

Heart to Heart International, Inc.

Consolidated Financial Report and
Supplementary Information
December 31, 2021

Contents

Independent auditor's report	1-2
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Financial statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of functional expenses	5-6
Consolidated statements of cash flows	7
Notes to consolidated financial statements	8-17

Supplementary information	
Consolidating statement of financial position	18
Consolidating statement of activities	19

Independent Auditor's Report

Board of Directors
Heart to Heart International, Inc.

Report on the Audit of the Financial Statements***Opinion***

We have audited the consolidated financial statements of Heart to Heart International, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Kansas City, Missouri
July 6, 2022

Heart to Heart International, Inc.

Consolidated Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,778,304	\$ 7,910,953
Certificates of deposit	250,000	250,000
Accounts receivable	1,596,151	1,065,493
Pledges receivable, current portion	169,000	465,000
Inventory	50,299,313	104,108,692
Other current assets	531,520	92,757
Total current assets	60,624,288	113,892,895
Pledges receivable, less current portion above, net of allowance and discount	105,439	209,358
Property and equipment, net of accumulated depreciation	10,355,522	10,406,649
Total assets	\$ 71,085,249	\$ 124,508,902
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 434,651	\$ 376,225
Accrued liabilities	433,029	325,068
Deferred revenue	70,055	78,255
Line of credit	404,049	-
Long-term debt, current portion	1,415,308	237,741
Total current liabilities	2,757,092	1,017,289
Long-term debt, less current portion above	5,196,134	7,684,505
Total liabilities	7,953,226	8,701,794
Net assets without donor restrictions	61,511,284	112,287,142
Net assets with donor restrictions	1,620,739	3,519,966
Total net assets	63,132,023	115,807,108
Total liabilities and net assets	\$ 71,085,249	\$ 124,508,902

See notes to consolidated financial statements.

Heart to Heart International, Inc.

**Consolidated Statements of Activities
Years Ended December 31, 2021 and 2020**

	2021	2020
Support and revenue without donor restrictions:		
Gifts in kind	\$ 273,386,972	\$ 235,080,206
Contributions	4,465,315	2,668,480
Donated shipping	799,814	992,697
Governmental and corporate grants	1,804,411	1,811,811
Program revenue	890,232	2,117,618
RegaloRx fees revenues	5,037,334	3,054,583
Investment income, net	8,904	8,371
Gain on currency conversion	2,932	4,384
Loss on disposal of assets	-	(3,541)
Forgiveness of Paycheck Protection Program loan	-	827,900
Other income	2,712	10,105
Net assets released from restrictions	5,306,647	4,714,605
Total support and revenue without donor restrictions	291,705,273	251,287,219
Expenses:		
Program services—international	180,140,223	134,671,090
Program services—domestic	6,043,002	6,714,182
Program services—kit building	-	392,792
Program services—patient assistance program	4,916,041	4,366,335
Total program services	191,099,266	146,144,399
General and administrative	2,726,197	1,816,076
Fundraising public relations	550,367	393,224
Total supporting services	3,276,564	2,209,300
Total expenses	194,375,830	148,353,699
Inventory valuation adjustment	(148,105,301)	(16,959,071)
Changes in net assets without donor restrictions	(50,775,858)	85,974,449
Net assets with donor restrictions:		
Contributions	2,996,159	3,782,612
Governmental and corporate grants	382,564	2,255,189
Program revenue	28,697	-
Investment income	-	4,513
Net assets released from restrictions	(5,306,647)	(4,714,605)
Changes in net assets with donor restrictions	(1,899,227)	1,327,709
Changes in net assets	(52,675,085)	87,302,158
Net assets, beginning of year	115,807,108	28,504,950
Net assets, end of year	\$ 63,132,023	\$ 115,807,108

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statement of Functional Expenses Year Ended December 31, 2021

