

Heart to Heart International, Inc.

Consolidated Financial Report
December 31, 2022

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of functional expenses	5-6
Consolidated statements of cash flows	7
Notes to consolidated financial statements	8-16
Supplementary information	
Consolidating statement of financial position	17
Consolidating statement of activities	18



RSM US LLP

Independent Auditor's Report

Board of Directors
Heart to Heart International, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Heart to Heart International, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021; the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

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

RSM US LLP

Kansas City, Missouri
June 20, 2023

Heart to Heart International, Inc.

Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,972,535	\$ 7,778,304
Certificates of deposit	500,000	250,000
Accounts receivable	1,777,413	1,596,151
Pledges receivable, current portion, net of allowance and discount	152,796	169,000
Inventory	50,142,400	50,299,313
Other current assets	561,475	531,520
Total current assets	64,106,619	60,624,288
Pledges receivable, less current portion above	5,000	105,439
Property and equipment, net of accumulated depreciation	9,575,465	10,355,522
Total assets	\$ 73,687,084	\$ 71,085,249
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 985,268	\$ 434,651
Accrued liabilities	596,634	433,029
Deferred revenue	175,558	70,055
Line of credit	629,424	404,049
Long-term debt, current portion	663,963	1,415,308
Total current liabilities	3,050,847	2,757,092
Long-term debt, less current portion above	2,940,041	5,196,134
Total liabilities	5,990,888	7,953,226
Net assets without donor restrictions	66,159,173	61,511,284
Net assets with donor restrictions	1,537,023	1,620,739
Total net assets	67,696,196	63,132,023
Total liabilities and net assets	\$ 73,687,084	\$ 71,085,249

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2022 and 2021

	2022	2021
Support and revenue without donor restrictions:		
Gifts in kind	\$ 267,932,761	\$ 273,386,972
Contributions	8,659,861	4,465,315
Donated shipping	1,650,078	799,814
Governmental and corporate grants	4,137,268	1,804,411
Program revenue	938,770	890,232
RegaloRx fees revenues	11,622,276	5,037,334
Investment income, net	27,811	8,904
Gain (loss) on currency conversion	(55,690)	2,932
Loss on disposal of assets	(32,560)	-
Other income	5,369	2,712
Net assets released from restrictions	1,645,489	5,306,647
Total support and revenue without donor restrictions	296,531,433	291,705,273
Expenses:		
Program services—international	230,455,480	180,140,223
Program services—domestic	4,414,247	6,043,002
Program services—patient assistance program	9,751,305	4,916,041
Total program services	244,621,032	191,099,266
General and administrative	2,716,602	2,726,197
Fundraising public relations	846,977	550,367
Total supporting services	3,563,579	3,276,564
Total expenses	248,184,611	194,375,830
Inventory valuation adjustment	(43,698,933)	(148,105,301)
Changes in net assets without donor restrictions	4,647,889	(50,775,858)
Net assets with donor restrictions:		
Contributions	1,285,679	2,996,159
Governmental and corporate grants	280,807	382,564
Program revenue	-	28,697
Investment loss	(4,713)	-
Net assets released from restrictions	(1,645,489)	(5,306,647)
Changes in net assets with donor restrictions	(83,716)	(1,899,227)
Changes in net assets	4,564,173	(52,675,085)
Net assets, beginning of year	63,132,023	115,807,108
Net assets, end of year	\$ 67,696,196	\$ 63,132,023

See notes to consolidated financial statements.

Heart to Heart International, Inc.

