

Heart to Heart International, Inc.

Consolidated Financial Report and
Supplementary Information
December 31, 2020

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Independent Auditor's Report

RSM US LLP

Board of Directors
Heart to Heart International, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Heart to Heart International, Inc., which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2020 and 2019, 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.

RSM US LLP

Kansas City, Missouri
June 17, 2021

Heart to Heart International, Inc.

Consolidated Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,910,953	\$ 5,689,691
Certificates of deposit	250,000	250,000
Accounts receivable	1,065,493	473,953
Pledges receivable, current portion	465,000	336,500
Inventory	104,108,692	19,896,464
Other current assets	92,757	48,501
Total current assets	113,892,895	26,695,109
Pledges receivable, less current portion above, net of allowance and discount	209,358	452,565
Property and equipment, net of accumulated depreciation	10,406,649	10,597,401
Total assets	\$ 124,508,902	\$ 37,745,075
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 376,225	\$ 421,885
Accrued liabilities	325,068	450,143
Deferred revenue	78,255	52,255
Long-term debt, current portion	237,741	276,595
Total current liabilities	1,017,289	1,200,878
Long-term debt, less current portion above	7,684,505	8,039,247
Total liabilities	8,701,794	9,240,125
Net assets without donor restrictions	112,287,142	26,312,693
Net assets with donor restrictions	3,519,966	2,192,257
Total net assets	115,807,108	28,504,950
Total liabilities and net assets	\$ 124,508,902	\$ 37,745,075

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2020 and 2019

	2020	2019
Support and revenue without donor restrictions:		
Gifts in kind	\$ 235,080,206	\$ 372,510,406
Contributions	2,668,480	1,529,258
Donated shipping	992,697	667,392
Governmental and corporate grants	1,811,811	5,188,734
Program revenue	2,117,618	1,274,469
RegaloRx fees revenues	3,054,583	931,338
Investment income, net	8,371	8,173
Gain on currency conversion	4,384	5,401
Loss on disposal of assets	(3,541)	(140,373)
Forgiveness of Paycheck Protection Program loan	827,900	-
Other income	10,105	8,906
Net assets released from restrictions	4,714,605	4,433,798
Total support and revenue without donor restrictions	251,287,219	386,417,502
Expenses:		
Program services—international	134,671,090	289,321,059
Program services—domestic	6,714,182	9,444,207
Program services—kit building	392,792	562,131
Program services—patient assistance program	4,366,335	1,064,561
Total program services	146,144,399	300,391,958
General and administrative	1,816,076	1,515,054
Fundraising public relations	393,224	895,891
Total supporting services	2,209,300	2,410,945
Total expenses	148,353,699	302,802,903
Inventory valuation adjustment	(16,959,071)	(79,129,033)
Changes in net assets without donor restrictions	85,974,449	4,485,566
Net assets with donor restrictions:		
Contributions	3,782,612	2,939,241
Governmental and corporate grants	2,255,189	644,939
Investment income	4,513	794
Net assets released from restrictions	(4,714,605)	(4,433,798)
Changes in net assets with donor restrictions	1,327,709	(848,824)
Changes in net assets	87,302,158	3,636,742
Net assets, beginning of year	28,504,950	24,868,208
Net assets, end of year	\$ 115,807,108	\$ 28,504,950

