

Heart to Heart International, Inc.

Consolidated Financial Report
December 31, 2023

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Independent Auditor's Report

Board of Directors
Heart to Heart International, Inc.

Opinion

We have audited the consolidated financial statements of Heart to Heart International, Inc. and its subsidiaries (the Organization), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, 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, 2023 and 2022, 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, results of operations and cash flows of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Kansas City, Missouri
July 2, 2024

Heart to Heart International, Inc.

Consolidated Statements of Financial Position
December 31, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,388,056	\$ 10,972,535
Certificates of deposit	510,045	500,000
Accounts receivable	127,533	1,777,413
Pledges receivable, current portion, net of allowance and discount	10,000	152,796
Inventory	59,580,965	50,142,400
Other current assets	216,417	561,475
Total current assets	71,833,016	64,106,619
Pledges receivable, less current portion above	-	5,000
Property and equipment, net of accumulated depreciation	9,667,100	9,575,465
Total assets	\$ 81,500,116	\$ 73,687,084
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 100,866	\$ 985,268
Accrued liabilities	160,982	596,634
Deferred revenue	329,693	175,558
Line of credit	-	629,424
Long-term debt, current portion	-	663,963
Total current liabilities	591,541	3,050,847
Long-term debt, less current portion above	-	2,940,041
Total liabilities	591,541	5,990,888
Net assets without donor restrictions	80,198,082	66,159,173
Net assets with donor restrictions	710,493	1,537,023
Total net assets	80,908,575	67,696,196
Total liabilities and net assets	\$ 81,500,116	\$ 73,687,084

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2023 and 2022

	2023	2022
Support and revenue without donor restrictions:		
Gifts in kind	\$ 401,293,070	\$ 267,932,761
Contributions	3,934,931	8,659,861
Donated shipping	1,017,467	1,650,078
Governmental and corporate grants	2,128,216	4,137,268
Program revenue	1,226,437	938,770
RegaloRx fees revenues	13,180,093	11,622,276
Investment income, net	103,938	27,811
Gain (loss) on currency conversion	295,562	(55,690)
Gain (loss) on disposal of assets	15,541	(32,560)
Other income	4,588,050	5,369
Net assets released from restrictions	2,342,358	1,645,489
Total support and revenue without donor restrictions	430,125,663	296,531,433
Expenses:		
Program services—international	384,121,283	230,455,480
Program services—domestic	5,338,065	4,414,247
Program services—patient assistance program	12,757,437	9,751,305
Total program services	402,216,785	244,621,032
General and administrative	3,035,775	2,716,602
Fundraising public relations	983,361	846,977
Total supporting services	4,019,136	3,563,579
Total expenses	406,235,921	248,184,611
Inventory valuation adjustment	(9,850,833)	(43,698,933)
Changes in net assets without donor restrictions	14,038,909	4,647,889
Net assets with donor restrictions:		
Contributions	1,411,227	1,285,679
Governmental and corporate grants	101,807	280,807
Investment income (loss)	2,794	(4,713)
Net assets released from restrictions	(2,342,358)	(1,645,489)
Changes in net assets with donor restrictions	(826,530)	(83,716)
Changes in net assets	13,212,379	4,564,173
Net assets:		
Beginning	67,696,196	63,132,023
Ending	\$ 80,908,575	\$ 67,696,196

See notes to consolidated financial statements.

Heart to Heart International, Inc.

