



**ENDURING HEARTS, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
(with report of independent auditor)

YEARS ENDED DECEMBER 31, 2022 AND 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Enduring Hearts, Inc. and Subsidiaries
Roswell, Georgia

Opinion

We have audited the accompanying consolidated financial statements of Enduring Hearts, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2022 and 2021, and the changes in their net assets and their 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

EC Barrett, LLC

Atlanta, Georgia
June 22, 2023

ENDURING HEARTS, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2022 AND 2021

	2022	2021
<u>ASSETS</u>		
Cash and cash equivalents	\$ 454,716	\$ 744,065
Contributions receivable	235,290	397,605
Accrued investment income	18,704	12,506
Note receivable	14,583	39,583
Income taxes receivable	9,336	357
Prepaid expenses and deposits	97,687	27,005
Marketable securities, at fair value	1,509,286	1,750,042
Other equity investment, at fair value	917,084	-
Investments, at cost	305,500	1,132,584
Investments in affiliates, at cost	486,404	288,850
Right-of-use asset	94,765	119,028
Intangible asset	3,050	3,050
Total assets	\$ 4,146,405	\$ 4,514,675
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 93,777	\$ 70,460
Deferred revenue	94,567	52,153
Grants payable	1,927,804	1,506,931
Lease liability	97,979	121,307
Note payable	150,000	150,000
Total liabilities	2,364,127	1,900,851
NET ASSETS:		
Net assets without donor restrictions	1,628,731	2,611,079
Net assets with donor restrictions	153,547	2,745
Total net assets	1,782,278	2,613,824
Total liabilities and net assets	\$ 4,146,405	\$ 4,514,675

See notes to consolidated financial statements.

ENDURING HEARTS, INC. AND SUSIDIARIES

 CONSOLIDATED STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND SUPPORT:			
Contributions:			
Contributions	\$ 910,375	\$ 153,547	\$ 1,063,922
Donated investments	<u> -</u>	<u> -</u>	<u> -</u>
Total contributions	910,375	153,547	1,063,922
Special events revenue	835,386	69,881	905,267
Contributed nonfinancial special events revenue	130,056	-	130,056
Investment return, net	(67,699)	-	(67,699)
Other income	<u> 620</u>	<u> -</u>	<u> 620</u>
Total revenue, gains, and support before net assets released from restrictions	1,808,738	223,428	2,032,166
Net assets released from restrictions	<u> 72,626</u>	<u> (72,626)</u>	<u> -</u>
TOTAL REVENUE, GAINS, AND SUPPORT	<u> 1,881,364</u>	<u> 150,802</u>	<u> 2,032,166</u>
EXPENSES:			
Program expenses:			
Research and other grants	1,732,529	-	1,732,529
Other programs	<u> 415,533</u>	<u> -</u>	<u> 415,533</u>
Total program expenses	<u> 2,148,062</u>	<u> -</u>	<u> 2,148,062</u>
Costs of direct benefits to donors	<u> 211,031</u>	<u> -</u>	<u> 211,031</u>
Support expenses:			
General and administrative	315,112	-	315,112
Fundraising	<u> 195,397</u>	<u> -</u>	<u> 195,397</u>
Total support expenses	<u> 510,509</u>	<u> -</u>	<u> 510,509</u>
TOTAL EXPENSES	<u> 2,869,602</u>	<u> -</u>	<u> 2,869,602</u>
CHANGE IN NET ASSETS BEFORE INCOME TAXES	(988,238)	150,802	(837,436)
INCOME TAX PROVISION	<u> (5,890)</u>	<u> -</u>	<u> (5,890)</u>
CHANGE IN NET ASSETS	(982,348)	150,802	(831,546)
NET ASSETS, beginning of year	<u> 2,611,079</u>	<u> 2,745</u>	<u> 2,613,824</u>
NET ASSETS, end of year	<u>\$ 1,628,731</u>	<u>\$ 153,547</u>	<u>\$ 1,782,278</u>

See notes to consolidated financial statements.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND SUPPORT:			
Contributions:			
Contributions	\$ 646,223	\$ -	\$ 646,223
Donated investments	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total contributions	746,223	-	746,223
Special events revenue	886,697	18,580	905,277
Contributed nonfinancial special events revenue	218,616	-	218,616
Investment return, net	136,668	-	136,668
Other income	<u>678</u>	<u>-</u>	<u>678</u>
Total revenue, gains, and support before net assets released from restrictions	1,988,882	18,580	2,007,462
Net assets released from restrictions	<u>62,519</u>	<u>(62,519)</u>	<u>-</u>
TOTAL REVENUE, GAINS, AND SUPPORT	<u>2,051,401</u>	<u>(43,939)</u>	<u>2,007,462</u>
EXPENSES:			
Program expenses:			
Research and other grants	1,142,824	-	1,142,824
Other programs	<u>296,691</u>	<u>-</u>	<u>296,691</u>
Total program expenses	<u>1,439,515</u>	<u>-</u>	<u>1,439,515</u>
Costs of direct benefits to donors	<u>155,023</u>	<u>-</u>	<u>155,023</u>
Support expenses:			
General and administrative	381,955	-	381,955
Fundraising	<u>130,050</u>	<u>-</u>	<u>130,050</u>
Total support expenses	<u>512,005</u>	<u>-</u>	<u>512,005</u>
TOTAL EXPENSES	<u>2,106,543</u>	<u>-</u>	<u>2,106,543</u>
CHANGE IN NET ASSETS BEFORE INCOME TAXES	(55,142)	(43,939)	(99,081)
INCOME TAX PROVISION	<u>26</u>	<u>-</u>	<u>26</u>
CHANGE IN NET ASSETS	(55,168)	(43,939)	(99,107)
NET ASSETS, beginning of year	<u>2,666,247</u>	<u>46,684</u>	<u>2,712,931</u>
NET ASSETS, end of year	<u>\$ 2,611,079</u>	<u>\$ 2,745</u>	<u>\$ 2,613,824</u>