	Program Services			General and Administrative	Fundraising	Total
	International Projects	Domestic Projects	Patient Assistance Program			
Distributed aid	\$ 477,058	\$ 774,575	\$ -	\$ 500,000	\$ -	\$ 1,751,633
Donated medical and other services	199,854	97,891	-	-	-	297,745
Donated shipping	251,511	548,303	-	-	-	799,814
Insurance	36,794	51,181	-	8,324	4,903	101,202
Interest, fees and bank charges	60,655	95,102	-	168,668	52,780	377,205
Maintenance and repairs	69,913	63,341	13,406	4,919	10,152	161,731
Medical and contract services	911,623	539,323	-	53,045	45,533	1,549,524
Office	167,242	208,880	75,441	36,580	83,217	571,360
Postage and shipping	3,803	9,993	17,418	190	6,588	37,992
Printing	3,055	5,168	-	235	24,205	32,663
Professional fees	18,074	18,794	13,600	18,993	3,272	72,733
Publicity	7,779	588	-	2,274	1,839	12,480
Rent	5,220	-	-	-	-	5,220
Salaries and benefits	877,612	942,768	-	539,870	255,042	2,615,292
Special events	6,654	790	-	762	58,057	66,263
Staff development	1,277	156	13,810	295	257	15,795
Telephone	36,565	14,153	18,420	3,237	2,560	74,935
Travel and meals	770,917	78,220	1,434	1,585	1,962	854,118
Pharmacy—service charges	-	-	680,884	-	-	680,884
Pharmacy—management	-	-	54,000	-	-	54,000
Credit checks	-	-	30,427	-	-	30,427
Printing, mailings for client	-	-	107,574	-	-	107,574
Other	-	-	720	-	-	720
Salaries and benefits—RegaloRx	-	-	2,468,279	920,144	-	3,388,423
Contract labor	-	-	533,751	-	-	533,751
Contract services	-	-	62,251	-	-	62,251
Software	-	-	403,552	-	-	403,552
Consulting fees	-	-	334,805	5,700	-	340,505
Expenses before depreciation and gifts-in-kind distribution	3,905,606	3,449,226	4,829,772	2,264,821	550,367	14,999,792
Depreciation	36,565	-	86,269	461,376	-	584,210
Gifts-in-kind distribution	176,198,052	2,593,776	-	-	-	178,791,828
Total expenses	\$ 180,140,223	\$ 6,043,002	\$ 4,916,041	\$ 2,726,197	\$ 550,367	\$ 194,375,830
Percent of total	92.68%	3.11%	2.53%	1.40%	0.28%	100%

See notes to consolidated financial statements.

Heart to Heart International, Inc.

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2020**

	Program Services						Fundraising	Total
	International Projects	Domestic Projects	Kit Building	Patient Assistance Program	General and Administrative			
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—RegaloRx	-	-	-	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
Percent of total	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 Statements of Cash Flows Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Changes in net assets	\$ (52,675,085)	\$ 87,302,158
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	584,210	515,114
Change in allowance for uncollectible pledges	(15,670)	(8,275)
Amortization of pledge discount	(29,911)	(31,018)
Loss on disposal of assets	-	3,541
Gain on extinguishment of Paycheck Protection Program loan	-	(827,900)
Decrease (increase) in operating assets:		
Inventory	53,809,379	(84,212,228)
Accounts receivable	(530,658)	(591,540)
Pledges receivable	445,500	154,000
Federal grants receivable	-	-
Other current assets	(438,763)	(44,256)
Increase (decrease) in operating liabilities:		
Accounts payable	58,426	54,341
Accrued liabilities	107,961	(125,075)
Deferred revenue	(8,200)	26,000
Net cash provided by operating activities	1,307,189	2,214,862
Cash flows from investing activities:		
Purchase of certificate of deposit	(250,000)	(250,000)
Sale of certificate of deposit	250,000	250,000
Purchase of property and equipment	(533,083)	(427,904)
Net cash used in investing activities	(533,083)	(427,904)
Cash flows from financing activities:		
Repayment of long-term debt	(4,310,804)	(518,596)
Proceeds from long-term debt	3,000,000	125,000
Proceeds from line of credit	404,049	-
Proceeds from Paycheck Protection Program loan	-	827,900
Net cash used in financing activities	(906,755)	434,304
Net changes in cash and cash equivalents	(132,649)	2,221,262
Cash and cash equivalents, beginning of year	7,910,953	5,689,691
Cash and cash equivalents, end of year	\$ 7,778,304	\$ 7,910,953
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 318,911	\$ 309,385
Contributed inventory	\$ 273,074,695	\$ 234,873,400
Inventory valuation adjustment	\$ (148,105,301)	\$ (16,959,071)
Noncash investing and financing activities:		
Capital expenditures disposed from accounts payable	\$ -	\$ 100,001
Forgiveness of Paycheck Protection Program loan	\$ -	\$ 827,900

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 to work toward healthier communities in Haiti; providing hygiene and medical supplies, medical education, and health education and training. The Organization has been reducing its impact in Haiti and will close operations in 2023.

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.

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.

