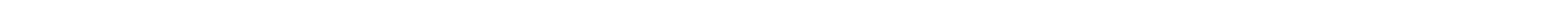




**HEART TO HEART INTERNATIONAL, INC.**

**FINANCIAL STATEMENTS**

Years Ended December 31, 2018 and 2017





## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors

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

We have audited the accompanying financial statements of Heart to Heart International, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heart to Heart International, Inc. as of December 31, 2018 and 2017, 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.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2018, the Organization adopted Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*Mayer Hoffman McCann P.C.*

Kansas City, Missouri  
August 20, 2019

**HEART TO HEART INTERNATIONAL, INC.**

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,949,422	\$ 5,842,555
Certificates of deposit	250,000	466,304
Investments	40,628	41,714
Accounts receivable	104,379	9,018
Pledges receivable, current portion	472,230	-
Grants receivable, current portion	206,653	224,169
Federal grants receivable	1,725,455	-
Inventory	15,485,623	37,792,141
Other current assets	78,689	65,095
<b>TOTAL CURRENT ASSETS</b>	<b>24,313,079</b>	<b>44,440,996</b>
PLEDGES RECEIVABLE, less current portion above	384,668	-
GRANTS RECEIVABLE, less current portion above	-	199,207
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	10,304,221	1,014,816
<b>TOTAL ASSETS</b>	<b>\$ 35,001,968</b>	<b>\$ 45,655,019</b>
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,773,406	\$ 41,101
Accrued liabilities	199,497	247,867
Deferred revenue	185,857	-
Long-term debt, current portion	145,598	43,906
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,304,358</b>	<b>332,874</b>
LONG-TERM DEBT, less current portion above	7,829,402	292,763
<b>TOTAL LIABILITIES</b>	<b>10,133,760</b>	<b>625,637</b>
<b><u>NET ASSETS</u></b>		
NET ASSETS WITHOUT DONOR RESTRICTIONS	21,827,127	41,106,535
NET ASSETS WITH DONOR RESTRICTIONS	3,041,081	3,922,847
<b>TOTAL NET ASSETS</b>	<b>24,868,208</b>	<b>45,029,382</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 35,001,968</b>	<b>\$ 45,655,019</b>

See Notes to Financial Statements

**HEART TO HEART INTERNATIONAL, INC.**

**STATEMENTS OF ACTIVITIES**

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b><u>SUPPORT AND REVENUE WITHOUT DONOR RESTRICTIONS</u></b>		
Gifts in kind	\$ 215,590,523	\$ 127,219,274
Contributions	1,688,118	1,959,735
Donated shipping	1,041,169	1,562,693
Governmental and corporate grants	7,032,592	1,772,072
Program revenue	1,420,177	1,270,466
Investment income, net	10,366	2,915
(Loss)/gain on currency conversion	6,337	(1,008)
(Loss)/gain on sale of assets	(4,424)	7,660
Other income	6,917	2,197
Net assets released from restrictions	<u>4,868,745</u>	<u>4,385,875</u>
TOTAL SUPPORT AND REVENUE WITHOUT DONOR RESTRICTIONS	<u>231,660,520</u>	<u>138,181,879</u>
<b><u>EXPENSES</u></b>		
Program services - international	221,211,805	97,057,940
Program services - domestic	10,583,051	4,951,850
Program services - kit building	668,110	-
Total Program services	<u>232,462,966</u>	<u>102,009,790</u>
General and administrative	623,890	470,412
Fundraising and public relations	615,055	255,474
Total Supporting services	<u>1,238,945</u>	<u>725,886</u>
TOTAL EXPENSES	<u>233,701,911</u>	<u>102,735,676</u>
<b><u>OTHER REVENUE (EXPENSE)</u></b>		
Inventory valuation adjustment	<u>(17,238,017)</u>	<u>(1,999,300)</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(19,279,408)</u>	<u>33,446,903</u>
<b><u>NET ASSETS WITH DONOR RESTRICTIONS</u></b>		
Contributions	3,211,986	3,962,981
Governmental and corporate grants	777,027	3,220,845
Investment (loss) income	(2,034)	3,647
Net assets released from restrictions	<u>(4,868,745)</u>	<u>(4,385,875)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(881,766)</u>	<u>2,801,598</u>
CHANGES IN NET ASSETS	(20,161,174)	36,248,501
NET ASSETS, BEGINNING OF YEAR	<u>45,029,382</u>	<u>8,780,881</u>
NET ASSETS, END OF YEAR	<u>\$ 24,868,208</u>	<u>\$ 45,029,382</u>