Consolidated Statement of Functional Expenses Year Ended December 31, 2023

	Program Services			General and Administrative	Fundraising	Total
	International Projects	Domestic Projects	Patient Assistance Program			
Distributed aid	\$ 1,439,552	\$ 535,382	\$ -	\$ -	\$ -	1,974,934
Donated medical and other services	142,820	24,842	-	-	-	167,662
Donated shipping	473,614	543,853	-	-	-	1,017,467
Insurance	74,541	66,747	-	17,977	27,477	186,742
Interest, fees and bank charges	17,025	15,824	-	142,282	64,513	239,644
Maintenance and repairs	68,465	136,860	10,467	9,884	21,820	247,496
Medical and contract services	516,358	149,123	-	9,087	77,091	751,659
Office	222,510	167,514	19,968	24,727	142,999	577,718
Postage and shipping	110,534	139,180	24,538	657	18,706	293,615
Printing	12,168	6,350	-	140	50,670	69,328
Professional fees	23,739	23,108	17,200	117,413	10,651	192,111
Publicity	1,156	441	-	26,182	23,460	51,239
Rent	-	400	5,600	-	-	6,000
Salaries and benefits	1,069,685	1,085,960	-	840,986	513,955	3,510,586
Special events	7,179	5,226	-	1,447	12,246	26,098
Staff development	8,662	8,695	1,161	117	2,197	20,832
Telephone	11,578	17,552	11,032	2,240	4,072	46,474
Travel and meals	222,099	218,338	18,576	3,110	9,202	471,325
Pharmacy—service charges	-	-	2,938,100	-	-	2,938,100
Pharmacy—management	-	-	94,525	-	-	94,525
Pharmacy—other charges	-	-	59,000	-	-	59,000
Pharmacy—shipping	-	-	541,849	-	-	541,849
Credit checks	-	-	52,603	-	-	52,603
Insurance checks	-	-	99,344	-	-	99,344
Printing, mailings for client	-	-	156,193	-	-	156,193
Other	-	40,447	751	-	4,302	45,500
Salaries and benefits—RegaloRx	-	-	5,298,736	1,206,111	-	6,504,847
Contract labor	-	-	2,184,729	-	-	2,184,729
Contract services	-	-	262,811	-	-	262,811
Software	-	-	802,687	-	-	802,687
Consulting fees	-	-	97,721	-	-	97,721
Expenses before depreciation and gifts-in-kind distribution	4,421,685	3,185,842	12,697,591	2,402,360	983,361	23,690,839
Depreciation	-	207	59,846	633,415	-	693,468
Gifts-in-kind distribution	379,699,598	2,152,016	-	-	-	381,851,614
Total expenses	\$ 384,121,283	\$ 5,338,065	\$ 12,757,437	\$ 3,035,775	\$ 983,361	\$ 406,235,921
Percent of total	94.56%	1.31%	3.14%	0.75%	0.24%	100%

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 Statements of Cash Flows
Years Ended December 31, 2023 and 2022**

	2023	2022
Cash flows from operating activities:		
Changes in net assets	\$ 13,212,379	\$ 4,564,173
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	693,468	613,705
Change in allowance for uncollectible pledges	(8,120)	(8,385)
Amortization of pledge discount	(7,084)	(14,972)
Gain on sale of RegaloRx	(56,976)	-
(Gain) loss on disposal of assets	(15,541)	428,938
Decrease (increase) in operating assets:		
Inventory	(9,438,565)	156,913
Accounts receivable	126,228	(181,262)
Pledges receivable	163,000	140,000
Other current assets	239,159	(29,955)
Increase (decrease) in operating liabilities:		
Accounts payable	473,746	550,617
Accrued liabilities	58,213	163,605
Deferred revenue	154,135	105,503
Net cash provided by operating activities	5,594,042	6,488,880
Cash flows from investing activities:		
Purchase of certificate of deposit	(510,045)	(500,000)
Sale of certificate of deposit	500,000	250,000
Proceeds from sale of assets	50,596	-
Proceeds from sale of RegaloRx	7,378	-
Purchase of property and equipment	(993,022)	(262,586)
Net cash used in investing activities	(945,093)	(512,586)
Cash flows from financing activities:		
Repayment of long-term debt	(3,604,004)	(3,507,438)
Proceeds from long-term debt	-	500,000
(Repayment) proceeds from line of credit, net	(629,424)	225,375
Net cash used in financing activities	(4,233,428)	(2,782,063)
Net changes in cash and cash equivalents	415,521	3,194,231
Cash and cash equivalents:		
Beginning	10,972,535	7,778,304
Ending	\$ 11,388,056	\$ 10,972,535
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 140,592	\$ 223,690
Contributed inventory	\$ 401,125,408	\$ 267,826,533
Inventory valuation adjustment	\$ (9,850,833)	\$ (43,698,933)
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. Effective September 29, 2023, a third party purchased and has taken over management of RegaloRx. The profits of RegaloRx will no longer be used to support the Organization. At December 31, 2023, \$0 of net assets remained. The sale resulted in a gain of \$56,976, which is included in other income on the statement of activities.

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.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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, 2023, have interest rates of 3.35% and 3.85% and maturity dates of March 2024 and May 2024. The Organization's certificate of deposit at December 31, 2022, has an interest rate of 3.35% and 3.85% and maturity dates of March 2023 and November 2023.

