



HEART TO HEART INTERNATIONAL, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014



Mayer
Hoffman
McCann P.C.
An Independent CPA Firm



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

HEART TO HEART INTERNATIONAL, INC.

We have audited the accompanying financial statements of Heart to Heart International, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 Heart to Heart International, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive script.

Kansas City, Missouri
September 16, 2016



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HEART TO HEART INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	2015	2014
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 933,603	\$ 787,548
Accounts receivable	103,072	256,670
Pledges receivable, current portion	25,000	125,000
Grant receivable	-	898,916
Notes receivable, current portion	50,000	-
Inventory	9,286,864	23,811,751
Other current assets	23,041	115,222
	10,421,580	25,995,107
TOTAL CURRENT ASSETS	10,421,580	25,995,107
PLEDGES RECEIVABLE, less current portion above	22,417	41,470
NOTES RECEIVABLE, less current portion above	44,205	-
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	748,214	1,362,622
INVESTMENTS	66,369	67,241
TOTAL ASSETS	\$ 11,302,785	\$ 27,466,440
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 128,914	\$ 563,981
Accrued liabilities	257,499	249,417
Line of credit	249,442	150,000
Current portion of capital lease	12,654	-
Current portion of long-term debt	241,217	64,074
TOTAL CURRENT LIABILITIES	889,726	1,027,472
CAPITAL LEASE, less current portion above	39,091	-
LONG-TERM DEBT, less current portion above	475,633	988,714
TOTAL LIABILITIES	1,404,450	2,016,186
<u>NET ASSETS</u>		
UNRESTRICTED NET ASSETS	9,174,465	24,401,212
TEMPORARILY RESTRICTED NET ASSETS	657,501	981,801
PERMANENTLY RESTRICTED NET ASSETS	66,369	67,241
TOTAL NET ASSETS	9,898,335	25,450,254
TOTAL LIABILITIES AND NET ASSETS	\$ 11,302,785	\$ 27,466,440

See Notes to Financial Statements

HEART TO HEART INTERNATIONAL, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>UNRESTRICTED SUPPORT AND REVENUE</u>		
Gifts in kind	\$ 120,249,447	\$ 95,109,406
Contributions	732,281	1,096,432
Donated shipping	1,017,564	867,995
Governmental and corporate grants	3,553,800	1,849,759
Program revenue	810,554	734,166
Investment income	4,145	596
Gain on currency conversion	13,467	21,900
Gain (loss) on sale of assets	(48,174)	18,730
Other income	8,177	-
Net assets released from restrictions	<u>2,559,137</u>	<u>1,725,211</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	<u>128,900,398</u>	<u>101,424,195</u>
<u>EXPENSES</u>		
Program services - international	139,687,251	82,400,852
Program services - domestic	2,192,894	3,568,481
General and administrative	795,044	718,734
Fundraising and public relations	<u>631,297</u>	<u>567,397</u>
TOTAL EXPENSES	<u>143,306,486</u>	<u>87,255,464</u>
CHANGES IN UNRESTRICTED NET ASSETS	<u>(14,406,088)</u>	<u>14,168,731</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Contributions	1,485,143	1,402,414
Governmental and corporate grants	749,694	247,826
Net assets released from restrictions	<u>(2,559,137)</u>	<u>(1,725,211)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	<u>(324,300)</u>	<u>(74,971)</u>
<u>PERMANENTLY RESTRICTED NET ASSETS</u>		
Investment income (loss)	<u>(872)</u>	<u>1,373</u>
CHANGES IN NET ASSETS BEFORE INVENTORY VALUATION ADJUSTMENT	(14,731,260)	14,095,133
INVENTORY VALUATION ADJUSTMENT	<u>(820,659)</u>	<u>(1,511,530)</u>
CHANGES IN NET ASSETS	(15,551,919)	12,583,603
NET ASSETS, BEGINNING OF YEAR	<u>25,450,254</u>	<u>12,866,651</u>
NET ASSETS, END OF YEAR	<u>\$ 9,898,335</u>	<u>\$ 25,450,254</u>