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2022**

	Program Services					Fundraising	Total
	International Projects	Domestic Projects	Patient Assistance Program	General and Administrative			
Distributed aid	\$ 3,358,693	\$ 387,644	\$ -	\$ -	\$ -	\$ -	3,746,337
Donated medical and other services	1,070	104,037	-	-	-	-	105,107
Donated shipping	1,035,528	614,550	-	-	-	-	1,650,078
Insurance	91,789	47,714	-	8,752	11,013	-	159,268
Interest, fees and bank charges	38,865	22,998	-	184,566	61,015	-	307,444
Maintenance and repairs	79,810	54,713	13,527	4,283	17,723	-	170,056
Medical and contract services	595,726	369,644	-	842	81,611	-	1,047,823
Office	264,708	126,241	68,948	25,280	118,174	-	603,351
Postage and shipping	441,409	93,976	20,878	154	11,392	-	567,809
Printing	835	4,554	-	2	33,189	-	38,580
Professional fees	26,250	20,230	23,900	26,254	6,779	-	103,413
Publicity	2,942	3,052	-	1,364	39,007	-	46,365
Salaries and benefits	1,065,789	816,496	-	556,800	384,375	-	2,823,460
Special events	646	4,658	-	674	73,411	-	79,389
Staff development	5,086	2,456	21,100	772	781	-	30,195
Telephone	15,155	8,958	17,355	2,835	2,509	-	46,812
Travel and meals	381,163	241,330	19,415	1,726	5,998	-	649,632
Pharmacy—service charges	-	-	1,647,263	-	-	-	1,647,263
Pharmacy—management	-	-	105,000	-	-	-	105,000
Pharmacy—other charges	-	-	40,000	-	-	-	40,000
Credit checks	-	-	65,937	-	-	-	65,937
Insurance checks	-	-	18,317	-	-	-	18,317
Printing, mailings for client	-	-	195,037	-	-	-	195,037
Other	-	-	3,012	-	-	-	3,012
Salaries and benefits—RegaloRx	-	-	4,948,133	1,346,166	-	-	6,294,299
Contract labor	-	-	1,494,190	-	-	-	1,494,190
Contract services	-	-	102,274	-	-	-	102,274
Software	-	-	648,957	54,000	-	-	702,957
Consulting fees	-	-	197,301	-	-	-	197,301
Expenses before depreciation and gifts-in-kind distribution	7,405,464	2,923,251	9,650,544	2,214,470	846,977	-	23,040,706
Depreciation	10,812	-	100,761	502,132	-	-	613,705
Gifts-in-kind distribution	223,039,204	1,490,996	-	-	-	-	224,530,200
Total expenses	\$ 230,455,480	\$ 4,414,247	\$ 9,751,305	\$ 2,716,602	\$ 846,977	\$ -	\$ 248,184,611
Percent of total	92.86%	1.78%	3.93%	1.09%	0.34%	-	100%

See notes to consolidated financial statements.

Heart to Heart International, Inc.

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2021**

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

See notes to consolidated financial statements.

Heart to Heart International, Inc.

**Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
Changes in net assets	\$ 4,564,173	\$ (52,675,085)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	613,705	584,210
Change in allowance for uncollectible pledges	(8,385)	(15,670)
Amortization of pledge discount	(14,972)	(29,911)
Loss on disposal of assets	428,938	-
Decrease (increase) in operating assets:		
Inventory	156,913	53,809,379
Accounts receivable	(181,262)	(530,658)
Pledges receivable	140,000	445,500
Other current assets	(29,955)	(438,763)
Increase (decrease) in operating liabilities:		
Accounts payable	550,617	58,426
Accrued liabilities	163,605	107,961
Deferred revenue	105,503	(8,200)
Net cash provided by operating activities	6,488,880	1,307,189
Cash flows from investing activities:		
Purchase of certificate of deposit	(500,000)	(250,000)
Sale of certificate of deposit	250,000	250,000
Purchase of property and equipment	(262,586)	(533,083)
Net cash used in investing activities	(512,586)	(533,083)
Cash flows from financing activities:		
Repayment of long-term debt	(3,507,438)	(4,310,804)
Proceeds from long-term debt	500,000	3,000,000
Proceeds from line of credit	225,375	404,049
Net cash used in financing activities	(2,782,063)	(906,755)
Net changes in cash and cash equivalents	3,194,231	(132,649)
Cash and cash equivalents, beginning of year	7,778,304	7,910,953
Cash and cash equivalents, end of year	\$ 10,972,535	\$ 7,778,304
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 223,690	\$ 318,911
Contributed inventory	\$ 267,826,533	\$ 273,074,695
Inventory valuation adjustment	\$ (43,698,933)	\$ (148,105,301)
Noncash investing activities:		
Donation of property and equipment to GVC Foundation	\$ 396,378	\$ -

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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

The Organization currently supports a limited number of programs in Haiti. The Organization responded after the earthquake in January 2010 to work toward healthier communities in Haiti; providing hygiene and medical supplies, medical education and health education and training. The Organization closed the Haiti operations in March 2022 and donated the fixed assets to GVC Foundation.

