Heart to Heart International, Inc.

Consolidated Financial Report and
Supplementary Information
December 31, 2019

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Contents

Independent Auditor's Report

Board of Directors
Heart to Heart International, Inc.

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

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of RegaloRx, a subsidiary of Heart to Heart International, Inc., were not audited in accordance with *Government Auditing Standards.*

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heart to Heart International, Inc. as of December 31, 2019, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards,* and the consolidating statement of financial position and the consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the financial statements. Such consolidating 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 audits of the consolidating 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.

Other Matter
The financial statements of Heart to Heart International, Inc. as of and for the year ended December 31, 2018, were audited by other auditors, whose report dated August 20, 2019, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated May 13, 2020, on our consideration of Heart to Heart International, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Heart to Heart International, Inc.'s internal control over financial reporting and compliance.

RSM US LLP

Kansas City, Missouri
May 13, 2020

Heart to Heart International, Inc.

Consolidated Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,689,691**	$ 5,990,050
Certificates of deposit	**250,000**	250,000
Accounts receivable	**473,953**	104,379
Pledges receivable, current portion	**336,500**	472,230
Grants receivable	**-**	206,653
Federal grants receivable	**-**	1,725,455
Inventory	**19,896,464**	15,485,623
Other current assets	**48,501**	78,689
Total current assets	**26,695,109**	24,313,079
Pledges receivable, less current portion above, net of allowance and discount	**452,565**	384,668
Property and equipment, net of accumulated depreciation	**10,597,401**	10,304,221
Total assets	**$ 37,745,075**	$ 35,001,968
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 421,885**	$ 1,773,406
Accrued liabilities	**450,143**	199,497
Deferred revenue	**52,255**	185,857
Long-term debt, current portion	**276,595**	145,598
Total current liabilities	**1,200,878**	2,304,358
Long-term debt, less current portion above	**8,039,247**	7,829,402
Total liabilities	**9,240,125**	10,133,760
Net assets without donor restrictions	**26,312,693**	21,827,127
Net assets with donor restrictions	**2,192,257**	3,041,081
Total net assets	**28,504,950**	24,868,208
Total liabilities and net assets	**$ 37,745,075**	$ 35,001,968

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Support and revenue without donor restrictions:		
Gifts in kind	$ 372,510,406	$ 215,590,523
Contributions	1,529,258	1,688,118
Donated shipping	667,392	1,041,169
Governmental and corporate grants	5,188,734	7,032,592
Program revenue	1,274,469	1,420,177
RegaloRx fees revenues	931,338	-
Investment income, net	8,173	10,366
Gain on currency conversion	5,401	6,337
Loss on sale of assets	(140,373)	(4,424)
Other income	8,906	6,917
Net assets released from restrictions	4,433,798	4,868,745
Total support and revenue without donor restrictions	386,417,502	231,660,520
Expenses:		
Program services—international	289,321,059	221,211,805
Program services—domestic	9,444,207	10,583,051
Program services—kit building	562,131	668,110
Program services—patient assistance program	1,064,561	-
Total program services	300,391,958	232,462,966
General and administrative	1,515,054	623,890
Fundraising public relations	895,891	615,055
Total supporting services	2,410,945	1,238,945
Total expenses	302,802,903	233,701,911
Inventory valuation adjustment	(79,129,033)	(17,238,017)
Changes in net assets without donor restrictions	4,485,566	(19,279,408)
Net assets with donor restrictions:		
Contributions	2,939,241	3,211,986
Governmental and corporate grants	644,939	777,027
Investment income (loss)	794	(2,034)
Net assets released from restrictions	(4,433,798)	(4,868,745)
Changes in net assets with donor restrictions	(848,824)	(881,766)
Changes in net assets	3,636,742	(20,161,174)
Net assets, beginning of year	24,868,208	45,029,382
Net assets, end of year	$ 28,504,950	$ 24,868,208

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2019

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

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services					
	International Projects	Domestic Projects	Kit Building	General and Administrative	Fundraising	Total
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
Total expenses	$ 221,211,805	$ 10,583,051	$ 668,110	$ 623,890	$ 615,055	$ 233,701,911
	94.66%	4.53%	0.29%	0.26%	0.26%	100%