See Notes to Financial Statements

HEART TO HEART INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

	<u>Program Services</u>		<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
	<u>International Projects</u>	<u>Domestic Projects</u>			
Distributed aid	\$ 675,225	\$ 6,584	\$ -	\$ -	\$ 681,809
Donated medical services	407,844	27,691	-	-	435,535
Donated shipping	1,016,424	1,140	-	-	1,017,564
Insurance	33,850	8,397	9,401	7,793	59,441
Interest	60,806	5,960	11,376	25,138	103,280
Maintenance and repairs	98,236	11,026	6,295	2,345	117,902
Medical and contract services	938,699	13,912	3,176	15,899	971,686
Office	328,373	10,101	16,438	59,586	414,498
Postage and shipping	119,976	15,722	4,915	11,285	151,898
Printing	16,040	698	6,027	44,259	67,024
Professional fees	26,312	10,521	18,462	3,414	58,709
Publicity	11,596	-	169	10,239	22,004
Rent	468,814	52,981	55,286	13,039	590,120
Salaries and benefits	2,301,486	204,611	637,954	314,391	3,458,442
Special events	8,576	-	-	63,610	72,186
Staff development	22,963	219	154	2,796	26,132
Telephone	84,235	3,403	5,320	3,498	96,456
Travel and meals	1,377,497	23,229	10,328	22,795	1,433,849
Expenses before depreciation and gifts-in-kind distribution	7,996,952	396,195	785,301	600,087	9,778,535
Depreciation	95,753	14,540	9,743	31,210	151,246
Gifts-in-kind distribution	131,594,546	1,782,159	-	-	133,376,705
TOTAL EXPENSES	\$ 139,687,251	\$ 2,192,894	\$ 795,044	\$ 631,297	\$ 143,306,486

See Notes to Financial Statements

HEART TO HEART INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014

	Program Services		General and Administrative	Fundraising	Total
	International Projects	Domestic Projects			
Customs and fees	\$ 11,741	\$ 4,251	\$ 10,794	\$ 37,055	\$ 63,841
Distributed aid	206,194	14,579	-	-	220,773
Donated medical services	926,057	23,076	-	-	949,133
Donated shipping	751,770	116,225	-	-	867,995
Insurance	3,061	6,034	21,751	80	30,926
Interest	50,237	3,333	504	1,271	55,345
Maintenance and repairs	26,425	4,019	1,779	263	32,486
Medical and contract services	434,136	196	87,142	3,638	525,112
Office	266,297	2,048	24,558	52,836	345,739
Postage and shipping	70,819	397	2,547	20,047	93,810
Printing	22,721	381	811	39,342	63,255
Professional fees	20,294	-	73,116	-	93,410
Publicity	5,467	-	-	3,527	8,994
Rent	254,968	11,768	30,171	19,450	316,357
Salaries and benefits	1,392,353	77,194	439,850	331,123	2,240,520
Special events	5,471	-	1,572	13,719	20,762
Staff development	9,911	161	-	1,196	11,268
Telephone	65,588	596	19,499	2,942	88,625
Travel and meals	829,396	11,076	4,503	13,963	858,938
Expenses before depreciation and gifts-in-kind distributed	5,352,906	275,334	718,597	540,452	6,887,289
Depreciation	147,945	10,521	137	26,945	185,548
Gifts-in-kind distribution	76,900,001	3,282,626	-	-	80,182,627
TOTAL EXPENSES	\$ 82,400,852	\$ 3,568,481	\$ 718,734	\$ 567,397	\$ 87,255,464

See Notes to Financial Statements

HEART TO HEART INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (15,551,919)	\$ 12,583,603
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	151,246	185,548
(Gain) loss on disposal of assets	48,687	(18,100)
Realized and unrealized (gain) loss on investments	872	(1,373)
Decrease (increase) in operating assets		
Inventory	14,524,887	(12,664,958)
Accounts receivable	153,598	(251,387)
Pledges receivable, current portion	119,053	162,755
Grant receivable	898,916	(898,916)
Other current assets	92,181	(115,222)
Increase (decrease) in operating liabilities		
Accounts payable	(435,067)	491,470
Accrued liabilities	8,082	149,065
NET CASH FLOWS FROM OPERATING ACTIVITIES	10,536	(377,515)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(94,301)	(165,539)
Notes receivable	50,000	-
Proceeds from sale of property and equipment	30,636	131,248
NET CASH FLOWS FROM INVESTING ACTIVITIES	(13,665)	(34,291)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net activity on line of credit	99,442	150,000
Repayment of long-term debt	(38,167)	(929,297)
Proceeds from long-term debt	100,000	894,000
Principal payments on capital lease	(12,091)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	149,184	114,703
NET CHANGE IN CASH AND CASH EQUIVALENTS	146,055	(297,103)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	787,548	1,084,651
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 933,603	\$ 787,548
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Addition of notes receivable through the sale of warehouse (Note 3)	\$ 144,205	\$ -
Reduction of notes payable through sale of warehouse (Note 8)	\$ (397,771)	\$ -
Purchase of property and equipment with capital lease (Note 9)	\$ 63,836	\$ -

See Notes to Financial Statements

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization – Heart To Heart International, Inc. (the Organization), a Kansas non-profit corporation, provides crisis response assistance and specific ongoing health care support to communities in need domestically and internationally. The Organization actively engages the services of volunteers through its initiatives, and it distributes medical supplies, pharmaceuticals and other products to other relief agencies and communities in need.