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2020

	Program Services						Total
	International Projects	Domestic Projects	Kit Building	Patient Assistance Program	General and Administrative	Fundraising	
Distributed aid	\$ 488,272	\$ 777,572	\$ -	\$ -	\$ -	\$ -	\$ 1,265,844
Donated medical and other services	80,530	125,103	-	-	-	-	205,633
Donated shipping	58,298	929,640	-	-	-	-	987,938
Insurance	66,700	26,355	10,290	-	5,885	3,065	112,295
Interest, fees and bank charges	191,475	43,811	19,674	-	37,658	72,982	365,600
Maintenance and repairs	83,161	21,764	9,625	16,683	1,286	5,482	138,001
Medical and contract services	826,107	1,062,880	981	-	3,000	31,793	1,924,761
Office	231,661	35,107	50,222	81,836	13,317	71,348	483,491
Postage and shipping	46,366	904	4,137	2,231	568	13,250	67,456
Printing	2,449	755	987	-	1,723	29,124	35,038
Professional fees	50,704	32,215	2,322	11,400	21,685	1,313	119,639
Publicity	5,444	3,718	580	-	183	5,072	14,997
Rent	1,959	-	-	-	-	-	1,959
Salaries and benefits	1,498,387	320,143	225,687	-	310,290	154,232	2,508,739
Special events	15,319	-	2,804	-	2,725	1,838	22,686
Staff development	1,419	55	18	2,614	245	2	4,353
Telephone	50,851	7,032	2,297	16,005	-	649	76,834
Travel and meals	340,310	74,677	63,168	2,257	198	3,074	483,684
Pharmacy—service charges	-	-	-	554,315	-	-	554,315
Pharmacy—management	-	-	-	34,500	-	-	34,500
Credit checks	-	-	-	16,559	-	-	16,559
Printing, mailings for client	-	-	-	37,278	-	-	37,278
Other	-	-	-	4,687	-	-	4,687
Salaries and benefits	-	-	-	1,774,401	996,633	-	2,771,034
Contract labor	-	-	-	657,414	-	-	657,414
Contract services	-	-	-	40,092	-	-	40,092
Software	-	-	-	508,643	-	-	508,643
Consulting fees	-	-	-	544,205	26,550	-	570,755
Expenses before depreciation and gifts-in-kind distribution	4,039,412	3,461,731	392,792	4,305,120	1,421,946	393,224	14,014,225
Depreciation	59,769	-	-	61,215	394,130	-	515,114
Gifts-in-kind distribution	130,571,909	3,252,451	-	-	-	-	133,824,360
Total expenses	\$ 134,671,090	\$ 6,714,182	\$ 392,792	\$ 4,366,335	\$ 1,816,076	\$ 393,224	\$ 148,353,699
	90.78%	4.53%	0.26%	2.94%	1.22%	0.27%	100%

See notes to consolidated financial statements.

Heart to Heart International, Inc.

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2019**

	Program Services				General and Administrative	Fundraising	Total
	International Projects	Domestic Projects	Kit Building	Patient Assistance Program			
Distributed aid	\$ 242,859	\$ 688,884	\$ -	\$ -	\$ -	\$ -	\$ 931,743
Donated medical and other services	476,939	57,298	-	-	-	-	534,237
Donated shipping	242,490	424,418	-	-	-	-	666,908
Insurance	25,931	24,934	14,885	-	32,882	6,154	104,786
Interest, fees and bank charges	85,045	75,543	38,897	22,944	84,554	81,334	388,317
Maintenance and repairs	29,903	14,971	12,242	325,397	34,954	5,480	422,947
Medical and contract services	658,617	151,389	15,176	250,026	23,506	273,568	1,372,282
Office	197,954	64,027	63,189	-	19,698	67,496	412,364
CDC equipment purchases	-	4,184,725	-	-	-	-	4,184,725
Postage and shipping	9,275	6,272	7,286	1,546	-	17,567	41,946
Printing	2,980	4,760	1,652	3,229	2,024	18,522	33,167
Professional fees	44,648	34,736	5,106	141,227	22,725	1,303	249,745
Publicity	1,218	2,502	802	-	531	2,850	7,903
Rent	54,432	37,398	18,677	225,205	1,008	9,417	346,137
Salaries and benefits	1,031,343	624,078	304,864	-	951,632	356,791	3,268,708
Special events	17,390	12,088	2,896	75,993	1,624	31,200	141,191
Staff development	2,100	81	4,950	5,268	-	1,175	13,574
Telephone	49,541	15,260	6,653	11,990	312	3,862	87,618
Travel and meals	452,732	180,847	64,856	-	4,424	19,172	722,031
Other	-	25,095	-	-	-	-	25,095
Expenses before depreciation and gifts-in-kind distribution	3,625,397	6,629,306	562,131	1,062,825	1,179,874	895,891	13,955,424
Depreciation	56,904	-	-	1,736	335,180	-	393,820
Gifts-in-kind distribution	285,638,758	2,814,901	-	-	-	-	288,453,659
Total expenses	\$ 289,321,059	\$ 9,444,207	\$ 562,131	\$ 1,064,561	\$ 1,515,054	\$ 895,891	\$ 302,802,903
	95.55%	3.12%	0.19%	0.35%	0.50%	0.30%	100%

