

**Heart for Africa, Inc. and
Consolidated Entity**

Report on Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Heart for Africa, Inc. and Consolidated Entity

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Independent Auditor's Report

To the Board of Directors
Heart for Africa, Inc.
Roswell, Georgia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We did not audit the 2018 financial statements of Heart for Africa Swaziland (HFA Swaziland) which statements reflect total assets of \$5,298,451 as of December 31, 2018, and total revenue and support, net of intercompany eliminations, of \$1,354,008 for the year then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were issued by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of HFA Swaziland, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for HFA Swaziland as of December 31, 2018, and for the year then ended, prior to those conversion adjustments, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Organization has adopted Financial Accounting Standards Board Accounting Standard Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has applied the changes retrospectively to all periods presented. The effect of reclassifications on the Organization's consolidated financial statements is also disclosed in Note 1. Our opinion is not modified with respect to that matter.

Report on 2018 Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Chattanooga, Tennessee
August 13, 2019

Heart for Africa, Inc. and Consolidated Entity

Consolidated Statements of Financial Position

As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 660,998	\$ 861,903
Accounts receivable, net	37,830	27,835
Prepaid expenses	1,800	5,533
Inventory	72,756	88,151
Total current assets	<u>773,384</u>	<u>983,422</u>
Property and equipment, net	5,188,509	5,325,156
Total assets	<u>\$ 5,961,893</u>	<u>\$ 6,308,578</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	<u>\$ 134,871</u>	<u>\$ 245,491</u>
Net assets		
Without donor restrictions	5,315,126	5,448,240
With donor restrictions	511,896	614,847
Total net assets	<u>5,827,022</u>	<u>6,063,087</u>
Total liabilities and net assets	<u>\$ 5,961,893</u>	<u>\$ 6,308,578</u>

See Notes to Consolidated Financial Statements

Heart for Africa, Inc. and Consolidated Entity
Consolidated Statement of Activities and Changes in Net Assets
For the year ended December 31, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and support			
Contributions	\$ 1,344,861	\$ 1,358,313	\$ 2,703,174
Noncash donations	242,673	-	242,673
Special events revenue, less direct costs of \$21,715	74,465	-	74,465
Jewelry and farm sales	948,758	-	948,758
Other income	150,895	-	150,895
	<u>2,761,652</u>	<u>1,358,313</u>	<u>4,119,965</u>
Net assets released from restrictions	<u>1,461,264</u>	<u>(1,461,264)</u>	<u>-</u>
Total revenue and support	<u>4,222,916</u>	<u>(102,951)</u>	<u>4,119,965</u>
Expenses			
Program services	<u>2,968,567</u>	<u>-</u>	<u>2,968,567</u>
Supporting services:			
Management and general	397,645	-	397,645
Fundraising	179,943	-	179,943
Total supporting services	<u>577,588</u>	<u>-</u>	<u>577,588</u>
Total expenses	<u>3,546,155</u>	<u>-</u>	<u>3,546,155</u>
Change in net assets before currency translation adjustment	676,761	(102,951)	573,810
Currency translation adjustment	<u>(809,875)</u>	<u>-</u>	<u>(809,875)</u>
Change in net assets	<u>(133,114)</u>	<u>(102,951)</u>	<u>(236,065)</u>
Net assets, beginning of year	<u>5,448,240</u>	<u>614,847</u>	<u>6,063,087</u>
Net assets, end of year	<u>\$ 5,315,126</u>	<u>\$ 511,896</u>	<u>\$ 5,827,022</u>

See Notes to Consolidated Financial Statements

Heart for Africa, Inc. and Consolidated Entity
Consolidated Statement of Activities and Changes in Net Assets
For the year ended December 31, 2017

