

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

Report on Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

Heart for Africa, Inc. and Consolidated Entity

Contents

	<u>Page</u>
Independent Auditor's Report	1-3
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities and Changes in Net Assets	5-6
Consolidated Statements of Functional Expenses	7-8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-19
Consolidating Information	
Consolidating Statement of Financial Position	20
Consolidating Statement of Activities and Changes in Net Assets	21

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Heart for Africa, Inc. and its consolidated entity, Heart for Africa Swaziland (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, 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 consolidated financial statements (collectively, the "financial statements").

In our opinion, based on our audits and the report of the other auditors, 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.

We did not audit the financial statements of Heart for Africa Swaziland, a consolidated entity whose statements reflect total assets constituting 78% and 80%, respectively, of consolidated total assets as of December 31, 2023 and 2022, and total revenue and support after eliminations constituting 29% and 30%, respectively, of consolidated total revenues for the years then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of Heart for Africa 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 Heart for Africa Swaziland, prior to those conversion adjustments, is based solely on the report of the other auditors.

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.

Report on Consolidating 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 changes in net assets of the individual entities, and it 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 2023 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2023 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2023 financial statements or to the 2023 financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the 2023 financial statements as a whole.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee

August 28, 2024

Heart for Africa, Inc. and Consolidated Entity

Consolidated Statements of Financial Position

As of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,328,485	\$ 1,167,743
Prepaid expenses	203,676	417,165
Other receivables	105,058	61,192
Promises to give	443,303	-
Investments, at fair value	258	188,263
Inventory	54,986	56,603
Total current assets	<u>2,135,766</u>	<u>1,890,966</u>
<i>Property and equipment, net</i>	<u>7,066,286</u>	<u>6,415,716</u>
Total assets	<u>\$ 9,202,052</u>	<u>\$ 8,306,682</u>
Liabilities and Net Assets		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 216,948	\$ 316,599
Reserve for Employee Retention Credits	211,474	211,474
Deferred revenue	-	150,000
Total current liabilities	<u>428,422</u>	<u>678,073</u>
<i>Net assets</i>		
Without donor restrictions	7,048,641	6,662,949
With donor restrictions	1,724,989	965,660
Total net assets	<u>8,773,630</u>	<u>7,628,609</u>
Total liabilities and net assets	<u>\$ 9,202,052</u>	<u>\$ 8,306,682</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, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue and support			
Contributions	\$ 2,013,688	\$ 2,897,179	\$ 4,910,867
Noncash donations	589,781	-	589,781
Special events revenue, net of direct costs of \$609,957	(440,333)	1,018,000	577,667
Jewelry and farm sales	865,481	-	865,481
Other income	178,062	-	178,062
	<u>3,206,679</u>	<u>3,915,179</u>	<u>7,121,858</u>
Net assets released from restrictions	3,155,850	(3,155,850)	-
Total revenue and support	<u>6,362,529</u>	<u>759,329</u>	<u>7,121,858</u>
Expenses			
Program services	<u>4,560,002</u>	-	<u>4,560,002</u>
Supporting services:			
Management and general	674,816	-	674,816
Fundraising	293,303	-	293,303
Total supporting services	<u>968,119</u>	-	<u>968,119</u>
Total expenses	<u>5,528,121</u>	-	<u>5,528,121</u>
Change in net assets before currency translation adjustment	834,408	759,329	1,593,737
Currency translation adjustment	<u>(448,716)</u>	-	<u>(448,716)</u>
Change in net assets	385,692	759,329	1,145,021
Net assets, beginning of year	6,662,949	965,660	7,628,609
Net assets, end of year	<u>\$ 7,048,641</u>	<u>\$ 1,724,989</u>	<u>\$ 8,773,630</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, 2022