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

In November 2018, the Heart to Heart International Foundation (HHIF) received determination from the Internal Revenue Service that, effective from August 2017, it is classified under Internal Revenue Code (IRC) section 501(c)(3) and is a public charity. HHIF is a Type 1 supporting organization under IRC section 509(a)(3), meaning, it is operated, supervised or controlled by another public charity, in this case, Heart to Heart International, Inc. HHIF is qualified to receive tax-deductible bequests, devised, transfers or gifts, and became operational in 2019.

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

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

Basis of accounting: The Organization's consolidated financial statements (collectively, the financial statements) are prepared on the accrual basis of accounting.

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

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

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Net assets with donor restrictions: Net assets are those whose use by the Organization is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Amounts received that are restricted for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. Net assets with donor restrictions are released from restriction when the expenses are incurred for their designated purpose or when the time restriction has expired.

Cash and cash equivalents: Cash and cash equivalents consist of available cash balances on deposit at financial institutions and short-term money market investments, as well as short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Certificates of deposit: Certificates of deposit are maintained at cost-basis and interest is paid out on a varying schedule throughout the year. The Organization's certificate of deposits at December 31, 2022, have interest rates of 3.35% and 3.85% and maturity dates of March 2023 and November 2023. The Organization's certificate of deposit at December 31, 2021, has an interest rate of 0.10% and a maturity date of November 2022.

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

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

Unrelated business income tax, if any, is immaterial to the accompanying financial statements. Accordingly, no provision has been made for federal income tax. The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at December 31, 2022 or 2021, as management does not believe any material uncertainties exist.

Inventory: Purchased inventory is recorded at the lower of cost or market and is valued on a first-in, first-out basis. Donated inventory is recorded at the estimated fair value of the donated goods at the date of donation.

During the years ended December 31, 2022 and 2021, 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, 2022 and 2021, nonmedical donated inventory was estimated at fair value based upon the Organization's estimate of the wholesale values that would be received for selling the goods in their principal market, considering their condition and utility for use at the time the goods are donated. The inventory is not available for sale.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Organization records inventory valuation adjustment that were \$43,698,933 and \$148,105,301 for the years ended December 31, 2022 and 2021, respectively.

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

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

Gifts in kind—donated shipping: The Organization recorded \$1,650,078 and \$799,814 in shipping expense for overseas and domestic freight during the years ended December 31, 2022 and 2021, 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.

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 \$105,107 and \$297,746 for the years ended December 31, 2022 and 2021, respectively. In addition, 39,863 and 23,574 volunteer hours were provided to the Organization during the years ended December 31, 2022 and 2021, respectively, for which no value has been assigned. Contributed service time meets the criteria to be recorded in the financial statements if it requires specialized skills, the service is being provided by an individual who possesses those skills, and the service would typically need to be purchased if not contributed.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Accounts receivable: Accounts receivable reflect balances due from companies for Hygiene Kit 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, 2022 and 2021.

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.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 \$46,365 and \$12,480 for the years ended December 31, 2022 and 2021, respectively.

Reclassifications: Certain prior-year amounts have been reclassified to be consistent with current year classifications. These reclassifications had no effect on change in net assets or total net assets.

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 \$8,120 and \$16,505 as of December 31, 2022 and 2021, respectively.