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and support			
Contributions	\$ 1,093,196	\$ 1,522,223	\$ 2,615,419
Noncash donations	203,709	-	203,709
Special events revenue, less direct costs of \$17,008	78,832	-	78,832
Jewelry and farm sales	833,680	-	833,680
Other income	131,957	-	131,957
	<u>2,341,374</u>	<u>1,522,223</u>	<u>3,863,597</u>
Net assets released from restrictions	1,444,360	(1,444,360)	-
Total revenue and support	<u>3,785,734</u>	<u>77,863</u>	<u>3,863,597</u>
Expenses			
Program services	<u>2,961,966</u>	-	<u>2,961,966</u>
Supporting services:			
Management and general	413,929	-	413,929
Fundraising	157,544	-	157,544
Total supporting services	<u>571,473</u>	-	<u>571,473</u>
Total expenses	<u>3,533,439</u>	-	<u>3,533,439</u>
Change in net assets before currency translation adjustment	252,295	77,863	330,158
Currency translation adjustment	<u>503,608</u>	-	<u>503,608</u>
Change in net assets	755,903	77,863	833,766
Net assets, beginning of year	<u>4,692,337</u>	<u>536,984</u>	<u>5,229,321</u>
Net assets, end of year	<u>\$ 5,448,240</u>	<u>\$ 614,847</u>	<u>\$ 6,063,087</u>

See Notes to Consolidated Financial Statements

Heart for Africa, Inc. and Consolidated Entity**Consolidated Statement of Functional Expenses****For the year ended December 31, 2018**

	<u>Program services</u>	<u>Supporting services</u>		<u>Total</u>
		<u>Management and general</u>	<u>Fundraising</u>	
Salaries and wages	\$ 547,821	\$ 191,059	\$ 123,577	\$ 862,457
Project grants	1,393,701	14,173	-	1,407,874
Long-term and short-term volunteers	154,156	-	-	154,156
Legal fees	4,966	3,311	-	8,277
Trip expenses	203,442	-	-	203,442
Accounting and bank fees	-	36,335	-	36,335
Office expenses	15,404	80,493	8,187	104,084
Professional and contract labor	-	1,854	-	1,854
Fundraising and development fees	-	-	28,290	28,290
Occupancy	84,773	6,419	4,079	95,271
Employee benefits	10,540	9,072	1,802	21,414
Payroll taxes	18,777	8,161	6,527	33,465
Depreciation	266,138	21,998	1,902	290,038
Travel and meetings	88,881	6,975	5,579	101,435
Repair and maintenance	65,180	-	-	65,180
Motor vehicle and transport	83,721	5,197	-	88,918
Miscellaneous	31,067	12,598	-	43,665
	<u>\$ 2,968,567</u>	<u>\$ 397,645</u>	<u>\$ 179,943</u>	<u>\$ 3,546,155</u>

See Notes to Consolidated Financial Statements

Heart for Africa, Inc. and Consolidated Entity

Consolidated Statement of Functional Expenses

For the year ended December 31, 2017

	Program services	Supporting services		Total
		Management and general	Fundraising	
Salaries and wages	\$ 522,397	\$ 185,974	\$ 104,165	\$ 812,536
Project grants	1,520,402	4,917	-	1,525,319
Long-term and short-term volunteers	207,382	-	-	207,382
Trip expenses	91,147	-	-	91,147
Accounting and bank fees	-	66,755	-	66,755
Office expenses	19,076	45,542	3,962	68,580
Fundraising and development fees	-	-	34,118	34,118
Occupancy	89,908	6,177	2,849	98,934
Employee benefits	9,097	6,236	1,386	16,719
Payroll taxes	17,007	7,897	5,469	30,373
Depreciation	271,296	21,346	765	293,407
Travel and meetings	73,104	6,690	4,830	84,624
Repair and maintenance	53,932	-	-	53,932
Motor vehicle and transport	67,445	4,559	-	72,004
Miscellaneous	19,773	57,836	-	77,609
	<u>\$ 2,961,966</u>	<u>\$ 413,929</u>	<u>\$ 157,544</u>	<u>\$ 3,533,439</u>

See Notes to Consolidated Financial Statements

Heart for Africa, Inc. and Consolidated Entity

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating activities		
Change in net assets before currency translation adjustment	\$ 573,810	\$ 330,158
Adjustments to reconcile change in net assets before currency translation adjustment to net cash flows from operating activities:		
Depreciation	290,038	293,407
Noncash capital additions donated	-	51,790
Loss on sale of property and equipment	12,598	-
Changes in operating assets and liabilities:		
Accounts receivable	(12,214)	17,924
Prepaid expenses	3,733	2,119
Inventory	3,456	2,454
Accounts payable and accrued expenses	(95,659)	49,700
Net cash flows from operating activities	<u>775,762</u>	<u>747,552</u>
Investing activities		
Purchase of property and equipment	(1,012,046)	(740,135)
Effect of exchange rate changes on cash and cash equivalents		
	35,379	14,286
Net change in cash and cash equivalents	<u>(200,905)</u>	<u>21,703</u>
Cash and cash equivalents, beginning of year	<u>861,903</u>	<u>840,200</u>
Cash and cash equivalents, end of year	<u>\$ 660,998</u>	<u>\$ 861,903</u>

