

HEARTLINE MINISTRIES

FINANCIAL STATEMENTS
December 31, 2017

TABLE OF CONTENTS

FINANCIAL STATEMENTS	PAGE
Statement of Financial Position	1
Statement of Activities and Change in Net Assets.....	2
Statement of Functional Expenses	3
Statement of Cash Flows	4
Notes to Financial Statements.....	5-11

HEARTLINE MINISTRIES
STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

	<u>2017</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 963,626
Haitian employee receivables	11,505
Student receivables	7,455
Other receivable	<u>336</u>
Total current assets	982,922
PROPERTY AND EQUIPMENT	
Land	469,800
Buildings	494,589
Vehicles	220,850
Equipment	87,457
Accumulated depreciation and amortization	<u>(369,411)</u>
Total property and equipment, net	903,285
OTHER ASSETS	
Note receivable	15,000
Loans receivable	9,345
TOTAL ASSETS	<u>\$ 1,910,552</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Total liabilities	-
NET ASSETS	
Without donor restrictions	
Board designated	244,674
Undesignated	<u>1,286,960</u>
Total net assets without donor restrictions	1,531,634
Total net assets with donor restrictions	<u>378,918</u>
Total net assets	<u>1,910,552</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,910,552</u>

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions and grants	\$ 860,909	\$ 341,164	\$ 1,202,073
Rental income	595	-	595
Women's program tuition	72,072	-	72,072
Bakery program sales, net of costs	73,728	-	73,728
Interest, dividends and investment gain/loss	<u>3,076</u>	<u>-</u>	<u>3,076</u>
Total support and revenue before net assets released from restrictions	1,010,380	341,164	1,351,544
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>406,701</u>	<u>(406,701)</u>	<u>-</u>
Total public support and revenues	1,417,081	(65,537)	1,351,544
Expenses and losses:			
Women's programs	378,395	-	378,395
Discipleship programs	208,870	-	208,870
Poverty programs	310,302	-	310,302
Other programs	<u>3,833</u>	<u>-</u>	<u>3,833</u>
Total program services	901,400	-	901,400
Management and general	212,034	-	212,034
Fundraising	<u>56,194</u>	<u>-</u>	<u>56,194</u>
Total supporting activities	268,228		
Total expenses	<u>1,169,628</u>	<u>-</u>	<u>1,169,628</u>
Loss on abandonment of assets	<u>12,175</u>	<u>-</u>	<u>12,175</u>
Total expenses and losses	<u>1,181,803</u>	<u>-</u>	<u>1,181,803</u>
Change in net assets	235,278	(65,537)	169,741
NET ASSETS, BEGINNING OF YEAR	<u>1,296,356</u>	<u>444,455</u>	<u>1,740,811</u>
NET ASSETS, END OF YEAR	<u>\$ 1,531,634</u>	<u>\$ 378,918</u>	<u>\$ 1,910,552</u>