See notes to consolidated financial statements.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED DECEMBER 31, 2022

	Program Expenses			Costs of Direct Benefits to Donors	Support Expenses		
	Research and Other Grants	Other Programs	Total		General and Administrative	Fundraising	Total
Research & other grants	\$ 1,732,487	\$ -	\$ 1,732,487	\$ -	\$ -	\$ -	\$ 1,732,487
Program management	-	116,656	116,656	-	95,672	35,631	247,959
Management expenses	-	152,765	152,765	-	93,106	86,433	332,304
Professional fees	-	-	-	-	46,738	-	46,738
Advertising and promotion	-	15,767	15,767	-	23,235	2,908	41,910
Outreach	-	3,567	3,567	-	21,923	771	26,261
Merchant and bank fees	-	-	-	-	4,541	35,672	40,213
Office expenses	42	29,603	29,645	-	26,722	20,438	76,805
Special events	-	-	-	211,031	-	9,364	220,395
Patient program	-	88,331	88,331	-	-	-	88,331
Meals and entertainment	-	1,676	1,676	-	1,375	2,380	5,431
Research conferences	-	7,168	7,168	-	1,800	1,800	10,768
	<u>\$ 1,732,529</u>	<u>\$ 415,533</u>	<u>\$ 2,148,062</u>	<u>\$ 211,031</u>	<u>\$ 315,112</u>	<u>\$ 195,397</u>	<u>\$ 2,869,602</u>

See notes to consolidated financial statements.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED DECEMBER 31, 2021

	<u>Program Expenses</u>			Costs of Direct Benefits to Donors	<u>Support Expenses</u>		
	Research and Other Grants	Other Programs	Total		General and Administrative	Fundraising	Total
Research & other grants	\$ 1,142,778	\$ -	\$ 1,142,778	\$ -	\$ -	\$ -	\$ 1,142,778
Program management	-	128,998	128,998	-	87,445	32,544	248,987
Management expenses	-	89,944	89,944	-	56,932	44,421	191,297
Professional fees	-	-	-	-	52,594	-	52,594
Advertising and promotion	-	3,100	3,100	-	-	435	3,535
Outreach	-	15,902	15,902	-	55,709	3,489	75,100
Merchant and bank fees	-	-	-	-	4,350	28,510	32,860
Office expenses	46	7,303	7,349	-	121,508	14,046	142,903
Special events	-	-	-	155,023	-	5,193	160,216
Patient program	-	45,280	45,280	-	90	-	45,370
Meals and entertainment	-	357	357	-	1,732	216	2,305
Research conferences	-	5,807	5,807	-	1,595	1,196	8,598
	<u>\$ 1,142,824</u>	<u>\$ 296,691</u>	<u>\$ 1,439,515</u>	<u>\$ 155,023</u>	<u>\$ 381,955</u>	<u>\$ 130,050</u>	<u>\$ 2,106,543</u>

See notes to consolidated financial statements.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (831,546)	\$ (99,107)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated investments	-	(100,000)
Net realized gains on sales of investments	(7,352)	(39,019)
Net unrealized loss (gain) on valuation of investments	195,245	(8,323)
Changes in operating assets and liabilities:		
Contributions receivable	162,315	231,573
Other receivable	-	132,923
Accrued investment income	(6,198)	(8,311)
Income taxes receivable	(8,979)	(357)
Prepaid expenses and deposits	(70,682)	(8,087)
Right-of-use asset	24,263	6,120
Accounts payable and accrued expenses	23,317	(28,909)
Income taxes payable	-	(3,655)
Deferred revenue	42,414	31,048
Grants payable	420,873	(265,557)
Lease liability	(23,328)	(3,841)
	(79,658)	(163,502)
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Repayment of note receivable	25,000	25,000
Proceeds from sales of investments	561,114	900,063
Purchases of investments	(598,251)	(1,134,344)
Return of investment from affiliates	2,446	13,337
Purchases of investment in affiliates	(200,000)	(169,000)
	(209,691)	(364,944)
Net cash used in investing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	(289,349)	(528,446)
CASH AND CASH EQUIVALENTS, beginning of year	744,065	1,272,511
CASH AND CASH EQUIVALENTS, end of year	\$ 454,716	\$ 744,065

(Continued)

ENDURING HEARTS, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid during the year	\$ <u> -</u>	\$ <u> -</u>
Income taxes paid during the year	\$ <u> 2,626</u>	\$ <u> 4,038</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Initial right-of-use asset and lease liability	\$ <u> -</u>	\$ <u> 125,148</u>

See notes to consolidated financial statements.