See Notes to Consolidated Financial Statements

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization:

Heart for Africa, Inc. and consolidated entity (the "Organization") is the consolidated financial reporting entity for Heart for Africa, Inc. ("HFA") and HFA Swaziland (formerly known as "Dream for Africa"). HFA was incorporated in 2003 as a Georgia not-for-profit corporation and is exempt from federal income taxes on related activities under section 501(c)(3) of the Internal Revenue Code (the "Code"). Contributions to HFA are tax deductible within the limits prescribed by the Code.

HFA is a faith-based humanitarian organization working to bring hope to Africans by addressing poverty issues such as hunger, orphaned children and education. Working with partners in Africa, HFA supports and encourages self-sustainable homes for orphans and vulnerable children through long-term programs and short-term service trips that deliver quality care, shelter, food, water, clothing, health care, social work, mentoring and education. HFA specializes in bringing people from North America to work in service projects in Swaziland.

HFA has facilitated thousands of westerners traveling to Africa for its volunteer programs. Volunteers traveling to Africa see for themselves the challenges of this continent and have made a commitment to impacting the lives of those they encounter. HFA believes that while it may not be able to save every life in Africa, that one person at a time, people in North America can have a serious impact on the lives of millions on this continent.

HFA Swaziland was incorporated in 2004, in Swaziland, as a not-for-profit organization and holds tax exempt status in Swaziland. Its mission is to provide seeds to communities, support to orphanages and to train communities and orphanages to grow gardens to alleviate hunger and malnutrition, especially the HIV/AIDS victims. HFA Swaziland is a partner of HFA and HFA financially supports HFA Swaziland as it furthers HFA's vision in Africa.

During 2009, HFA Swaziland made a large purchase of land in Swaziland. This purchase has increased HFA Swaziland's presence and activity in Swaziland. This land is used to carry out a multi-faceted initiative that includes large-scale farming, a children's home and preschool, poultry houses and a dairy farm. The agribusiness development will address food shortage, generate employment, stimulate the local economy, allow for export and provide a sustainable business model to support other orphanages and projects of HFA Swaziland.

Basis of accounting:

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) has established the Accounting Standards Codification (ASC) as the sole source of authoritative GAAP.

Principles of consolidation:

The consolidated financial statements include the accounts of Heart for Africa, Inc. and wholly-owned subsidiary, HFA Swaziland. All significant inter-entity balances and transactions have been eliminated.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 1. Nature of Organization and Significant Accounting Policies, Continued

Principles of consolidation, continued:

The 2009 Swaziland land purchase was made through two subsidiaries, Sawubona Khaya (Proprietary) Ltd. and Tintsabeni (Proprietary) Ltd. These subsidiaries are owned 100% by HFA Swaziland and are dormant outside of holding the title to the land.

Financial statement presentation:

The Organization is required to report information regarding its financial position and activities, as necessary, according to two classes of net assets:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. For contributions restricted to the acquisition of property and equipment, the restrictions are released when the asset is placed in service unless the donor has provided more explicit requirements.

Net assets released from restrictions:

Net assets are released from donor restrictions by being used for the Organization's operations as specified by the donors.

Revenue recognition and accounts receivable:

Receivables consist of jewelry, home and garden and farm sales which are recognized as revenue when earned, that is when related goods are shipped or directly delivered to the customer. Cost of sales are included in program services on the consolidated statement of activities and changes in net assets and totaled \$626,403 and \$657,677 for 2018 and 2017, respectively.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 1. Nature of Organization and Significant Accounting Policies, Continued

Revenue recognition and accounts receivable, continued:

The Organization does not require collateral for accounts receivable. Accounts receivable is reported net of an allowance for doubtful accounts of \$47,530 and \$55,332 as of December 31, 2018 and 2017, respectively. The allowance for doubtful accounts is maintained at a level adequate to absorb probable losses and is provided based on management's judgment including factors as prior collection history, known financial status of customer and existing economic conditions. As accounts are deemed uncollectible, they are written off.