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Changes in net assets	$ 3,636,742	$ (20,161,174)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	392,084	145,837
Change in allowance for uncollectible pledges	40,450	-
Amortization of pledge discount	10,883	-
Loss on sale of assets	140,373	4,424
Realized and unrealized loss on investments	-	41,714
Contributions to finance capital campaign	-	(2,007,168)
Decrease (increase) in operating assets:		
Inventory	(4,410,841)	22,306,518
Accounts receivable	(369,574)	(95,361)
Pledges receivable	16,500	-
Grant receivable	206,653	216,723
Federal grants receivable	1,725,455	(1,725,455)
Other current assets	30,188	(13,594)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,351,521)	1,732,305
Accrued liabilities	250,646	(48,370)
Deferred revenue	(133,602)	185,857
Net cash (used in) provided by operating activities	184,436	582,256
Cash flows from investing activities:		
Purchase of property and equipment	(825,637)	(9,509,054)
Proceeds from sale of property and equipment	-	69,388
Proceeds from sale of certificates of deposit	-	216,304
Net cash used in investing activities	(825,637)	(9,223,362)
Cash flows from financing activities:		
Receipts for capital campaign	-	1,150,270
Repayment of long-term debt	(659,158)	(336,669)
Proceeds from long-term debt	1,000,000	7,975,000
Net cash provided by financing activities	340,842	8,788,601
Net changes in cash and cash equivalents	(300,359)	147,495
Cash and cash equivalents, beginning of year	5,990,050	5,842,555
Cash and cash equivalents, end of year	$ 5,689,691	$ 5,990,050
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 233,274	$ 2,660
Contributed inventory	$ 371,976,169	$ 215,139,976
Write-off of inventory	$ (79,129,033)	$ (17,238,017)

See notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

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

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

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

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

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, 2019, has an interest rate of 3.25% and a maturity date of December 2020. The Organization's certificate of deposit at December 31, 2018, had an interest rate of 1.27% and a maturity date of November 2019.

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

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

Unrelated business income tax, if any, is immaterial to the accompanying consolidated 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, 2019 or 2018, 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, 2019 and 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. The inventory is not available for sale.

For both the years ended December 31, 2019 and 2018, 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.

Note 1. Summary of Significant Accounting Policies (Continued)

The Organization records a loss for the decrease in value of expired inventory and this is reflected as an inventory valuation adjustment. This was $79,129,033 and $17,238,017 for the years ended December 31, 2019 and 2018, 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:

	Estimated Useful Lives
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 $667,392 and $1,041,169 in shipping expense for overseas and domestic freight during the years ended December 31, 2019 and 2018, 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.

Effective January 1, 2019, the Organization adopted ASC Topic 606, Revenue from Contracts with Customers. The Financial Accounting Standards Board (FASB) has concluded that contributions are not within the scope of ASC 606 because they are nonreciprocal transfers. As a result, contributions should continue to be accounted for in accordance with ASC Subtopic 958-605. As the Organization's revenue streams do not meet the definition of contract with a customer, there is no impact from the adoption of this standard.

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 $534,237 and $210,635 for the years ended December 31, 2019 and 2018, respectively. In addition, approximately 27,060 and 14,480 volunteer hours were provided to the Organization during the years ended December 31, 2019 and 2018, 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.

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, 2019 and 2018.

Functional expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying consolidated statements of functional expenses. Expenses that can be identified with a specific program, general and administrative function, or fundraising effort are allocated directly to those functional categories. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source using allocations. Salaries and benefits are allocated based upon actual time incurred. Rent is allocated based upon estimated square footage. All other costs are either directly allocated or are allocated based upon actual time incurred. Direct benefit to donor costs have been included in fundraising costs on the consolidated statements of functional expenses as the associated costs are not material in relation to the financial statements taken as a whole. During the year ended December 31, 2018, the Organization began allocating expenses to an additional program category: kit building. During the year ended December 31, 2019, the Organization began allocating expense to an additional program category: patient assistance program.

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

Advertising costs: Advertising costs are charged to operations when incurred. Advertising expenses totaled $7,903 and $18,890 for the years ended December 31, 2019 and 2018, respectively.

