HEART TO HEART INTERNATIONAL, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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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. (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 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 auditors consider internal control relevant to the Organization'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 Organization'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, 2017 and 2016, and the changes in net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
July 18, 2018

HEART TO HEART INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,842,555	$ 1,312,400
Certificates of deposit	466,304	125,421
Investments	41,714	37,937
Accounts receivable	9,018	5,274
Pledges receivable, current portion	-	75,000
Grants receivable, current portion	224,169	154,972
Notes receivable, current portion	-	50,000
Inventory	37,792,141	7,201,291
Other current assets	65,095	27,032
TOTAL CURRENT ASSETS	44,440,996	8,989,327
GRANTS RECEIVABLE, less current portion above	199,207	285,707
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	1,014,816	749,069
TOTAL ASSETS	$ 45,655,019	$ 10,024,103
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 41,101	$ 65,335
Accrued liabilities	247,867	183,452
Deferred revenue	-	230,566
Line of credit	-	249,442
Capital lease, current portion	-	12,654
Long-term debt, current portion	43,906	44,890
TOTAL CURRENT LIABILITIES	332,874	786,339
CAPITAL LEASE, less current portion above	-	26,493
LONG-TERM DEBT, less current portion above	292,763	430,390
TOTAL LIABILITIES	625,637	1,243,222
NET ASSETS		
UNRESTRICTED NET ASSETS	41,106,535	7,659,632
TEMPORARILY RESTRICTED NET ASSETS	3,851,238	1,053,287
PERMANENTLY RESTRICTED NET ASSETS	71,609	67,962
TOTAL NET ASSETS	45,029,382	8,780,881
TOTAL LIABILITIES AND NET ASSETS	$ 45,655,019	$ 10,024,103

See Notes to Financial Statements

HEART TO HEART INTERNATIONAL, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2017 and 2016

	2017	2016
UNRESTRICTED SUPPORT AND REVENUE		
Gifts in kind	$ 127,219,274	$ 70,504,302
Contributions	1,959,735	2,666,256
Donated shipping	1,562,693	1,955,218
Governmental and corporate grants	1,772,072	986,394
Program revenue	1,270,466	952,958
Investment income	2,915	4,300
(Loss)/gain on currency conversion	(1,008)	20,531
Gain on sale of assets	7,660	-
Other income	2,197	5,795
Net assets released from restrictions	4,385,875	1,159,836
TOTAL UNRESTRICTED SUPPORT AND REVENUE	138,181,879	78,255,590
EXPENSES		
Program services - international	97,057,940	73,360,695
Program services - domestic	4,951,850	3,144,564
Total Program services	102,009,790	76,505,259
General and administrative	470,412	998,377
Fundraising and public relations	255,474	400,458
Total Supporting services	725,886	1,398,835
TOTAL EXPENSES	102,735,676	77,904,094
CHANGES IN UNRESTRICTED NET ASSETS	35,446,203	351,496
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	3,962,981	850,919
Governmental and corporate grants	3,220,845	704,703
Net assets released from restrictions	(4,385,875)	(1,159,836)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	2,797,951	395,786
PERMANENTLY RESTRICTED NET ASSETS		
Investment income	3,647	1,593
CHANGES IN NET ASSETS BEFORE INVENTORY VALUATION ADJUSTMENT	38,247,801	748,875
INVENTORY VALUATION ADJUSTMENT	(1,999,300)	(1,866,329)
CHANGES IN NET ASSETS	36,248,501	(1,117,454)
NET ASSETS, BEGINNING OF YEAR	8,780,881	9,898,335
NET ASSETS, END OF YEAR	$ 45,029,382	$ 8,780,881