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

1. Nature of Activities:

Enduring Hearts, Inc. (“Enduring Hearts”) is a not-for-profit organization, which was incorporated under the laws of the State of Georgia on April 17, 2013. Enduring Hearts was created to fund research to increase longevity and improve the quality of life for children with a transplanted heart. Enduring Hearts funding is primarily through direct donor contributions, special events, and investment income.

Enduring Hearts has two wholly owned subsidiaries, AO SPE 2, LLC (“AO SPE 2”) and EH SPE 1, LLC (“EH SPE 1”). The subsidiaries were established to engage in various investment related transactions to fund the research activities of Enduring Hearts. Both of the subsidiaries have elected to be subject to corporate income taxes.

2. Summary of Significant Accounting Policies:

Principles of Consolidation

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (“GAAP”). The accompanying consolidated financial statements include the accounts of Enduring Hearts, AO SPE 2, and EH SPE 1 (collectively, the “Organization”). All intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

Basis of Presentation

Preparation of consolidated financial statements in conformity with GAAP requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

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. The net assets may be used at the discretion of Organization’s management and the board of directors.

Net Assets with Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. These donor restrictions are temporary in nature. Those restrictions will be met by actions of the Organization or by the passage of time.

Estimates and Assumptions

Preparation of the consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions in preparing the accompanying consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported revenues and expenses during the reporting periods. Actual results could differ from these estimates and such differences could be material.

Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

2. Summary of Significant Accounting Policies (continued):

Contributions Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions with donor-imposed conditions are recognized as revenue when the conditions have been met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or a purpose restriction is accomplished) in the same reporting period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending upon the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions receivable expected to be collected beyond one year are discounted to its present value at an appropriate rate, which management has determined to be 5% for the years ended December 31, 2022 and 2021. Amortization of the present value discount amount is recorded as additional contribution support..

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based upon prior years' experience and management's analysis of specific promises made. The allowance for doubtful accounts at December 31, 2022 and 2021 was \$0.

Investments

Investments in marketable securities with readily determinable fair values are reported at fair value in the accompanying consolidated statements of financial position.

The Organization has investments in equity securities of privately held entities. These securities are recorded using the measurement alternative approach as the fair values of the securities are not readily determinable and do not qualify for the practical expedient to estimate fair value using net asset values. Under the measurement alternative approach, equity securities are measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Donations of privately held equity securities are recorded at fair value. The Organization does not have the ability to influence the operations of these privately held entities. When observable price changes are identified, the equity security is measured at fair value as of the date that the observable transaction occurred..

Not-for-profit organizations that are general partners in for-profit limited partnerships or similar entities (such as limited liability companies) are presumed to be in control of these entities. Not-for-profit organizations that are limited partners in for-profit limited partnerships or similar entities that own, directly or indirectly, more than 50% of the limited partnership's or similar entity's kick-out rights, is deemed to have a controlling financial interest and should consolidate the limited partnership or similar entity. However, if noncontrolling limited partners have substantive participation rights, then the limited partner with a majority of kick-out rights through voting interests does not have a controlling financial interest. The Organization is a limited partner in two privately held entities and a member in another privately held entity. The Organization does not have substantive kick-out rights or substantive participation rights related to the control over the operations of these entities. As a result, the Organization has determined that it does not have a controlling financial interest in these entities. Accordingly, the financial statements of these entities are not included in the accompanying consolidated financial statements of the Organization.

Realized gains and losses on sales of investments are recognized in change in net assets based upon the specific identification method. Unrealized holding gains and losses are credited or charged to change in net assets as incurred. Interest and dividends are recognized when earned.

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

2. Summary of Significant Accounting Policies (continued):

Intangible Assets

The Organization periodically reviews identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of the assets exceed their respective fair values, additional impairment tests are performed to measure the amount of the impairment loss, if any. There were no impairments as of and for the years ended December 31, 2022 and 2021.

Grants Payable

Grants contributed are charged against operations when authorized by the Organization. There are no barriers stipulated by the Organization that must be overcome for the recipients to be entitled to the grant funds. The Organization does require that recipients meet certain administrative and reporting responsibilities during the course of the research and other grants. There are generally no rights of return of assets back to the Organization, and there are no rights of release to terminate future delivery of grant funds from the Organization to recipients. The grants authorized by the Organization are accounted for as unconditional contributions made. The grants are not accounted as exchange transactions by the Organization as it does not receive commensurate value related to the benefits from the grants' intended purposes. Actual payments under the grants may not necessarily occur in the year of authorization. Grants which are expected to be paid beyond one year are discounted to their present value amounts at an appropriate rate, which management has determined to be 5% for the years ended December 31, 2022 and 2021. Amortization of the present value discount amount is recorded as additional grant expense.

Revenue Recognition

Contributions received are considered to be unconditional if there are no barriers that must be overcome for the recipient to recognize the contribution as revenue. A contribution that specifies both (1) a barrier that the recipient must overcome to be entitled to the resources and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved is considered to be a conditional contribution. A contribution that omits one or both stipulations is unconditional.