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, 2023 or 2022, 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, 2023 and 2022, medical donated inventory was recorded at fair value using the wholesale acquisition cost (WAC) method at the date of donation. WAC is defined in federal law as the manufacturer's list price for the drug to wholesalers or direct purchases, not including prompt pay or other discounts, rebates or reductions, for the most recent month for which information is available. The Organization uses a data tool developed by First Databank, an international provider of data for pharmaceutical products and services, to obtain the WAC for medical donated inventory received. The inventory is not available for sale.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

For both the years ended December 31, 2023 and 2022, nonmedical donated inventory was estimated at fair value based upon the Organization's estimate of the wholesale values that would be received for selling the goods in their principal market, considering their condition and utility for use at the time the goods are donated. The inventory is not available for sale.

The Organization records inventory valuation adjustments that were \$9,850,833 and \$43,698,933 for the years ended December 31, 2023 and 2022, 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 \$1,017,467 and \$1,650,078 in shipping expense for overseas and domestic freight during the years ended December 31, 2023 and 2022, respectively. The donated shipping is also included as revenue in support and revenue without donor restrictions.

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

Revenue recognition: Cash and gifts-in-kind contributions are received from individuals, as well as domestic and multinational organizations. These contributions, including unconditional promises, are recognized as revenues when the donor's unconditional commitment is received. All contributions are considered to be without donor restriction use unless specifically restricted by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

A number of unpaid volunteers have made significant contributions of their time to the activities of the Organization without compensation. The Organization receives many volunteer hours from a variety of skilled personnel, such as doctors, nurses and other specialists. The value of these donated services that meets the criteria for recognition is reported as donated services in the accompanying consolidated statements of activities. These amounts are reflected at fair value in the financial statements, which amounted to \$167,662 and \$105,107 for the years ended December 31, 2023 and 2022, respectively. In addition, 43,293 and 39,863 volunteer hours were provided to the Organization during the years ended December 31, 2023 and 2022, respectively, for which no value has been assigned. Contributed service time meets the criteria to be recorded in the financial statements if it requires specialized skills, the service is being provided by an individual who possesses those skills, and the service would typically need to be purchased if not contributed.

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

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

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

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

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

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

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for credit losses and doubtful accounts: The Organization adopted ASC 326, Financial Instruments—Credit Losses, as of January 1, 2023, with the cumulative-effect transition method with the required prospective approach. The measurement of expected credit losses under the current expected credit loss (CECL) methodology is applicable to financial assets measured at amortized cost, which include trade receivables, contract assets and non-current receivables. An allowance for credit losses under the CECL methodology is determined using the loss-rate approach and measured on a collective (pool) basis when similar risk characteristics exist. Where financial instruments do not share risk characteristics, they are evaluated on an individual basis. The CECL allowance is based on relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. The allowance for credit losses as of December 31, 2023, and change in the allowance for credit losses during the year ended December 31, 2023, was not material to the financial statements.

Prior to adoption of ASC 326, the Organization maintained an allowance for doubtful accounts to reserve for potentially uncollectible receivables. The allowance for doubtful accounts as of December 31, 2022 was not material to the financial statements.

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, 2023 and 2022.

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

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

Advertising costs: Advertising costs are charged to operations when incurred. Advertising expenses totaled \$27,745 and \$46,365 for the years ended December 31, 2023 and 2022, respectively.

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 \$0 and \$8,120 as of December 31, 2023 and 2022, respectively.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 2. Pledge Receivable (Continued)

Pledges receivable consist of the following at December 31, 2023 and 2022:

	2023	2022
In less than one year	\$ 10,000	\$ 168,000
In one to five years	-	5,000
	<u>10,000</u>	<u>173,000</u>
Less allowance for uncollectible pledges	-	(8,120)
Less present value discount	-	(7,084)
Total pledges receivable	<u>\$ 10,000</u>	<u>\$ 157,796</u>

Note 3. Inventory

Inventory consists of the following at December 31, 2023 and 2022:

	2023	2022
Pharmaceutical supplies	\$ 57,504,285	\$ 45,735,489
Medical and other supplies	2,076,680	4,406,911
Total inventory	<u>\$ 59,580,965</u>	<u>\$ 50,142,400</u>

