

HEART TO HEART INTERNATIONAL, INC.

FINANCIAL STATEMENTS

**Year Ended December 31, 2011
with
Report of Independent Auditors**

HEART TO HEART INTERNATIONAL, INC.

FINANCIAL STATEMENTS

December 31, 2011

CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6 - 18



Keller & Owens, LLC

Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Heart to Heart International, Inc.

We have audited the accompanying statement of financial position of **Heart to Heart International, Inc.** (a nonprofit organization) as of December 31, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated April 11, 2011, we expressed an unqualified opinion on those financial statements.

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 **Heart to Heart International, Inc.** as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, effective January 1, 2011, the Organization adopted the provisions of FASB 820-10, *Fair Value Measurements* for its nonfinancial assets and liabilities. This standard, which was required to be accounted for prospectively, required a change in the method of estimating the fair value of gifts-in kind contributions received after December 31, 2010, and impacts program expenses recognized as the related items are used.

As discussed in Note 16 to the financial statements, the Organization corrected an error in donated shipping for the prior year ended December 31, 2010.

April 26, 2012

HEART TO HEART INTERNATIONAL, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2011

(With comparative totals as of December 31, 2010)

	<u>ASSETS</u>	
	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and equivalents	\$ 1,641,580	\$ 661,070
Inventory	19,475,998	24,377,817
Grants receivable	16,667	610,000
Accounts receivable	<u>48,278</u>	<u>26,368</u>
Total Current Assets	21,182,523	25,675,255
Property and Equipment	1,554,407	1,136,324
Other Assets:		
Investments	<u>60,333</u>	<u>62,125</u>
Total Assets	<u>\$ 22,797,263</u>	<u>\$ 26,873,704</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities:		
Accounts payable	\$ 87,781	\$ 110,551
Accrued liabilities	62,964	50,784
Current portion of long-term debt	<u>534,582</u>	<u>33,255</u>
Total Current Liabilities	685,327	194,590
Long-Term Debt	<u>1,142,885</u>	<u>963,988</u>
Total Liabilities	1,828,212	1,158,578
Net Assets:		
Unrestricted	19,588,889	24,577,476
Temporarily restricted	1,319,829	1,077,112
Permanently restricted	<u>60,333</u>	<u>60,538</u>
Total Net Assets	<u>20,969,051</u>	<u>25,715,126</u>
Total Liabilities and Net Assets	<u>\$ 22,797,263</u>	<u>\$ 26,873,704</u>

See accompanying notes

HEART TO HEART INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	2011			Total	2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue:					
Gifts in kind	\$ 85,653,212	\$ -	\$ -	\$ 85,653,212	\$ 78,017,850
Contributions	924,707	1,692,220	-	2,616,927	3,116,921
Donated shipping	1,031,320	-	-	1,031,320	1,200,606
Governmental and corporate grants	8,625	898,803	-	907,428	1,053,887
Program revenue	665,317	-	-	665,317	522,517
Investment income	2,675	-	(205)	2,470	7,901
Rent income	45,078	-	-	45,078	44,632
Loss on sale of assets	(6,161)	-	-	(6,161)	(8,071)
Other income	7,807	-	-	7,807	-
Net assets released from restrictions	2,348,306	(2,348,306)	-	-	-
Total Support and Revenue	90,680,886	242,717	(205)	90,923,398	83,956,243
Expenses:					
Program services - international	91,024,619	-	-	91,024,619	77,372,980
Program services - domestic	3,687,221	-	-	3,687,221	3,895,127
General and administrative	404,144	-	-	404,144	433,465
Fundraising and public relations	553,489	-	-	553,489	651,102
Total Expenses	95,669,473	-	-	95,669,473	82,352,674
(Decrease) Increase in Net Assets	(4,988,587)	242,717	(205)	(4,746,075)	1,603,569
Net Assets at Beginning of Year	24,577,476	1,077,112	60,538	25,715,126	24,111,557
Net Assets at End of Year	\$ 19,588,889	\$ 1,319,829	\$ 60,333	\$ 20,969,051	\$ 25,715,126