Additionally, contributions received are not considered to be exchange transactions as the donor does not receive commensurate value for the assets it transfers to the recipient. Unconditional contributions are recognized as revenue in the reporting period in which assets are received or promised, while exchange transactions are recognized as revenue when performance obligations are satisfied. Contributions with donor-imposed restrictions are unconditional contributions whereby the donors have stipulated as to how the assets transferred to the recipient are to be expended or that the assets are restricted through time stipulations.

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor related restrictions. The Organization has determined that there are no contributions received during the years ended December 31, 2022 and 2021 which included donor-imposed conditions that would create a barrier from recognizing a pledge upon receipt.

The Organization receives nonfinancial contributions, consisting of bottles of alcohol, trips, excursions, jewelry, clothing, sports memorabilia, and other items, which are auctioned during the Organization's special events. No items are retained by the Organization after the conclusion of the events. The Organization estimates the fair value of these items based upon wholesale values that would be received for selling similar products in the United States of America.

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

2. Summary of Significant Accounting Policies (continued):

Revenue Recognition (continued)

Revenue from exchange transactions are recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled to in exchange for those goods or services. Revenue related to exchange transactions is applicable to the sales of tickets to attend special events of the Organization. Revenue from sales of tickets to attend special events are recognized when the events are held. Amounts due for ticket sales and amounts received through cash sales of tickets at each year-end date to attend special events in the following year are presented as “deferred revenue” in the accompanying consolidated statements of financial position.

Contributed Services

No amounts have been reflected in the accompanying consolidated financial statements for contributed services. Contributed services would be recorded at their estimated fair values at the date of donation if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization generally pays for services requiring specific expertise. However, various individuals volunteer their time and perform a variety of tasks that assist in carrying out the Organization’s operations, but these services do not meet the criteria for recognition as contributed services.

Advertising and Promotion

Advertising and promotion costs are expensed as incurred. Advertising and promotion expense was \$41,910 and \$3,525 for the years ended December 31, 2022 and 2021, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated amongst the various programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Costs of direct benefits to donors represent the direct costs of goods and services provided to attendees as inducements to attend special events of the Organization and include such costs as meals, venues, and entertainment. Costs of special events that are not included in costs of direct benefits to donors are considered to be fundraising costs. Program management, management expenses, meals and entertainment, and research conferences are allocated on a time and effort basis. Advertising and promotion, outreach, merchant and bank fees, and office expenses are allocated based upon a full-time equivalent basis.

Income Taxes

Enduring Hearts is a not-for-profit organization and is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). AO SPE 2 and EH SPE 1 are subject to corporate income taxes. AO SPE 2 and EH SPE 1 file separate tax returns from Enduring Hearts. The provision for income taxes included in the accompanying consolidated financial statements relate to the operations of AO SPE 2 and EH SPE 1.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The amendments to this ASU increase transparency and comparability among entities by recognizing right-of-use assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current GAAP and disclosing key information about leasing arrangements. The Organization adopted this guidance with the commencement of an office space lease during the year ended December 31, 2021, and the adoption of this accounting standard did not have a material impact on the changes in net assets, consolidated statements of financial position, or liquidity of the Organization.

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

2. Summary of Significant Accounting Policies (continued):

Recently Adopted Accounting Standards (continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profits (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this ASU clarify and improve the presentation and disclosure of contributed nonfinancial assets. Contributed nonfinancial assets, including donations of property and equipment or the use of them, materials and supplies, intangible assets, services, and items received as part of a not-for-profit organization's fundraising efforts, are to be separately disclosed within the statement of activities. The amendments also include additional quantitative and qualitative disclosures. The Organization adopted this guidance during the year ended December 31, 2022, applied it on retrospective basis, and the adoption did not have a material impact on the changes in net assets, consolidated statements of financial position, or liquidity of the Organization.

Recently Issued Accounting Standard

New accounting rules and disclosure requirements can impact the results and the comparability of the Organization's consolidated financial statements. The following recently issued accounting standard is relevant to the Organization's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU remove the thresholds that entities apply to measure credit losses on financial instruments measured at amortized cost, such as loans, trade receivables, off-balance-sheet credit exposures, and held-to-maturity securities. The guidance under ASU 2016-13 will remove all current recognition thresholds and will require entities under the new current expected credit loss ("CECL") model to recognize losses when they are expected rather than incurred losses. The FASB has subsequently issued a number of amendments to clarify the provisions under Accounting Standards Codification ("ASC") Topic 326. ASU 2016-13 and the clarifying amendments to Topic 326 were further amended by the issuance of ASU 2019-10, *Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which extended the effective date of adopting ASU 2016-13 and the clarifying amendments to ASC Topic 326 for private entities to fiscal years beginning after December 15, 2022. At this time, management is evaluating the potential impact of ASU 2016-13 and its amendments in the Organization's consolidated financial statements.

Reclassifications

Certain amounts in the 2021 consolidated financial statements have been reclassified for comparative purposes to conform to the presentation used in the 2022 consolidated financial statements. The reclassifications had no impact on total net assets or changes in net assets.