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, 2021, has an interest rate of 0.10% and a maturity date of November 2022. The Organization's certificate of deposit at December 31, 2020, has an interest rate of 3.25% and a maturity date of November 2021.

Concentration of risk: The Organization occasionally maintains cash balances in excess of federally insured amounts. The Organization has not experienced any losses in such accounts.

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, 2021 or 2020, 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 years ended December 31, 2021 and 2020, 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.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

For both the years ended December 31, 2021 and 2020, 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.

The Organization records a loss for the decrease in value of expired inventory and this is reflected as an inventory valuation adjustment. This was \$148,105,301 and \$16,959,071 for the years ended December 31, 2021 and 2020, 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 \$799,814 and \$992,697 in shipping expense for overseas and domestic freight during the years ended December 31, 2021 and 2020, 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 \$297,746 and \$205,633 for the years ended December 31, 2021 and 2020, respectively. In addition, 23,574 and 46,685 volunteer hours were provided to the Organization during the years ended December 31, 2021 and 2020, 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-19 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, 2021 and 2020.

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.

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 \$12,480 and \$14,998 for the years ended December 31, 2021 and 2020, respectively.

Recent accounting pronouncements: 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 does not expect a material impact on the financial statements and related disclosures.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Organization beginning on January 1, 2022. The adoption of ASU 2020-07 is not expected to have a significant impact on the Organization's financial statements.

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 \$16,505 and \$32,175 as of December 31, 2021 and 2020, 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, 2021 and 2020:

	2021	2020
In less than one year	\$ 169,000	\$ 465,000
In one to five years	144,000	293,500
	<u>313,000</u>	<u>758,500</u>
Less allowance for uncollectible pledges	(16,505)	(32,175)
Less present value discount	(22,056)	(51,967)
Total pledges receivable	<u>\$ 274,439</u>	<u>\$ 674,358</u>

Note 3. Inventory

Inventory consists of the following at December 31, 2021 and 2020:

	2021	2020
Pharmaceutical supplies	\$ 47,763,258	\$ 101,443,002
Medical and other supplies	2,536,055	2,665,690
Total inventory	<u>\$ 50,299,313</u>	<u>\$ 104,108,692</u>

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2021 and 2020:

	2021	2020
Cost:		
Land	\$ 9,426,256	\$ 9,426,256
Buildings	344,000	344,000
Building improvements	583,675	393,874
Furniture and equipment	855,478	798,025
Computer equipment and software	1,017,219	905,983
Vehicles	910,008	735,416
Total cost	<u>13,136,636</u>	<u>12,603,554</u>
Accumulated depreciation	<u>(2,781,114)</u>	<u>(2,196,905)</u>
Net property and equipment	<u>\$ 10,355,522</u>	<u>\$ 10,406,649</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 5. Long-Term Debt

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

	2021	2020
Note payable with interest-only payments of 3.07% due yearly on December 11. Note was fully paid off in 2021.	\$ -	\$ 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 \$1,000,000 is due on December 31, 2023.	1,000,000	1,000,000
Note payable to a member of senior management 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	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 \$39,437 are due until August 2024. A final balloon payment in the amount of \$885,341 is due September 2024.	2,486,442	5,797,246
Note payable with four interest-only payments of 4.25% due quarterly starting March 31, 2021. Then 12 quarterly principal and interest payments of \$160,384, with a final balloon payment of \$1,371,252 on January 15, 2025.	3,000,000	-
Total debt	<u>6,611,442</u>	<u>7,922,246</u>
Less current portion	<u>(1,415,308)</u>	<u>(237,741)</u>
Noncurrent debt	<u>\$ 5,196,134</u>	<u>\$ 7,684,505</u>

Maturities for notes payable are as follows:

Years ending December 31:	
2022	\$ 1,415,308
2023	2,081,573
2024	1,735,026
2025	1,379,535
Total	<u>\$ 6,611,442</u>

The total amount of interest expense during the years ended December 31, 2021 and 2020, was \$318,911 and \$278,734, respectively.

During the years ended December 31, 2021 and 2020, 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 2022. The balance on this line of credit was \$0 at December 31, 2021 and 2020.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 5. Long-Term Debt (Continued)

The Organization obtained a line of credit from Wells Fargo Bank on August 20, 2021. The available line of credit changes based on pledged collateral accounts on the last day of the month, \$906,860 as of December 31, 2021. The intention of the line of credit was to have an influx of cash to be able to fund several projects beginning in 2022. The line of credit does not have a maturity date. The line of credit bears interest of 2.75% at December 31, 2021. Principal is to be repaid at maturity, with interest due monthly. Borrowings outstanding on this line of credit were \$404,049 at December 31, 2021. The line of credit is secured by a member of senior management who is the co-signer.