See notes to consolidated financial statements.

Heart to Heart International, Inc.

**Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Changes in net assets	\$ 87,302,158	\$ 3,636,742
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	515,114	392,084
Change in allowance for uncollectible pledges	(8,275)	40,450
Amortization of pledge discount	(31,018)	10,883
Loss on disposal of assets	3,541	140,373
Gain on extinguishment of Paycheck Protection Program loan	(827,900)	-
Decrease (increase) in operating assets:		
Inventory	(84,212,228)	(4,410,841)
Accounts receivable	(591,540)	(369,574)
Pledges receivable	154,000	16,500
Grant receivable	-	206,653
Federal grants receivable	-	1,725,455
Other current assets	(44,256)	30,188
Increase (decrease) in operating liabilities:		
Accounts payable	54,341	(1,351,521)
Accrued liabilities	(125,075)	250,646
Deferred revenue	26,000	(133,602)
Net cash provided by operating activities	2,214,862	184,436
Cash flows from investing activities:		
Purchase of investment	(250,000)	-
Sale of investment	250,000	-
Purchase of property and equipment	(427,904)	(825,637)
Net cash used in investing activities	(427,904)	(825,637)
Cash flows from financing activities:		
Repayment of long-term debt	(518,596)	(659,158)
Proceeds from long-term debt	125,000	1,000,000
Proceeds from Paycheck Protection Program loan	827,900	-
Net cash provided by financing activities	434,304	340,842
Net changes in cash and cash equivalents	2,221,262	(300,359)
Cash and cash equivalents, beginning of year	5,689,691	5,990,050
Cash and cash equivalents, end of year	\$ 7,910,953	\$ 5,689,691
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 309,385	\$ 233,274
Contributed inventory	\$ 234,873,400	\$ 371,976,169
Inventory valuation adjustment	\$ (16,959,071)	\$ (79,129,033)
Noncash investing and financing activities:		
Capital expenditures disposed from accounts payable	\$ 100,001	\$ -

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. 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 currently supports a limited number of programs in Haiti. The Organization responded after the earthquake in January 2010 and continues to work toward healthier communities in Haiti; providing hygiene and medical supplies, medical education, and health education and training.

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.

In November 2018, the Heart to Heart International Foundation (HHIF) received determination from the Internal Revenue Service that effective from August 2017, it is classified under Internal Revenue Code (IRC) section 501(c)(3) and is a public charity. HHIF is a Type 1 supporting organization under IRC section 509(a)(3), meaning it is operated, supervised or controlled by another public charity, in this case, Heart to Heart International, Inc. HHIF is qualified to receive tax-deductible bequests, devised, transfers or gifts, and became operational in 2019. There was no activity for the Foundation in 2020 and 2019.

In 2019, the Organization launched RegaloRx, a section 501(c)(3) organization, to operate a nonprofit patient assistance program. RegaloRx received determination from the Internal Revenue Service that effective from February 2019, it is classified under IRC section 501(c)(3) and is a public charity described in section 509(a)(2). The profits of RegaloRx will be used to support the Organization. RegaloRx will give away donated, essential medicines to those in need in the United States. Earnings will be generated from service fees charged to the pharmaceutical companies to administer the programs.