See accompanying notes

HEART TO HEART INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	2011					2010
	International Projects	Domestic Projects	General and Administrative	Fundraising and Public Relations	Total	Total
Expenses:						
Gifts-in-kind distribution	\$ 85,588,403	\$ 2,760,814	\$ -	\$ -	\$ 88,349,217	\$ 73,378,552
Inventory valuation adjustments	970,053	31,291	-	-	1,001,344	2,542,415
Donated shipping	612,336	418,984	-	-	1,031,320	1,200,606
Salaries and benefits	639,570	85,319	271,934	343,877	1,340,700	1,217,194
Donated medical services	1,240,432	-	-	-	1,240,432	1,724,367
Medical and contract services	594,363	9,550	1,293	12,918	618,124	532,073
Distributed aid	400,934	192,861	-	-	593,795	285,183
Travel and meals	377,373	46,137	7,226	5,412	436,148	528,193
Depreciation	113,740	41,512	10,615	13,348	179,215	203,679
Special events	-	-	-	25,455	25,455	57,085
Rent	36,607	4,883	15,565	19,682	76,737	86,742
Postage and shipping	9,642	1,286	4,099	5,184	20,211	11,505
Warehouse	168,075	8,846	-	-	176,921	90,699
Printing and artwork	23,935	3,193	10,177	12,869	50,174	61,389
Office	56,451	7,530	24,001	30,351	118,333	112,360
Telephone	21,442	2,860	9,116	11,528	44,946	41,571
Professional fees	-	-	26,403	-	26,403	19,930
Donated rent	-	45,078	-	-	45,078	44,632
Interest and bank fees	35,768	4,772	15,208	19,231	74,979	60,132
Staff development	567	76	241	305	1,189	5,449
Insurance	12,844	3,211	3,440	3,440	22,935	38,095
Publicity	88,299	11,779	-	47,476	147,554	6,747
Maintenance and repairs	33,785	7,239	4,826	2,413	48,263	104,076
Total Expenses	<u>\$ 91,024,619</u>	<u>\$ 3,687,221</u>	<u>\$ 404,144</u>	<u>\$ 553,489</u>	<u>\$ 95,669,473</u>	<u>\$ 82,352,674</u>

See accompanying notes

HEART TO HEART INTERNATIONAL, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	2011	2010
Cash Flows from Operating Activities:		
(Decrease) increase in net assets	\$ (4,746,075)	\$ 1,603,569
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	179,215	203,679
Loss on disposal of equipment	6,161	8,071
Realized and unrealized loss (gain) on investments	693	(2,757)
Donated assets	-	(57,400)
Changes in current assets and current liabilities:		
(Increase) decrease in receivables	571,423	(635,766)
(Increase) decrease in inventory	4,901,819	(294,139)
Decrease in prepaid expenses	-	31,184
Decrease in accounts payable	(22,770)	(106,540)
Increase in accrued liabilities	12,180	9,450
Total Adjustments	5,648,721	(844,218)
Net cash provided by operating activities	902,646	759,351
Cash Flows from Investing Activities:		
Purchase of investments	(75,487)	(23,431)
Proceeds from sale of investments	76,586	-
Purchase of property and equipment	(413,061)	(277,665)
Proceeds from sale of equipment	24,602	-
Net cash used by investing activities	(387,360)	(301,096)
Cash Flows from Financing Activities:		
Proceeds from debt borrowings	500,000	-
Principal payments	(34,776)	(198,112)
Net cash provided (used) by financing activities	465,224	(198,112)
Net Increase in Cash	980,510	260,143
Cash and Equivalents at Beginning of Year	661,070	400,927
Cash and Equivalents at End of Year	\$ 1,641,580	\$ 661,070
Non-Cash Investing and Financing Activities		
Property and Equipment purchased using debt	\$ 215,000	\$ -

See accompanying notes

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Heart to Heart International, Inc. (the Organization), a Kansas nonprofit 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'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 financial statements have been prepared on the accrual basis of accounting.

Basis of presentation - Financial statement presentation follows the recommendations of FASB ASC 958-210, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-210, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents – Cash consists of cash, non-interest-bearing checking accounts and short-term money market investments.

Comparative information – The financial statements include certain prior year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010 from which the information is derived.