See Notes to Financial Statements

HEART TO HEART INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Program Services			Fundraising	
	International Projects	Domestic Projects	General and Administrative	and Public Relations	Total
Distributed aid	$ 240,072	$ 260,490	$ -	$ -	$ 500,562
Donated medical and other services	138,056	775,192	-	-	913,248
Donated shipping	897,718	664,975	-	-	1,562,693
Insurance	32,070	20,680	6,385	855	59,990
Interest, fees, and bank charges	22,389	29,743	14,964	28,774	95,870
Maintenance and repairs	127,149	10,283	3,116	726	141,274
Medical and contract services	1,274,025	111,824	3,226	21,927	1,411,002
Office	191,466	102,655	12,835	53,785	360,741
Postage and shipping	15,015	47,393	-	2,848	65,256
Printing	2,485	17,435	93	19,849	39,862
Professional fees	4,658	10,990	17,246	409	33,303
Publicity	665	1,939	-	924	3,528
Rent	198,071	127,154	18,355	11,120	354,700
Salaries and benefits	743,484	831,443	307,784	92,604	1,975,315
Special events	3,156	1,718	1,401	7,022	13,297
Staff development	-	-	137	20	157
Telephone	51,579	15,415	2,777	575	70,346
Travel and meals	679,172	545,805	10,701	14,036	1,249,714
Other	24,506	10,000	-	-	34,506
Expenses before depreciation and gifts-in-kind distribution	4,645,736	3,585,134	399,020	255,474	8,885,364
Depreciation	29,913	5,323	71,392	-	106,628
Gifts-in-kind distribution	92,382,291	1,361,393	-	-	93,743,684
TOTAL EXPENSES	$ 97,057,940	$ 4,951,850	$ 470,412	$ 255,474	$ 102,735,676
	94.47%	4.82%	0.46%	0.25%	100.00%

See Notes to Financial Statements

HEART TO HEART INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	Program Services			Fundraising	
	International Projects	Domestic Projects	General and Administrative	and Public Relations	Total
Distributed aid	$ 252,706	$ 31,065	$ -	$ -	$ 283,771
Donated medical and other services	194,532	62,722	15,688	-	272,942
Donated shipping	418,332	1,536,886	-	-	1,955,218
Insurance	12,011	10,014	33,391	645	56,061
Interest, fees, and bank charges	35,642	10,314	35,151	22,989	104,096
Maintenance and repairs	19,493	3,374	4,116	50	27,033
Medical and contract services	947,483	91,661	4,641	13,702	1,057,487
Office	158,380	29,322	21,845	61,699	271,246
Postage and shipping	12,756	2,832	1,182	10,793	27,563
Printing	8,746	14,445	-	37,821	61,012
Professional fees	2,000	7,297	31,001	-	40,298
Publicity	1,498	850	92	3,485	5,925
Rent	202,070	54,445	51,339	9,590	317,444
Salaries and benefits	851,804	273,792	665,112	169,930	1,960,638
Special events	13,557	30,276	903	54,508	99,244
Staff development	4,482	-	5,698	-	10,180
Telephone	63,115	1,564	15,228	98	80,005
Travel and meals	595,089	82,549	15,396	15,148	708,182
Expenses before depreciation and gifts-in-kind distribution	3,793,696	2,243,408	900,783	400,458	7,338,345
Depreciation	35,472	-	97,594	-	133,066
Gifts-in-kind distribution	69,531,527	901,156	-	-	70,432,683
TOTAL EXPENSES	$ 73,360,695	$ 3,144,564	$ 998,377	$ 400,458	$ 77,904,094
	94.17%	4.04%	1.28%	0.51%	100.00%