Principles of consolidation: The accounts of Heart to Heart International Foundation, RegaloRx, and Heart to Heart International, Inc. (collectively, the Organization) are included in the consolidation as the organizations meet the criteria for consolidation under *FASB Accounting Standards Codification (ASC)* Subtopic 958-810, Consolidation for Not-for-Profit Organizations. Under this standard, the presentation of combined or consolidated financial statements is required when certain elements of control and economic interest, as defined in the statement, exist between nonprofit organizations. Although the organizations operate as separate legal entities, consolidated financial statements have been presented to comply with accounting principles generally accepted in the United States of America (U.S. GAAP). Balances and significant transactions between the organizations, if any, have been eliminated in the consolidation.

Basis of accounting: The Organization's consolidated financial statements (collectively, the 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:

Net assets without donor restrictions: Net assets are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Organization's Board of Directors.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Net assets with donor restrictions: Net assets are those 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 net assets with donor restrictions. Net assets with donor restrictions are released from restriction when the expenses are incurred for their designated purpose or when the time restriction has expired.

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 throughout the year. The Organization's certificate of deposit at December 31, 2020, has an interest rate of 3.25% and a maturity date of November 2021. The Organization's certificate of deposit at December 31, 2019, had an interest rate of 3.25% and a maturity date of December 2020.

Concentration of risk: The Organization occasionally maintains cash balances in excess of federally insured amounts. Management believes that the risk of loss is minimal due to strength of the institutions.

Income taxes: As nonprofit organizations described in IRC section 501(c)(3), Heart to Heart International, Inc., Heart to Heart International Foundation, and RegaloRx are exempt from federal and state income taxes, except on unrelated business income, under section 501(a). The organizations have been determined to not be private foundations and are classified as public charities.

Unrelated business income tax, if any, is immaterial to the accompanying financial statements. 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, 2020 or 2019, 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 estimated fair value of the donated goods at the date of donation.

During the year ended December 31, 2020 and 2019, medical donated inventory was recorded at fair value using the wholesale acquisition cost (WAC) method at the date of donation. WAC is defined in federal law as the manufacturer's list price for the drug to wholesalers or direct purchases, not including prompt pay or other discounts, rebates or reductions, for the most recent month for which information is available. The Organization uses a data tool developed by First Databank, an international provider of data for pharmaceutical products and services, to obtain the WAC for medical donated inventory received. The inventory is not available for sale.

For both the years ended December 31, 2020 and 2019, nonmedical donated inventory was estimated at 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. The inventory is not available for sale.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Organization records a loss for the decrease in value of expired inventory and this is reflected as an inventory valuation adjustment. This was \$16,959,071 and \$79,129,033 for the years ended December 31, 2020 and 2019, respectively.

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

	<u>Estimated Useful Lives</u>
Buildings	39 years
Building improvements	5-10 years
Furniture and equipment	5-10 years
Computer equipment and software	3-5 years
Vehicles	3-10 years

Gifts in kind—donated shipping: The Organization recorded \$992,691 and \$667,392 in shipping expense for overseas and domestic freight during the years ended December 31, 2020 and 2019, respectively. The donated shipping is also included as revenue in support and revenue without donor restrictions.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP 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 gifts-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.

Revenue recognition: Cash and gifts-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 without donor restriction use unless specifically restricted by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 consolidated statements of activities. These amounts are reflected at fair value in the financial statements, which amounted to \$205,633 and \$534,237 for the years ended December 31, 2020 and 2019, respectively. In addition, approximately 46,685 and 27,060 volunteer hours were provided to the Organization during the years ended December 31, 2020 and 2019, 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 the service would typically need to be purchased if not contributed.

RegaloRx fees revenues: The Organization recognizes revenue in accordance with ASC 606, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Organization's services are described in nature of business above. The Organization has two customers for which it administers its patience assistance program. Revenue is subject to economic conditions and may fluctuate based on changes in the pharmaceutical industry.