See Notes to Financial Statements

**HEART TO HEART INTERNATIONAL, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2018

	Program Services			General and Administrative	Fundraising	Total
	International Projects	Domestic Projects	Kit Building			
Distributed aid	\$ 241,496	\$ 642,580	\$ -	\$ -	\$ -	\$ 884,076
Donated medical and other services	73,660	136,975	-	-	-	210,635
Donated shipping	364,245	359,027	317,897	-	-	1,041,169
Insurance	13,869	24,841	5,492	7,995	2,665	54,862
Interest, fees, and bank charges	5,119	7,169	617	11,494	31,807	56,206
Maintenance and repairs	43,850	6,555	1,221	8,970	896	61,492
Medical and contract services	738,536	87,477	11,358	-	133,672	971,043
Office	158,615	89,144	21,276	23,771	50,290	343,096
CDC equipment purchases	-	5,896,458	-	-	-	5,896,458
Postage and shipping	32,849	26,470	1,443	-	3,940	64,702
Printing	5,242	2,076	631	3,799	17,517	29,265
Professional fees	5,684	23,610	3,744	4,873	9,310	47,221
Publicity	6,459	6,216	-	2,270	3,945	18,890
Rent	185,343	133,399	27,332	-	19,147	365,221
Salaries and benefits	821,759	611,767	202,019	455,740	175,971	2,267,256
Special events	15,630	5,386	-	8,106	138,110	167,232
Staff development	1,550	655	85	219	45	2,554
Telephone	46,646	13,662	2,289	1,073	1,020	64,690
Travel and meals	354,367	245,988	72,706	9,255	26,720	709,036
Expenses before depreciation and gifts-in-kind distribution	3,114,919	8,319,455	668,110	537,565	615,055	13,255,104
Depreciation	52,942	6,570	-	86,325	-	145,837
Gifts-in-kind distribution	218,043,944	2,257,026	-	-	-	220,300,970
<b>TOTAL EXPENSES</b>	<b>\$ 221,211,805</b>	<b>\$ 10,583,051</b>	<b>\$ 668,110</b>	<b>\$ 623,890</b>	<b>\$ 615,055</b>	<b>\$ 233,701,911</b>
	94.66%	4.53%	0.29%	0.26%	0.26%	100.00%

See Notes to Financial Statements

**HEART TO HEART INTERNATIONAL, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2017

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

See Notes to Financial Statements

**HEART TO HEART INTERNATIONAL, INC.**

**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (20,161,174)	\$ 36,248,501
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	145,837	106,628
Loss (gain) on sale of assets	4,424	(7,660)
Realized and unrealized loss (gain) on investments	1,086	(3,777)
Donated property and equipment	-	(7,466)
Contributions to finance capital campaign	(2,007,168)	-
Decrease (increase) in operating assets		
Inventory	22,306,518	(30,590,850)
Accounts receivable	(95,361)	(3,744)
Pledges receivable	-	75,000
Grant receivable	216,723	17,303
Federal grants receivable	(1,725,455)	-
Other current assets	(13,594)	(38,063)
Increase (decrease) in operating liabilities		
Accounts payable	1,732,305	(24,234)
Accrued liabilities	(48,370)	64,415
Deferred revenue	185,857	(230,566)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>541,628</b>	<b>5,605,487</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(9,509,054)	(369,249)
Proceeds from notes receivable	-	50,000
Proceeds from sale of property and equipment	69,388	12,000
Purchase of certificates of deposit	-	(340,883)
Proceeds from sale of certificates of deposit	216,304	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(9,223,362)</b>	<b>(648,132)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts for capital campaign	1,150,270	-
Net activity on line of credit	-	(249,442)
Repayment of long-term debt	(336,669)	(138,611)
Proceeds from long-term debt	7,975,000	-
Principal payments on capital lease	-	(39,147)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>8,788,601</b>	<b>(427,200)</b>
 NET CHANGES IN CASH AND CASH EQUIVALENTS	 106,867	 4,530,155
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 5,842,555	 1,312,400
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <b>\$ 5,949,422</b>	 <b>\$ 5,842,555</b>
<b>SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Donated property and equipment (Note 9)	\$ -	\$ 7,466

See Notes to Financial Statements



## HEART TO HEART INTERNATIONAL, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies

**Organization** – Heart To Heart International, Inc. (the “Organization”), a Kansas non-profit corporation, provides crisis response assistance and specific ongoing health care support to communities in need domestically and internationally. The Organization actively engages the services of volunteers through its initiatives, and it distributes medical supplies, pharmaceuticals, and other products to other relief agencies and communities in need.