Recent accounting pronouncement: In February 2016, the FASB 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 patter of expense recognition in the statement of activities. The new standard is effective for fiscal year 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period present in the financial statements, with certain practical expedients available. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

Note 2. Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value and are not discounted. Pledges receivable that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. The discount rate used in valuing pledges receivable was 5%. Amortization of the discounts is included in contribution revenue. The Organization determined an allowance for uncollectible amounts of $40,050 and $0 as of December 31, 2019 and 2018, respectively.

Pledges receivable consist of the following at December 31, 2019 and 2018:

	2019	2018
In less than one year	$ 336,500	$ 490,000
In one to five years	576,000	439,000
	912,500	929,000
Less allowance for uncollectible pledges	(40,450)	-
Less present value discount	(82,985)	(72,102)
Total pledges receivable	$ 789,065	$ 856,898

Note 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, 2019 and 2018. At December 31, 2019, there were no grants receivable. Grants receivable consist of the following at December 31, 2018:

In less than one year	$ 212,502
In one to five years	-
	212,502
Less present value discount	(5,849)
Total grants receivable	$ 206,653

Note 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 in the period from September 30, 2018 to September 29, 2019. During the year ended December 31, 2019, the CDC awarded the Organization an additional amount of $763,229 to be spent in the period through September 30, 2020. The Organization spent $4,327,826 in federal funds on this project during the year ended December 31, 2019, and as of December 31, 2019, the Organization was owed $0 from the CDC for these expenditures. 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.

Note 5. Inventory

Inventory consists of the following at December 31, 2019 and 2018:

	2019	2018
Pharmaceutical supplies	$ 17,108,850	$ 12,212,610
Medical and other supplies	2,787,614	3,273,013
Total inventory	$ 19,896,464	$ 15,485,623

Note 6. Property and Equipment

Property and equipment consists of the following at December 31, 2019 and 2018:

	2019	2018
Cost:		
Land	$ 9,711,912	$ 9,452,636
Buildings	344,000	344,000
Building improvements	305,906	362,772
Furniture and equipment	259,302	270,420
Computer equipment and software	907,614	582,771
Vehicles	754,823	720,155
Total cost	12,283,557	11,732,754
Accumulated depreciation	(1,686,156)	(1,428,533)
Net property and equipment	$ 10,597,401	$ 10,304,221

Note 7. Long-Term Debt

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

	2019	2018
Note payable with interest-only payments of 3.07% due yearly on December 11. A final balloon payment in the amount of $1,000,000 is due on December 11, 2027.	$ 1,000,000	$ 1,000,000
Note payable with interest-only payments of 2.75% due yearly on December 23. A final balloon payment in the amount of $1,000,000 is due on December 31, 2023.	1,000,000	-
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.	6,315,842	6,975,000
Total debt	8,315,842	7,975,000
Less current portion	(276,595)	(145,598)
Noncurrent debt	$ 8,039,247	$ 7,829,402

Maturities for notes payable are as follows:

Years ending December 31:	
2020	$ 276,595
2021	236,919
2022	246,532
2023	256,537
2024	5,299,259
Thereafter	2,000,000
Total	$ 8,315,842

The total amount of interest paid during the years ended December 31, 2019 and 2018, was $233,274 and $2,660, respectively.

During the years ended December 31, 2019 and 2018, the Organization had available a line of credit up to $250,000 with a bank at an interest rate of 3.25% and maturity date of November 2020. The balance on this line of credit was $0 at December 31, 2019 and 2018, respectively.

During the year ended December 31, 2018, 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 was secured by the Organization's deposit accounts held with the bank. The maturity date on the line of credit 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.