The Organization assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. There is currently only one customer for which the Organization has a signed contract. This contract does not contain an explicit early termination penalty; the contract term is considered month-to-month (or day-to-day), as they can be canceled at any time. Revenue is recognized upon delivery of services, which is over time of the contract period.

The transaction price is the amount of consideration to which the Organization expects to be entitled in exchange for transferring services to the customer. Revenue from services is recorded based on the transaction price including variable consideration such as discounts and rebates. Variable consideration is estimated using the expected-value method and is included in the transaction price only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur.

Payment terms on invoiced amounts are 15 days. In instances where the timing of revenue recognition differs from the timing of the right to invoice, the Organization has determined that a significant financing component generally does not exist. The Organization excludes from revenue sales taxes and other government-assessed and imposed taxes on revenue-generating activities that are invoiced to the customer.

Accounts receivable: Accounts receivable reflect balances due from companies for COVID testing, PowerServ events and nominal amounts owed for travel expenditures incurred by employees. The Organization determined there was no allowance for uncollectible amounts as of December 31, 2020 and 2019.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Functional expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying consolidated statements of functional expenses. Expenses that can be identified with a specific program, general and administrative function, or fundraising effort are allocated directly to those functional categories. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source using allocations. Salaries and benefits are allocated based upon actual time incurred. Rent is allocated based upon estimated square footage. All other costs are either directly allocated or are allocated based upon actual time incurred. Direct benefit to donor costs have been included in fundraising costs on the consolidated statements of functional expenses as the associated costs are not material in relation to the financial statements taken as a whole. During the year ended December 31, 2019, the Organization began allocating expense to an additional program category: patient assistance program.

Deferred revenue: The Organization records deferred revenue related to funds received for future programmatic events.

Advertising costs: Advertising costs are charged to operations when incurred. Advertising expenses totaled \$14,998 and \$7,903 for the years ended December 31, 2020 and 2019, respectively.

Recent accounting pronouncement: In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal year 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period present in the financial statements, with certain practical expedients available. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

Note 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 5%. Amortization of the discounts is included in contribution revenue. The Organization determined an allowance for uncollectible amounts of \$32,175 and \$40,050 as of December 31, 2020 and 2019, respectively.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 2. Pledges Receivable (Continued)

Pledges receivable consist of the following at December 31, 2020 and 2019:

	2020	2019
In less than one year	\$ 465,000	\$ 336,500
In one to five years	293,500	576,000
	<u>758,500</u>	<u>912,500</u>
Less allowance for uncollectible pledges	(32,175)	(40,450)
Less present value discount	(51,967)	(82,985)
Total pledges receivable	<u>\$ 674,358</u>	<u>\$ 789,065</u>

Note 3. Federal Grants Receivable

During the year ended December 31, 2018, the Organization received a federal grant with the Center for Disease Control and Prevention (CDC) to help strengthen the U.S. Public Health System response to the opioid crisis in the amount of \$9,515,248 to be spent in the period from September 30, 2018 to September 29, 2019. During the year ended December 31, 2019, the CDC awarded the Organization an additional amount of \$763,229 to be spent in the period through September 30, 2020. The Organization spent \$0 in federal funds on this project during the year ended December 31, 2020, and as of December 31, 2020, the Organization was owed \$0 from the CDC for these expenditures. The Organization spent \$4,327,826 in federal funds on this project during the year ended December 31, 2019, and as of December 31, 2019, the Organization was owed \$0 from the CDC for these expenditures.