The Organization currently operates and supports more than a dozen clinics in Haiti. The Organization responded after the earthquake in January 2010 and continues to work towards healthier communities in Haiti – providing continuing medical education and other needs in Haiti.

The Organization’s donor base for cash contributions primarily consists of individuals, businesses, civic groups, and foundations located throughout the United States. Gifts-in-kind are also received primarily from medical supply and pharmaceutical companies located throughout the United States.

In November of 2018, the Heart to Heart International Foundation (“HHIF”) received determination from the Internal Revenue Service that effective from August 2017 it was exempt from federal income taxes under Internal Revenue Code (IRC) 501(c)(3) and is a public charity. The HHIF is listed as a Type 1 supporting organization under IRC 509(a)(3) meaning it is operated, supervised, or controlled by another public charity, in this case, Heart to Heart International. HHIF is qualified to receive tax deductible bequests, devised, transfers, or gifts and will become operational in 2019.

**Basis of accounting** – The Organization’s financial statements are prepared on the accrual basis of accounting.

**Basis of presentation** – In accordance with the limitations, designations, and restrictions placed on the use of resources available to the Organization, the following classifications are utilized according to the nature and purpose of the resources:

- Net assets without donor restrictions: Net assets that 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.
- Net assets with donor restrictions: Net assets whose use by the Organization is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Amounts received that are restricted for future periods or restricted by the donor for specific purposes are reported as 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, 2018 has an interest rate of 1.27% and a maturity date of November 15, 2019. The Organization’s certificate of deposits at December 31, 2017 had interest rates between 1.02% and 1.24% and maturity dates ranging from March 15, 2018 to November 15, 2018.

## HEART TO HEART INTERNATIONAL, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies (continued)

**Concentration of risk** – The Organization largely maintains its cash balances in financial institutions located in the greater Kansas City, Missouri area. Most of these U.S. deposits are distributed between various banks so as to maintain balances no greater than \$250,000 insured limit per bank. The Organization also has checking accounts in Haiti that are uninsured. Accordingly, at December 31, 2018 and 2017, the Organization's uninsured cash and cash equivalents amounted to \$565,118 and \$628,740, respectively.

**Investments** – The Organization carries its investments at their fair values. Investment income, net, is reported on the statements of activities and consists of interest, dividends, and realized and unrealized gains and losses.

**Income taxes** – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a not-for-profit organization. In addition, the Organization has been classified as a publicly-supported organization which is not a private foundation within the meaning of Section 509(a)(1) of the Code. Accordingly, no provision has been made for Federal income tax. The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at December 31, 2018 or 2017, 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, 2018, 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.

During the year ended December 31, 2017, medical donated inventory was recorded at fair value based upon the estimate wholesale value of gifts received at the date of donation. Under this method, several methodologies were used in the determination of estimated wholesale value, including values provided by the donor, published industry pricing guides, internally-researched values, and internal average values for like-kind items.

For both the years ended December 31, 2018 and 2017 non-medical 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 any slow-moving or expired inventory and this is reflected as an inventory valuation adjustment. This was \$17,238,017 and \$1,999,300 for the years ended December 31, 2018 and 2017, respectively.

## HEART TO HEART INTERNATIONAL, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies (continued)

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

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

**Gifts-in-kind: Donated shipping** – The Organization recorded \$1,041,169 and \$1,562,693 in shipping expense for overseas and domestic freight during the years ended December 31, 2018 and 2017, respectively. The donated shipping is also included as revenue in unrestricted support and revenue.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates used in the Organization's financial statements include the valuation of gift-in-kind contributions and related inventory, the allocation of expenses on a functional basis to various program services and supporting activities, and the estimated useful lives used to depreciate property and equipment.