	Without donor restrictions	With donor restrictions	Total
Revenue and support			
Contributions	\$ 1,923,451	\$ 1,713,970	\$ 3,637,421
Noncash donations	368,047	-	368,047
Special events revenue, less direct costs of \$60,696	74,227	-	74,227
Jewelry and farm sales	946,799	-	946,799
Other income	102,996	-	102,996
	<u>3,415,520</u>	<u>1,713,970</u>	<u>5,129,490</u>
Net assets released from restrictions	1,786,551	(1,786,551)	-
Total revenue and support	<u>5,202,071</u>	<u>(72,581)</u>	<u>5,129,490</u>
Expenses			
Program services	<u>4,006,993</u>	<u>-</u>	<u>4,006,993</u>
Supporting services:			
Management and general	566,870	-	566,870
Fundraising	223,389	-	223,389
Total supporting services	<u>790,259</u>	<u>-</u>	<u>790,259</u>
Total expenses	<u>4,797,252</u>	<u>-</u>	<u>4,797,252</u>
Change in net assets before currency translation adjustment	404,819	(72,581)	332,238
Currency translation adjustment	<u>(406,604)</u>	<u>-</u>	<u>(406,604)</u>
Change in net assets	(1,785)	(72,581)	(74,366)
Net assets, beginning of year	<u>6,664,734</u>	<u>1,038,241</u>	<u>7,702,975</u>
Net assets, end of year	<u>\$ 6,662,949</u>	<u>\$ 965,660</u>	<u>\$ 7,628,609</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, 2023

	Program services	Supporting services		Total
		Management and general	Fundraising	
Salaries and wages	\$ 972,275	\$ 353,370	\$ 221,562	\$ 1,547,207
Project grants	2,151,142	25,033	-	2,176,175
Long-term and short-term volunteers	17,909	-	-	17,909
Trip expenses	71,215	-	-	71,215
Accounting and bank fees	-	39,207	-	39,207
Office expenses	34,166	118,388	9,223	161,777
Professional and contract labor	-	68,271	-	68,271
Fundraising and development fees	-	-	26,520	26,520
Direct cost of sales	390,517	-	-	390,517
Occupancy	162,909	1,743	-	164,652
Employee benefits	34,637	20,307	8,830	63,774
Payroll taxes	35,875	14,215	12,959	63,049
Depreciation	310,016	17,383	1,122	328,521
Travel and meetings	115,991	12,572	11,461	140,024
Repairs and maintenance	75,347	-	-	75,347
Motor vehicles and transport	86,234	-	-	86,234
Miscellaneous	101,769	4,327	1,626	107,722
	<u>\$ 4,560,002</u>	<u>\$ 674,816</u>	<u>\$ 293,303</u>	<u>\$ 5,528,121</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, 2022

	Program services	Supporting services		Total
		Management and general	Fundraising	
Salaries and wages	\$ 784,907	\$ 318,274	\$ 146,354	\$ 1,249,535
Project grants	1,708,056	1,340	-	1,709,396
Long-term and short-term volunteers	35,343	-	-	35,343
Trip expenses	111,389	-	-	111,389
Accounting and bank fees	-	38,139	-	38,139
Office expenses	20,143	93,631	8,943	122,717
Professional and contract labor	-	57,219	-	57,219
Fundraising and development fees	-	-	46,578	46,578
Direct cost of sales	427,129	-	-	427,129
Occupancy	164,901	1,721	-	166,622
Employee benefits	17,266	17,335	2,396	36,997
Payroll taxes	24,982	9,485	9,031	43,498
Depreciation	333,896	23,005	1,937	358,838
Travel and meetings	80,011	5,574	5,307	90,892
Repairs and maintenance	74,207	-	-	74,207
Motor vehicles and transport	140,179	-	-	140,179
Miscellaneous	84,584	1,147	2,843	88,574
	<u>\$ 4,006,993</u>	<u>\$ 566,870</u>	<u>\$ 223,389</u>	<u>\$ 4,797,252</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating activities		
Change in net assets before currency translation adjustment	\$ 1,593,737	\$ 332,238
Adjustments to reconcile change in net assets before currency translation adjustment to net cash flows from operating activities:		
Depreciation	328,521	358,838
Gain on sale of property and equipment	-	(4,940)
Noncash contribution of investment securities	(166,082)	(153,071)
(Gain) loss on investments	(8,409)	18,271
Changes in operating assets and liabilities:		
Other receivables	(64,925)	(56,993)
Promises to give	(443,303)	-
Prepaid expenses	213,489	(417,165)
Inventory	(112,546)	(107,915)
Accounts payable and accrued expenses	(91,826)	122,932
Reserve for Employee Retention Credits	-	211,474
Deferred revenue	(150,000)	150,000
Net cash flows from operating activities	<u>1,098,656</u>	<u>453,669</u>
Investing activities		
Proceeds from sale of investment securities	362,496	107,245
Purchase of investment securities	-	(56,202)
Proceeds from sale of property and equipment	-	6,057
Purchase of property and equipment	(1,516,574)	(1,151,668)
Net cash flows from investing activities	<u>(1,154,078)</u>	<u>(1,094,568)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>216,164</u>	<u>149,923</u>
Net change in cash and cash equivalents	160,742	(490,976)
Cash and cash equivalents, beginning of year	<u>1,167,743</u>	<u>1,658,719</u>
Cash and cash equivalents, end of year	<u>\$ 1,328,485</u>	<u>\$ 1,167,743</u>