Note 4. Inventory

Inventory consists of the following at December 31, 2020 and 2019:

	2020	2019
Pharmaceutical supplies	\$ 101,443,002	\$ 17,108,850
Medical and other supplies	2,665,690	2,787,614
Total inventory	<u>\$ 104,108,692</u>	<u>\$ 19,896,464</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 5. Property and Equipment

Property and equipment consists of the following at December 31, 2020 and 2019:

	2020	2019
Cost:		
Land	\$ 9,426,256	\$ 9,711,912
Buildings	344,000	344,000
Building improvements	393,874	305,906
Furniture and equipment	798,025	259,302
Computer equipment and software	905,983	907,614
Vehicles	735,416	754,823
Total cost	<u>12,603,554</u>	<u>12,283,557</u>
Accumulated depreciation	(2,196,905)	(1,686,156)
Net property and equipment	<u>\$ 10,406,649</u>	<u>\$ 10,597,401</u>

Note 6. Long-Term Debt

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

	2020	2019
Note payable with interest-only payments of 3.07% due yearly on December 11. A final balloon payment in the amount of \$1,000,000 is due on December 11, 2027.	\$ 1,000,000	\$ 1,000,000
Note payable with interest-only payments of 2.75% due yearly on December 23. A final balloon payment in the amount of \$1,000,000 is due on December 31, 2023.	1,000,000	1,000,000
Note payable with interest-only payments of 2.75% due yearly on December 31. A final balloon payment in the amount of \$125,000 is due on December 31, 2023.	125,000	-
Note payable, secured by real property. Interest-only payments due monthly until September 2019. Beginning October 2019, monthly payments of principal and interest totaling \$42,299 are due until August 2024. A final balloon payment in the amount of \$6,240,390 is due September 2024.	5,797,246	6,315,842
Total debt	<u>7,922,246</u>	<u>8,315,842</u>
Less current portion	(237,741)	(276,595)
Noncurrent debt	<u>\$ 7,684,505</u>	<u>\$ 8,039,247</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 6. Long-Term Debt (Continued)

Maturities for notes payable are as follows:

Years ending December 31:	
2021	\$ 237,741
2022	246,532
2023	1,381,537
2024	5,056,436
2025	-
Thereafter	1,000,000
Total	<u>\$ 7,922,246</u>

The total amount of interest paid during the years ended December 31, 2020 and 2019, was \$278,734 and \$233,274, respectively.

During the years ended December 31, 2020 and 2019, the Organization has available a line of credit up to \$250,000 with a bank at an interest rate of 3.25% and maturity date of November 2021. The balance on this line of credit was \$0 at December 31, 2020 and 2019.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law and is meant to address the economic fallout from the COVID-19 pandemic. In connection, the Organization received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan for \$827,900 in April 2020. Proceeds from this loan were used for the retention of employees and maintaining payroll. The Organization received notice of the forgiveness of the loan from the SBA in November 2020. Proceeds from the loan are recorded as a gain on forgiveness of Paycheck Protection Program loan on the consolidated statement of activities.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 7. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of funds held for the following purposes:

	December 31	
	2020	2019
Net assets with donor restrictions:		
Restricted for programs:		
NAFC—Lab Project	\$ 77,029	\$ 180,951
Shipping Grant	98,513	37,368
WHO Certification	150,042	264,863
Puerto Rico Hurricane Recovery	362,845	505,214
Fleet Management	237,882	112,474
One Child One Blanket (J&J Kits)	113,910	37,328
Becton Dickson's Puerto Rico Volunteer Service Trip (BD PR VST)	62,583	73,917
US Disaster Response	717,719	656,561
COVID-19 Response	421,730	-
Hurricane Dorian Bahamas (Dorian International)	359,990	193,492
Volunteer Service Trip Consulting (VST Consulting)	16,244	3,169
Capital Campaign	752,072	51,827
Haiti	69,867	-
Total restricted for programs	<u>3,440,426</u>	<u>2,117,164</u>
Restricted for endowments:		
Endowment Fund	20,517	18,243
Staff Development	2,000	2,000
General Perpetuity Fund	57,023	54,850
Total restricted in perpetuity	<u>79,540</u>	<u>75,093</u>
Total net assets with donor restrictions	<u>\$ 3,519,966</u>	<u>\$ 2,192,257</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 7. Net Assets With Donor Restrictions (Continued)

