

Audited Financial Statements  
Majella Cares dba Heroic Media  
*For the Year Ended June 30, 2012*  
*With Report of Independent Auditors*

Majella Cares dba Heroic Media

Audited Financial Statements

*For the Year Ended June 30, 2012*

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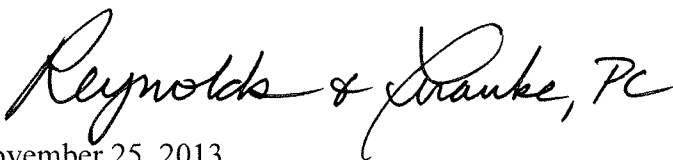
## Report of Independent Auditors

To the Board of Directors of  
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 June 30, 2012, 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 June 30, 2012, 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.



November 25, 2013

Majella Cares dba Heroic Media

Statement of Financial Position

June 30, 2012

**Assets**

Current assets:

Cash and cash equivalents	\$ 27,017
Contributions receivable, net	217,891
Investments – other	200
Total current assets	<u>245,108</u>
Restricted cash	637
Property and equipment, less accumulated depreciation of \$103,119	44,432
Contributions receivable – non-current, net	<u>4,724</u>
Total assets	<u><u>\$ 294,901</u></u>

**Liabilities and Net Assets**

Current liabilities:

Accounts payable and other current liabilities	\$ 79,334
Accrued payroll expenses	25,847
Due to Majella Foundation	328,094
Due to Life Always	1,592
Total current liabilities	<u>434,867</u>
Total liabilities	<u>434,867</u>
Net Assets:	
Unrestricted net assets	(140,603)
Temporarily restricted net assets	637
Total net assets	<u>(139,966)</u>
Total liabilities and net assets	<u><u>\$ 294,901</u></u>

*See accompanying notes to the financial statements.*

# Majella Cares dba Heroic Media

## Statement of Activities

*For the Year Ended June 30, 2012*

Unrestricted revenues:	
Contributions	\$ 529,809
In-kind contributions	268,944
Fundraising event income	14,012
Other income	780
	<hr/>
Total unrestricted revenues	813,545
Net assets released from restrictions	<hr/> 1,938,239
Total revenues, reclassifications, and transfers	<hr/> 2,751,784
Expenses:	
Educational program services	1,119,298
Supporting services	528,988
	<hr/>
Total expenses	1,648,286
Increase in unrestricted net assets	<hr/> 1,103,498
Changes in temporarily restricted net assets:	
Contributions	1,898,876
Net assets released from restrictions	(1,938,239)
Change in temporarily restricted net assets	<hr/> (39,363)
Increase in net assets	1,064,135
Net assets, beginning of the year	<hr/> (1,204,101)
Net assets, end of year	<hr/> <hr/> \$ (139,966)

*See accompanying notes to the financial statements.*

# Majella Cares dba Heroic Media

## Statement of Functional Expenses

*For the Year Ended June 30, 2012*

	Educational Program Services		Support Services		Total
	Media Placement	Research and Events	Administrative	Fundraising	
Production and placement	\$ 467,828	\$ -	\$ -	\$ -	\$ 467,828
Salaries and related expenses	-	393,355	170,454	91,783	655,592
Other personnel expenses	-	10,866	4,708	2,535	18,109
Benefits events	-	85,624	2,792	4,653	93,069
Leadership events	-	2,042	67	111	2,220
Publicity	-	2,491	81	135	2,707
Direct mail	-	11,272	368	613	12,253
Professional services	3,279	5,890	31,846	41,015	82,030
IT expense	-	22,241	6,673	15,569	44,483
Operating expense	-	21,034	3,005	6,010	30,049
Occupancy	2,886	36,420	8,444	14,214	61,964
Travel and meeting	-	19,819	1,802	14,414	36,035
Interest	-	-	20,180	-	20,180
Bank fees and charges	-	-	8,833	-	8,833
Insurance	3,241	10,311	442	737	14,731
Miscellaneous	-	-	(1,546)	-	(1,546)
Gifts-in-kind	-	5,370	-	-	5,370
Bad debt expense	-	-	63,721	-	63,721
Total expenses before depreciation	477,234	626,735	321,870	191,789	1,617,628
Depreciation expense	-	15,329	4,599	10,730	30,658
Total expenses	\$ 477,234	\$ 642,064	\$ 326,469	\$ 202,519	\$ 1,648,286