Note 8. Net Assets With Donor Restrictions

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

	December 31	
	2019	2018
Net assets with donor restrictions:		
Restricted for programs:		
Cameroon, Africa	$ -	$ 20,820
NAFC—Lab Project	180,951	209,784
Rural Health	-	250,872
Shipping Grant	37,368	79,533
WHO Certification	264,863	367,658
Puerto Rico Hurricane Recovery	505,214	975,159
Fleet Management	112,474	245,728
One Child One Blanket (J&J Kits)	37,328	-
Becton Dickson's Puerto Rico Volunteer Service Trip (BD PR VST)	73,917	-
US Disaster Response	656,561	821,952
Hurricane Dorian Bahamas (Dorian International)	193,492	-
Volunteer Service Trip Consulting (VST Consulting)	3,169	-
Capital Campaign	51,827	-
Total restricted for programs	2,117,164	2,971,506
Restricted for endowments:		
Endowment Fund	18,243	15,553
Staff Development	2,000	2,000
General Perpetuity Fund	54,850	52,022
Total restricted in perpetuity	75,093	69,575
Total net assets with donor restrictions	$ 2,192,257	$ 3,041,081

Note 8. 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	
	2019	2018
Releases from net assets with donor restrictions:		
BD Papua New Guinea Project	$ 26,260	$ -
BD Puerto Rico Volunteer Service Trip	59,083	-
Cameroon, Africa	21,120	100,590
Capital Campaign	587,371	2,007,168
Cuba	28,419	26,093
Fleet Management	133,254	4,272
Haiti	1,134,287	210,259
Hurricane Dorian Bahamas	390,089	-
Hurricane Dorian Domestic Response	95,478	-
Hurricane Harvey	-	361,775
Hurricane Irma	-	1,199
Hurricane Michael	-	133,403
Indonesia	-	41,365
Mozambique Cyclone Idai	20,948	-
NAFC—Lab Project	388,833	180,105
One Child One Blanket	177,672	200,000
Power Serve	-	71,349
Puerto Rico Hurricane Recovery	501,370	738,814
Rural Health	325,139	289,655
Shipping Grant	42,165	139,309
Syrian Refugees	21,071	19,493
US Disaster Response	356,613	271,792
Volunteer Service Trip Consulting	21,831	-
WHO Certification	102,795	72,104
Total releases from net assets with donor restrictions	$ 4,433,798	$ 4,868,745

Note 9. Leases

The Organization leases office space, certain office equipment, and vehicles under operating leases through June 2024. Lease expense totaled $95,320 and $300,099 for the years ended December 31, 2019 and 2018, 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:	
2020	$ 8,310
2021	8,310
2022	7,947
2023	3,960
2024	3,300
Total	$ 31,827

Note 10. Liquidity Disclosure

The Organization has various sources of liquidity at its disposal, including cash, certificates of deposit, investments and a line of credit. For purposes of analyzing resources available over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. Additionally, the Organization monitors its budget and anticipates sufficient revenue to cover general expenditures over the next 12 months. Refer to the consolidated statements of cash flows, which identify the sources and uses of the Organization’s cash. As of December 31, 2019 and 2018, the following financial assets could be made available within one year of the consolidated balance sheet date to meet general obligations:

	December 31	
	2019	2018
Cash and cash equivalents	$ 5,689,691	$ 5,990,050
Accounts receivable	473,953	104,379
Pledges receivable, current portion	336,500	472,230
Grants receivable	-	206,653
Federal grants receivable	-	1,725,455
	6,500,144	8,498,767
Less cash subject to donor-imposed restrictions	(2,192,257)	(3,041,081)
Financial assets available for general expenditures	$ 4,307,887	$ 5,457,686

Note 11. Concentrations

Two donors accounted for 88% and 91% of the Organization's pledges receivable at December 31, 2019 and 2018, respectively. There were no grants receivable at December 31, 2019, and one donor accounted for 100% of the Organization's grants receivable at December 31, 2018.

There were no federal grants receivable at December 31, 2019, and one federal granting agency accounted for 100% of the Organization's federal grants receivable at December 31, 2018. Three companies accounted for 78% of the Organization's accounts receivable at December 31, 2019. One company accounted for 29% of the Organization's accounts receivable at December 31, 2018.

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. One company provided approximately 96% and 92% of the gifts-in-kind contributions during the years ended December 31, 2019 and 2018, respectively.

