

**HEART TO HEART INTERNATIONAL, INC.**

**FINANCIAL STATEMENTS**

**Year Ended December 31, 2012  
with  
Independent Auditors' Report**

# HEART TO HEART INTERNATIONAL, INC.

## FINANCIAL STATEMENTS

December 31, 2012

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# Keller & Owens, LLC

*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

Board of Directors

**Heart to Heart International, Inc.**

We have audited the accompanying financial statements of **Heart to Heart International, Inc.** (the Organization) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized information has been derived from the Organization's 2011 financial statements and, in our report dated April 26, 2012, we expressed an unqualified opinion on those 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Keller & Owens, LLC*

Overland Park, Kansas  
June 10, 2013

# HEART TO HEART INTERNATIONAL, INC.

## STATEMENT OF FINANCIAL POSITION

December 31, 2012

(With comparative totals as of December 31, 2011)

	<u>ASSETS</u>	
	2012	2011
Current Assets:		
Cash and equivalents	\$ 1,478,596	\$ 1,641,580
Inventory	39,516,454	19,475,998
Grants receivable	62,893	16,667
Accounts receivable	3,434	48,278
Total Current Assets	41,061,377	21,182,523
Property and Equipment	1,493,787	1,554,407
Other Assets:		
Investments	63,155	60,333
Total Assets	<u>\$ 42,618,319</u>	<u>\$ 22,797,263</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 76,970	\$ 87,781
Accrued liabilities	90,391	62,964
Current portion of long-term debt	536,055	534,582
Total Current Liabilities	703,416	685,327
Long-Term Debt	1,104,168	1,142,885
Total Liabilities	1,807,584	1,828,212
Net Assets:		
Unrestricted	39,738,958	19,588,889
Temporarily restricted	1,008,622	1,319,829
Permanently restricted	63,155	60,333
Total Net Assets	40,810,735	20,969,051
Total Liabilities and Net Assets	<u>\$ 42,618,319</u>	<u>\$ 22,797,263</u>

See accompanying notes

# HEART TO HEART INTERNATIONAL, INC.

## STATEMENT OF ACTIVITIES Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Gifts in kind	\$ 115,744,470	\$ -	\$ -	\$ 115,744,470
Contributions	1,221,403	1,114,965	-	2,336,368
Donated shipping	1,118,119	-	-	1,118,119
Governmental and corporate grants	-	891,962	-	891,962
Program revenue	756,950	-	-	756,950
Investment income	-	995	2,822	3,817
Rent income	45,078	-	-	45,078
Loss on sale of assets	-	-	-	-
Other income	1,676	-	-	1,676
Net assets released from restrictions	2,319,129	(2,319,129)	-	-
Total Support and Revenue	121,206,825	(311,207)	2,822	120,898,440
Expenses:				
Program services - international	92,622,769	-	-	92,622,769
Program services - domestic	7,101,803	-	-	7,101,803
General and administrative	500,542	-	-	500,542
Fundraising and public relations	831,642	-	-	831,642
Total Expenses	101,056,756	-	-	101,056,756
Increase (Decrease) in Net Assets	20,150,069	(311,207)	2,822	19,841,684
Net Assets at Beginning of Year	19,588,889	1,319,829	60,333	20,969,051
Net Assets at End of Year	<u>\$ 39,738,958</u>	<u>\$ 1,008,622</u>	<u>\$ 63,155</u>	<u>\$ 40,810,735</u>
				<u>\$ 20,969,051</u>

See accompanying notes

# HEART TO HEART INTERNATIONAL, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

2012

	Program Services		General and Administrative	Fundraising and Public Relations	Total	2011 Total
	International Projects	Domestic Projects				
Expenses:						
Gifts-in-kind distribution	\$ 88,002,777	\$ 5,509,178	\$ -	\$ -	\$ 93,511,955	\$ 88,349,217
Inventory valuation adjustments	1,276,651	79,921	-	-	1,356,572	1,001,344
Donated shipping	484,985	633,134	-	-	1,118,119	1,031,320
Salaries and benefits	610,420	191,373	274,883	417,255	1,493,931	1,340,700
Donated medical services	697,155	131,198	-	-	828,353	1,240,432
Medical and contract services	346,957	6,169	18,508	146,728	518,362	618,124
Distributed aid	403,449	326,115	-	-	729,564	593,795
Travel and meals	405,831	11,936	35,809	23,872	477,448	436,148
Depreciation	46,620	87,315	22,311	28,095	184,341	179,215
Special events	-	-	-	63,642	63,642	25,455
Rent	29,205	9,156	13,152	19,963	71,476	76,737
Postage and shipping	13,290	4,166	5,985	9,084	32,525	20,211
Warehouse	98,535	5,186	-	-	103,721	176,921
Printing and artwork	29,355	9,203	13,219	20,066	71,843	50,174
Office	51,619	16,183	23,245	35,284	126,331	118,333
Telephone	22,436	7,034	10,103	15,336	54,909	44,946
Professional fees	-	-	60,304	-	60,304	26,403
Donated rent	-	45,078	-	-	45,078	45,078
Interest and bank fees	32,338	10,138	14,562	22,104	79,142	74,979
Staff development	987	310	445	675	2,417	1,189
Insurance	8,252	2,588	3,717	5,642	20,199	22,935
Publicity	31,816	9,974	-	21,747	63,537	147,554
Maintenance and repairs	30,091	6,448	4,299	2,149	42,987	48,263
Total Expenses	\$ 92,622,769	\$ 7,101,803	\$ 500,542	\$ 831,642	\$ 101,056,756	\$ 95,669,473

