

HEARTLINE MINISTRIES

FINANCIAL STATEMENTS
December 31, 2012

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HEARTLINE MINISTRIES
STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

	<u>2012</u>
CURRENT ASSETS	
Cash	\$ 551,650
Other receivable	6,000
Inventory	3,508
Prepaid rent	<u>36,222</u>
Total current assets	597,380
Property and equipment	
Land	469,800
Buildings	350,398
Vehicles	221,750
Equipment	113,422
Accumulated depreciation	<u>(243,085)</u>
Total property and equipment, net	912,285
TOTAL ASSETS	<u>\$ 1,509,665</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 5,502
Payroll & sales taxes payable	1,621
Women's program savings	<u>12,976</u>
Total liabilities	20,099
NET ASSETS	
Unrestricted	
Board designated	93,768
Undesignated	<u>1,113,728</u>
Total unrestricted net assets	1,207,496
Restricted	<u>282,070</u>
Total net assets	<u>1,489,566</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,509,665</u>

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2012</u>
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 472,752	\$ 229,824	\$ 702,576
Guest house rental income	156,662	-	156,662
Women's program sales	158,893	-	158,893
Interest, dividends and investment gain/loss	<u>777</u>	<u>-</u>	<u>777</u>
 Total support and revenue before net assets released from restrictions	 789,084	 229,824	 1,018,908
 Net assets released from restrictions	 <u>78,223</u>	 <u>(78,223)</u>	 <u>-</u>
 Total public support and revenues	 867,307	 151,601	 1,018,908
FUNCTIONAL EXPENSES			
Program services:			
Guest House	142,893	-	142,893
Poverty programs	407,085	-	407,085
Women's program	<u>463,441</u>	<u>-</u>	<u>463,441</u>
Total program services	1,013,420	-	1,013,420
 General and administrative	 39,109	 -	 39,109
Fundraising	<u>13,872</u>	<u>-</u>	<u>13,872</u>
 Total expenses	 <u>1,066,401</u>	 <u>-</u>	 <u>1,066,401</u>
 Change in net assets	 (199,094)	 151,601	 (47,493)
 NET ASSETS, BEGINNING OF YEAR	 <u>1,406,590</u>	 <u>130,469</u>	 <u>1,537,059</u>
 NET ASSETS, END OF YEAR	 <u>\$ 1,207,496</u>	 <u>\$ 282,070</u>	 <u>\$ 1,489,566</u>

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012

	<u>Program Services</u>				<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Women's Program</u>	<u>Guest House</u>	<u>Poverty Programs</u>	<u>Total Program Services</u>			
Compensation	\$ 112,000	\$ 13,590	\$ 111,512	\$ 237,102	\$ 27,836	\$ -	\$ 264,938
Compensation - Haitian wages	71,103	21,611	74,913	167,628	-	-	167,628
Automobile expense	3,176	600	10,779	14,555	-	-	14,555
Bank service charges	-	-	-	-	9,144	-	9,144
Beading, sewing and general supplies	71,579	10,137	38,324	120,040	-	11,214	131,254
Depreciation and amortization	23,338	17,331	21,792	62,461	-	-	62,461
Donations to other not-for-profit organizations	-	-	1,915	1,915	-	-	1,915
Education and related materials	6,693	-	23,438	30,130	-	803	30,934
Food	28,028	32,064	5,447	65,540	-	-	65,540
Freight and delivery	9,616	90	3,956	13,662	-	-	13,662
Fuel, diesel and propane	2,002	5,390	5,246	12,639	-	-	12,639
Individual poverty assistance	1,459	404	26,755	28,618	-	-	28,618
Medical exams	3,152	-	-	3,152	-	-	3,152
Medicine	3,008	-	-	3,008	-	-	3,008
Miscellaneous	4,686	237	4,201	9,124	-	1,500	10,624
Office supplies	2,828	2,411	2,744	7,983	-	-	7,983
Payments to women for Haitian Creations products	63,618	-	-	63,618	-	-	63,618
Payroll taxes and benefits	10,376	3,906	10,749	25,031	2,129	-	27,160
Professional fees	13,440	-	525	13,965	-	-	13,965
Rent	9,000	15,901	14,164	39,064	-	-	39,064
Repairs and maintenance	7,025	6,457	19,456	32,938	-	-	32,938
Security	-	-	5,460	5,460	-	-	5,460
Telephone	1,814	891	1,904	4,608	-	-	4,608
Travel	12,034	5,240	10,039	27,313	-	354	27,667
Utilities	3,466	6,633	13,766	23,865	-	-	23,865
TOTAL FUNCTIONAL EXPENSES	\$ 463,441	\$ 142,893	\$ 407,085	\$ 1,013,420	\$ 39,109	\$ 13,872	\$ 1,066,401