Cash and cash equivalents:

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Organization maintains cash and cash equivalent accounts at various financial institutions which may exceed federally insured amounts at times and which may exceed consolidated statement of financial position amounts due to outstanding checks.

Inventory:

Inventory of African jewelry and other handmade African items are carried at the lower of cost and net realizable value. Cost is determined on a first-in first-out basis. Net realizable value is defined as the estimated selling price in the ordinary course of business, less predictable cost of completion.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Expenditures for equipment in excess of \$500 are capitalized at cost. Depreciation is provided over the estimated useful life of an asset ranging from 3 to 39 years using the straight-line method. When assets are sold or otherwise retired from service, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the consolidated statement of activities and changes in net assets. The cost of maintenance and repairs is charged to expense as incurred.

Contributions:

Contributions received are recognized as without donor restrictions or with donor restrictions depending upon the existence or nature of any donor restrictions. Donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

Contributions with donor restrictions are subject to assessments of 7% to 12%, which are used for management and general expenses. Assessments are classified as contributions without donor restrictions at the time the contributions are received. Assessments totaled \$195,513 and \$165,831 for the years ended December 31, 2018 and 2017, respectively, and are classified as contributions.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 1. Nature of Organization and Significant Accounting Policies, Continued

Contributions, continued:

Of the total contributions to the Organization, \$129,130 and \$216,074 were contributions made by members of the Board of Directors in 2018 and 2017, respectively.

Special events revenue:

The Organization held the following special events during the years ended December 31, 2018 and 2017, to inform supporters about current operations and increase donor exposure:

	2018	
	Revenue	Direct costs
Golf Tournament	\$ 23,335	\$ 3,120
Fundraising Dinner	43,250	18,595
Summit for HOPE	29,595	-
	<u>\$ 96,180</u>	<u>\$ 21,715</u>
	2017	
	Revenue	Direct costs
Golf Tournament	\$ 35,095	\$ 7,330
Fundraising Dinner	9,725	9,678
Summit for HOPE	51,020	-
	<u>\$ 95,840</u>	<u>\$ 17,008</u>

Noncash donations:

Contributed services, materials, investment securities and equipment are reflected as contributions at their estimated fair values at the date of receipt. Donated volunteer services requiring specific expertise are recognized as contributions at their estimated fair values at the date of donation in the period the services are provided. In addition, a large number of volunteers have donated significant amounts of time to assist with various programs, special events and committee assignments, which do not meet the criteria for recognition and, therefore, are not reflected in the consolidated financial statements.

From time to time HFA will receive noncash donations of goods, supplies and food to be loaded on containers and forwarded to HFA Swaziland. For these containers of noncash donations, HFA acts as the agent as HFA Swaziland is the principal recipient. Such noncash donations are only recognized as revenue by HFA Swaziland.

Donated equipment meeting capitalization criteria is recognized as support without donor restrictions in the absence of donor stipulations as to how long lived assets must be used.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 1. Nature of Organization and Significant Accounting Policies, Continued

Functional allocation of expenses:

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The Organization classifies expenses as program services or support expenses. Program services are the activities that fulfill the Organization's mission and include husbandry, educational and orphanage expenses.

Support expenses are all activities other than program services and include human resources, management and general expenses. All fundraising costs are classified as support expenses.

Management allocates these expenses as follows:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and wages	Time and effort
Project grants	Nature of expenses
Legal fees	Nature of expenses
Office expenses	Nature of expenses
Occupancy	Time and effort
Employee benefits	Time and effort
Payroll taxes	Time and effort
Depreciation	Nature of assets
Travel and meetings	Time and effort
Motor vehicle and transport	Nature of expenses
Miscellaneous	Nature of expenses

Income taxes:

HFA and HFA Swaziland are exempt from federal and state income taxes.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 1. Nature of Organization and Significant Accounting Policies, Continued

Recently adopted accounting principle:

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adopted the guidance and has applied the changes retrospectively to all periods presented. The new standard changes the following aspects of the Organization's consolidated financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions
- The temporarily restricted net assets have been renamed net assets with donor restrictions
- The financial statements include a disclosure about liquidity and availability of resources in Note 2

Net asset reclassifications were not necessary on the adoption of ASU 2016-14 as of January 1, 2018, merely the required renaming of net asset categories, as follows:

<u>Net assets classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
As previously presented:			
Unrestricted	\$ 5,448,240	\$ -	\$ 5,448,240
Temporarily restricted	-	614,847	614,847
Net assets as reported	<u>\$ 5,448,240</u>	<u>\$ 614,847</u>	<u>\$ 6,063,087</u>

Recently issued accounting pronouncements:

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The guidance will be effective for the Organization for annual periods beginning after December 15, 2018. The Organization is currently evaluating the effect that implementation of this accounting pronouncement will have on its consolidated financial statements.

In June 2018, the FASB updated the Not-for-Profit Entities Topic of the ASC. The amendments clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. For contributions received, the amendments are effective for annual periods beginning after December 15, 2018. The Organization is currently in the process of evaluating the impact of adoption of this guidance on its consolidated financial statements.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 1. Nature of Organization and Significant Accounting Policies, Continued

Foreign currency translation:

The functional currency for the Organization's foreign operations is the applicable local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for consolidated statement of financial position accounts using current exchange rates in effect at the consolidated statement of financial position date, historical rates for net assets and the weighted average exchange rate during the period for revenue and expense accounts. Foreign currency translation adjustments resulting from such translations are reflected in the consolidated statements of activities and changes in net assets.

Estimates and uncertainties:

The preparation of consolidated financial statements in accordance with 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events:

The Organization has evaluated subsequent events for potential recognition and disclosure through August 13, 2019, the date the consolidated financial statements were available to be issued.

Note 2. Availability and Liquidity

The following represents the Organization's financial assets as of December 31, 2018, reduced by amounts not available to meet general expenditures within one year:

Financial assets at year end:	
Cash and cash equivalents	\$ 660,998
Accounts receivable, net	<u>37,830</u>
Total financial assets	698,828
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>511,896</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 186,932</u>

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 2. Availability and Liquidity, Continued

As part of Heart for Africa's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Heart for Africa invests cash in excess of daily requirements in an interest-bearing money market account, in order to earn interest on funds that are idle. Heart for Africa receives over \$11,000 per month as undesignated funds from their "Hero" donors (these are donors who have elected to provide unrestricted cash support on a monthly basis for Heart for Africa). There is a \$30,000 credit line that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

Note 3. Noncash Donations

The Organization receives noncash donations from various sources. Noncash donations meeting the criteria for recognition are as follows:

	<u>2018</u>	<u>2017</u>
Program supplies	\$ 101,078	\$ 192,180
Stock	<u>141,595</u>	<u>11,529</u>
	<u>\$ 242,673</u>	<u>\$ 203,709</u>

Note 4. Property and Equipment

Property and equipment consist of the following major classifications:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,071,180	\$ 1,247,006
Building	3,757,714	3,185,775
Farm machinery	416,232	453,082
Software	2,225	2,590
Motor vehicles	388,606	470,596
Computer equipment	13,460	13,567
Furniture and equipment	634,547	662,795
Fire bowser	4,241	4,938
Biological assets	83,294	59,330
Satellite equipment	1,397	1,626
Construction in progress	<u>22,264</u>	<u>376,690</u>
	6,395,160	6,477,995
Accumulated depreciation	<u>(1,206,651)</u>	<u>(1,152,839)</u>
	<u>\$ 5,188,509</u>	<u>\$ 5,325,156</u>

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 5. Net Assets with Donor Restrictions

Net assets with donor restrictions are as follows:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Project Canaan	\$ 473,430	\$ 516,953
Long-term and short-term volunteers	27,775	65,236
Mission trips	<u>10,691</u>	<u>32,658</u>
	<u>\$ 511,896</u>	<u>\$ 614,847</u>

During 2018 and 2017, net assets released from restrictions by incurring expenses to satisfy the restricted purposes consisted of the following:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions:		
Project Canaan	\$ 1,225,634	\$ 1,041,224
Long-term and short-term volunteers	188,389	226,607
Mission trips	<u>47,241</u>	<u>176,529</u>
	<u>\$ 1,461,264</u>	<u>\$ 1,444,360</u>