See accompanying notes

# HEART TO HEART INTERNATIONAL, INC.

## STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

	2012	2011
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 19,841,684	\$ (4,746,075)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	184,341	179,215
Loss on disposal of equipment	-	6,161
Realized and unrealized (gain) loss on investments	(2,331)	693
Changes in current assets and current liabilities:		
(Increase) decrease in receivables	(1,382)	571,423
(Increase) decrease in inventory	(20,040,456)	4,901,819
Decrease in accounts payable	(10,811)	(22,770)
Increase in accrued liabilities	27,427	12,180
Total Adjustments	(19,843,212)	5,648,721
Net cash (used) provided by operating activities	(1,528)	902,646
Cash Flows from Investing Activities:		
Purchase of investments	(30,491)	(75,487)
Proceeds from sale of investments	30,000	76,586
Purchase of property and equipment	(123,721)	(413,061)
Proceeds from sale of equipment	-	24,602
Net cash used by investing activities	(124,212)	(387,360)
Cash Flows from Financing Activities:		
Proceeds from debt borrowings	500,000	500,000
Principal payments	(537,244)	(34,776)
Net cash (used) provided by financing activities	(37,244)	465,224
Net (Decrease) Increase in Cash	(162,984)	980,510
Cash and Equivalents at Beginning of Year	1,641,580	661,070
Cash and Equivalents at End of Year	\$ 1,478,596	\$ 1,641,580
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, 2012

### 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. 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, 2011 from which the information is derived.

**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 (the "FDIC"). Effective January 1, 2013, these accounts are insured up to \$250,000 per bank. The Organization also has two checking accounts in Haiti that is uninsured. Accordingly, at December 31, 2012, the Organization's uninsured cash and cash equivalents amounted to \$61,300 and \$103,204, respectively.

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 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, accounts payable and accrued liabilities approximated fair values as of December 31, 2012 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 \$828,353 and \$1,240,432, respectively for the years ended December 31, 2012 and 2011.

**Gifts-in-kind: donated shipping** - The Organization recorded \$1,118,119 and \$1,031,320 in shipping expense for overseas and domestic freight during the years ended December 31, 2012 and 2011, 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 of FASB ASC 740-10 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, 2012 and, accordingly, no liability has been accrued. However, tax years 2009, 2010 and 2011 remain subject to IRS examination.

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

**Inventory** – Purchased inventory is recorded at the lower of cost or market. 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 investment in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

**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

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

**Revenue recognition** – The Organization follows ASC Topic 958-605. 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.

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, 2012 and reflected their effects, if any, in these financial statements through June 10, 2013, 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.

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

**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.

### 2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES

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 within the fair value hierarchy at which the Organization's financial assets and liabilities are measured on a recurring basis at December 31, 2012:

	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities	\$ 51,330	\$ -	\$ -	\$ 51,330
Beneficial interest in community foundation	-	-	11,825	11,825
Total assets - recurring basis	\$ 51,330	\$ -	\$ 11,825	\$ 63,155

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

The following table sets forth information about the level within 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>

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. The Level 3 investments are based upon stated values obtained from 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 years ended December 31, 2012 and 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:

	<u>2012</u>	<u>2011</u>
Pharmaceutical supplies	\$ 35,683,702	\$ 17,782,150
Medical and other supplies	<u>3,832,752</u>	<u>1,693,848</u>
Total Inventory	<u>\$ 39,516,454</u>	<u>\$ 19,475,998</u>

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 4. INVESTMENTS

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

	<u>2012</u>	<u>2011</u>
Equity securities	\$ 7,147	\$ 6,426
Fixed income	4,113	3,810
Stock and bond mutual funds	21,045	19,450
Foreign certificates of deposit	-	29,937
Money market funds	<u>30,850</u>	<u>710</u>
Total Investments	<u>\$ 63,155</u>	<u>\$ 60,333</u>