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

	December 31	
	2020	2019
Releases from net assets with donor restrictions:		
BD Papua New Guinea Project	\$ 5,165	\$ 26,260
BD Africa Volunteer Service Trip	205	-
BD Puerto Rico Volunteer Service Trip	11,334	59,083
Cameroon, Africa	-	21,120
Capital Campaign	434,488	587,371
COVID-19 Response	2,585,504	-
Cuba	1,774	28,419
Fleet Management	-	133,254
Haiti	638,702	1,134,287
Hurricane Dorian Bahamas	99,081	390,089
Hurricane Dorian Domestic Response	-	95,478
Lutheran World Relief	108,843	-
Mozambique Cyclone Idai	-	20,948
NAFC—Lab Project	203,922	388,833
One Child One Blanket	144,705	177,672
Puerto Rico Hurricane Recovery	163,845	501,370
Rural Health	-	325,139
Shipping Grant	143,855	42,165
Syrian Refugees	-	21,071
US Disaster Response	46,437	356,613
Volunteer Service Trip Consulting	11,925	21,831
WHO Certification	114,820	102,795
Total releases from net assets with donor restrictions	<u>\$ 4,714,605</u>	<u>\$ 4,433,798</u>

Note 8. Leases

The Organization leases office space, certain office equipment, and vehicles under operating leases through June 2024. Lease expense totaled \$11,322 and \$95,320 for the years ended December 31, 2020 and 2019, respectively. Future minimum rental payments required under operating leases with initial or remaining noncancelable lease terms in excess of one year are:

Years ending December 31:	
2021	\$ 11,310
2022	10,947
2023	5,710
2024	3,300
Total	<u>\$ 31,267</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 9. Liquidity Disclosure

The Organization has various sources of liquidity at its disposal, including cash, certificates of deposit, investments and a line of credit. For purposes of analyzing resources available over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. Additionally, the Organization monitors its budget and anticipates sufficient revenue to cover general expenditures over the next 12 months. Refer to the consolidated statements of cash flows, which identify the sources and uses of the Organization's cash. As of December 31, 2020 and 2019, the following financial assets could be made available within one year of the consolidated balance sheet date to meet general obligations:

	December 31	
	2020	2019
Cash and cash equivalents	\$ 7,910,953	\$ 5,689,691
Accounts receivable	1,065,493	473,953
Pledges receivable, current portion	465,000	336,500
	<u>9,441,446</u>	<u>6,500,144</u>
Less cash subject to donor-imposed restrictions	(3,519,966)	(2,192,257)
Financial assets available for general expenditures	<u>\$ 5,921,480</u>	<u>\$ 4,307,887</u>

Note 10. Concentrations

Two donors accounted for 79% and 88% of the Organization's pledges receivable at December 31, 2020 and 2019, respectively.

Two companies accounted for 94% of the Organization's accounts receivable at December 31, 2020. Three companies accounted for 78% of the Organization's accounts receivable at December 31, 2019.

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. One company provided approximately 85% and 96% of the gifts-in-kind contributions during the years ended December 31, 2020 and 2019, respectively.

Note 11. Subsequent Events

The Organization has evaluated subsequent events through June 17, 2021, which is the date the financial statements were available to be issued. The below item was noted as a subsequent event.

In February and March 2021, the Organization paid \$2,000,000 on the mortgage loan after receiving a \$1,000,000 donation from a donor in January 2021.

RegaloRx, Inc. took out a \$3,000,000 loan on January 15, 2021, and used the proceeds to (i) pay off balance that was due to Heart to Heart International, Inc. and (ii) provide working capital for ongoing operations. Regalo Rx and Heart to Heart International, Inc. are Co-Borrowers for this loan, but the intention is for the full balance of the debt to be the responsibility of RegaloRx. The loan bears interest of 4.25%. Interest-only payments will begin on March 31, 2021, and principal and interest payments will begin March 31, 2022.

Supplementary Information

Heart to Heart International, Inc.