Note 12. Subsequent Events

The Organization has evaluated subsequent events through May 13, 2020, which is the date the financial statements were available to be issued. The below item was noted as a subsequent event.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread throughout the United States and around the world. As of May 13, 2020, the Organization is aware of changes in its operations as a result of COVID-19 but uncertain of the impact of those changes on its financial position, results of operations, or cash flows. Management believes any disruption, when and if experienced, could be temporary; however, there is uncertainty around when any disruption might occur, the duration and hence the potential impact. As a result, management is unable to estimate the potential impact on business as of the date of this filing.

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.

The Organization received a Paycheck Protection Plan (PPP) loan for $552,800 on April 15, 2020. The loan bears interest at 1.00% and matures on April 15, 2022. The Organization expects to apply for loan forgiveness with the loan originator, Bank of Blue Valley, under the PPP rules after completion of the eight weeks.

Supplementary Information

Heart to Heart International, Inc.

Consolidating Statement of Financial Position
December 31, 2019

	Heart to Heart International	RegaloRx	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 5,506,973	$ 182,718	$ -	$ 5,689,691
Certificates of deposit	250,000	-		250,000
Accounts receivable	333,882	396,337	(256,266)	473,953
Pledges receivable, current portion	336,500	-	-	336,500
Inventory	19,896,464	-	-	19,896,464
Other current assets	35,072	13,429	-	48,501
Total current assets	26,358,891	592,484	(256,266)	26,695,109
Pledges receivable, less current portion above, net of allowance and discount	452,565	-	-	452,565
Property and equipment, net of accumulated depreciation	10,301,712	295,689	-	10,597,401
Total assets	$ 37,113,168	$ 888,173	$ (256,266)	$ 37,745,075
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 156,904	$ 521,247	$ (256,266)	$ 421,885
Accrued liabilities	428,079	22,064	-	450,143
Deferred revenue	52,255	-	-	52,255
Long-term debt, current portion	276,595	-	-	276,595
Total current liabilities	913,833	543,311	(256,266)	1,200,878
Long-term debt, less current portion above	7,039,247	1,000,000	-	8,039,247
Total liabilities	7,953,080	1,543,311	(256,266)	9,240,125
Net assets (deficit) without donor restrictions	26,967,831	(655,138)	-	26,312,693
Net assets with donor restrictions	2,192,257	-	-	2,192,257
Total net assets	29,160,088	(655,138)	-	28,504,950
Total liabilities and net assets	$ 37,113,168	$ 888,173	$ (256,266)	$ 37,745,075

Heart to Heart International, Inc.

Consolidating Statement of Activities
Year Ended December 31, 2019

	Heart to Heart International	RegaloRx	Eliminations	Total
Support and revenue without donor restrictions:				
Gifts in kind	$ 372,510,406	$ -	$ -	$ 372,510,406
Contributions	1,529,258	-	-	1,529,258
Donated shipping	667,392	-	-	667,392
Governmental and corporate grants	5,188,734	-	-	5,188,734
Program revenue	1,274,469	-	-	1,274,469
RegaloRx fees revenues	-	931,338	-	931,338
Investment income, net	8,173	-	-	8,173
Gain on currency conversion	5,401	-	-	5,401
Loss on sale of assets	(140,373)	-	-	(140,373)
Other income	8,906	-	-	8,906
Net assets released from restrictions	4,433,798	-	-	4,433,798
Total support and revenue without donor restrictions	385,486,164	931,338	-	386,417,502
Expenses:				
Program services—international	289,321,059	-	-	289,321,059
Program services—domestic	9,444,207	-	-	9,444,207
Program services—kit building	562,131	-	-	562,131
Program services—patient assistance program	-	1,064,561	-	1,064,561
Total program services	299,327,397	1,064,561	-	300,391,958
General and administrative	993,139	521,915	-	1,515,054
Fundraising public relations	895,891	-	-	895,891
Total supporting services	1,889,030	521,915	-	2,410,945
Total expenses	301,216,427	1,586,476	-	302,802,903
Other (expense) revenue:				
Inventory valuation adjustment	(79,129,033)	-	-	(79,129,033)
Changes in net assets without donor restrictions	5,140,704	(655,138)	-	4,485,566
Net assets with donor restrictions:				
Contributions	2,939,241	-	-	2,939,241
Governmental and corporate grants	644,939	-	-	644,939
Investment income (loss)	794	-	-	794
Net assets released from restrictions	(4,433,798)	-	-	(4,433,798)
Changes in net assets with donor restrictions	(848,824)	-	-	(848,824)
Changes in net assets	4,291,880	(655,138)	-	3,636,742
Net assets, beginning of year	24,868,208	-	-	24,868,208
Net assets (deficit), end of year	$ 29,160,088	$ (655,138)	$ -	$ 28,504,950