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2023 and 2022:

	2023	2022
Cost:		
Buildings	\$ 9,340,256	\$ 9,340,256
Building improvements	747,276	506,605
Furniture and equipment	875,403	858,883
Computer equipment and software	202,709	571,292
Vehicles	1,288,425	738,316
Total cost	<u>12,454,069</u>	<u>12,015,352</u>
Accumulated depreciation	<u>(2,786,969)</u>	<u>(2,439,887)</u>
Net property and equipment	<u>\$ 9,667,100</u>	<u>\$ 9,575,465</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 5. Long-Term Debt

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

	2023	2022
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
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
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
Total debt	-	3,604,004
Less current portion	-	(663,963)
Noncurrent debt	\$ -	\$ 2,940,041

The total amount of interest expense during the years ended December 31, 2023 and 2022, was \$140,592 and \$223,690, respectively.

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, \$0 and \$521,828 as of December 31, 2023 and 2022, respectively. 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. Principal is to be repaid when called or when funds are available, with interest due monthly. Borrowings outstanding on this line of credit were \$0 and \$629,424 at December 31, 2023 and 2022, respectively. The line of credit is secured by a member of senior management who is the co-signer.

The purchase price received on the sale of RegaloRx was used to pay off the long-term debt as well as the line of credit during 2023.

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 6. Net Assets With Donor Restrictions

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

	2023	2022
Net assets with donor restrictions:		
Restricted for programs:		
Africa VST Eswatini	\$ 15,638	\$ 59,148
NAFC—Lab Project	274,025	264,135
US Labs—Adopt a Lab	88,794	260,774
DRT Training Grant	172,191	143,049
HEAL	-	98,722
Fleet Management	-	13,049
International Labs (Pathologist Overseas)	-	23,540
US Disaster Response	-	452,853
NBCL COVID-19	40,854	67,643
Volunteer Service Trip Consulting (VST Consulting)	-	63,324
Pathologist Overseas	41,843	-
Pepfar	-	16,432
Total restricted for programs	<u>633,345</u>	<u>1,462,669</u>
Restricted in perpetuity:		
Endowment Fund	22,058	19,264
General Perpetuity Fund	55,090	55,090
Total restricted in perpetuity	<u>77,148</u>	<u>74,354</u>
Total net assets with donor restrictions	<u>\$ 710,493</u>	<u>\$ 1,537,023</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:

	2023	2022
Releases from net assets with donor restrictions:		
Africa VST Eswatini	\$ 343,510	\$ 62,334
HEAL	248,722	1,278
BD Puerto Rico Volunteer Service Trip	-	61,426
COVID-19 Grant	-	92,746
Fleet Management	-	72,460
International Labs (Pathologist Overseas)	-	76,460
Pathologist Overseas	31,697	-
NBCL—COVID19	56,890	-
KCMO Hispanic Populatoin	16,446	-
KCMO Lowsocioecon	24,017	-
NAFC—Lab Project	391,486	361,332
DRT Training Grant	120,858	6,951
US Disaster Response	872,927	575,235
US Labs—Adopt a Lab	172,480	194,680
Volunteer Service Trip Consulting	63,325	4,865
WHO Certification	-	135,722
Total releases from net assets with donor restrictions	<u>\$ 2,342,358</u>	<u>\$ 1,645,489</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, 2023 and 2022, the following financial assets could be made available within one year of the consolidated statements of financial position dates to meet general obligations:

	2023	2022
Cash and cash equivalents	\$ 11,388,056	\$ 10,972,535
Accounts receivable	127,533	1,777,413
Pledges receivable, current portion, net of allowance and discount	10,000	152,796
	<u>11,525,589</u>	<u>12,902,744</u>
Less cash subject to donor-imposed restrictions	(710,493)	(1,537,023)
Financial assets available for general expenditures	<u>\$ 10,815,096</u>	<u>\$ 11,365,721</u>

Heart to Heart International, Inc.

Notes to Consolidated Financial Statements

Note 8. Concentrations

Three donors accounted for 0% and 82% of the Organization's pledges receivable at December 31, 2023 and 2022, respectively.

One company accounted for 0% and 96% of the Organization's accounts receivable at December 31, 2023 and 2022, respectively.