The Organization currently operates and supports more than a dozen clinics in Haiti. The Organization responded after the earthquake in January 2010 and continues to work towards healthier communities in Haiti – providing continuing medical education and other needs in Haiti.

The Organization was awarded a grant from the United States Agency for International Development (USAID) in December 2014 to operate an Ebola treatment unit in Liberia. The grant totaled \$7,001,161 for reimbursement of operating expenses through March 31, 2015. The Organization subsequently requested extensions to the date of grant with no request for an increase in funding to support operations after the end of the original grant term. These requests were approved by USAID initially through May 31, 2015, and subsequently through July 31, 2015, at which time the project was completed.

The Organization's donor base for cash contributions primarily consists of individuals, businesses, civic groups and foundations located throughout the United States. Gifts-in-kind are also received primarily from medical supply and pharmaceutical companies located throughout the United States.

Basis of accounting – The Organization's financial statements are prepared on the accrual basis of accounting.

Basis of presentation – In accordance with the limitations, designations and restrictions placed on the use of resources available to the Organization, the following classifications are utilized according to the nature and purpose of the resources:

- Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Organization's Board of Directors.
- Temporarily restricted net assets: Net assets whose use by the Organization is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Amounts received that are restricted for future periods or restricted by the donor for specific purposes are reported as temporarily restricted. Temporarily restricted net assets are released from restriction when the expenses are incurred for their designated purpose.
- Permanently restricted net assets: Net assets subject to donor-imposed stipulations and those which are interpreted by the Board of Directors that are maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on these assets. Earnings on permanently restricted net assets that are to be expended in accordance with the desires of donors are recorded as temporarily restricted net assets. Once expenses are incurred for their donor-restricted purpose, the earnings are released from restriction.

Cash and cash equivalents - Cash and cash equivalents consist of available cash balances on deposit at financial institutions and short-term money market investments.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Concentration of risk – The Organization maintains its cash balances in two financial institutions located in the greater Kansas City, Kansas area. The Organization's domestic cash accounts are fully insured by the Federal Deposit Insurance Corporation. Effective January 1, 2013, these accounts were insured up to \$250,000 per bank. The Organization also has checking accounts in Haiti that are uninsured. Accordingly, at December 31, 2015 and 2014, the Organization's uninsured cash and cash equivalents amounts to \$468,964 and \$392,313, respectively.

Income taxes – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a not-for-profit organization. In addition, the Organization has been classified as a publicly-supported organization which is not a private foundation within the meaning of Section 509(a)(1) of the Code. Accordingly, no provision has been made for Federal income tax.

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at December 31, 2015 or 2014, as management does not believe any material uncertainties exist.

Inventory – Purchased inventory is recorded at the lower of cost or market and is valued on a first-in, first-out basis. Donated inventory is recorded at the fair value of the donated goods at the date of donation based upon the estimated wholesale value of gifts received (as further described in Note 1 under "Revenue Recognition"). The inventory is not available for sale. The Organization records a loss for the decrease in value of any slow-moving or expired inventory.

Investments – The Organization carries its investments at their fair values. Unrealized gains and losses are included in the change in net assets.

Property and equipment – Property and equipment are stated at cost or the fair market value at date of gift for donated assets, less accumulated depreciation. If a donor stipulates how long the assets must be used, the contribution is recorded as restricted support. In the absence of such stipulation, a contribution of property and equipment is recorded as unrestricted support. Maintenance and repairs are charged to expense as incurred. When items of property and equipment are sold or retired, the related cost is removed from the accounts and any gain or loss is included in the results of operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Building and improvements	15 – 39 years
Furniture and equipment	5 – 7 years
Computer equipment	3 – 5 years
Leasehold improvements	3 years
Vehicles	3 – 10 years

Fair value of financial instruments – The carrying amounts of financial instruments including cash and cash equivalents, receivables, notes receivables, accounts payable and accrued liabilities approximated fair values as of December 31, 2015 and 2014 due to their short-term nature. The carrying amount of notes payable approximated fair value due to similar available terms.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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. The significant estimates used in the Organization's financial statements include the valuation of gift-in-kind contributions and related inventory, the allocation of expenses on a functional basis to various program services and supporting activities and the estimated useful lives used to depreciate property and equipment.