Heart to Heart International, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Equity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services Centers for Disease Control and Prevention (Direct):				
Strengthening U.S. Public Health Systems Response to Public Health or Healthcare Crises	93.391	N/A	$ -	$ 4,326,790

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Heart to Heart International, Inc. (the Organization) under programs of the federal government for the year ended December 31, 2019, and is presented on the accrual basis of accounting. There was no federal award activity for any of the subsidiaries of the Organization. All federal awards received directly from federal agencies, as well as those awards that are passed through other government agencies, are included in the schedule. The information in this schedule is presented in accordance with the requirements of the *OMB Compliance Supplement* and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when the Organization has done everything necessary to establish its right to the revenue. Expenditures of federal awards are recognized in the accounting period when a liability is incurred and approved for reimbursement. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Organization has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Heart to Heart International, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Heart to Heart International, Inc., which comprise the consolidated statement of financial position as of December 31, 2019, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 13, 2020. The financial statements of RegaloRx, a subsidiary of Heart to Heart International, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with RegaloRx, a subsidiary of Heart to Heart International, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Heart to Heart International, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Heart to Heart International, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Heart to Heart International, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Heart to Heart International, Inc.'s consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Heart to Heart International, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and is not to provide an opinion on the effectiveness of Heart to Heart International, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Heart to Heart International, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Kansas City, Missouri
May 13, 2020

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance

Independent Auditor's Report

Board of Directors
Heart to Heart International, Inc.

Report on Compliance for the Major Federal Program
We have audited Heart to Heart International, Inc.'s compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Heart to Heart International, Inc.'s major federal program for the year ended December 31, 2019. Heart to Heart International, Inc.'s major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for Heart to Heart International, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Heart to Heart International, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Heart to Heart International, Inc.'s compliance with those requirements.

Opinion on Each Major Federal Program
In our opinion, Heart to Heart International, Inc. complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance
Management of Heart to Heart International, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Heart to Heart International, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Heart to Heart International, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Heart to Heart International, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying corrective action plan schedule of findings and questioned costs. Heart to Heart International, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Kansas City, Missouri
May 13, 2020

Heart to Heart International, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

• Material weakness(es) identified?	__Yes	X No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	__Yes	X None Reported

3. Noncompliance material to financial statements noted? __Yes X No

B. Federal Awards

1. Internal control over major program:

• Material weakness(es) identified?	__Yes	X No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	__Yes	X None Reported

2. Type of auditor's report issued on compliance for major programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? __Yes X No

4. Identification of major program:

CFDA Number	Name of Federal Program
93.391	Strengthening U.S. Public Health Systems Response to Public Health or Healthcare Crises

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee: __Yes X No

II. FINANCIAL STATEMENT FINDINGS

A. Internal Control

None reported

B. Compliance Findings

None reported

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control

None reported

B. Compliance Findings

None reported

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Summary Schedule of Prior Audit Findings