See Notes to Consolidated Financial Statements

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1. Nature of Operations

Overview of activities:

Heart for Africa, Inc. is the consolidated financial reporting entity for Heart for Africa, Inc. (“HFA”) and Heart for Africa Swaziland (“HFA Swaziland”) (formerly known as “Dream for Africa”) (collectively, the “Organization”). 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.

In April 2018, King Mswati III renamed Swaziland to Eswatini. HFA Swaziland was incorporated in 2004, in Swaziland, now known as Eswatini, as a not-for-profit organization and holds tax exempt status in Eswatini. HFA Swaziland’s 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 for 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 Eswatini. This purchase has increased HFA Swaziland's presence and activity in the country. 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 seeks to 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.

Note 2. Summary of Significant Accounting Policies

A summary of significant accounting policies and practices used in the preparation of the consolidated financial statements is as follows:

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) and practices within the not-for-profit industry. The Financial Accounting Standards Board (FASB) has established the Accounting Standards Codification (ASC) as the sole source of authoritative GAAP.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2. Summary of Significant Accounting Policies, Continued

Principles of consolidation:

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

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.

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 assets and liabilities 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.

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 Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time.

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.

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.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2. Summary of Significant Accounting Policies, Continued

Other receivables:

Other receivables consist primarily of contributions in-transit to the bank. Other receivables are short-term in nature and are recorded at net realizable value.

Promises to give:

Unconditional promises to give are recognized as revenue when received. Conditional promises to give are recognized only when conditions for which they depend are substantially met and the promise to give becomes unconditional. Promises to give are deemed fully collectible, therefore, management determined no allowance for losses was necessary as of December 31, 2023.

Investments:

Investment securities are carried at fair value. Market values are determined based on quoted prices in active markets for identical assets. Realized gains and losses on sales of securities are recognized on the trade date using the specific identification method. Unrealized gain or loss is the difference between cost and fair value of investments held at the measurement date. Interest income is recognized as earned. Dividends are recognized on the ex-dividend date.

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.

Revenue recognition and support:

Heart for Africa, Inc. is primarily supported by contributions, African-made product sales and special events.

Contributions:

The Organization recognizes contributions when cash, securities or an unconditional promise to give is received.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2. Summary of Significant Accounting Policies, Continued

Revenue recognition and support, continued:

Product sales:

Product sales generally consist of jewelry, home and garden products and farm produce sales. Revenue from product sales is recognized at a point in time when the goods are shipped, or for certain products, when delivered to the customer. Product sales totaled approximately \$865,000 and \$947,000 and direct cost of sales totaled approximately \$390,000 and \$427,000 for 2023 and 2022, respectively. Included in this amount are shipping and handling costs, which are treated as fulfillment costs, totaling approximately \$9,200 and \$22,000 for 2023 and 2022, respectively.