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 statement of activities.

Note 6. Net Assets With Donor Restrictions

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

	December 31	
	2021	2020
Net assets with donor restrictions:		
Restricted for programs:		
Africa VST Eswatini	\$ 71,482	\$ -
NAFC—Lab Project	244,467	77,029
US Labs	195,454	-
Shipping Grant	-	98,513
WHO Certification	99,527	150,042
Puerto Rico Hurricane Recovery	-	362,845
Fleet Management	-	237,882
One Child One Blanket (J&J Kits)	-	113,910
Becton Dickson's Puerto Rico Volunteer Service Trip (BD PR VST)	61,426	62,583
US Disaster Response	688,064	717,719
COVID-19 Response	-	421,730
COVID-19 Grant	93,164	-
Hurricane Dorian Bahamas (Dorian International)	-	359,990
Volunteer Service Trip Consulting (VST Consulting)	68,189	16,244
Pepfar	16,432	-
Capital Campaign	-	752,072
Haiti	-	69,867
Total restricted for programs	<u>1,538,205</u>	<u>3,440,426</u>
Restricted in perpetuity:		
Endowment Fund	22,665	20,517
Staff Development	2,000	2,000
General Perpetuity Fund	57,869	57,023
Total restricted in perpetuity	<u>82,534</u>	<u>79,540</u>
Total net assets with donor restrictions	<u>\$ 1,620,739</u>	<u>\$ 3,519,966</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 6. 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	
	2021	2020
Releases from net assets with donor restrictions:		
Africa VST Eswatini	\$ 83,518	\$ -
BD Papua New Guinea Project	-	5,165
BD Africa Volunteer Service Trip	-	205
BD Puerto Rico Volunteer Service Trip	1,158	11,334
Capital Campaign	1,900,653	434,488
COVID-19 Response	529,852	2,585,504
COVID-19 Grant	6,836	-
Cuba	-	1,774
Fleet Management	387,882	-
Haiti	640,461	638,702
Hurricane Dorian Bahamas	359,990	99,081
Lutheran World Relief	-	108,843
NAFC—Lab Project	192,562	203,922
One Child One Blanket	368,910	144,705
Pepfar	80	-
Puerto Rico Hurricane Recovery	362,845	163,845
Shipping Grant	98,513	143,855
US Disaster Response	300,270	46,437
US Labs	4,546	-
Volunteer Service Trip Consulting	18,055	11,925
WHO Certification	50,516	114,820
Total releases from net assets with donor restrictions	<u>\$ 5,306,647</u>	<u>\$ 4,714,605</u>

Note 7. Leases

The Organization leases office space, certain office equipment, and vehicles under operating leases through June 2024. Lease expense totaled \$17,195 and \$11,322 for the years ended December 31, 2021 and 2020, 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:		
2022		\$ 10,947
2023		5,710
2024		3,300
Total		<u>\$ 19,957</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 8. Liquidity Disclosure

The Organization has various sources of liquidity at its disposal, including cash, certificates of deposit 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, 2021 and 2020, the following financial assets could be made available within one year of the consolidated statement of financial position date to meet general obligations:

	December 31	
	2021	2020
Cash and cash equivalents	\$ 7,778,304	\$ 7,910,953
Accounts receivable	1,596,151	1,065,493
Pledges receivable, current portion	169,000	465,000
	9,543,455	9,441,446
Less cash subject to donor-imposed restrictions	(1,620,739)	(3,519,966)
Financial assets available for general expenditures	<u>\$ 7,922,716</u>	<u>\$ 5,921,480</u>

Note 9. Concentrations

Two donors accounted for 80% and 79% of the Organization's pledges receivable at December 31, 2021 and 2020, respectively.

One company accounted for 97% of the Organization's accounts receivable at December 31, 2021. Two companies accounted for 94% of the Organization's accounts receivable at December 31, 2020.

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. Two companies accounted for 91% of the gift-in-kind contributions during the year ended December 31, 2021. One company accounted for 85% of the gift-in-kind contributions during the year ended December 31, 2020.

One company accounted for 99% and 100% of the Organization's RegaloRx fee revenue for the years ended December 31, 2021 and 2020, respectively.