Concentration of risk – The Organization maintains its cash balance 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's (the "FDIC"). The Organization also has a checking account in Haiti that is uninsured. Accordingly, at December 31, 2011, the Organization's uninsured cash and cash equivalents amounted to \$103,204.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments – The carrying amounts of financial instruments including cash and equivalents, receivables, account payable and accrued expenses approximated fair values as of December 31, 2011 due to their short-term nature. The carrying amount of notes payable approximated fair value due to similar available terms.

Gifts-in-kind - Donated inventory, buildings, and equipment are recorded at their estimated fair market value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. A number of unpaid volunteers have made significant contributions of their time to the activities of the Organization without compensation. In addition, the Organization receives contributed professional services from several individuals in the field of medicine. These amounts are reflected at fair market value in the financial statements which amounted to \$1,240,432 for the year ended December 31, 2011.

Gifts-in-kind: donated shipping - The Organization recorded \$1,031,320 and \$1,200,606 in shipping expense for overseas and domestic freight during the years ended December 31, 2011 and 2010, respectively. The donated shipping is also included in Unrestricted Support and Revenue.

Income taxes - The Organization is classified as tax exempt under Section 501(c)(3) of the Internal Revenue Code and does not incur income taxes. 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.

The Organization has adopted the provisions FASB ASC 740-10 - *Accounting for Uncertain Income Tax Positions* as it might apply to the Organization's financial transactions. The Organization's policy is to record a liability for any tax position that is beneficial to the Organization, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2011 and, accordingly, no liability has been accrued. However, tax years through December 31, 2011 remain subject to IRS examination.

Inventory – Purchased inventory is recorded at the lower of cost or market. Donated inventory is initially 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”). Subsequent to its initial recording, donated inventory is reported at the lower of cost or market. The inventory is not available for sale. The Organization records a loss for the decrease in value of any slow-moving or expired inventory.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments - The Organization carries its investment in marketable securities with readily determinable fair values and all investments in debt securities at their fair values, net of investment income receivable, in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

Permanently restricted net assets - Amounts received during the year that are permanently restricted by donors are recorded as being permanently restricted. 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.

Property and equipment - Property and equipment are stated at cost at the date of acquisition or fair market value at date of donation, over a nominal amount, in the case of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Maintenance and repairs are charged to expense as incurred. When items of property or 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 provided over the estimated useful lives of the respective assets on the straight-line basis. Lives for depreciation are as follows:

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

Reclassifications – Certain reclassifications have been made to the 2010 financial statements in order to conform to the 2011 presentation.

Revenue recognition – The Organization follows ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*. Cash and gift-in-kind contributions are received from individuals as well as domestic and multi-national 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. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted. When a temporary restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the time period in which the contribution is received, the Organization reports the support as unrestricted.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued) – Permanently restricted support are amounts received that are stipulated by the donor to be maintained permanently.

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.

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.

Subsequent events – Management has evaluated events and transactions that have occurred since December 31, 2011 and reflected their effects, if any, in these financial statements through April 26, 2012, the date the financial statements were available to be issued.

Temporarily restricted net assets - Amounts received during the year that are temporarily restricted by donors or amounts earned on temporarily restricted assets are recorded as temporarily restricted revenue. Temporarily restricted assets are released from restriction when the expenses are incurred for their designated purpose.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 of and the methods used to depreciate property and equipment.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES

The Organization has adopted the provisions of FASB ASC 820-10 *Fair Value Measurements* for financial and non-financial assets and liabilities measured at fair value on a recurring basis. In addition, the Organization has adopted FASB ASC 820-10 *Fair Value Measurements*, for non-financial assets and liabilities measured initially at fair value such as in a business combination, non-financial assets (such as inventory or donations-in-kind) recorded at fair value at the time of donation, and long-lived assets measured at fair value for impairment assessment.

The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - inputs are unadjusted quoted market prices in active independent markets for identical assets and liabilities;
- Level 2 - inputs are directly or indirectly observable estimates from quotes for similar but not identical assets and liabilities, market trades for identical assets not actively traded or other external independent means;
- Level 3 - inputs are unobservable and reflect assumptions on the part of the reporting entity.