HEART TO HEART INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 36,248,501	$ (1,117,454)
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	106,628	133,066
Gain on sale of assets	(7,660)	-
Realized and unrealized gain on investments	(3,777)	(1,593)
Discount on note receivable	-	(5,795)
Donated property and equipment	(7,466)	(75,000)
Decrease (increase) in operating assets		
Inventory	(30,590,850)	2,085,573
Accounts receivable	(3,744)	97,798
Pledges receivable	75,000	(27,583)
Grant receivable	17,303	(440,679)
Other current assets	(38,063)	(3,991)
Increase (decrease) in operating liabilities		
Accounts payable	(24,234)	(63,579)
Accrued liabilities	64,415	(74,047)
Deferred revenue	(230,566)	230,566
NET CASH FLOWS FROM OPERATING ACTIVITIES	5,605,487	737,282
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(369,249)	(58,921)
Proceeds from notes receivable	50,000	50,000
Proceeds from sale of property and equipment	12,000	-
Purchase of certificates of deposit	(340,883)	(125,421)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(648,132)	(134,342)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net activity on line of credit	(249,442)	-
Repayment of long-term debt	(138,611)	(241,570)
Principal payments on capital lease	(39,147)	(12,598)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(427,200)	(254,168)
NET CHANGES IN CASH AND CASH EQUIVALENTS	4,530,155	348,772
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,312,400	963,628
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,842,555	$ 1,312,400
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Donated property and equipment (Note 8)	$ 7,466	$ 75,000

See Notes to Financial Statements

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'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. At times, the donors of these assets may permit the Organization to use all or part of the income earned on these assets. However, the donors have required that the income earned on the Organization's permanently restricted net assets held at December 31, 2017 is to be held in perpetuity and, therefore, cannot be used.

Cash and cash equivalents – Cash and cash equivalents consist of available cash balances on deposit at financial institutions and short-term money market investments as well as short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Certificates of deposit – Certificates of deposit are maintained at cost-basis and interest is paid out on a varying schedule through the year. The Organization's certificates of deposits at December 31, 2017 have interest rates between 1.02% and 1.24% and maturity dates ranging from March 15, 2018 to November 15, 2018. The Organization's certificate of deposit at December 31, 2016 had an interest rate of .44% and a maturity date of March 16, 2017.

(1) Summary of significant accounting policies (continued)

Concentration of risk – The Organization largely maintains its cash balances in financial institutions located in the greater Kansas City, Kansas area. Most of these U.S. deposits are distributed between various banks so as to maintain balances no greater than $250,000 insured limit per bank. The Organization also has checking accounts in Haiti that are uninsured. Accordingly, at December 31, 2017 and 2016, the Organization's uninsured cash and cash equivalents amounts to $628,740 and $242,378, 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, 2017 or 2016, 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 and this is reflected as an inventory valuation adjustment. This was $1,999,300 and $1,866,329 for the years ended December 31, 2017 and 2016, respectively.

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:

Assets	Estimated Useful Lives
Buildings	39 years
Building improvements	5 – 10 years
Furniture and equipment	5 – 10 years
Computer equipment	3 – 5 years
Vehicles	3 – 10 years

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.

(1) Summary of significant accounting policies (continued)

Gifts-in-kind: Donated shipping – The Organization recorded $1,562,693 and $1,955,218 in shipping expense for overseas and domestic freight during the years ended December 31, 2017 and 2016, 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 $913,248 and $272,942 for the years ended December 31, 2017 and 2016, respectively. In addition, approximately 30,380 and 29,900 volunteer hours were provided to the Organization during the years ended December 31, 2017 and 2016, respectively, 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.

Deferred revenue – The Organization records deferred revenue related to funds received for future programmatic events and for unspent funds received classified as exchange transactions.

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.

Reclassification – Certain items in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

(2) Pledges receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value and are not discounted. Pledges receivable that are expected to be collected in more than one year 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 pledges receivable was 4%. Amortization of the discounts is included in contribution revenue. Pledges receivable of $75,000 at December 31, 2016 were all received in 2017. No pledges were outstanding at December 31, 2017.

(3) Grants receivable

Grants receivable that are expected to be collected within one year are recorded at net realizable value and are not discounted. Grants receivable that are expected to be collected in more than one year 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 grants receivable was 5%. Amortization of the discounts is included in contribution revenue.

	2017	2016
In less than one year	$ 224,169	$ 154,972
In one to five years	212,502	306,205
	436,671	461,177
Less present value discount	(13,295)	(20,498)
Total grants receivable	$ 423,376	$ 440,679

(4) 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. Notes receivable that are expected to be collected within one year are recorded at net realizable value and are not discounted. Notes receivable that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the imputed interest rate of 5.25%. The final promissory note receivable in the amount of $50,000 at December 31, 2016 was paid in full during December 2017.