The Organization receives a significant portion of its gifts-in-kind contributions from pharmaceutical and medical supply companies. Three companies accounted for 94% of the gift-in-kind contributions during the year ended December 31, 2023. Two companies accounted for 85% of the gift-in-kind contributions during the year ended December 31, 2022.

One company accounted for 99% and 97% of the Organization's RegaloRx fee revenue for the years ended December 31, 2023 and 2022, respectively.

Note 9. Subsequent Events

The Organization has evaluated subsequent events through July 2, 2024, 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, 2023**

	Heart to Heart International	RegaloRx	Foundation	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 10,332,044	\$ -	\$ 1,056,012	\$ -	\$ 11,388,056
Certificates of deposit	510,045	-	-	-	510,045
Accounts receivable	135,930	-	-	(8,397)	127,533
Pledges receivable, current portion, net of allowance and discount	10,000	-	-	-	10,000
Inventory	59,580,965	-	-	-	59,580,965
Other current assets	216,417	-	-	-	216,417
Total current assets	70,785,401	-	1,056,012	(8,397)	71,833,016
Property and equipment, net of accumulated depreciation	9,667,100	-	-	-	9,667,100
Total assets	\$ 80,452,501	\$ -	\$ 1,056,012	\$ (8,397)	\$ 81,500,116
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 100,866	\$ -	\$ 8,397	\$ (8,397)	\$ 100,866
Accrued liabilities	160,982	-	-	-	160,982
Deferred revenue	329,693	-	-	-	329,693
Total liabilities	591,541	-	8,397	(8,397)	591,541
Net assets (deficit) without donor restrictions	79,150,467	-	1,047,615	-	80,198,082
Net assets with donor restrictions	710,493	-	-	-	710,493
Total net assets	79,860,960	-	1,047,615	-	80,908,575
Total liabilities and net assets	\$ 80,452,501	\$ -	\$ 1,056,012	\$ (8,397)	\$ 81,500,116

Heart to Heart International, Inc.

Consolidating Statement of Activities
Year Ended December 31, 2023

	Heart to Heart International	RegaloRx	Foundation	Eliminations	Total
Support and revenue without donor restrictions:					
Gifts in kind	\$ 401,293,070	\$ -	\$ -	\$ -	\$ 401,293,070
Contributions	3,934,931	-	-	-	3,934,931
Donated shipping	1,017,467	-	-	-	1,017,467
Governmental and corporate grants	2,128,216	-	-	-	2,128,216
Program revenue	1,226,437	-	-	-	1,226,437
RegaloRx fees revenues	-	13,180,093	-	-	13,180,093
Investment income, net	103,770	168	-	-	103,938
Gain on currency conversion	197,805	-	97,757	-	295,562
Gain (loss) on sale of capital assets	16,261	(720)	-	-	15,541
Other income	-	4,588,050	-	-	4,588,050
Net assets released from restrictions	2,342,358	-	-	-	2,342,358
Total support and revenue without donor restrictions	412,260,315	17,767,591	97,757	-	430,125,663
Expenses:					
Program services—international	384,121,283	-	-	-	384,121,283
Program services—domestic	5,338,065	-	-	-	5,338,065
Program services—patient assistance program	-	12,757,437	-	-	12,757,437
Total program services	389,459,348	12,757,437	-	-	402,216,785
General and administrative	1,530,241	1,502,334	3,200	-	3,035,775
Fundraising public relations	983,361	-	-	-	983,361
Total supporting services	2,513,602	1,502,334	3,200	-	4,019,136
Total expenses	391,972,950	14,259,771	3,200	-	406,235,921
Inventory valuation adjustment	(9,850,833)	-	-	-	(9,850,833)
Changes in net assets without donor restrictions	10,436,532	3,507,820	94,557	-	14,038,909
Net assets with donor restrictions:					
Contributions	1,411,227	-	-	-	1,411,227
Governmental and corporate grants	101,807	-	-	-	101,807
Investment income	2,794	-	-	-	2,794
Net assets released from restrictions	(2,342,358)	-	-	-	(2,342,358)
Changes in net assets with donor restrictions	(826,530)	-	-	-	(826,530)
Changes in net assets	9,610,002	3,507,820	94,557	-	13,212,379
Net assets (deficit):					
Beginning	70,250,958	(3,507,820)	953,058	-	67,696,196
Ending	\$ 79,860,960	\$ -	\$ 1,047,615	\$ -	\$ 80,908,575