Investment return is as follows:

Interest and dividends	\$ 1,736	\$ 3,413
Realized and unrealized gain (loss) on investments	2,331	(693)
Management fees	<u>(250)</u>	<u>(250)</u>
Total Investment Return	<u>\$ 3,817</u>	<u>\$ 2,470</u>

### 5. PROPERTY AND EQUIPMENT

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

Furniture and equipment	\$ 226,132	\$ 212,044
Buildings	344,000	344,000
Computer equipment	392,442	328,052
Warehouse	575,000	575,000
Land	161,000	161,000
Vehicles	602,678	557,435
Building improvements	<u>613,142</u>	<u>613,142</u>
Total Property and Equipment	2,914,394	2,790,673
Less accumulated depreciation	<u>1,420,607</u>	<u>1,236,266</u>
Net Property and Equipment	<u>\$ 1,493,787</u>	<u>\$ 1,554,407</u>

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 6. LONG-TERM DEBT

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

	<u>2012</u>
Note payable, secured by real property, monthly payments of \$6,090, including interest at 4.0%, due January, 2014.	\$ 928,223
Note payable, secured by certificate of deposit, interest at 4.0%, due January, 2013.	500,000
Note payable, secured by real property, interest only payments at 5.5%, principal due May, 2016.	<u>212,000</u>
	1,640,223
Less current maturities	<u>536,055</u>
Total Long-Term Debt	<u>\$ 1,104,168</u>

Annual maturities of notes payable are as follows:

2013	\$ 536,055
2014	892,168
2015	-
2016	<u>212,000</u>
Total	<u>\$ 1,640,223</u>

The total amount of interest paid during the year was \$45,698. 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 did not comply with this loan covenant, however the bank did not increase the interest rate.

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 7. GRANTS RECEIVABLE

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

	2012	2011
In less than one year	\$ 62,893	\$ 8,333
In one to five years	-	8,334
	<u>62,893</u>	<u>16,667</u>
Less discounts to present value	-	-
Less allowance for doubtful collections	-	-
Total Grants Receivable	<u>\$ 62,893</u>	<u>\$ 16,667</u>

### 8. OPERATING LEASES

The Organization leases office space in Olathe, Kansas. The lease expires August 31, 2014. Rent payments totaled \$71,476 and 76,737 for the years ending December 31, 2012 and 2011, respectively. The future minimum annual lease payments are as follows:

Year ending December 31:

2013	\$ 67,122
2014	<u>44,748</u>
Total	<u>\$ 111,870</u>

### 9. RESTRICTED NET ASSETS

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

#### Temporarily Restricted Net Assets:

China	\$ -	\$ 6,037
Global Crisis Response	324,367	209,287
Joplin, Missouri	501,245	563,182
Reading, Kansas	-	7,809
Chile	-	37,014
U.S Programs	40,682	14,672
General Disaster	142,328	376,863
Forward Response Centers	-	73,068
Japan	-	<u>31,897</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,008,622</u>	<u>\$ 1,319,829</u>

# HEART TO HEART INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 9. RESTRICTED NET ASSETS (continued)

#### Permanently Restricted Net Assets:

	<u>2012</u>	<u>2011</u>
Heart to Heart International Endowment Fund	\$ 11,825	\$ 10,754
Staff development	2,000	2,000
General	<u>49,330</u>	<u>47,579</u>
Total Permanently Restricted Net Assets	<u>\$ 63,155</u>	<u>\$ 60,333</u>

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

Cash	\$ 945,729	\$ 1,303,162
Investments	63,155	60,333
Grants receivable	<u>62,893</u>	<u>16,667</u>
Total Restricted Assets and Liabilities	<u>\$ 1,071,777</u>	<u>\$ 1,380,162</u>

The Organization's combined total for cash and equivalents, investments and grants receivable exceeds the Organization's temporarily restricted and permanently restricted net assets at December 31, 2012 and 2011.

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	\$ 1,707,383	\$ 1,797,628
Domestic projects	<u>611,746</u>	<u>550,678</u>
Total Net Assets Released from Temporary Restrictions	<u>\$ 2,319,129</u>	<u>\$ 2,348,306</u>

# **HEART TO HEART INTERNATIONAL, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

### **10. 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.

### **11. ENDOWMENT FUND**

The Organization has contributed total assets of \$11,825 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.

### **12. SIGNIFICANT GIFT-IN-KIND CONTRIBUTORS**

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. Three companies provided approximately 87% of the gifts-in-kind contributions in 2012.

### **13. SPECIAL EVENTS**

During 2012, the Organization conducted two events 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 \$147,219 for 2012. The cost for the direct benefits provided to donors was \$22,850 for 2012.

### **14. 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.