The following table sets forth information about the level with the fair value hierarchy at which the Organization's financial assets and liabilities are measured on a recurring basis at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Trading securities	\$ 49,579	\$ -	\$ -	\$ 49,579
Beneficial interest in community foundation	-	-	10,754	10,754
Total assets – recurring basis	<u>\$ 49,579</u>	<u>\$ -</u>	<u>\$ 10,754</u>	<u>\$ 60,333</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

The following table sets forth information about the level with the fair value hierarchy at which the Organization's financial assets and liabilities are measured on a recurring basis at December 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities	\$ 51,032	\$ -	\$ -	\$ 51,032
Beneficial interest in community foundation	-	-	11,093	11,093
Total assets – recurring basis	\$ 51,032	\$ -	\$ 11,093	\$ 62,125

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) include investments in the common funds of a community foundation.

A reconciliation of activity between the beginning and ending value of the Level 3 assets as well as the amount of total gains or losses for the year ended December 31, 2011 included in net unrestricted net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date were not readily available and considered by management to be immaterial.

3. INVENTORY

Inventory is stated as described in Note 1 and consists of the following:

	2011	2010
Pharmaceutical supplies	\$ 17,782,150	\$ 21,556,222
Medical and other supplies	1,693,848	2,821,595
Total Inventory	\$ 19,475,998	\$ 24,377,817

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

4. CHANGE IN ACCOUNTING ESTIMATE

In accordance with FASB ASC 250-10, *Accounting Changes and Error Corrections*, the Organization has changed its estimate of fair value of December 31, 2011 inventory for donated pharmaceuticals. Previously, the Organization recorded gifts-in-kind based upon estimated fair value as reported in or extrapolated from information published in *Redbook, Pharmacy's Fundamental Reference*. For the year ended December 31, 2011, the Organization reported its gifts-in-kind based on market sources and inputs to estimate fair value using an exit price notion. Management believes the change in valuation methodology is more representative of fair value in measuring donated pharmaceutical inventory. The effect of the change in accounting estimate has materially decreased the Organization's pharmaceutical inventory and a corresponding decrease to contribution income in 2011.

5. INVESTMENTS

Investments are stated at the values described in Note 1 and consist of the following:

	<u>2011</u>	<u>2010</u>
Equity securities	\$ 6,426	\$ 9,013
Fixed income	3,810	1,572
Stock and bond mutual funds	19,450	20,951
Foreign certificates of deposit	29,937	-
Money market funds	<u>710</u>	<u>30,589</u>
Total Investments	<u>\$ 60,333</u>	<u>\$ 62,125</u>

Investment return from these investments is as follows:

Interest and dividends	\$ 3,413	\$ 5,394
Realized and unrealized (loss) gain on investments	(693)	2,757
Management fees	<u>(250)</u>	<u>(250)</u>
Total Investment Return	<u>\$ 2,470</u>	<u>\$ 7,901</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

6. PROPERTY AND EQUIPMENT

Property and equipment is stated as described in Note 1 and includes the following:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 212,044	\$ 226,657
Buildings	344,000	-
Computer equipment	328,052	416,986
Warehouse	575,000	575,000
Land	161,000	75,000
Leasehold improvements	-	11,659
Vehicles	557,435	548,763
Building improvements	<u>613,142</u>	<u>611,787</u>
Total Property and Equipment	2,790,673	2,465,852
Less accumulated depreciation	<u>1,236,266</u>	<u>1,329,528</u>
Net Property and Equipment	<u>\$ 1,554,407</u>	<u>\$ 1,136,324</u>

7. LONG-TERM DEBT

The Organization's obligation under notes payable consists of the following shown at its estimated fair value:

Note payable, secured by real property, monthly payments of \$6,090, including interest at 4.0%, due January, 2014	\$ 962,467
Note payable, secured by certificate of deposit, interest at 4.0%, due January, 2012	500,000
Note payable, secured by real property, interest only payments at 5.5%, principal due May, 2016	<u>215,000</u>
	1,677,467
Less current maturities	<u>534,582</u>
Total Long-Term Debt	<u>\$ 1,142,885</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

7. LONG-TERM DEBT (continued)

Annual maturities of notes payable are as follows:

2012	\$ 534,582
2013	36,055
2014	891,830
2015	-
2016	<u>215,000</u>
Total	<u>\$ 1,677,467</u>

The total amount of interest paid during the year was \$46,681. One of the notes also requires the Organization to maintain an average minimum balance of \$500,000 on deposit with the bank, otherwise the interest rate will increase .50%. During the year, the Organization complied with this loan covenant.