Pledges receivable consist of the following at December 31, 2022 and 2021:

	2022	2021
In less than one year	\$ 168,000	\$ 169,000
In one to five years	5,000	144,000
	173,000	313,000
Less allowance for uncollectible pledges	(8,120)	(16,505)
Less present value discount	(7,084)	(22,056)
Total pledges receivable	<u>\$ 157,796</u>	<u>\$ 274,439</u>

Note 3. Inventory

Inventory consists of the following at December 31, 2022 and 2021:

	2022	2021
Pharmaceutical supplies	\$ 45,735,489	\$ 47,763,258
Medical and other supplies	4,406,911	2,536,055
Total inventory	<u>\$ 50,142,400</u>	<u>\$ 50,299,313</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2022 and 2021:

	2022	2021
Cost:		
Buildings	\$ 9,340,256	\$ 9,770,256
Building improvements	506,605	583,675
Furniture and equipment	858,883	855,478
Computer equipment and software	571,292	1,017,219
Vehicles	738,316	910,008
Total cost	12,015,352	13,136,636
Accumulated depreciation	(2,439,887)	(2,781,114)
Net property and equipment	<u>\$ 9,575,465</u>	<u>\$ 10,355,522</u>

Note 5. Long-Term Debt

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

	2022	2021
Note payable with interest-only payments of 2.75% due yearly on December 31. A final balloon payment in the amount of \$1,000,000 is due on December 31, 2024. Effective June 2023, the interest rate increased to 4.30%.	\$ 1,000,000	\$ 1,000,000
Note payable to a member of senior management with interest-only payments of 2.75% due yearly on December 31. A final balloon payment in the amount of \$125,000 is due on December 31, 2023.	125,000	125,000
Note payable, secured by real property. Interest-only payments due monthly until September 2019. Beginning October 2019, monthly payments of principal and interest totaling \$39,437 are due until August 2024. A final balloon payment in the amount of \$885,341 is due September 2024.	-	2,486,442
Note payable with four interest-only payments of 4.25% due quarterly starting March 31, 2021. Then 12 quarterly principal and interest payments of \$160,384, with a final balloon payment of \$1,371,252 on January 15, 2025.	2,479,004	3,000,000
Total debt	3,604,004	6,611,442
Less current portion	(663,963)	(1,415,308)
Noncurrent debt	<u>\$ 2,940,041</u>	<u>\$ 5,196,134</u>

Maturities for notes payable are as follows:

Years ending December 31:	
2023	\$ 663,963
2024	1,560,506
2025	1,379,535
Total	<u>\$ 3,604,004</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 5. Long-Term Debt (Continued)

The total amount of interest expense during the years ended December 31, 2022 and 2021, was \$223,690 and \$318,911, respectively.

During the years ended December 31, 2022 and 2021, the Organization has available a line of credit up to \$250,000 with a bank at an interest rate of 3.25% and maturity date of November 2022. The balance on this line of credit was \$0 at December 31, 2021. The Organization did not renew the matured line of credit at the time of maturity.

The Organization obtained a line of credit from Wells Fargo Bank on August 20, 2021. The remaining available line of credit changes based on pledged collateral accounts on the last day of the month, \$521,828 as of December 31, 2022. The intention of the line of credit was to have an influx of cash to be able to fund several projects beginning in 2022. The line of credit does not have a maturity date. The line of credit bears interest of 7.0% at December 31, 2022. Principal is to be repaid when called or when funds are available, with interest due monthly. Borrowings outstanding on this line of credit were \$629,424 at December 31, 2022. The line of credit is secured by a member of senior management who is the co-signer.