Gifts-in-kind: Donated shipping – The Organization recorded \$1,017,564 and \$867,995 in shipping expense for overseas and domestic freight during the years ended December 31, 2015 and 2014, respectively. The donated shipping is also included as revenue in unrestricted support and revenue.

Revenue recognition – Cash and gift-in-kind contributions are received from individuals as well as domestic and multinational organizations. These contributions, including unconditional promises, are recognized as revenues when the donor's unconditional commitment is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

The Organization receives donations of medical supplies and other goods for use in its programs. These donations are recorded at their estimated fair value based upon the Organization's estimate of the wholesale values that would be received for selling the goods in their principal market, considering their condition and utility for use at the time the goods are donated. Several methodologies are used in the determination of estimated wholesale value, including values provided by the donor, published industry pricing guides, internally-researched values, and internal average values for like-kind items.

A number of unpaid volunteers have made significant contributions of their time to the activities of the Organization without compensation. The Organization receives many volunteer hours from a variety of skilled personnel such as doctors, nurses and other specialists. The value of these donated services that meets the criteria for recognition is reported as donated services in the accompanying statement of activities. These amounts are reflected at fair value in the financial statements which amounted to \$435,535 and \$949,133 for the years ended December 31, 2015 and 2014, respectively. In addition, approximately 14,900 and 18,200 volunteer hours were provided to the Organization during the years ended December 31, 2015 and 2014 for which no value has been assigned. Contributed service time meets the criteria to be recorded in the financial statements if it requires specialized skills, the service is being provided by an individual who possesses those skills and if the service would typically need to be purchased if not contributed.

Functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statements of functional expenses. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source. Direct benefit to donor costs have been included in fundraising costs on the statement of functional expenses as the associated costs are not material in relation to the financial statements taken as a whole.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Reclassification – Certain items in the 2014 financial statements have been reclassified to conform to the 2015 financial statement presentation with no effect on the net assets or changes in net assets, to conform with current year presentation.

(2) Unconditional promises to give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. The discount rate used in valuing unconditional promises to give was 4%. Amortization of the discounts is included in contribution revenue.

	2015	2014
In less than one year	\$ 25,000	\$ 125,000
In one to five years	25,000	50,000
	50,000	175,000
Less present value discount	(2,583)	(8,530)
Total unconditional promises to give	\$ 47,417	\$ 166,470

(3) Notes receivable

The Organization entered into three promissory notes receivable in the amount of \$50,000 each that were given as value for disposed building improvements in 2015. The discounts on those amounts are computed using the imputed interest rate of 5.25%. In December 2015, one of the notes receivable was paid in full in the amount of \$50,000. The Organization's notes receivable consist of the following:

	2015	2014
Note receivable, principal without interest, due on December 1, 2016.	\$ 50,000	\$ -
Note receivable, principal without interest, due on December 1, 2017.	50,000	-
Total notes receivable	\$ 100,000	\$ -

	2015	2014
In less than one year	\$ 50,000	\$ -
In one to five years	50,000	-
	100,000	-
Less present value discount	(5,795)	-
Total notes receivable	\$ 94,205	\$ -

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(4) Inventory

Inventory consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Pharmaceutical supplies	\$ 6,439,734	\$ 20,181,248
Medical and other supplies	<u>2,847,130</u>	<u>3,630,503</u>
Total inventory	<u>\$ 9,286,864</u>	<u>\$ 23,811,751</u>

(5) Fair value measurements of assets and liabilities

FASB Accounting Standards Codification 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10), requires additional disclosures as part of the financial statements. ASC 820-10 establishes 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. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth information about the level within the fair value hierarchy at which the Organization's financial assets and liabilities were measured on a recurring basis at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Trading securities	\$ 52,447	\$ -	\$ -	\$ 52,447
Beneficial interest in community foundation	<u>-</u>	<u>-</u>	<u>13,922</u>	<u>13,922</u>
Total assets - recurring basis	<u>\$ 52,447</u>	<u>\$ -</u>	<u>\$ 13,922</u>	<u>\$ 66,369</u>