3. Revenue and Support:

Contributions

The Organization holds annual special events for education and fundraising purposes. The principal special event is the Bourbon Gala ("Gala"), which is held each year at locations within the metropolitan Atlanta, Georgia area. Other special events are held during the year at various venues within the United States of America. The Organization receives contributions as well as sell tickets to interested parties prior to December 31 each year to attend the Gala that is to be held in the following year. Contributions received in excess of the fair value of the direct costs of benefits provided to the ticketholders are not considered to be conditional as the tickets to attend the event are non-refundable. While there is a barrier to hold the event as promised, there is not a right of return for tickets not exercised to attend the event. As a result, contributions from donors related to the Gala are recognized as revenue when the contributions are received or promised. Special events revenue, as presented in the accompanying consolidated statements of activities, includes contributions received and sales of tickets to attend the special events.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2022 AND 2021

3. Revenue and Support (continued):

Contributions (continued)

The following tables summarizes special events revenue for the years ended December 31, 2022 and 2021.

	2022	2021
Tickets sold for special events	\$ 187,946	\$ 114,587
Contributions related to special events	847,377	1,009,306
	\$ 1,035,323	\$ 1,123,893
	2022	2021
Revenue recognized in the year prior to the Gala	\$ 69,881	\$ 18,580
Revenue recognized in the year of the Gala	867,609	921,889
Other special events revenue	97,833	183,424
	\$ 1,035,323	\$ 1,123,893

During the year ended December 31, 2021, the Organization received a restricted contribution in the amount of \$31,513 related to funding a grant issued by the Organization. During the year ended December 31, 2022, the Organization received grants totaling \$788,547 from foundations and individuals to fund research and other grants.

The following is a summary of contributions whose restrictions were not met in the same reporting year as of December 31, 2022 and 2021:

	2022	2021
Research and other grants	\$ 153,547	\$ -
Gala	-	2,745
	\$ 153,547	\$ 2,745

As discussed in Note 2, the Organization accounts for contributions whose restrictions are met in the same reporting year as unrestricted contributions. The following is a summary of contributions whose restrictions were met in the same reporting year and are included in without donor restrictions "contributions" and "special events revenue" in the accompanying consolidated statements of activities for the years ended December 31, 2022 and 2021:

	2022	2021
Research and other grants	\$ 635,000	\$ 31,513
Special events	777,496	990,726
	\$ 1,412,496	\$ 1,022,239

Also, the Organization participates in the annual Georgia Give Day, which is part of the National Giving Tuesday event. The event brings awareness and funds to charities across the United States of America.

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

3. Revenue and Support (continued):

Exchange Transactions

The Organization sells tickets to its annual Gala. The Organization recognizes revenue from the sales of tickets at the time the Gala is held or at a point in time. There are no variable considerations related to these ticket sales. Various factors affect revenue and cash flows related to the number of tickets sold, including the interest of the general public and donor organizations in fulfilling the mission of the Organization, activities held at each special event, and general economic and other conditions of the interested community. Amounts due from ticket sales at each year-end date are included in "contributions receivable" in the accompanying consolidated statements of financial position. Deferred revenue related to sales of Gala tickets at December 31, 2022 and 2021 was \$94,567 and \$52,153, respectively.

4. Concentration of Risks:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, cash equivalents, non-U.S. government investment securities, and contributions receivable. The Organization maintains its cash, cash equivalents, and marketable securities at two financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures deposits up to \$250,000 and the Securities Investor Protection Corporation insures cash and securities up to \$500,000, which includes a \$250,000 limit for cash. During the normal course of business, the Organization may have on deposit with these financial institutions cash and securities balances in excess of the insured limits. Also, the Organization utilizes certain payment processing companies to assist with the Organization's fundraising efforts. Cash temporarily held by these payment processing companies on behalf of the Organization are not secured by the FDIC or any other government agency. The Organization has not experienced any losses as a result of uninsured deposits and securities with these respective financial institutions and the payment processing companies.

Non-U.S. government investment securities are diversified and no one investment accounts for a significant portion of the Organization's invested assets. Credit risk with respect to contributions receivable is considered low due to the creditworthiness of the donors comprising the Organization's contribution base.

Contributions from three donors represented 34% of total contributions for the year ended December 31, 2022. The total amount due from these donors was 29% of contributions receivable at December 31, 2022. There was no donor that contributed more than 10% of total contributions for the year ended December 31, 2021. There were three other donors that represented 51% and 74% of contributions receivable at December 31, 2022 and 2021, respectively, but their individual contributions were less than 10% of total contributions for the respective years.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2022 AND 2021

5. Availability and Liquidity:

The following represents the Organization's financial assets at December 31, 2022 and 2021:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 454,716	\$ 744,065
Contributions receivable	235,290	397,605
Accrued investment income	18,704	12,506
Marketable securities at fair value	1,509,286	1,750,042
Total financial assets	2,217,996	2,904,218
Amounts not available to be used in one year:		
Less net assets with donor restrictions	(153,547)	(2,745)
Add net assets with restrictions to be met in less than one year	153,547	2,745
Less contributions receivable expected to be collected in more than one year	(35,000)	(135,000)
Financial assets available to meet general expenditures over the next twelve months	\$ 2,182,996	\$ 2,769,218

The Organization had financial assets totaling \$2,182,996 and \$2,769,218 at December 31, 2022 and 2021, respectively, that were available within one year of the accompanying consolidated statement of financial position date to meet cash needs for general expenditures. As discussed in Note 9, the Organization has a \$1,050,000 line of credit available to meet the cash flow needs of the Organization.