**Revenue recognition** – Cash and gift-in-kind contributions are received from individuals as well as domestic and multinational organizations. These contributions, including unconditional promises, are recognized as revenues when the donor's unconditional commitment is received. All contributions are considered to be 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.

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 statements of activities. These amounts are reflected at fair value in the financial statements which amounted to \$210,635 and \$913,248 for the years ended December 31, 2018 and 2017, respectively. In addition, approximately 14,480 and 30,380 volunteer hours were provided to the Organization during the years ended December 31, 2018 and 2017, respectively, for which no value has been assigned. Contributed service time meets the criteria to be recorded in the financial statements if it requires specialized skills, the service is being provided by an individual who possesses those skills, and if the service would typically need to be purchased if not contributed.

## HEART TO HEART INTERNATIONAL, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies (continued)

**Accounts receivable** – Accounts receivable reflect balances due from companies for 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, 2018 and 2017.

**Functional expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statements of functional expenses. Expenses that can be identified with a specific program, 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 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, 2018 the Organization began allocating expenses to an additional program category: kit building. During the year ended December 31, 2017, the Organization did not any allocate expenses to this functional category because the amount was immaterial.

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

**Advertising costs** - Advertising costs are charged to operations when incurred. Advertising expenses totaled \$18,890 and \$3,528 for the years ended December 31, 2018 and 2017, respectively.

**Recent accounting pronouncements** – During 2018 the Organization adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, Not-for-profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-profit Entities*. This standard addresses the complexity and understandability of net asset classification, information about liquidity and the availability of resources, and provides expanded disclosure of expenses presented by functional categories. Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation that incorporates the change in net asset classification from unrestricted, temporarily restricted, and permanently restricted to net assets without donor restrictions and net assets with donor restrictions.

**HEART TO HEART INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(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 there was no allowance for uncollectible amounts as of December 31, 2018 and 2017. Pledges receivable consist of the following at December 31:

	<b>2018</b>	<b>2017</b>
In less than one year	\$ 490,000	\$ -
In one to five years	439,000	-
	929,000	-
Less present value discount	(72,102)	-
Total pledges receivable	\$ 856,898	\$ -

**(3) Grants receivable**

Grants receivable that are expected to be collected within one year are recorded at net realizable value and are not discounted. Grants receivable that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. The discount rate used in valuing grants receivable was 5%. Amortization of the discounts is included in contribution revenue. The Organization determined there was no allowance for uncollectible amounts as of December 31, 2018 and 2017. Grants receivable consist of the following at December 31:

	<b>2018</b>	<b>2017</b>
In less than one year	\$ 212,502	\$ 224,169
In one to five years	-	212,502
	212,502	436,671
Less present value discount	(5,849)	(13,295)
Total grants receivable	\$ 206,653	\$ 423,376

**(4) 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 between the period September 30, 2018 to September 29, 2019. As noted in the Schedule of Expenditures of Federal Awards on page 19, the Organization spent \$5,951,687 in federal funds on this project during the year ended December 31, 2018 and as of December 31, 2018, the Organization was owed \$1,725,455 from the CDC for these expenditures.

**HEART TO HEART INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(5) Inventory**

Inventory consists of the following at December 31:

	<b>2018</b>	<b>2017</b>
Pharmaceutical supplies	\$ 12,212,610	\$ 34,276,068
Medical and other supplies	3,273,013	3,516,073
Total inventory	\$ 15,485,623	\$ 37,792,141

**(6) Investments**

FASB Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10), requires additional disclosures as part of the financial statements. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth information about the level within the fair value hierarchy at which the Organization's financial assets and liabilities were measured on a recurring basis at December 31, 2018:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market pool	\$ -	\$ 796	\$ -	\$ 796
Equity pool	-	8,986	-	8,986
Fixed Income pool	-	5,772	-	5,772
Equity security	25,074	-	-	25,074
Total investments at fair value	\$ 25,074	\$ 15,554	\$ -	\$ 40,628

**HEART TO HEART INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(6) Investments (continued)**

The following table sets forth information about the level within the fair value hierarchy at which the Organization's financial assets and liabilities were measured on a recurring basis at December 31, 2017:

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

The management of the Organization endeavors to utilize the best available information in measuring fair value. Fair value for the Organization's trading securities was determined by using Level 1 valuation methods. Fair value for the Organization's interest in the common funds of a community foundation was determined using Level 3 valuation methods. The Level 3 investments were based upon stated values obtained from a community foundation.