*See accompanying notes to the financial statements.*

# Majella Cares dba Heroic Media

## Statement of Cash Flows

*For the Year Ended June 30, 2012*

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 1,064,135
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	30,658
Loss on disposals of fixed assets	2,107
Gain on sales of fixed assets	(770)
Contribution revenue from forgiveness of notes payable and accrued interest – related party	(1,022,078)
Contribution revenue from forgiveness of payables – Majella Foundation	(838,198)
Change in assets and liabilities:	
Decrease in contributions receivable	35,000
Decrease in amount due from Life Always	4,001
Decrease in prepaid expenses	7,203
Decrease in accounts payable and other current liabilities	(83,412)
Increase in accrued payroll expenses	9,713
Increase in amount due to Life Always	1,592
Increase in amount due to Majella Foundation	790,510
Net cash used in operating activities	<u>461</u>
<b>Cash flows from investing activities:</b>	
Proceeds from sale of investments, net	2,300
Decrease in restricted cash	39,363
Proceeds from sale of assets	975
Purchases of assets	(661)
Net cash provided by investing activities	<u>41,977</u>
<b>Cash flows from financing activities:</b>	
Proceeds from notes payable – related party	<u>35,666</u>
Net cash provided by financing activities	<u>35,666</u>
Change in cash and cash equivalents	78,104
Cash and cash equivalents, beginning of year	<u>(51,087)</u>
Cash and cash equivalents, end of year	<u>\$ 27,017</u>
<b>Non-cash financing activities:</b>	
Forgiveness of notes payable and accrued interest – related party	<u>1,022,078</u>

*See accompanying notes to the financial statements.*

# Majella Cares dba Heroic Media

## Notes to Financial Statements

*June 30, 2012*

### **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.

The Organization changed their year end from a calendar year to a fiscal year ending June 30<sup>th</sup>. As a result, the full fiscal year ended June 30, 2012 was audited and is included in these financial statements.

### **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 exempt from federal income taxes under Internal Revenue Code 501(c)(3), except to the extent of unrelated business income, if any. 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

June 30, 2012

### 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). The Internal Revenue Service (IRS) considers this “business income” (UBI) unrelated to the Organization’s tax exempt status. The Organization had no UBI for the year ended June 30, 2012, thus, no provision has been included in these financial statements for any federal income tax liability. 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 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 December 31, 2011, 2010, 2009 and 2008 are open to examination by the IRS as of June 30, 2012.

#### 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 any time 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.

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 permanently restricted net assets as of June 30, 2012.

# Majella Cares dba Heroic Media

## Notes to Financial Statements

*June 30, 2012*

### **Note 2 – Summary of Significant Accounting Policies (continued)**

#### **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 – Other**

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. At June 30, 2012, investments – other consist of a money market fund in the amount of \$200.

#### **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.

#### **Date of Management's Review**

These financial statements considered subsequent events through November 25, 2013, the date the financial statements were available to be issued.

# Majella Cares dba Heroic Media

## Notes to Financial Statements

June 30, 2012

### **Note 2 – Summary of Significant Accounting Policies (continued)**

#### **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.

#### **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.

# Majella Cares dba Heroic Media

## Notes to Financial Statements

June 30, 2012

### Note 2 – Summary of Significant Accounting Policies (continued)

#### 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, contributions receivable, investments – other, restricted cash, accounts payable and other current liabilities, due to Majella Foundation, and due to Life Always. The Organization believes all of the financial instruments' recorded values approximate current market values due to the short maturity of these instruments.

#### 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 June 30, 2012, assuming an interest rate of 2.00%. Net contributions receivable comprised of the following as of June 30, 2012:

Contributions receivable, gross	\$	249,288
Allowance for uncollectable receivables		(24,780)
Discounts to present value		<u>(1,893)</u>
Contributions receivable, net	\$	<u>222,615</u>

Majella Cares dba Heroic Media

Notes to Financial Statements

June 30, 2012

**Note 3 – Contributions Receivable (continued)**

As of June 30, 2012, future payments on these contributions receivable balances are expected as follows:

Less than one year	\$ 242,671
One to five years	<u>6,617</u>
Contributions receivable, gross	<u><u>\$ 249,288</u></u>

**Note 4 – Property and Equipment**

At June 30, 2012, property and equipment consisted of the following:

Machinery & equipment	\$ 46,072
Furniture & fixtures	21,920
Software	76,459
Leasehold improvements	<u>3,100</u>
Total cost	147,551
Less: accumulated depreciation	<u>(103,119)</u>
Property and equipment, net	<u><u>\$ 44,432</u></u>

Total depreciation expense was \$30,658 for the year ended June 30, 2012.