6. Contributions Receivable:

At December 31, 2022 and 2021, contributions receivable consisted of the following:

	2022	2021
Georgia Give Day contributions	\$ 2,000	\$ -
Campaign contributions	-	40,000
Special events	44,650	139,500
Research and other grant contributions	50,000	-
Other individual contributions	146,287	235,933
	242,937	415,433
Less unamortized discount	7,647	17,828
	\$ 235,290	\$ 397,605

At December 31, 2022, contributions receivable are estimated to be collected in the following years:

Year Ending December 31,	
2023	\$ 207,937
2024	35,000
	\$ 242,937

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

7. Investments:

The Organization's marketable securities are stated at fair value, which is the price that would be received to sell the asset in an orderly transaction between willing market participants as of the measurement date.

The Organization uses various valuation techniques and assumptions when estimating fair value, which are in accordance with fair value measurement of assets and liabilities that are recognized or disclosed in the consolidated financial statements on a recurring basis. These principles establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1 - Quoted (unadjusted) prices for identical assets in active markets.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, and etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

The Organization bases fair values of assets on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Organization's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. For fair value measurements for assets where there exists limited or no observable market data, management uses its best judgment in estimating the fair value of financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Organization could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-end dates and have not been re-evaluated or updated for purposes of the consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these consolidated financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end. Additionally, changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future valuations.

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

7. Investments (continued):

The Organization obtains one price for each security primarily from third-party investment managers, which generally use quoted prices or other observable inputs for the determination of fair value. The investment managers normally derive the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the investment managers may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Organization's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Investments at fair value consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash equivalents	\$ 42,077	\$ 74,413
Equity securities:		
Domestic securities	457,960	511,710
International securities	78,120	102,017
Emerging markets securities	12,913	16,496
Fixed maturity securities:		
Domestic securities	816,670	926,951
International securities	<u>101,546</u>	<u>118,455</u>
	<u>\$ 1,509,286</u>	<u>\$ 1,750,042</u>

The table below presents the level within the fair value hierarchy generally utilized by the Organization to estimate the fair value of assets disclosed on a recurring basis as of December 31, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 42,077	\$ -	\$ 42,077	\$ -
Equity securities:				
Domestic securities	457,960	457,960	-	-
International securities	78,120	78,120	-	-
Emerging markets	12,913	12,913	-	-
Fixed maturity securities:				
Domestic securities	816,670	-	816,670	-
International securities	<u>101,546</u>	<u>-</u>	<u>101,546</u>	<u>-</u>
	<u>\$ 1,509,286</u>	<u>\$ 548,993</u>	<u>\$ 960,293</u>	<u>\$ -</u>

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

7. Investments (continued):

The table below presents the level within the fair value hierarchy generally utilized by the Organization to estimate the fair value of assets disclosed on a recurring basis as of December 31, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 74,413	\$ -	\$ 74,413	\$ -
Equity securities:				
Domestic securities	511,710	511,710	-	-
International securities	102,017	102,017	-	-
Emerging markets	16,496	16,496	-	-
Fixed maturity securities:				
Domestic securities	926,951	-	926,951	-
International securities	<u>118,455</u>	<u>-</u>	<u>118,455</u>	<u>-</u>
	<u>\$ 1,750,042</u>	<u>\$ 630,223</u>	<u>\$ 1,119,819</u>	<u>\$ -</u>

Other Investments

The Organization has investments in equity securities of privately held entities. These securities are recorded using the measurement alternative approach as the fair values of the securities are not readily determinable. Also, these securities do not qualify for the practical expedient to record their estimated fair values using net asset values. The carrying values of these securities are adjusted if there are observable price changes in orderly transactions for the identical or similar investments of the same issuer, or if there are impairments in the valuation of these securities. If observable price changes are identified, the valuation of the security is adjusted to its fair value.

Other investments consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Investments in unrelated entities:		
Sionic Mobile Corporation	\$ 917,084	\$ 827,084
USSC Alternative Income Fund, L.P.	<u>305,500</u>	<u>305,500</u>
	1,222,584	1,132,584
Investments in affiliates:		
Alder Opportunity, LP	283,880	288,850
Alder Senior Secured Credit, LLC	<u>202,524</u>	<u>-</u>
	<u>486,404</u>	<u>288,850</u>
	<u>\$ 1,708,988</u>	<u>\$ 1,421,434</u>

The Organization owns common stock shares in Sionic Mobile Corporation ("Sionic"), a privately held mobile commerce technology company. During the year ended December 31, 2021, the Organization received donated shares of Sionic common stock, which were recorded at the fair value amount of \$100,000. During the year ended December 31, 2022, there were no donated shares of common stock. Additionally, the Organization holds 50,000 common stock warrants in Sionic. The warrants were issued in October 2014 and must be exercised prior to the 10-year anniversary from the issuance date. The fair value on the grant date and the exercise price were each \$2 per warrant, and the conversion rate between warrants and the related common stock shares of Sionic is 1:1. The warrants were fully vested at the issuance date. At December 31, 2022 and 2021, the warrants have no basis.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2022 AND 2021