Investments consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Money market pool	\$ 796	\$ 799
Equity pool	8,986	9,958
Fixed income pool	5,772	5,745
Equity security	<u>25,074</u>	<u>25,212</u>
Total investments	<u>\$ 40,628</u>	<u>\$ 41,714</u>

Investment return is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 9,418	\$ 2,785
Realized and unrealized gains (losses) on investments	<u>(1,086)</u>	<u>3,777</u>
Total investment return	<u>\$ 8,332</u>	<u>\$ 6,562</u>

**HEART TO HEART INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(7) Property and equipment**

Property and equipment consists of the following at December 31:

	<b>2018</b>	<b>2017</b>
Cost		
Land	\$ 9,452,636	\$ 86,000
Buildings	344,000	344,000
Building improvements	362,772	321,886
Furniture and equipment	270,420	264,421
Computer equipment	582,771	578,621
Vehicles	720,155	719,023
Total cost	11,732,754	2,313,951
Accumulated depreciation	(1,428,533)	(1,299,135)
Net property and equipment	\$ 10,304,221	\$ 1,014,816

**(8) Long-term debt**

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

	<b>2018</b>	<b>2017</b>
Note payable, secured by real property, monthly payments of \$5,038, including interest at 5.24%, with a final balloon payment in the amount of \$292,530 due February 2019. This note was paid off in March 2018.	\$ -	\$ 336,669
Note payable with monthly principal only payments of \$9,259 and yearly interest due at 3.07% on December 11th. The maturity date is December 2027.	1,000,000	-
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.	6,975,000	-
Total debt	7,975,000	336,669
Less current portion	(145,598)	(43,906)
Non-current debt	\$ 7,829,402	\$ 292,763

Maturities for notes payable are as follows:

**Years ending December 31,**

2019	\$ 145,598
2020	251,653
2021	260,370
2022	268,511
2023	277,097
Thereafter	6,771,771
Total	\$ 7,975,000



**HEART TO HEART INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(8) Long-term debt (continued)**

The total amount of interest paid during the years ended December 31, 2018 and 2017 was \$2,660 and \$32,035, respectively.

During the years ended December 31, 2018 and 2017 the Organization had available a line of credit up to \$250,000 with a bank at an interest rate of 2 percentage points above the bank's index rate. The balance on this line of credit was \$0 at December 31, 2017. In December 2018 the line of credit was renewed for up to \$250,000 at a fixed interest rate of 3.25% and a revised maturity date of November 2019. The balance on the modified line of credit was \$0 at December 31, 2018. The lines of credit at December 31, 2018 and 2017 were secured by the Organization's deposit accounts held with the bank.

During the years ended December 31, 2018 and 2017, the Organization had available a line of credit up to \$100,000 with a bank at an interest rate of 3.0%. The balance on the line of credit was \$0 at December 31, 2018 and 2017 and was secured by the Organization's deposit accounts held with the bank. The maturity date on the line of credit at December 31, 2018 was July 2019. In April 2019 the Organization modified the line of credit agreement to reduce the available amount to \$75,000. The Organization drew down and paid off the full amount of \$75,000 during April 2019. The line of credit matured in July 2019 and was not renewed.

**(9) Net assets with donor restrictions**

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

	<u>2018</u>	<u>2017</u>
Net Assets with Donor Restrictions		
<i>Restricted for Programs:</i>		
Cameroon, Africa	\$ 20,820	\$ 15,057
NAFC - Lab Project	209,784	379,889
Rural Health	250,872	474,476
Shipping Grant	79,533	116,842
WHO Certification	367,658	339,420
Hurricane Harvey	-	360,047
Hurricane Maria/Peurto Rico Recovery	975,159	1,394,775
U.S. Crisis Response	821,952	620,732
Fleet Management	245,728	-
One Child One Blanket	-	150,000
Total Restricted for Programs	<u>2,971,506</u>	<u>3,851,238</u>
<i>Restricted as Endowments:</i>		
Endowment Fund	15,553	16,502
Staff Development	2,000	2,000
General Perpetuity Fund	52,022	53,107
Total Restricted in Perpetuity	<u>69,575</u>	<u>71,609</u>
Total Net Assets with Donor Restrictions	<u>\$ 3,041,081</u>	<u>\$ 3,922,847</u>