**Note 5 – 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 \$60,300 for the year ended June 30, 2012. Future minimum lease payments at June 30, 2012 are as follows:

<i>Year ending June 30,</i>	<b>Amount</b>
2013	\$ 61,231
2014	57,117
2015	14,325
Total	<u><u>\$ 132,673</u></u>

# Majella Cares dba Heroic Media

## Notes to Financial Statements

June 30, 2012

### Note 6 – Temporarily Restricted Net Assets

The Organization had the following temporarily restricted activity during the year ended June 30, 2012:

	Beginning Balance	Support Received	Released from Restrictions	Ending Balance
Media Expenses in Chicago Market	\$ 40,000	\$ -	\$ (40,000)	\$ -
Media Expenses in Dallas Market	-	15,000	(15,000)	-
Billboard Expenses in Austin Market	-	19,500	(19,500)	-
InnerVisions – The Human Choice of Iowa	-	4,100	(3,463)	637
Outstanding Debt Balances in National Market	-	1,022,078	(1,022,078)	-
Outstanding Balances Owed to Majella Foundation	-	838,198	(838,198)	-
	<u>\$ 40,000</u>	<u>\$ 1,898,876</u>	<u>\$ (1,938,239)</u>	<u>\$ 637</u>

### 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. At 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 for the year ended June 30, 2012, which represented approximately 31% of total revenues. The Organization has a balance due to the Foundation in the amount of \$328,094 as of June 30, 2012.

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 \$1,592 as of June 30, 2012.

# Majella Cares dba Heroic Media

## Notes to Financial Statements

*June 30, 2012*

### **Note 7 – Related Party Transactions (continued)**

During the year ended June 30, 2012, a member of the Board of Directors forgave \$965,000 in four promissory notes. At June 30, 2012, 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 the year ended June 30, 2012 which represented approximately 38% of total revenues for the year ended June 30, 2012. If the Organization were to lose funding from this source, it could have a significant effect on the financial statements.

### **Note 8 – 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 Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). Effective December 31, 2010, deposit insurance coverage by the FDIC changed to unlimited coverage for non-interest bearing accounts and \$250,000 per bank per entity for all other accounts. Securities are protected by the SIPC which currently protects brokerage accounts of each entity up to \$500,000 in securities. As of June 30, 2012, temporary cash investments and securities balances in financial institutions were fully insured by the FDIC and SIPC. The Organization has not experienced any losses in such accounts in the past.

Beginning January 1, 2013, deposit insurance coverage by the FDIC changed to \$250,000 per bank per entity for all interest bearing and non-interest bearing accounts.

### **Note 9 – Subsequent Events**

On April 30, 2013, the Board of the Directors of Majella Cares dba Heroic Media (the "Organization") and the Board of Directors of Majella Foundation dba Heroic Media (the "Foundation") decided to consolidate substantially all of the business activities of the respective organizations into the Organization by transferring substantially all of the Foundation's assets. In addition, the Organization assumed all known debts, obligations, and liabilities of the Foundation. As part of the consolidation, the Organization and the Foundation made adjustments to eliminate intra-entity balances.

# Majella Cares dba Heroic Media

## Notes to Financial Statements

*June 30, 2012*

### Note 9 – Subsequent Events (continued)

On April 30, 2013, all asset, liabilities, and net assets were transferred from the Foundation to the Organization with the exception of \$8,621 cash and cash equivalents and \$8,621 unrestricted net assets. Below is unaudited financial information relating to assets, liabilities, and net assets of the Organization and the Foundation as of April 30, 2013, prior to the consolidation.

	<b>Organization (Unaudited)</b>	<b>Foundation (Unaudited)</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 309,437	\$ 8,621
Pledges receivable	93,174	56,785
Accounts receivable	18,850	-
Property and equipment, less accumulated depreciation	25,461	32,656
Total assets	\$ 446,922	\$ 98,062
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 162,062	\$ 32,718
Accrued payroll expenses	41,966	27,055
Other liabilities	-	15,000
Notes payable	-	697,934
Due to/from other organizations	433,416	(432,663)
Total liabilities	637,444	340,044
<b>Net assets:</b>		
Unrestricted net assets	(746,981)	(895,579)
Temporarily restricted net assets	556,459	653,597
Total net assets	(190,522)	(241,982)
Total liabilities and net assets	\$ 446,922	\$ 98,062



## Majella Cares dba Heroic Media

### Notes to Financial Statements

*June 30, 2012*

#### **Note 9 – Subsequent Events (continued)**

During May 2013, a Board member forgave three loans, which were originally to Majella Foundation dba Heroic Media and transferred to the Organization on April 30, 2013, totaling \$697,934. The Board member agreed to the forgiveness of the three loans under the condition that Heroic Media Foundation (a newly created 501(c)(3) affiliated non-profit organization) establishes a plan to fund an endowment under the Organization equal to the “repayment” of the forgiven notes including principal of \$697,934 plus interest at 6% over 7 years. The “repayment” of the forgiven notes plus interest is to be funded with unrestricted contributions received by Heroic Media Foundation. In addition to providing the endowment with funds equivalent to the “repayment” of the forgiven loans, Heroic Media Foundation is also to raise funds specifically for the purpose of funding the endowment equal to the forgiven notes of \$697,934. The endowment fund will be held by the Organization and is estimated to reach approximately \$1.5 million at the end of the 7 years.