The following table sets forth information about the level within the fair value hierarchy at which the Organization's financial assets and liabilities were measured on a recurring basis at December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Trading securities	\$ 53,075	\$ -	\$ -	\$ 53,075
Beneficial interest in community foundation	<u>-</u>	<u>-</u>	<u>14,166</u>	<u>14,166</u>
Total assets - recurring basis	<u>\$ 53,075</u>	<u>\$ -</u>	<u>\$ 14,166</u>	<u>\$ 67,241</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Fair value measurements of assets and liabilities (continued)

The management of the Organization endeavors to utilize the best available information in measuring fair value. Fair value for the Organization's trading securities was determined by using Level 1 valuation methods. Fair value for the Organization's interest in the common funds of a community foundation was determined using Level 3 valuation methods. The Level 3 investments were based upon stated values obtained from a community foundation.

(6) Investments

Investments consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Equity securities	\$ 30,667	\$ 8,485
Fixed income	4,926	4,988
Stock and bond mutual funds	-	22,919
Money market funds	<u>30,776</u>	<u>30,849</u>
Total investments	<u>\$ 66,369</u>	<u>\$ 67,241</u>

Investment return is as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 4,145	\$ 596
Realized and unrealized gains on investments	<u>(872)</u>	<u>1,373</u>
Total investment return	<u>\$ 3,273</u>	<u>\$ 1,969</u>

(7) Property and equipment

Property and equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Cost		
Land	\$ 86,000	\$ 161,000
Buildings	344,000	344,000
Warehouse	-	575,000
Building improvements	173,731	664,485
Furniture and equipment	253,003	235,503
Computer equipment	533,005	506,972
Construction in process	-	51,500
Vehicles	<u>446,802</u>	<u>488,430</u>
Total cost	1,836,541	3,026,890
Accumulated depreciation	<u>1,088,327</u>	<u>1,664,268</u>
Net property and equipment	<u>\$ 748,214</u>	<u>\$ 1,362,622</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(8) Long-term debt

The Organization's obligation under notes payable consists of the following:

	2015	2014
Note payable, secured by real property, monthly payments of \$5,038, including interest at 5.24%, with a final balloon payment in the amount of \$292,530 due February 2019.	\$ 417,850	\$ 725,688
Note payable, secured by real property, monthly payments of \$2,892, including interest at 5.74%. The note payable was paid in full in February 2015.	-	128,100
Note payable, secured by real property, interest only payments at 5.5%. This note payable was paid in full subsequent to December 31, 2015.	199,000	199,000
Note payable, secured by real property, monthly payments of \$646, including interest at 4.75%, with a final balloon payment in the amount of \$83,397 due December 2020.	100,000	-
Total debt	716,850	1,052,788
Less current portion	(241,217)	(64,074)
Non-current debt	\$ 475,633	\$ 988,714

The maturity schedule below includes the effects of this payoff that occurred subsequent to December 31, 2015, but prior to the issuance of the financial statements.

Years ending December 31,

2016	\$ 42,236
2017	44,560
2018	46,966
2019	297,295
2020	86,793
Total	\$ 517,850

The total amount of interest paid during the years ended December 31, 2015 and 2014 was \$45,925 and \$55,345, respectively.

The Organization has available a line of credit up to \$250,000 with a bank at an interest rate at 5.25%. Outstanding principal and unpaid interest are due in one payment on December 4, 2016. The balance on this line of credit was \$249,442 and \$150,000 as of December 31, 2015 and 2014, respectively.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(9) Capital lease obligation

The capital lease obligation consists of the:

	2015	2014
Capital lease obligation for dice alarm (A)	\$ 10,156	\$ -
Capital lease obligation for pallet racking (B)	41,589	-
Total capital lease obligation	51,745	-
Less current portion	12,654	-
Non-current debt	\$ 39,091	\$ -

(A) Payable in 63 monthly installments of \$188.08 with a maturity date of June 1, 2020.

(B) Payable in 60 monthly installments of \$866.45 with a maturity date of January 25, 2020.