7. Investments (continued):

Other Investments (continued)

The Organization holds equity interests in USSC Alternative Income Fund, L.P., Alder Opportunity, LP (“Alder Opportunity”), and Alder Senior Secured Credit, LLC (“ASSC”). Each of these entities was established as primarily lenders of fixed maturity instruments to privately held entities. Alder Opportunity and ASSC are affiliates through common management. The Organization is a limited partner or member in each of these entities. The Organization does not have substantive kick-out rights or substantive participation rights related to the control over the operations of each of these entities. As a result, the Organization has determined that it does not have a controlling financial interest in these entities. Accordingly, the financial statements of these entities are not included in the accompanying consolidated financial statements of the Organization. During the years ended December 31, 2022 and 2021 the Organization earned dividend income totaling \$70,665 and \$35,661 related to these investments.

During the year ended December 31, 2022, there was an observable price noted for recently issued shares of common stock of Sionic. As a result, the valuation of this investment was adjusted to its fair value, and it is presented as “other equity investment, at fair value” in the accompanying consolidated statement of financial position as of December 31, 2022. There were no other observable price changes or impairments noted for the years ended December 31, 2022 and 2021.

The components of net investment return for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 136,377	\$ 105,703
Net realized gains on sales of investments	7,352	39,019
Net unrealized (loss) gain on valuation of investments	<u>(195,245)</u>	<u>8,323</u>
	(51,516)	153,045
Less investment fees	<u>16,183</u>	<u>16,377</u>
Net investment return	<u>\$ (67,699)</u>	<u>\$ 136,668</u>

Note Receivable

The Organization has a note receivable from Hopkins Steakhouse, LLC in the original amount of \$68,750. Under the terms of the note, outstanding advances bear interest at 5.7%, require monthly installments of fixed principal and interest payments of \$3,102, are secured by personal guarantees of two individuals and a related party of the borrower, and the maturity date of the note is July 1, 2023. The balance of the note at December 31, 2022 and 2021 was \$14,583 and \$39,583, respectively. If there remains an outstanding balance of the note on July 1, 2023, the borrower may elect to extend the maturity date for up to one year by paying an extension fee, which is equivalent to 2% of the outstanding principal balance at the time. At December 31, 2022 and 2021, there was no allowance for doubtful account related to the note receivable.

Maturities of the note receivable are as follows:

Year Ending <u>December 31,</u>	
2023	\$ <u>14,583</u>

ENDURING HEARTS, INC. AND SUBSIDIARIES

 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2022 AND 2021

8. Grants Payable:

Grants awarded by the Organization are recorded as expenses in the reporting year in which they are authorized. Grants scheduled for payment more than one year in the future are discounted to their present value amounts. The following is a summary of grants payable for the years ended December 31, 2022 and 2021:

	2022	2021
Grants payable, beginning of year	\$ 1,506,931	\$ 1,772,488
Grants authorized during the year	1,763,248	1,305,002
Grants paid during the year	(1,311,614)	(1,390,397)
Termination of grants during the year	(4,943)	(117,523)
Restricted contribution during year	-	(31,513)
Change in present value during the year	(25,818)	(31,126)
Grants payable, end of year	\$ 1,927,804	\$ 1,506,931

At December 31, 2022, grants payable is estimated to be paid in the following years:

Year Ending December 31,	
2023	\$ 1,171,857
2024	669,819
2025	185,000
	2,026,676
Less unamortized discount	98,872
	\$ 1,927,804

9. Line of Credit:

The Organization has a line of credit agreement with a financial institution in the amount of \$1,050,000. Amounts drawn on the line of credit are due on demand with interest payable monthly. Under the terms of the agreement, outstanding borrowings bear interest at the prime rate (7.50% and 3.25% at December 31, 2022 and 2021, respectively) less a margin, as defined, and not less than 2.25%. The agreement is secured by the marketable securities held with a financial institution. There were no borrowings under the line of credit as of and during the years ended December 31, 2022 and 2021. The agreement originated in April 2014 and has no set maturity date.

10. Long-Term Debt:

In July 2020, the Organization obtained a \$150,000 loan under the U.S. Small Business Administration (“SBA”) Economic Injury Development Loan program of the Coronavirus Aid, Relief, and Economic Act, which was signed into law on March 27, 2020. Under terms of the loan, outstanding borrowings bear interest at 2.75%, are to be repaid in monthly principal and interest installment payments of \$641, secured by deposit accounts, contributions and other receivables, intangibles, and other assets as well as assets to be acquired or created as a result of the proceeds from the loan, and the loan matures on July 16, 2050. Under the terms of the original agreement, the monthly installment payments were to begin on August 1, 2021. The SBA announced through a series of notices that borrowers similar to the Organization may elect to extend the deferment of making the monthly installment payments for up to thirty months after the loan execution date. The management of the Organization elected to defer making the monthly installment payments until January 1, 2023. The balance of the note was \$150,000 at December 31, 2022 and 2021.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2022 AND 2021

10. Long-Term Debt:

Maturities of long-term debt for each of next five years and thereafter are as follows:

<u>Year Ending December 31,</u>		
2023	\$	3,612
2024		3,713
2025		3,816
2026		3,923
2027		4,032
Thereafter		<u>130,904</u>
	\$	<u>150,000</u>