Special events revenue:

The Organization records special events revenue at the time of the event, net of direct cost of benefits to attendees. The Organization held the following special events during the years ended December 31, 2023 and 2022, to inform supporters about current operations and increase donor exposure:

	<u>2023</u>	
	<u>Revenue</u>	<u>Direct costs</u>
Golf Tournament	\$ 54,346	\$ 13,919
Founders Weekend	1,051,320	526,071
Celebrate HOPE	<u>81,958</u>	<u>69,967</u>
	<u>\$ 1,187,624</u>	<u>\$ 609,957</u>
	<u>2022</u>	
	<u>Revenue</u>	<u>Direct costs</u>
Golf Tournament	\$ 34,932	\$ 18,501
Celebrate HOPE	<u>99,991</u>	<u>42,195</u>
	<u>\$ 134,923</u>	<u>\$ 60,696</u>

Noncash donations:

Contributed 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.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2. Summary of Significant Accounting Policies, Continued

Noncash donations, continued:

Cash receipts from the sale of donated financial assets that upon receipt were directed without any imposed limitations for sale and were converted nearly immediately into cash are classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those receipts are classified as cash inflows from financing activities. Otherwise, cash receipts from the sale of donated financial assets are classified as cash inflows from investing activities.

Functional allocation of expenses:

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements 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 to be on a reasonable and consistent 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
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
Miscellaneous	Nature of expenses

Income taxes:

HFA and HFA Swaziland are exempt from federal and state income taxes. The Organization believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2. Summary of Significant Accounting Policies, Continued

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.

Reserve for Employee Retention Credits:

The Employee Retention Credit (ERC) program was created under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and was significantly modified, expanded and extended into the first three quarters of the calendar year 2021 by the Consolidation Appropriation Act, 2021 (the "Act"). The goal of the ERC program is to encourage employers to retain and continue paying employees during periods of pandemic related reduction in business volume even if those employees are not actually working, and therefore, are not providing service to the employer. After applying for and receiving funding from the ERC program in 2022, management determined the qualifications for participating in the program were uncertain and recorded a reserve for employee retention credits on its consolidated statement of financial position as disclosed further in Note 12.

Reclassifications:

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

Subsequent events:

The Organization has evaluated subsequent events for potential recognition and disclosure through August 28, 2024, the date the consolidated financial statements were available to be issued.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 3. Availability and Liquidity

The following represents the Organization's financial assets as of December 31, 2023 and 2022, reduced by amounts not available to meet general expenditures within one year:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,328,485	\$ 1,167,743
Other receivables	105,058	61,192
Promises to give	443,303	-
Investments	<u>258</u>	<u>188,263</u>
Total financial assets	1,877,104	1,417,198
Less amounts not available to be used within one year:		
Net assets with donor restrictions, less time restricted promises to give due within one year totaling \$343,303 for 2023	<u>1,381,686</u>	<u>965,660</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 495,418</u>	<u>\$ 451,538</u>

As part of HFA'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, the Organization invests cash in excess of daily requirements in an interest-bearing money market account in order to earn interest on funds that are idle. The Organization receives over \$11,700 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 HFA). There is a \$100,000 credit card line and a \$100,000 bank line of credit 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 4. Promises to Give

Promises to give are reported in the consolidated financial statements as revenue in the appropriate net asset classification.

Promises to give as of December 31, 2023, are expected to be utilized as follows:

	<u>2023</u>
Operating support	\$ 343,303
Project Canaan Academy	75,000
Project Canaan Hunger Initiative	<u>25,000</u>
	<u>\$ 443,303</u>

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 4. Promises to Give, Continued

Promises to give as of December 31, 2023, are expected to be collected in the following periods:

	<u>2023</u>
Less than one year	\$ <u>443,303</u>

As of December 31, 2023, five constituents' promises to give were 79% of total promises to give.

