

HEARTLINE MINISTRIES

FINANCIAL STATEMENTS
December 31, 2011

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HEARTLINE MINISTRIES
STATEMENT OF FINANCIAL POSITION
December 31, 2011

ASSETS

	<u>2011</u>
CURRENT ASSETS	
Cash	\$ 569,055
Other receivable	6,000
Inventory	355
Prepaid rent	<u>25,250</u>
Total current assets	600,660
Property and equipment	
Land	469,800
Buildings	346,455
Vehicles	220,250
Equipment	89,358
Accumulated depreciation	<u>(251,998)</u>
Total property and equipment, net	873,865
TOTAL ASSETS	<u>\$ 1,474,525</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 187
Payroll taxes	991
Women's program savings	<u>7,662</u>
Total liabilities	8,840
NET ASSETS	
Unrestricted	
Board designated	82,409
Undesignated	<u>1,252,807</u>
Total unrestricted net assets	1,335,216
Restricted	<u>130,469</u>
Total net assets	<u>1,465,685</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,474,525</u>

See accompanying notes.

HEARTLINE MINISTRIES
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2011</u>
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 500,513	\$ 217,099	\$ 717,612
Guest house rental income	105,128	-	105,128
Women's program sales	126,620	-	126,620
Interest, dividends and investment gain/loss	<u>(1,121)</u>	<u>-</u>	<u>(1,121)</u>
 Total support and revenue before net assets released from restrictions	 <u>731,140</u>	 <u>217,099</u>	 <u>948,239</u>
 Net assets released from restrictions	 <u>167,953</u>	 <u>(167,953)</u>	 <u>-</u>
 Total support and revenue	 <u>899,093</u>	 <u>49,146</u>	 <u>948,239</u>
FUNCTIONAL EXPENSES			
Program services:			
Women's program	447,864	-	447,864
Earthquake relief and guest house program	333,194	-	333,194
 Total program services	 <u>781,058</u>	 <u>-</u>	 <u>781,058</u>
Supporting services:			
General and administrative	<u>42,114</u>	<u>-</u>	<u>42,114</u>
 Total expenses	 <u>823,172</u>	 <u>-</u>	 <u>823,172</u>
 Change in net assets	 75,921	 49,146	 125,067
 NET ASSETS, BEGINNING OF YEAR	 <u>1,259,295</u>	 <u>81,323</u>	 <u>1,340,618</u>
 NET ASSETS, END OF YEAR	 <u>\$ 1,335,216</u>	 <u>\$ 130,469</u>	 <u>\$ 1,465,685</u>

See accompanying notes.

HEARTLINE MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	<u>Program Services</u>			<u>Supporting Services</u>	
	<u>Women's Program</u>	<u>Earthquake relief and guest house program</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Compensation - Director	\$ 29,601	\$ 29,601	\$ 59,202	\$ 6,578	\$ 65,780
Compensation - Other	17,059	11,655	28,714	29,375	58,089
Compensation - Haitian wages	81,378	41,566	122,944	-	122,944
Depreciation	40,135	32,315	72,450	-	72,450
Rent	10,700	19,401	30,101	-	30,101
Food	21,051	28,221	49,272	-	49,272
Beading, sewing and general supplies	49,550	7,632	57,182	-	57,182
Payments to women for Haitian Creations products	80,835	-	80,835	-	80,835
Repairs and maintenance	27,372	34,837	62,209	-	62,209
Fuel, diesel and propane	5,135	9,019	14,154	-	14,154
Health insurance	1,974	1,974	3,948	-	3,948
Housing assistance	-	39,848	39,848	-	39,848
Individual poverty assistance	7,072	8,814	15,886	-	15,886
Insurance	310	444	754	-	754
Automobile expense	5,608	11,593	17,201	-	17,201
Travel	10,253	9,438	19,691	-	19,691
Utilities	4,743	7,903	12,646	-	12,646
Education and related materials	12,977	13,541	26,518	-	26,518
Security	1,169	1,669	2,838	-	2,838
Donations to other not-for-profit organizations	1,625	1,625	3,250	-	3,250
Telephone	1,581	2,115	3,696	-	3,696
Medical exams	471	-	471	-	471
Miscellaneous	9,226	7,139	16,365	-	16,365
Freight and delivery	5,066	39	5,105	-	5,105
Payroll taxes	3,570	3,156	6,726	2,649	9,375
Bank service charges	1,823	2,147	3,970	3,512	7,482
Office supplies	6,546	4,498	11,044	-	11,044
Medicine	6,671	-	6,671	-	6,671
Scholarship expense	2,929	2,929	5,858	-	5,858
Professional fees	1,434	75	1,509	-	1,509
TOTAL FUNCTIONAL EXPENSES	\$ 447,864	\$ 333,194	\$ 781,058	\$ 42,114	\$ 823,172

See accompanying notes.

**HEARTLINE MINITRIES
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011**

	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 125,067
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	72,450
Loss on abandoned property and equipment	2,303
Change in cash resulting from changes in:	
Inventory	(355)
Prepaid rent	(4,550)
Accounts payable	(25,002)
Payroll taxes	(25)
Women's program savings	<u>(762)</u>
Net cash provided by operating activities	<u>169,126</u>
 CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(141,299)</u>
Net cash used in investing activities	<u>(141,299)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 27,827
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>541,228</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 569,055</u>

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Heartline Ministries (Heartline) is a not-for-profit corporation formed in Washington State, to facilitate programs to help the people and children of Haiti overcome poverty. Heartline's programs are based in Port-au-Prince, Haiti. Our general programs include sharing the gospel of Jesus Christ, and serving the people in need in Haiti. We also provide emergency relief, education and economic assistance to individuals within our programs.