8. GRANTS RECEIVABLE

Grants receivable consist of the following amounts due at December 31:

	<u>2011</u>	<u>2010</u>
In less than one year	\$ 8,333	\$ 610,000
In one to five years	<u>8,334</u>	<u>-</u>
	16,667	610,000
Less discounts to present value	-	-
Less allowance for doubtful collections	<u>-</u>	<u>-</u>
Total Grants Receivable	<u>\$ 16,667</u>	<u>\$ 610,000</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

9. OPERATING LEASES

The Organization leases office space in Olathe, Kansas. The lease expires August 31, 2014. The Organization also rented office space in Haiti which expired in 2011. Total rent payments totaled \$76,737 for the year ending December 31, 2011. The future minimum annual lease payments are as follows:

Year ending December 31:

2012	\$ 66,000
2013	66,000
2014	<u>44,000</u>
Total	<u>\$ 176,000</u>

10. RESTRICTED NET ASSETS

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

Temporarily Restricted Net Assets:

	<u>2011</u>	<u>2010</u>
China	\$ 6,037	\$ 11,611
Global Crisis Response	209,287	-
Joplin, Missouri	563,182	-
Reading, Kansas	7,809	-
Ready Relief Box	-	50,000
Guatemala	-	13,762
Chile	37,014	16,355
U.S Programs	14,672	36,604
Back to School/Back to Health	-	25,000
General Disaster	376,863	227,093
Forward Response Centers	73,068	100,000
Haiti	-	596,687
Japan	<u>31,897</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,319,829</u>	<u>\$ 1,077,112</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

10. RESTRICTED NET ASSETS (continued)

Permanently Restricted Net Assets:

	<u>2011</u>	<u>2010</u>
Heart to Heart International Endowment Fund	\$ 10,754	\$ 11,093
Staff development	2,000	2,000
General	<u>47,579</u>	<u>47,445</u>
Total Permanently Restricted Net Assets	<u>\$ 60,333</u>	<u>\$ 60,538</u>

Assets which satisfy total temporary and permanent restrictions include the following:

Cash	\$ 1,303,162	\$ 467,112
Investments	60,333	60,538
Pledges receivable	<u>16,667</u>	<u>610,000</u>
Total Restricted Assets and Liabilities	<u>\$ 1,380,162</u>	<u>\$ 1,137,650</u>

The Organization's combined total for cash and equivalents and pledges receivable exceeds the Organization's temporarily restricted and permanently restricted net assets at December 31, 2011 and 2010.

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:

Net Assets Released from Temporary Restrictions:

International projects	\$ 1,797,628	\$ 2,272,733
Domestic projects	<u>550,678</u>	<u>143,556</u>
Total Net Assets Released from Temporary Restrictions	<u>\$ 2,348,306</u>	<u>\$ 2,416,289</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

11. FUNCTIONAL ALLOCATION OF EXPENSES

The cost of conducting the various projects has been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the projects and supporting services benefited.

12. ENDOWMENT FUND

The Organization has contributed total assets of \$10,754 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.

13. SIGNIFICANT GIFT-IN-KIND CONTRIBUTORS

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. Two companies provided approximately 88% of the gifts-in-kind contributions in 2011.

14. SPECIAL EVENTS

During 2011, the Organization conducted an event designed to inform supporters about current operations and to introduce potential new donors to the Organization. Revenues from special events are recorded in cash contributions. All costs related to publicity, travel, related salaries, and administration of the event have been included in fundraising expenses. Other costs are included as general and administrative expenses.

Support from special events was \$43,987 for 2011. The cost for the direct benefits provided to donors was \$5,700 for 2011.

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

15. RENTAL INCOME

The Organization recorded \$45,078 in rental income as it provides space to another not-for-profit organization at its warehouse. Approximately 6,000 square feet is used for storage and 16,400 for office space. The donated rent is also included in Program services-Domestic expenses.

16. CORRECTION OF ERROR

During 2011, management determined that the 2010 donated shipping amount was incorrectly calculated. The prior year financial statements have been restated reducing donated shipping revenue and expense by \$283,963. There was no effect on the change in net assets or net assets for 2010.