Note 5. Noncash Donations

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

	<u>2023</u>	<u>2022</u>
Program supplies	\$ 423,699	\$ 214,976
Stocks	<u>166,082</u>	<u>153,071</u>
	<u>\$ 589,781</u>	<u>\$ 368,047</u>

Note 6. Property and Equipment

Property and equipment consist of the following major classifications:

	<u>2023</u>	<u>2022</u>
Land	\$ 841,874	\$ 906,034
Building	5,351,942	5,520,180
Farm machinery	661,640	707,852
Software	1,749	1,882
Motor vehicles	564,523	589,904
Computer equipment	54,281	55,577
Furniture and equipment	646,569	666,793
Fire browser	3,333	3,588
Biological assets	79,651	79,382
Satellite equipment	1,209	1,301
Construction in progress	<u>1,189,031</u>	<u>55,199</u>
	9,395,802	8,587,692
Accumulated depreciation	<u>(2,329,516)</u>	<u>(2,171,976)</u>
	<u>\$ 7,066,286</u>	<u>\$ 6,415,716</u>

Construction in progress represents an extension of the primary school classrooms and the Lusito training shop. Substantially all of the construction in progress is expected to be completed and placed into service in 2024.

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 7. Line of Credit

The Organization maintains a small business line of credit agreement for up to \$100,000. The agreement has a variable rate of the highest Prime Rate published in the "Money Rates" section of The Wall Street Journal plus 2.56% (11.06% as of December 31, 2023). The agreement requires monthly payments of interest with the principal amount due at maturity. As of December 31, 2023 and 2022, the balance on the line of credit totaled \$0.

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions are as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Project Canaan	\$ 1,368,017	\$ 905,548
Long-term and short-term volunteers	4,267	14,931
Mission trips	<u>9,402</u>	<u>45,181</u>
	1,381,686	965,660
Operational support due in future periods	<u>343,303</u>	-
	<u>\$ 1,724,989</u>	<u>\$ 965,660</u>

During 2023 and 2022, net assets released from restrictions by incurring expenses to satisfy the restricted purposes consisted of the following:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Project Canaan	\$ 2,183,878	\$ 1,711,252
Long-term and short-term volunteers	57,950	45,495
Mission trips	<u>239,325</u>	<u>29,804</u>
	2,481,153	1,786,551
Operational support subject to time restrictions	<u>674,697</u>	-
	<u>\$ 3,155,850</u>	<u>\$ 1,786,551</u>

Heart for Africa, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 9. 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, 2021	\$ (1,222,411)
2022 currency translation adjustment	<u>(406,604)</u>
Balance, December 31, 2022	(1,629,015)
2023 currency translation adjustment	<u>(448,716)</u>
Balance, December 31, 2023	<u>\$ (2,077,731)</u>

Note 10. Administrative Assessments

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 approximately \$348,000 and \$233,000 for the years ended December 31, 2023 and 2022, respectively.

Note 11. Related Party Transactions

Contributions made by members of the Board of Directors totaled approximately \$556,000 and \$152,000 in 2023 and 2022, respectively.

Note 12. Reserve for Employee Retention Credits

During 2022, the Organization applied for and received ERC funding in the amount of \$211,474 for six quarters during 2021 and 2020. During 2023, management performed an additional review of the eligibility criteria under the program and determined its eligibility is uncertain. Based on this uncertainty, management determined it was appropriate to record an ERC reserve liability of \$211,474 on the consolidated statements of financial position as of December 31, 2023 and 2022, and no revenue amounts were recorded in operations.

Heart for Africa, Inc. and Consolidated Entity**Consolidating Statement of Financial Position****As of December 31, 2023**