Women's program

The women's program was established to provide a place for women to learn valuable life skills and eventually support their families. It includes faith-based classes for prenatal, early childhood development, literacy, sewing and beading. Graduates of the program are given the opportunity to produce products that are sold through our "Haitian Creations" online store in the United States. The program also provides a place where the women can obtain monthly medical checkups and counseling. The program has been expanded to include a maternity center to provide assistance to the Haitian women that do not have access to medical services.

Earthquake relief and guest house program

On January 12, 2010, the earthquake in Haiti devastated Port-Au-Prince. An emergency field hospital that served well over 1,000 patients was created to assist the victims with injuries. During 2011 the final patients were cared for and released. The program transitioned to provide housing assistance for victims of the earthquake, to provide a guest house for visitors assisting with the recovery and to enhance the existing programs to better provide education, health care and job training to the people of Haiti.

Basis of Presentation

Heartline prepares its financial statements in accordance with the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not-For-Profit Organizations* (Audit Guide). Under the Audit Guide, Heartline is required to report information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as follows:

Unrestricted Net Assets

Unrestricted net assets are those currently available at the discretion of the Board for use in Heartline's operations, in accordance with its bylaws.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those which are subject to donor-imposed stipulations that may or will be met by the actions of Heartline and/or the passage of time.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Permanently Restricted Net Assets

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per the endowment agreements. At December 31, 2011, Heartline had no permanently restricted net assets.

Heartline accounts for contributions and grants in accordance with the Audit Guide and they are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Heartline reports the support as unrestricted.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Heartline considers all investment instruments with a maturity of three months or less when purchased to be cash equivalents.

Pledges and Grants Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. There were no pledges or grants receivable at December 31, 2011.

Monthly pledges from donors are considered to be intentions to give, rather than promises to give. Those contributions are recorded when received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Investment income (including interest and dividends) and realized and unrealized gains and losses are reported in the statements of activities and changes in net assets under support and revenue.

Property and Equipment

Purchased property and equipment are initially recorded at cost, and donated property and equipment are recorded at fair value at the date of gift to Heartline. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$1,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation and amortization accounts are relieved, and any gain or loss is included in operations. Depreciation and amortization is provided using the straight-line method over the respective useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized over the shorter of the useful lives of the improvements or the lease terms. Depreciation and amortization expense charged to operations was \$72,450 in 2011.

Impairment of Long-Lived Assets

Heartline reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present at December 31, 2011.

Women's program savings

Heartline pays women in the sewing and beading program for products they create to be sold through its Haitian Creations program. Most Haitian people do not utilize banks in Haiti and therefore, Heartline does allow the women to leave some of their earnings in savings accounts. The funds are available at any time for the women and do not bear any interest.

Individual poverty assistance

As part of its programs, Heartline facilitates specific assistance to individuals who are dealing with issues created by their poverty conditions (such as inability to pay for a child's education, rent for a home or food for a family).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarship expense

Certain families within are programs are able to get educational visa's for their children to study in the United States. In these rare situations, Heartline facilitates assistance with a host family and tuition assistance.

Donated Materials and Services

Donated professional services and materials are recorded at their estimated fair values if they enhance the Organization's non financial assets or require specialized skills that the Organization would normally have to purchase if not provided by donation. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of authoritative accounting literature; however a substantial number of volunteers have donated significant amounts of their time in Heartline's program services.

Almost all of the general and administrative expenses related to record keeping and accounting are provided by a U.S. volunteer. The executive director primarily works directly with the people in the various programs.

Revenue recognition

Adoption fees, guest home rental income and women's program sales are recognized as revenue when earned.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation methods used have been developed based upon management's estimates.

Income Taxes

Income taxes are not provided for in the financial statements since Heartline is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code. Heartline is not classified as a private foundation. Heartline is subject to federal income taxes on income generated from unrelated business income, if any, conducted through Heartline.

The federal corporate tax returns of Heartline for 2009, 2010 and 2011 are subject to examination by the Internal Revenue Service generally for three years after they were filed.

NOTE 2 – LEASE COMMITMENTS

Heartline leases three residences for use as housing for missionary staff and program services and one residence for use as a guest house. The rental agreements are annual and require monthly or annual rent payments. Rent expense was \$30,101 for the year ended December 31, 2011.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2011:

General fund	\$ 290,656
Women’s program	58,369
Building fund	137,621
Missionary support – board designated	<u>82,409</u>
Total cash and cash equivalents	<u>\$ 569,055</u>

NOTE 4 – RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions that are restricted for building a maternity center.

NOTE 5 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject Heartline to concentration of credit risk consist principally of cash and cash equivalents. Cash is placed with high quality financial institutions; however, at times these cash balances exceed the FDIC insurance limit.

NOTE 6 – SUBSEQUENT EVENTS

Management evaluated subsequent events through August 06, 2012. Events or transactions occurring after December 31, 2011, but prior to August 06, 2012, that provided additional evidence about conditions that existed at December 31, 2011, have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2011.