Leased property under the capital lease includes:

	2015	2014
Equipment included in property and equipment	\$ 63,836	\$ -
Less accumulated amortization	(12,091)	-
Total leased property under capital lease	\$ 51,745	\$ -

Future minimum lease payments under the capital lease obligation are as follows:

Years ending December 31,

2016	\$ 12,654
2017	12,654
2018	12,654
2019	12,654
2020	1,129
Total	\$ 51,745

(10) Leases

The Organization leases office space and certain office equipment under operating leases through June 2022. Lease expense totaled \$301,560 and \$78,207 for the years ended December 31, 2015 and 2014, respectively. The future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year are as follows:

Years ending December 31,

2016	\$ 266,244
2017	268,806
2018	271,368
2019	240,929
2020	179,688
Thereafter	269,532
Total	\$ 1,496,567

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(11) Restricted net assets

Restricted net assets consist of funds held for the following purposes:

	<u>2015</u>	<u>2014</u>
Temporarily Restricted Net Assets:		
Care Kits	\$ 159,182	\$ 91,748
Shipping Grant	136,090	-
Global Crisis Response	-	6,675
Joplin, Missouri	-	470,280
Liberia, Africa	-	335,230
Nepal	251,302	-
Papua New Guinea	-	77,868
Power Serve	74,535	-
U.S. Programs	36,392	-
	<u>\$ 657,501</u>	<u>\$ 981,801</u>
	<u>2015</u>	<u>2014</u>
Permanently Restricted Net Assets:		
Heart to Heart International Endowment Fund	\$ 13,922	\$ 14,166
Staff Development	2,000	2,000
General	50,447	51,075
	<u>\$ 66,369</u>	<u>\$ 67,241</u>

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors were as follows:

	<u>2015</u>	<u>2014</u>
Net Assets Released from Temporary Restrictions:		
Care Kits	\$ 77,366	\$ 36,552
General Disaster	118,276	264,892
Global Crisis Response	114,372	244,209
Haiti	1,255,265	1,118,706
Joplin, Missouri	470,280	378
Liberia, Africa	374,685	-
Power Serve	101,965	-
U.S. Programs	46,928	60,474
	<u>\$ 2,559,137</u>	<u>\$ 1,725,211</u>

(12) Endowment fund

The Organization has contributed total assets of \$13,922 and \$14,166 as of December 31, 2015 and 2014, respectively, to The Greater Kansas City Community Foundation and Affiliated Trusts (the Foundation), which established the Heart to Heart International Endowment Fund (the Fund). The purpose of the fund is to serve as an endowment for the Organization and its successors, with the annual net income to be distributed to the Organization. The Fund is donor-advised, whereby the Foundation seeks input from the Organization regarding distribution of grants from the principal. The assets are refundable to the Organization upon request.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(13) Significant gift-in-kind contributors

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. One company provided approximately 79% and 85% of the gifts-in-kind contributions in the years ended December 31, 2015 and 2014, respectively.

(14) Concentrations of risk

The Organization provides crisis response assistance to support communities, both domestically and internationally, and relies on contributions from its donor base to assist in crisis response activities. The Organization is subject to risks from changes in economic conditions and the occurrence of natural and worldwide disasters. A downturn in the economy or a lack of natural disasters could cause a decrease in contributions.

(15) Plans for future operations

During the year ended December 31, 2015, the Organization experienced a decrease in net assets of \$15,551,919, due primarily to the timing of the receipts and distributions of gifts in kind and other programmatic activities. However, the Organization experienced a positive cash flow from operating activities of \$10,536.

Individual donations, a significant component of contribution revenue, have historically fluctuated with the number of disasters occurring throughout the world. Since the Nepal earthquake in early 2015, the Organization has not had the opportunity to conduct large scale disaster responses and individual donations have been, as a result, lacking.

In early 2016, the Organization began a program called PowrServ. This program is designed to increase its supply of hygiene kits, an essential product needed in response to disasters. Businesses and other organizations across the United States offer these kit-building events to their employees so that they can have a "hands-on" humanitarian experience. These events are priced to create a small margin which is used to help offset the administrative costs of the Organization. In the second half of 2016, the Organization has seen significant growth in PowrServ events. Management believes PowrServ is on track to meet its three year goal of covering the administrative costs of the Organization.

In addition, the Organization has focused on reducing operating costs. Subsequent to December 31, 2015, the Organization implemented a reduction in its workforce to better match the Organization's limited "non-disaster" income with ongoing expenses, along with striving for more efficiencies in operations overall. While it will take some time to create these efficiencies, the Organization expects to continue its operations unimpeded into the foreseeable future.

(16) Subsequent events

The Organization has evaluated subsequent events through September 16, 2016, which is the date the financial statements were available to be issued. No significant matters, except as disclosed in Note 8, were identified for disclosure during this evaluation.