Note 6. Net Assets With Donor Restrictions

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

	December 31	
	2022	2021
Net assets with donor restrictions:		
Restricted for programs:		
Africa VST Eswatini	\$ 59,148	\$ 71,482
NAFC—Lab Project	264,135	244,467
US Labs—Adopt a Lab	260,774	195,454
DRT Training Grant	143,049	-
WHO Certification	-	99,527
HEAL	98,722	-
Fleet Management	13,049	-
International Labs (Pathologist Overseas)	23,540	-
Becton Dickson's Puerto Rico Volunteer Service Trip (BD PR VST)	-	61,426
US Disaster Response	452,853	688,064
NBCL COVID-19	67,643	-
COVID-19 Grant	-	93,164
Volunteer Service Trip Consulting (VST Consulting)	63,324	68,189
Pepfar	16,432	16,432
Capital Campaign	-	-
Total restricted for programs	<u>1,462,669</u>	<u>1,538,205</u>
Restricted in perpetuity:		
Endowment Fund	19,264	22,665
Staff Development	-	2,000
General Perpetuity Fund	55,090	57,869
Total restricted in perpetuity	<u>74,354</u>	<u>82,534</u>
Total net assets with donor restrictions	<u>\$ 1,537,023</u>	<u>\$ 1,620,739</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 6. Net Assets With Donor Restrictions (Continued)

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

	December 31	
	2022	2021
Releases from net assets with donor restrictions:		
Africa VST Eswatini	\$ 62,334	\$ 83,518
HEAL	1,278	-
BD Puerto Rico Volunteer Service Trip	61,426	1,158
Capital Campaign	-	1,900,653
COVID-19 Response	-	529,852
COVID-19 Grant	92,746	6,836
Fleet Management	72,460	387,882
Haiti	-	640,461
Hurricane Dorian Bahamas	-	359,990
International Labs (Pathologist Overseas)	76,460	-
NAFC—Lab Project	361,332	192,562
One Child One Blanket	-	368,910
Pepfar	-	80
Puerto Rico Hurricane Recovery	-	362,845
DRT Training Grant	6,951	98,513
US Disaster Response	575,235	300,270
US Labs—Adopt a Lab	194,680	4,546
Volunteer Service Trip Consulting	4,865	18,055
WHO Certification	135,722	50,516
Total releases from net assets with donor restrictions	<u>\$ 1,645,489</u>	<u>\$ 5,306,647</u>

Note 7. Liquidity Disclosure

The Organization has various sources of liquidity at its disposal, including cash, certificates of deposit and a line of credit. For purposes of analyzing resources available over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. Additionally, the Organization monitors its budget and anticipates sufficient revenue to cover general expenditures over the next 12 months. Refer to the consolidated statements of cash flows, which identify the sources and uses of the Organization's cash. As of December 31, 2022 and 2021, the following financial assets could be made available within one year of the consolidated statement of financial position dates to meet general obligations:

	2022	2021
Cash and cash equivalents	\$ 10,972,535	\$ 7,778,304
Accounts receivable	1,777,413	1,596,151
Pledges receivable, current portion, net of allowance and discount	152,796	169,000
	<u>12,902,744</u>	<u>9,543,455</u>
Less cash subject to donor-imposed restrictions	<u>(1,537,023)</u>	<u>(1,620,739)</u>
Financial assets available for general expenditures	<u>\$ 11,365,721</u>	<u>\$ 7,922,716</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 8. Concentrations

Three donors accounted for 82% and 80% of the Organization's pledges receivable at December 31, 2022 and 2021, respectively.

One company accounted for 96% and 97% of the Organization's accounts receivable at December 31, 2022 and 2021, respectively.

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. Two companies accounted for 85% and 91% of the gift-in-kind contributions during the years ended December 31, 2022 and 2021, respectively.

One company accounted for 97% and 99% of the Organization's RegaloRx fee revenue for the years ended December 31, 2022 and 2021, respectively.

Note 9. Subsequent Events

The Organization has evaluated subsequent events through June 20, 2023, which is the date the financial statements were available to be issued.

Supplementary Information

Heart to Heart International, Inc.