(5) Inventory

Inventory consists of the following at December 31:

	2017	2016
Pharmaceutical supplies	$ 34,276,068	$ 5,889,058
Medical and other supplies	3,516,073	1,312,233
Total inventory	$ 37,792,141	$ 7,201,291

(6) 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, 2017:

	Level 1	Level 2	Level 3	Total
Money market pool	$ -	$ 799	$ -	$ 799
Equity pool	-	9,958	-	9,958
Fixed Income pool	-	5,745	-	5,745
Equity security	25,212	-	-	25,212
Total investments at fair value	$ 25,212	$ 16,502	$ -	$ 41,714

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, 2016:

	Level 1	Level 2	Level 3	Total
Money market pool	$ -	$ 706	$ -	$ 706
Equity pool	-	8,890	-	8,890
Fixed income pool	-	5,092	-	5,092
Equity security	23,249	-	-	23,249
Total investments at fair value	$ 23,249	$ 14,688	$ -	$ 37,937

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.

(7) Investments

Investments consist of the following at December 31:

	2017	2016
Money market pool	$ 799	$ 706
Equity pool	9,958	8,890
Fixed income pool	5,745	5,092
Equity security	25,212	23,249
Total investments	$ 41,714	$ 37,937

Investment return is as follows:

	2017	2016
Interest and dividends	$ 2,870	$ 4,300
Realized and unrealized gains on investments	3,692	1,593
Total investment return	$ 6,562	$ 5,893

(8) Property and equipment

Property and equipment consists of the following at December 31:

	2017	2016
Cost		
Land	$ 86,000	$ 86,000
Buildings	344,000	344,000
Building improvements	321,886	289,841
Furniture and equipment	264,421	253,003
Computer equipment	578,621	550,817
Vehicles	719,023	446,802
Total cost	2,313,951	1,970,463
Accumulated depreciation	(1,299,135)	(1,221,394)
Net property and equipment	$ 1,014,816	$ 749,069

(9) Long-term debt

The Organization's long-term debt consists of the following:

	2017	2016
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.	$ 336,669	$ 378,351
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.	-	96,929
Total debt	336,669	475,280
Less current portion	(43,906)	(44,890)
Non-current debt	$ 292,763	$ 430,390

Maturities for notes payable are as follows:

Years ending December 31,	
2018	$ 43,906
2019	292,763
Total	$ 336,669

The total amount of interest paid during the years ended December 31, 2017 and 2016 was $32,035 and $46,364, respectively.

The long-term debt noted above was paid in full on March 28, 2018.

During the year ended December 31, 2017 the Organization had available a line of credit up to $250,000 with a bank at an interest rate at 5.25%. The balance on the line of credit was $0 at December 31, 2017 and $249,442 at December 31, 2016.

(10) Capital lease obligation

The capital lease obligation consists of the following:

	2017	2016
Capital lease obligation for dice alarm (A)	$ -	$ 7,955
Capital lease obligation for pallet racking (B)	-	31,192
Total capital lease obligation	-	39,147
Less current portion	-	(12,654)
Non-current portion	$ -	$ 26,493

(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.

(10) Capital lease obligation (continued)

Leased property under the capital lease includes:

	2017	2016
Equipment included in property and equipment	$ -	$ 63,836
Less accumulated amortization	-	(24,689)
Total leased property under capital lease	$ -	$ 39,147

The capital leases were paid in full during 2017.