**HEART TO HEART INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(9) 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:

	<u>2018</u>	<u>2017</u>
Releases from Net Assets with Donor Restrictions		
Cameroon, Africa	\$ 100,590	\$ 319,691
China	-	5,000
Cuba	26,093	25,219
Hurricane Harvey	361,775	995,137
Hurricane Maria/Peurto Rico Recovery	738,814	993,344
Hurricane Irma	1,199	317,912
Hurricane Michael	133,403	-
Haiti	210,259	704,037
Indonesia	41,365	-
Hygiene Kits	-	186,649
NAFC - Lab Project	180,105	140,703
Nepal	-	28,571
Power Serve	71,349	86,305
Rural Health	289,655	163,375
Shipping Grant	139,309	144,030
Syrian Refugees	19,493	11,240
U.S. Crisis Response	271,792	254,082
WHO Certification	72,104	10,580
Fleet Management	4,272	-
One Child One Blanket	200,000	-
Capital Campaign	<u>2,007,168</u>	<u>-</u>
Total Releases from Net Assets with Donor Restrictions	<u>\$ 4,868,745</u>	<u>\$ 4,385,875</u>

**(10) Endowment fund**

The Organization has contributed total assets of \$15,554 and \$16,502 as of December 31, 2018 and 2017, respectively to The Greater Kansas City Community Foundation and Affiliated Trusts, which established the Heart to Heart International Endowment Fund. The purpose of the Endowment Fund is to serve as an endowment for the Organization and its successors. The annual earnings on the account are to be held in perpetuity.

**(11) Leases**

The Organization leases office space, certain office equipment, and vehicles under operating leases through June 2022. Lease expense totaled \$300,099 and \$361,465 for the years ended December 31, 2018 and 2017, respectively. Future minimum rental payments required under operating leases with initial or remaining noncancellable lease terms in excess of one year are:

**Years ending December 31,**

2019	\$ 249,329
2020	179,688
2021	179,688
2022	<u>89,844</u>
Total	<u>\$ 698,549</u>

HEART TO HEART INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(12) Liquidity disclosure

The Organization has various sources of liquidity at its disposal, including cash, certificates of deposit, and investments. 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 statement of cash flows which identifies the sources and uses of the Organization's cash. As of December 31, 2018, the following financial assets could be made available within one year of the balance sheet date to meet general obligations:

Cash and cash equivalents	\$ 5,949,422
Certificates of deposit	250,000
Investments	40,628
Accounts receivable	104,379
Pledges receivable, current portion	472,230
Grants receivable, current portion	206,653
Federal grants receivable	<u>1,725,455</u>
	8,748,767
Less: Cash subject to donor imposed restrictions	<u>(3,041,081)</u>
Financial assets available for general expenditures	<u>\$ 5,707,686</u>

(13) Concentrations

Two donors accounted for 91% and 100% of the Organization's pledges receivable at December 31, 2018 and 2017, respectively. One donor accounted for 100% of the Organization's grants receivable at December 31, 2018 and 2017.

One company accounted for 100% of the Organization's federal grants receivable December 31, 2018. One company accounted for 29% of the Organization's accounts receivable at December 31, 2018. There were no concentrations in accounts receivable at December 31, 2017.

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. One company provided approximately 92% and 85% of the gifts-in-kind contributions during the years ended December 31, 2018 and 2017, respectively.

The Organization provides crisis response assistance to support communities, both domestically and internationally, and relies on contributions from its donor base to assist in crisis response activities. The Organization is subject to risks from changes in economic conditions and the occurrence of natural and worldwide disasters. A downturn in the economy or a lack of natural disasters could cause a significant decrease in contributions.

## HEART TO HEART INTERNATIONAL, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (14) Recent accounting pronouncements

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

The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis. This update is effective for the Organization's December 31, 2021 financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

**Revenue recognition** - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This standard applies to most contracts with customers and prescribes a five-step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. This standard also prescribes additional disclosures and financial statement presentations. This standard is effective for the Organization's December 31, 2019 financial statements. The Organization may adopt the standard retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

#### (15) Subsequent events

The Organization has evaluated subsequent events through August 20, 2019, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation, other than the matter identified in Note 8 related to the line of credit.