Note 10. Subsequent Events

In March 2022, the Organization closed the Haiti offshore office. The Organization will donate the Haiti fixed assets to the new entity taking over the operations. The Organization has pledged financial assistance of \$15,000 for nine months for a total of \$135,000 to the new entity.

In March 2022, the Organization paid down an additional \$500,000 of principal on the note payable.

The Organization has evaluated subsequent events through July 6, 2022, which is the date the financial statements were available to be issued.

Supplementary Information

Heart to Heart International, Inc.

Consolidating Statement of Financial Position
December 31, 2021

	Heart to Heart International	RegaloRx	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 7,759,211	\$ 19,093	\$ -	\$ 7,778,304
Certificates of deposit	250,000	-	-	250,000
Accounts receivable	465,831	1,547,802	(417,482)	1,596,151
Pledges receivable, current portion	169,000	-	-	169,000
Inventory	50,299,313	-	-	50,299,313
Other current assets	496,212	35,308	-	531,520
Total current assets	59,439,567	1,602,203	(417,482)	60,624,288
Pledges receivable, less current portion above, net of allowance and discount	105,439	-	-	105,439
Property and equipment, net of accumulated depreciation	10,102,236	253,286	-	10,355,522
Total assets	\$ 69,647,242	\$ 1,855,489	\$ (417,482)	\$ 71,085,249
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 25,873	\$ 826,260	\$ (417,482)	\$ 434,651
Accrued liabilities	170,696	262,333	-	433,029
Deferred revenue	70,055	-	-	70,055
Line of credit	-	404,049	-	404,049
Long-term debt, current portion	895,796	519,512	-	1,415,308
Total current liabilities	1,162,420	2,012,154	(417,482)	2,757,092
Long-term debt, less current portion above	1,590,646	3,605,488	-	5,196,134
Total liabilities	2,753,066	5,617,642	(417,482)	7,953,226
Net assets (deficit) without donor restrictions	65,273,437	(3,762,153)	-	61,511,284
Net assets with donor restrictions	1,620,739	-	-	1,620,739
Total net assets	66,894,176	(3,762,153)	-	63,132,023
Total liabilities and net assets	\$ 69,647,242	\$ 1,855,489	\$ (417,482)	\$ 71,085,249

Heart to Heart International, Inc.

Consolidating Statement of Activities
Year Ended December 31, 2021

	Heart to Heart International	RegaloRx	Eliminations	Total
Support and revenue without donor restrictions:				
Gifts in kind	\$ 273,386,972	\$ -	\$ -	\$ 273,386,972
Contributions	4,465,315	-	-	4,465,315
Donated shipping	799,814	-	-	799,814
Governmental and corporate grants	1,804,411	-	-	1,804,411
Program revenue	890,232	-	-	890,232
RegaloRx fees revenues	-	5,037,334	-	5,037,334
Investment income, net	8,904	-	-	8,904
Gain on currency conversion	2,932	-	-	2,932
Other income	2,712	-	-	2,712
Net assets released from restrictions	5,306,647	-	-	5,306,647
Total support and revenue without donor restrictions	286,667,939	5,037,334	-	291,705,273
Expenses:				
Program services—international	180,140,223	-	-	180,140,223
Program services—domestic	6,043,002	-	-	6,043,002
Program services—patient assistance program	-	4,916,041	-	4,916,041
Total program services	186,183,225	4,916,041	-	191,099,266
General and administrative	1,615,540	1,110,657	-	2,726,197
Fundraising public relations	550,367	-	-	550,367
Total supporting services	2,165,907	1,110,657	-	3,276,564
Total expenses	188,349,132	6,026,698	-	194,375,830
Inventory valuation adjustment	(148,105,301)	-	-	(148,105,301)
Changes in net assets without donor restrictions	(49,786,494)	(989,364)	-	(50,775,858)
Net assets with donor restrictions:				
Contributions	2,996,159	-	-	2,996,159
Governmental and corporate grants	382,564	-	-	382,564
Program revenue	28,697	-	-	28,697
Net assets released from restrictions	(5,306,647)	-	-	(5,306,647)
Changes in net assets with donor restrictions	(1,899,227)	-	-	(1,899,227)
Changes in net assets	(51,685,721)	(989,364)	-	(52,675,085)
Net assets (deficit), beginning of year	118,579,897	(2,772,789)	-	115,807,108
Net assets (deficit), end of year	\$ 66,894,176	\$ (3,762,153)	\$ -	\$ 63,132,023