, 2011.

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 7 – Related Party Transactions

The Organization shares board members, senior management, office space, staff, and other expenses with Majella Foundation dba Heroic Media (the “Foundation”), an entity organized to promote a positive life-affirming media campaign to new market areas. The books and records of each entity are kept separate. Both the Foundation and the Organization transfer funds between each other as needed for cash flow purposes. During the year ended December 31, 2011, the Foundation forgave all intercompany payables owed by the Organization to the Foundation. The forgiven intercompany payables were reclassified to contribution revenue in the amount of \$838,198 during 2011 which represented approximately 31% of total revenues in 2011.

The Organization shares one board member, senior management, office space, staff, and other expenses with Life Always dba ThatsAbortion.com (“Life Always”), an entity organized to educate the public on life issues through the use of advertising, research and confrontational truth. The books and records of each entity are kept separate. The Organization has an accounts payable due to Life Always in the amount of \$- as of December 31, 2011.

During the year ended December 31, 2011, a member of the Board of Directors loaned \$215,500 in two promissory notes to the Organization. During 2011, the member forgave \$750,000 in two promissory notes created in 2010 and due in 2011 and \$215,500 in two promissory notes created in 2011 and due in 2012. At December 31, 2011, there was no outstanding principal and accrued interest. The forgiven loans were reclassified to contribution revenue, principal plus interest, in the amount of \$1,022,078 during 2011 which represented approximately 38% of total revenues in 2011. If the Organization were to lose funding from this source, it could have a significant effect on the financial statements.

On January 1, 2011, all activities from the Dallas/Fort Worth and Midwest markets were transferred from the Foundation to the Organization. This resulted in \$129,625 of net assets being transferred from the Foundation to the Organization.

Note 8 – Non-Cash Revenues and Expenses

The value of donated services and goods and the corresponding expenditures and assets included in the accompanying financial statements for 2011 are as follows:

Donated goods and services	<u>\$ 17,980</u>
Total donations of gifts in-kind	<u><u>\$ 17,980</u></u>

Majella Cares dba Heroic Media

Notes to Financial Statements

December 31, 2011

Note 9 – Concentration of Credit Risk

Financial instruments which potentially subject the Organization to credit risk principally consist of temporary cash investments and securities. To minimize this risk, the Organization places their cash and securities with high credit quality financial institutions insured by the FDIC and the SIPC. Deposit insurance coverage by the FDIC currently entails (a) unlimited coverage for non-interest bearing bank accounts and (b) \$250,000 per bank per entity for interest-bearing bank accounts under the FDIC general deposit insurance rules. Securities are protected by the SIPC which currently protects brokerage accounts of each entity up to \$500,000 in securities. As of December 31, 2011, temporary cash investments and securities balances in financial institutions were fully insured by the FDIC and SIPC.

Note 10 – Lease Commitments

The Organization is committed under various lease agreements for office space with expiration dates ranging from 2012 through 2014. Rent expense incurred in connection with operating leases was \$66,744 for the year ended December 31, 2011. Future minimum lease payments at December 31, 2011 are as follows:

<i>Year ending December 31,</i>	Amount
2012	\$ 69,644
2013	55,432
2014	38,457
Total	\$ 163,533

Note 11 – Subsequent Events

On June 1, 2012, Kentucky, Missouri, Ohio, and Tennessee were transferred to the Organization from the Foundation due to a change in regional boundaries. These states will now be included in the Organization's Midwest region. The change in regional boundaries did not result in net assets being transferred from the Foundation to the Organization due to there being no net asset balances within each state at the date of the transfer.

Effective January 1, 2012, the Board of Directors of the Organization created a policy to designate 3% of earnings to an endowment fund and 1% of earnings to a legal fund.