	<u>HFA</u>	<u>HFA Swaziland</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 1,259,645	\$ 68,840	\$ -	\$ 1,328,485
Prepaid expenses	203,676	-	-	203,676
Other receivables	94,915	10,143	-	105,058
Promises to give	443,303	-	-	443,303
Investments, at fair value	258	-	-	258
Inventory	-	54,986	-	54,986
Total current assets	<u>2,001,797</u>	<u>133,969</u>	<u>-</u>	<u>2,135,766</u>
Property and equipment, net	<u>13,694</u>	<u>7,052,592</u>	<u>-</u>	<u>7,066,286</u>
Total assets	<u>\$ 2,015,491</u>	<u>\$ 7,186,561</u>	<u>\$ -</u>	<u>\$ 9,202,052</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 114,274	\$ 102,674	\$ -	\$ 216,948
Reserve for Employee Retention Credits	211,474	-	-	211,474
Total current liabilities	<u>325,748</u>	<u>102,674</u>	<u>-</u>	<u>428,422</u>
Net assets				
Without donor restrictions	(35,246)	7,083,887	-	7,048,641
With donor restrictions	1,724,989	-	-	1,724,989
Total net assets	<u>1,689,743</u>	<u>7,083,887</u>	<u>-</u>	<u>8,773,630</u>
Total liabilities and net assets	<u>\$ 2,015,491</u>	<u>\$ 7,186,561</u>	<u>\$ -</u>	<u>\$ 9,202,052</u>

Heart for Africa, Inc. and Consolidated Entity
Consolidating Statement of Activities and Changes in Net Assets
For the year ended December 31, 2023

	HFA			HFA Swaziland			Eliminations	Total
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total		
Revenue and support								
Contributions	\$ 1,220,063	\$ 2,897,179	\$ 4,117,242	\$ 3,363,826	\$ -	\$ 3,363,826	\$ (2,570,201)	\$ 4,910,867
Noncash donations	166,082	-	166,082	423,699	-	423,699	-	589,781
Special events revenue, net of direct costs of \$609,957	(440,333)	1,018,000	577,667	-	-	-	-	577,667
Jewelry and farm sales	157,033	-	157,033	708,448	-	708,448	-	865,481
Other income	11,167	-	11,167	166,895	-	166,895	-	178,062
	<u>1,114,012</u>	<u>3,915,179</u>	<u>5,029,191</u>	<u>4,662,868</u>	<u>-</u>	<u>4,662,868</u>	<u>(2,570,201)</u>	<u>7,121,858</u>
Net assets released from restrictions	3,155,850	(3,155,850)	-	-	-	-	-	-
Total revenue and support	<u>4,269,862</u>	<u>759,329</u>	<u>5,029,191</u>	<u>4,662,868</u>	<u>-</u>	<u>4,662,868</u>	<u>(2,570,201)</u>	<u>7,121,858</u>
Expenses								
Program services	3,825,589	-	3,825,589	3,304,614	-	3,304,614	(2,570,201)	4,560,002
Supporting services:								
Management and general	463,506	-	463,506	211,310	-	211,310	-	674,816
Fundraising	293,303	-	293,303	-	-	-	-	293,303
Total supporting services	<u>756,809</u>	<u>-</u>	<u>756,809</u>	<u>211,310</u>	<u>-</u>	<u>211,310</u>	<u>-</u>	<u>968,119</u>
Total expenses	<u>4,582,398</u>	<u>-</u>	<u>4,582,398</u>	<u>3,515,924</u>	<u>-</u>	<u>3,515,924</u>	<u>(2,570,201)</u>	<u>5,528,121</u>
Change in net assets before currency translation adjustment	(312,536)	759,329	446,793	1,146,944	-	1,146,944	-	1,593,737
Currency translation adjustment	-	-	-	(448,716)	-	(448,716)	-	(448,716)
Change in net assets	<u>(312,536)</u>	<u>759,329</u>	<u>446,793</u>	<u>698,228</u>	<u>-</u>	<u>698,228</u>	<u>-</u>	<u>1,145,021</u>
Net assets, beginning of year	<u>277,290</u>	<u>965,660</u>	<u>1,242,950</u>	<u>6,385,659</u>	<u>-</u>	<u>6,385,659</u>	<u>-</u>	<u>7,628,609</u>
Net assets, end of year	<u>\$ (35,246)</u>	<u>\$ 1,724,989</u>	<u>\$ 1,689,743</u>	<u>\$ 7,083,887</u>	<u>\$ -</u>	<u>\$ 7,083,887</u>	<u>\$ -</u>	<u>\$ 8,773,630</u>