11. Net Assets with Donor Restrictions:

Net assets with donor restrictions consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Research and other grant contributions	\$ 153,547	\$ -
Gala contributions	<u>-</u>	<u>2,745</u>
	<u>\$ 153,547</u>	<u>\$ 2,745</u>

Net assets released from donor restrictions during the years ended December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Gala contributions	\$ 72,626	\$ 15,835
Other special events contributions	<u>-</u>	<u>46,684</u>
	<u>\$ 72,626</u>	<u>\$ 62,519</u>

12. Leases:

The Organization determines if a contract is or contains a lease at the inception of the contract. A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is having both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. The lease is classified as a finance lease if it meets certain criteria or as an operating lease when it does not. The Organization reassess if a contract is or contains a lease upon modification of the contract. The Organization has elected to account for components in contracts in which it is the lessee, that contain fixed payments for both lease and non-lease components, as a single lease component. Additionally, the Organization has elected as an accounting policy to exclude leases of 12 months or less (from the commencement date of the lease), including monthly leases, from the assessment of recognizing right-of-use assets and related lease liabilities in the accompanying consolidated financial statements.

ENDURING HEARTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

12. Leases (continued):

At the commencement date of a lease, the Organization recognizes a lease liability for future fixed lease payments and right-of-use asset representing the Organization's right to use the underlying asset during the lease term. The lease liability is initially measured as the present value of the future fixed lease payments that will be made over the lease term. The lease term may include lessee options to extend the lease only to the extent it is reasonably certain that the Organization will exercise such extension options. The future fixed lease payments are discounted using the rate implicit in the lease when it is readily determinable. When the implicit rate of the lease is not determinable, the Organization uses the risk-free rate over the comparable term of the lease. The right-of-use asset is measured as the amount of the lease liability with adjustments, if applicable, for lease payments made prior to or at lease commencement, initial direct costs incurred by the Organization, deferred rent, and lease incentives.

Depending on the individual agreement, the Organization's operating leases may require (1) fixed lease payments, or minimum payments, as contractually stated in the lease agreement, (2) variable lease payments, and/or (3) lease payments equal to the greater of the fixed or variable lease payments. Lease expense for the operating leases of the Organization related to fixed payments is recognized on a straight-line basis over the lease term, and lease expense related to variable payments is expensed as incurred. The right-of-use asset is periodically reviewed for impairment based on events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Lease expense includes the amortization of the right-of-use asset and the interest component related to the lease liability.

Effective October 1, 2021, the Organization entered into a five-year and one month lease agreement with a termination date of October 31, 2026. The lease includes escalating base lease payments as well as variable non-lease operating expense payments. The variable non-lease payments are accounted for separately. The Organization's used the risk-free rate over the comparable term of the lease (0.77%) based on available information on the commencement date. Lease expense for lease payments is recognized on a straight-line basis over the lease term. There are no optional provisions to extend the term of the lease.

The Organization elected to adopt the provisions of ASC Topic 842, *Leases*, with the execution of the lease agreement. Since the lease agreement was the only lease within the scope of ASC Topic 842, there was no effect on the accompanying consolidated statement of financial position as of January 1, 2021.

At December 31, 2022, the right-of-use asset and lease liability were \$94,765 and \$97,979, respectively. At December 31, 2021, the right-of-use asset and lease liability were \$119,028 and \$121,307, respectively. Total lease expense for the years ended December 31, 2022 and 2021 were \$25,115 and \$16,308, respectively. There was no variable lease expense for the years ended December 31, 2022 and 2021.

ENDURING HEARTS, INC. AND SUBSIDIARIES

 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2022 AND 2021

12. Leases (continued):

Future minimum lease payments under the lease are expected to be as follows:

Year Ending December 31,		
2023	\$	24,905
2024		25,653
2025		26,422
2026		22,510
		99,490
Less unamortized discount		1,511
	\$	97,979

13. Income Taxes:

Enduring Hearts is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

AO SPE 2 and EH SPE 1 are subject to corporate federal income taxes. During the years ended December 31, 2022 and 2021, the Organization recorded an income tax (benefit) expense of \$(5,890) and \$26, respectively, related to the operations of AO SPE 2 and EH SPE 1.

The Organization has applied the provisions of ASC Topic 740, *Income Taxes*, for the years ended December 31, 2022 and 2021. ASC Topic 740 prescribes a recognition threshold and measurement attribute with respect to uncertainty in income tax positions. In applying ASC Topic 740, the Organization has evaluated its various tax positions taken and has determined that based solely on the technical merits, each tax position has a more-likely-not probability that the tax position will be sustained by taxing authorities. The Organization is not presently under audit by any taxing authority, and there are no other uncertainties and events that are reasonably possible in the next twelve months that would cause a significant change in the amounts of unrecognized tax benefits.

The Organization did not recognize any interest and penalties in the accompanying consolidated statements of financial position and activities as of and for the years ended December 31, 2022 and 2021. The Organization remains subject to examination by the Internal Revenue Service for tax years 2020 through 2022.

14. Subsequent Events:

Subsequent events have been evaluated through June 22, 2023, which is the date the consolidated financial statements were available to be issued.