(11) Leases

The Organization leases office space, certain office equipment, and vehicles under operating leases through June 2022. Lease expense totaled $361,465 and $322,389 for the years ended December 31, 2017 and 2016, 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,	
2018	$ 282,792
2019	242,833
2020	179,688
2021	179,688
2022	89,844
Total	$ 974,845

(12) Restricted net assets

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

	2017	2016
Temporarily Restricted Net Assets:		
Cameroon, Africa	$ 15,057	$ 178,624
Hygiene Kits	-	74,205
Cuba	-	20,054
NAFC - Lab Project	379,889	245,591
Rural Health	474,476	479,578
Shipping Grant	116,842	50,872
WHO Certification	339,420	-
Hurricane Harvey	360,047	-
Hurricane Maria	1,394,775	-
U.S. Crisis Response	620,732	4,363
One Child One Blanket	150,000	-
Total Temporarily Restricted Net Assets	$ 3,851,238	$ 1,053,287

(12) Restricted net assets (continued)

	2017	2016
Permanently Restricted Net Assets:		
Heart to Heart International Endowment Fund	$ 16,502	$ 14,688
Staff Development	2,000	2,000
General	53,107	51,274
Total Permanently Restricted Net Assets	$ 71,609	$ 67,962

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:

	2017	2016
Net Assets Released from Temporary Restrictions:		
Cameroon, Africa	$ 319,691	$ 159,876
China	5,000	-
Cholera Response	-	225,992
Cuba	25,219	12,946
Hurricane Harvey	995,137	-
Hurricane Maria	993,344	-
Hurricane Irma	317,912	-
Haiti	704,037	-
Hygiene Kits	186,649	206,177
NAFC - Lab Project	140,703	4,409
Nepal	28,571	88,153
Power Serve	86,305	74,535
Rural Health	163,375	1,827
Shipping Grant	144,030	285,218
Syrian Refugees	11,240	-
U.S. Crisis Response	254,082	100,703
WHO Certification	10,580	-
Total Net Assets Released from Temporary Restrictions	$ 4,385,875	$ 1,159,836

(13) Endowment fund

The Organization has contributed total assets of $16,502 and $14,688 as of December 31, 2017 and 2016, 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. The annual earnings on the account are to be held in perpetuity.

(14) Concentrations

There were no pledges receivable at December 31, 2017. All of the Organization’s pledges receivable were due from two donors at December 31, 2016.

Approximately 100% and 95% of the Organization’s grants receivables were due from one donor at December 31, 2017 and 2016.

There were no concentrations in accounts receivable at December 31, 2017 and 2016.

(14) Concentrations (continued)

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. One company provided approximately 85% and 73% of the gifts-in-kind contributions during the years ended December 31, 2017 and 2016, respectively.

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 significant decrease in contributions.

(15) Recent accounting pronouncements

Recent accounting pronouncements - Not-for-Profit Entities - In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update, which amends the requirements for financial statements and notes in *Topic 958, Not-for-Profit Entities*, require a Not-for-Profit (NFP) to:

- Present on the face of the statement of financial position amounts for two classes of net assets as “net assets with donor restrictions” and “net assets without donor restrictions,” rather than for the currently required three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than that of the currently required three classes.
- Continue to present on the face of the statement of cash flows the net amount of operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosures about (1) amounts and purposes of governing board designations that result in self-imposed limits on the use of resources without donor-imposed restrictions (2) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources (3) qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date (4) quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes that communicates the availability of a NFP’s financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date (5) amounts of expenses by both their natural classification and their functional classification (6) report investment return net of external and direct internal investment expenses, and no longer require disclosure of those netted expenses (7) use, in absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

This update is effective for the Organization’s December 31, 2018 financial statements. The Organization is evaluating the impact that this updated standard will have on the financial statements and related noted to the financial statements.

(15) Recent accounting pronouncements (continued)

Recent accounting pronouncements - Leases - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with terms of more than twelve months. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statements of financial position.

The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis.

This update is effective for the Organization's December 31, 2020 financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

Revenue recognition - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This standard applies to most contracts with customers and prescribes a five-step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. This standard also prescribes additional disclosures and financial statement presentations. This standard is effective for the Organization's December 31, 2020 financial statements, and early adoption is permitted. The Organization may adopt the standard retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

(16) Subsequent events

The Organization has evaluated subsequent events through July 18, 2018, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.