Note 6. Cumulative Foreign Currency Translation Adjustment

Cumulative foreign currency translation adjustments included in net assets without donor restrictions for the Organization are as follows:

Balance, December 31, 2016	\$ (363,127)
2017 currency translation adjustment	<u>503,608</u>
Balance, December 31, 2017	140,481
2018 currency translation adjustment	<u>(809,875)</u>
Balance, December 31, 2018	<u>\$ (669,394)</u>

Heart for Africa, Inc. and Consolidated Entity

Consolidating Statement of Financial Position

As of December 31, 2018

	<u>HFA</u>	<u>HFA Swaziland</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 604,513	\$ 56,485	\$ -	\$ 660,998
Accounts receivable, net	24,305	13,525	-	37,830
Prepaid expenses	1,800	-	-	1,800
Inventory	-	72,756	-	72,756
Total current assets	<u>630,618</u>	<u>142,766</u>	<u>-</u>	<u>773,384</u>
Property and equipment, net	<u>32,824</u>	<u>5,155,685</u>	<u>-</u>	<u>5,188,509</u>
Total assets	<u>\$ 663,442</u>	<u>\$ 5,298,451</u>	<u>\$ -</u>	<u>\$ 5,961,893</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	<u>\$ 43,699</u>	<u>\$ 91,172</u>	<u>\$ -</u>	<u>\$ 134,871</u>
Net assets				
Without donor restrictions	107,847	5,207,279	-	5,315,126
With donor restrictions	511,896	-	-	511,896
Total net assets	<u>619,743</u>	<u>5,207,279</u>	<u>-</u>	<u>5,827,022</u>
Total liabilities and net assets	<u>\$ 663,442</u>	<u>\$ 5,298,451</u>	<u>\$ -</u>	<u>\$ 5,961,893</u>

Heart for Africa, Inc. and Consolidated Entity
Consolidating Statement of Activities and Changes in Net Assets
For the year ended December 31, 2018

	HFA			HFA Swaziland			Eliminations	Total
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total		
Revenue and support								
Contributions	\$ 900,683	\$ 1,358,313	\$ 2,258,996	\$ 1,876,628	\$ -	\$ 1,876,628	\$ (1,432,450)	\$ 2,703,174
Noncash donations	141,595	-	141,595	101,078	-	101,078	-	242,673
Special events revenue, less direct costs of \$21,715	74,465	-	74,465	-	-	-	-	74,465
Jewelry and farm sales	285,847	-	285,847	662,911	-	662,911	-	948,758
Other income	5,054	-	5,054	145,841	-	145,841	-	150,895
	1,407,644	1,358,313	2,765,957	2,786,458	-	2,786,458	(1,432,450)	4,119,965
Net assets released from restrictions	1,461,264	(1,461,264)	-	-	-	-	-	-
Total revenue and support	2,868,908	(102,951)	2,765,957	2,786,458	-	2,786,458	(1,432,450)	4,119,965
Expenses								
Program services	2,421,760	-	2,421,760	1,979,257	-	1,979,257	(1,432,450)	2,968,567
Supporting services:								
Management and general	275,515	-	275,515	122,130	-	122,130	-	397,645
Fundraising	179,943	-	179,943	-	-	-	-	179,943
Total supporting services	455,458	-	455,458	122,130	-	122,130	-	577,588
Total expenses	2,877,218	-	2,877,218	2,101,387	-	2,101,387	(1,432,450)	3,546,155
Change in net assets before currency translation adjustment	(8,310)	(102,951)	(111,261)	685,071	-	685,071	-	573,810
Currency translation adjustment	-	-	-	(809,875)	-	(809,875)	-	(809,875)
Change in net assets	(8,310)	(102,951)	(111,261)	(124,804)	-	(124,804)	-	(236,065)
Net assets, beginning of year	116,157	614,847	731,004	5,332,083	-	5,332,083	-	6,063,087
Net assets, end of year	\$ 107,847	\$ 511,896	\$ 619,743	\$ 5,207,279	\$ -	\$ 5,207,279	\$ -	\$ 5,827,022