Finding Number	Comment	Status
Financial Statement Findings:		
2018-001	**Criteria**—Segregation of duties in the internal control system should be in place to provide reasonable assurance that assets are safeguarded. **Condition**—Due to limited staffing and funding constraints, the Organization does not have proper segregation of duties in the accounting system. **Context**—There are not an adequate number of employees with financial responsibilities to properly segregate duties. **Effect**—While management has implemented mitigating controls to supplement the lack of segregation of duties, a failure in those controls could result in misappropriation of assets. Areas of overlap include cash receipts, cash disbursements, payroll and posting of journal entries. **Cause**—Funding constraints have limited the ability of the Organization to employ staff and structure responsibilities to provide for complete segregation of duties. **Recommendation**—Management should evaluate internal controls to consider whether duties can be further segregated and if additional mitigating controls are effectively designed. **View of Responsible Officials and Planned Corrective Actions**— Management is aware of the segregation of duties issues and continue to make every effort to segregate duties wherever possible within limited staffing as a nonprofit organization. Management does not anticipate being able to completely segregate all duties and will continue to have some acceptable level of risk as a result.	The Heart to Heart staff is aware of the segregation of duties issues and continue to make every effort to segregate duties wherever possible within their limited staffing as a nonprofit organization. They have mitigating controls in place that would identify any material misstatements in the financial statements.
2018-002	**Criteria**—The Organization's financial reporting processes did not identify and properly record promises to give. **Condition**—The Organization's internal controls did not identify and communicate to the accounting department significant promises to give. **Context**—Promises to give are, often times, communicated to departments outside of accounting and inter-organization communication and other controls are required to ensure amounts are properly recorded. **Effect**—The failure of the Organization's control to detect and identify this issue resulted in a significant adjustment proposed to record the value of promises to give. **Cause**—The Organization's financial reporting processes did not identify and properly record promises to give. **Recommendation**—We recommend that the Organization implement an internal control to ensure that promises to give received by the Organization are properly recorded by the accounting department. **Views of Responsible Officials and Planned Corrective Actions**—Historically the Organization has had few (material) unfulfilled pledges of future support at the end of the fiscal year. The recent initiation of a capital campaign in December 2018, has caused us to change our procedures and communicate pledges to the accounting department on a weekly basis. As of September 30, 2019, management begin performing a quarterly review of open pledges and pledge activity between the Resource Development department and Revenue Accounting.	Resolved

(Continued)

Finding Number	Comment	Status
Financial Statement Findings (Continued):		
2018-003	**Criteria**—The Organization's internal control system did not properly identify valuation adjustments required to reduce the overvaluation of donated pharmaceutical inventory and to record additional donated pharmaceutical inventory not identified by the Organization. **Condition**—The Organization did not have a procedure in place requiring that a receiving report of what was entered into inventory be checked against the donor's packing list. **Context**—Donated pharmaceutical inventory often has complex unit of measures and in this case the amount recorded was incorrect resulting in overvaluation. In addition, the Organization stored certain donated inventory in a part of its warehouse where it then did not find. **Effect**—The failure of the Organization's control to detect and identify these issues resulted in significant adjustments proposed to correct donated inventory, donated inventory received and donated inventory distributed. **Cause**—The Organization did not have a procedure in place requiring that a receiving report of what was entered into inventory be checked against the donor's packing list. **Recommendation**—We recommend that the Organization review its internal controls surrounding donated inventory to ensure that a receiving report of what was entered into inventory is checked against the donor packing list. **Views of Responsible Officials and Planned Corrective Actions**—A procure has been implemented requiring each inventory receiving report be checked against the donor's packing list. Discrepancies will be identified and corrected as appropriate. The receiving report reconciliation will be signed, dated and retained for audit purposes.	Resolved
Federal Award Findings and Questioned Costs:		
2108-004	**Program**—CFDA93.391—U.S. Department of Health and Human Services, Center for Disease Control and Prevention, strengthening U.S. Public Health Systems Response to Public Health or Healthcare Crises. **Criteria**—The award required that the documentation used in the authorization of purchases for the program participants be maintained in accordance with the Organization's internal control policies. **Condition**—One purchase order was not completed in accordance with the Organization's policies, lacking an original signature of approval prior to the payment for these goods. **Questioned Costs**—None **Context**—Purchase orders should be approved by the Vice President of Operations. **Effect**—The Organization's documentation showed a lack of sufficient approval for purchases made for the program. **Cause**—The employees responsible for the final review, prior to payment, did not ensure that the proper level of documentation was noted on the purchase order. **Recommendation**—The Organization should review its policies to ensure that steps are added to include a secondary evaluation for approval prior to purchases being made. **Views of Responsible Officials and Planned Corrective Actions**—Updated to purchase orders will be returned to the original signer to be re-authorized. Accounting will check each P.O., for the appropriate signature before payments are initiated.	Resolved

RSM