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (47,493)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	62,461
Change in cash resulting from changes in:	
Inventory	(3,153)
Prepaid rent	(10,972)
Accounts payable	5,315
Payroll and sales taxes payable	630
Women's program savings	<u>5,314</u>
Net cash provided by operating activities	<u>12,102</u>
 CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(29,507)</u>
Net cash used in investing activities	<u>(29,507)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (17,405)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>569,055</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u><u>\$ 551,650</u></u>

See accompanying notes

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
Decembe 31, 2012

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. All of Heartline's programs are based in Port-au-Prince, Haiti.

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. The maternity center provides assistance to Haitian women that do not have access to medical care. The program also includes faith-based classes for prenatal, early childhood development, literacy, sewing and beading. Graduates of the sewing and beading classes are given the opportunity to produce products that are sold through our "Haitian Creations" online store in the United States.

Guest house program

The guest house program provides safe housing for visitors assisting with the organization's programs and for visitors that are in Haiti to further the organization's purpose.

Poverty programs

The poverty program includes all Heartline's efforts to combat poverty in Haiti. It includes direct individual assistance for health and education expenses, assistance with adoption issues, men's discipleship and business training, and assisting short-term medical, religious and construction trips by volunteers.

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.

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

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, 2012, 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 statement of activities and change 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, 2012.

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

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
Decembe 31, 2012

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 \$62,461 in 2012.

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, 2012.

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 poverty program, 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).

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Materials and Services

Donated professional services and materials are recorded at their estimated fair values if they enhance Heartline's non financial assets or require specialized skills that the Heartline 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

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

Heartline is a not-for-profit charitable organization and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for federal or state corporate income taxes has been made in the accompanying financial statements. Heartline qualifies for the charitable contribution deduction under Section 70 of the Internal Revenue Code and has been classified as an organization that is not a private foundation under section 509(a).

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

NOTE 2 – LEASE COMMITMENTS

Heartline leases four 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 \$39,064 for the year ended December 31, 2012.

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
Decembe 31, 2012

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2012:

General fund	\$ 175,811
Maternity center building fund	282,071
Missionary support – board designated	<u>93,768</u>
Total cash and cash equivalents	<u>\$ 551,650</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 - CHANGE IN METHOD OF DEPRECIATION FOR PROPERTY & EQUIPMENT

On January 1, 2012, Heartline elected to change its method of depreciation on its non real property to straight line, whereas in all prior years depreciation was recorded using an accelerated method. The new method of accounting for property & equipment was adopted to more accurately report the economic depreciation of Heartline's equipment. The effect of this change resulted in a decrease in depreciation expense of \$14,399 for the year ended December 31, 2012. As a result of this change, Unrestricted Net Assets at January 1, 2012 was increased by \$71,374.

NOTE 7 – SUBSEQUENT EVENTS

Management evaluated subsequent events through August 12, 2013. Events or transactions occurring after December 31, 2012, but prior to August 12, 2013, that provided additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, 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, 2012.