**Consolidating Statement of Financial Position
December 31, 2022**

	Heart to Heart International	RegaloRx	Foundation	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 9,045,471	\$ 768,809	\$ 1,158,255	\$ -	\$ 10,972,535
Certificates of deposit	500,000	-	-	-	500,000
Accounts receivable	911,759	1,654,664	-	(789,010)	1,777,413
Pledges receivable, current portion, net of allowance and discount	152,796	-	-	-	152,796
Inventory	50,142,400	-	-	-	50,142,400
Other current assets	514,083	47,392	-	-	561,475
Total current assets	61,266,509	2,470,865	1,158,255	(789,010)	64,106,619
Pledges receivable, less current portion above	5,000	-	-	-	5,000
Property and equipment, net of accumulated depreciation	9,420,341	155,124	-	-	9,575,465
Total assets	\$ 70,691,850	\$ 2,625,989	\$ 1,158,255	\$ (789,010)	\$ 73,687,084
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 92,081	\$ 1,477,000	\$ 205,197	\$ (789,010)	\$ 985,268
Accrued liabilities	173,253	423,381	-	-	596,634
Deferred revenue	175,558	-	-	-	175,558
Line of credit	-	629,424	-	-	629,424
Long-term debt, current portion	-	663,963	-	-	663,963
Total current liabilities	440,892	3,193,768	205,197	(789,010)	3,050,847
Long-term debt, less current portion above	-	2,940,041	-	-	2,940,041
Total liabilities	440,892	6,133,809	205,197	(789,010)	5,990,888
Net assets (deficit) without donor restrictions	68,713,935	(3,507,820)	953,058	-	66,159,173
Net assets with donor restrictions	1,537,023	-	-	-	1,537,023
Total net assets	70,250,958	(3,507,820)	953,058	-	67,696,196
Total liabilities and net assets	\$ 70,691,850	\$ 2,625,989	\$ 1,158,255	\$ (789,010)	\$ 73,687,084

Heart to Heart International, Inc.

Consolidating Statement of Activities
Year Ended December 31, 2022

	Heart to Heart International	RegaloRx	Foundation	Eliminations	Total
Support and revenue without donor restrictions:					
Gifts in kind	\$ 267,932,761	\$ -	\$ -	\$ -	\$ 267,932,761
Contributions	7,661,705	-	998,156	-	8,659,861
Donated shipping	1,650,078	-	-	-	1,650,078
Governmental and corporate grants	4,137,268	-	-	-	4,137,268
Program revenue	938,770	-	-	-	938,770
RegaloRx fees revenues	-	11,622,276	-	-	11,622,276
Investment income, net	27,792	-	19	-	27,811
Loss on currency conversion	(13,851)	-	(41,839)	-	(55,690)
Loss on sale of capital assets	(32,560)	-	-	-	(32,560)
Other income	5,344	25	-	-	5,369
Net assets released from restrictions	1,645,489	-	-	-	1,645,489
Total support and revenue without donor restrictions	283,952,796	11,622,301	956,336	-	296,531,433
Expenses:					
Program services—international	230,455,480	-	-	-	230,455,480
Program services—domestic	4,414,247	-	-	-	4,414,247
Program services—patient assistance program	-	9,751,305	-	-	9,751,305
Total program services	234,869,727	9,751,305	-	-	244,621,032
General and administrative	1,096,661	1,616,663	3,278	-	2,716,602
Fundraising public relations	846,977	-	-	-	846,977
Total supporting services	1,943,638	1,616,663	3,278	-	3,563,579
Total expenses	236,813,365	11,367,968	3,278	-	248,184,611
Inventory valuation adjustment	(43,698,933)	-	-	-	(43,698,933)
Changes in net assets without donor restrictions	3,440,498	254,333	953,058	-	4,647,889
Net assets with donor restrictions:					
Contributions	1,285,679	-	-	-	1,285,679
Governmental and corporate grants	280,807	-	-	-	280,807
Investment loss	(4,713)	-	-	-	(4,713)
Net assets released from restrictions	(1,645,489)	-	-	-	(1,645,489)
Changes in net assets with donor restrictions	(83,716)	-	-	-	(83,716)
Changes in net assets	3,356,782	254,333	953,058	-	4,564,173
Net assets (deficit), beginning of year	66,894,176	(3,762,153)	-	-	63,132,023
Net assets (deficit), end of year	\$ 70,250,958	\$ (3,507,820)	\$ 953,058	\$ -	\$ 67,696,196