Consolidating Statement of Financial Position
December 31, 2020

	Heart to Heart International	RegaloRx	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 7,575,727	\$ 335,226	\$ -	\$ 7,910,953
Certificates of deposit	250,000	-	-	250,000
Accounts receivable	2,902,831	361,113	(2,198,451)	1,065,493
Pledges receivable, current portion	465,000	-	-	465,000
Inventory	104,108,692	-	-	104,108,692
Other current assets	48,585	44,172	-	92,757
Total current assets	115,350,835	740,511	(2,198,451)	113,892,895
Pledges receivable, less current portion above, net of allowance and discount	209,358	-	-	209,358
Property and equipment, net of accumulated depreciation	10,173,807	232,842	-	10,406,649
Total assets	\$ 125,734,000	\$ 973,353	\$ (2,198,451)	\$ 124,508,902
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 155,857	\$ 2,418,819	\$ (2,198,451)	\$ 376,225
Accrued liabilities	122,745	202,323	-	325,068
Deferred revenue	78,255	-	-	78,255
Long-term debt, current portion	237,741	-	-	237,741
Total current liabilities	594,598	2,621,142	(2,198,451)	1,017,289
Long-term debt, less current portion above	6,559,505	1,125,000	-	7,684,505
Total liabilities	7,154,103	3,746,142	(2,198,451)	8,701,794
Net assets (deficit) without donor restrictions	115,059,931	(2,772,789)	-	112,287,142
Net assets with donor restrictions	3,519,966	-	-	3,519,966
Total net assets	118,579,897	(2,772,789)	-	115,807,108
Total liabilities and net assets	\$ 125,734,000	\$ 973,353	\$ (2,198,451)	\$ 124,508,902

Heart to Heart International, Inc.

Consolidating Statement of Activities
Year Ended December 31, 2020

	Heart to Heart International	RegaloRx	Eliminations	Total
Support and revenue without donor restrictions:				
Gifts in kind	\$ 235,080,206	\$ -	\$ -	\$ 235,080,206
Contributions	2,668,480	-	-	2,668,480
Donated shipping	992,697	-	-	992,697
Governmental and corporate grants	1,811,811	-	-	1,811,811
Program revenue	2,117,618	-	-	2,117,618
RegaloRx fees revenues	-	3,054,583	-	3,054,583
Investment income, net	8,371	-	-	8,371
Gain on currency conversion	4,384	-	-	4,384
Loss on disposal of assets	(3,541)	-	-	(3,541)
Forgiveness of Paycheck Protection Program loan	552,800	275,100	-	827,900
Other income	10,105	-	-	10,105
Net assets released from restrictions	4,714,605	-	-	4,714,605
Total support and revenue without donor restrictions	247,957,536	3,329,683	-	251,287,219
Expenses:				
Program services—international	134,671,090	-	-	134,671,090
Program services—domestic	6,714,182	-	-	6,714,182
Program services—kit building	392,792	-	-	392,792
Program services—patient assistance program	-	4,366,335	-	4,366,335
Total program services	141,778,064	4,366,335	-	146,144,399
General and administrative	735,077	1,080,999	-	1,816,076
Fundraising public relations	393,224	-	-	393,224
Total supporting services	1,128,301	1,080,999	-	2,209,300
Total expenses	142,906,365	5,447,334	-	148,353,699
Inventory valuation adjustment	(16,959,071)	-	-	(16,959,071)
Changes in net assets without donor restrictions	88,092,100	(2,117,651)	-	85,974,449
Net assets with donor restrictions:				
Contributions	3,782,612	-	-	3,782,612
Governmental and corporate grants	2,255,189	-	-	2,255,189
Investment income	4,513	-	-	4,513
Net assets released from restrictions	(4,714,605)	-	-	(4,714,605)
Changes in net assets with donor restrictions	1,327,709	-	-	1,327,709
Changes in net assets	89,419,809	(2,117,651)	-	87,302,158
Net assets (deficit), beginning of year	29,160,088	(655,138)	-	28,504,950
Net assets (deficit), end of year	\$ 118,579,897	\$ (2,772,789)	\$ -	\$ 115,807,108