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	Program Services				Supporting Activities				Total Expenses
	Women's Programs	Discipleship Programs	Poverty Programs	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Activities	
Compensation	\$ 88,011	\$ 49,523	\$ 41,589	\$ -	\$ 179,123	\$ 118,772	\$ 9,335	\$ 128,107	\$ 307,230
Compensation - Haitian wages	116,399	46,625	31,504	-	194,528	-	-	-	194,528
Automobile expense	5,712	4,167	4,580	-	14,459	2,400	480	2,880	17,339
Bad debt	-	-	-	-	-	39,044	-	39,044	39,044
Bank processing and service charges	-	-	-	-	-	17,485	-	17,485	17,485
Bakery and general supplies	55,148	55,318	138,161	-	248,627	275	275	550	249,177
Contract labor	8,937	4,894	10,337	-	24,168	17,357	25,940	43,297	67,465
Depreciation and amortization	15,597	6,287	3,605	-	25,489	-	-	-	25,489
Donation to other not-for-profit organizations	-	-	-	3,833	3,833	-	-	-	3,833
Education and related materials	1,752	675	1,439	-	3,866	665	2,477	3,142	7,008
Event costs	368	112	169	-	649	-	8,806	8,806	9,455
Food	6,586	2,602	1,185	-	10,373	-	-	-	10,373
Freight and delivery	3,792	1,961	1,279	-	7,032	636	2,941	3,577	10,609
Fuel, diesel and propane	6,886	11,521	2,842	-	21,249	-	-	-	21,249
Individual poverty assistance	-	-	48,026	-	48,026	-	-	-	48,026
Insurance	852	98	148	-	1,098	-	-	-	1,098
Marketing	1,539	4	6	-	1,549	-	482	482	2,031
Medical exams	1,727	7	-	-	1,734	-	-	-	1,734
Medicine	4,844	158	66	-	5,068	-	-	-	5,068
Miscellaneous	361	33	51	-	445	3	-	3	448
Office supplies	4,170	935	1,239	-	6,344	367	1,677	2,044	8,388
Payroll taxes and benefits	13,254	7,871	8,478	-	29,603	11,684	1,234	12,918	42,521
Professional fees	5,408	936	1,426	-	7,770	157	-	157	7,927
Rent	862	472	711	-	2,045	-	-	-	2,045
Repairs and maintenance	20,186	9,009	5,312	-	34,507	-	-	-	34,507
Security	3,242	1,392	2,097	-	6,731	-	-	-	6,731
Taxes and licenses	1,458	799	1,203	-	3,460	40	-	40	3,500
Telephone	650	168	250	-	1,068	390	78	468	1,536
Travel	2,974	1,094	921	-	4,989	2,559	2,429	4,988	9,977
Utilities	7,680	2,209	3,678	-	13,567	200	40	240	13,807
TOTAL FUNCTIONAL EXPENSES	\$ 378,395	\$ 208,870	\$ 310,302	\$ 3,833	\$ 901,400	\$ 212,034	\$ 56,194	\$ 268,228	\$ 1,169,628

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF CASH FLOWS
Year Ended December 31, 2017

	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 169,741
Adjustments to reconcile change in net assets to net cash used in operating activities	
Bad debt related to note receivable	39,044
Depreciation and amortization	25,489
Loss on abandonment of assets	12,175
Change in cash resulting from changes in:	
Haitian employee receivables	(11,505)
Student receivables	(1,447)
Other receivables	(180)
Accounts payable	(2,653)
Net cash provided by operating activities	<u>230,664</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(36,043)</u>
Net cash used in investing activities	<u>(36,043)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES	
Loans made	(9,345)
Proceeds from loans	<u>1,000</u>
Net cash used in financing activities	<u>(8,345)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	186,276
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>777,350</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 963,626</u>

See accompanying notes

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Heartline Ministries (Heartline) is a not-for-profit corporation formed in Washington State. The mission of Heartline is to strengthen Haitian families and prevent children from becoming orphans through initiatives that empower Haitians with maternal and infant health care, education, vocational training, economic development and Christian outreach. All of Heartline's programs are based in Port-au-Prince, Haiti.

Women's programs

The women's programs were established to provide a place for women to learn valuable life skills and eventually support their families. It includes a maternity center which provides education and delivery assistance to Haitian women that do not have access to medical care. The programs also include faith-based classes for prenatal, early childhood development, literacy, cooking, sewing and craft work.

Discipleship programs

The Discipleship programs include an onsite bakery providing jobs and vocational training to previously unemployed men. The discipleship and community outreach programs minister to prisoners, orphanages, children with disabilities, children living in extreme material poverty and elderly Haitians.

Poverty programs

The poverty program includes all Heartline's efforts to combat poverty in Haiti. It includes direct individual and family assistance for health, education and living expenses.

At the end of 2016, Heartline terminated its mission and volunteer programs. During 2017 the remaining assets used for Heartline's guest house were donated to another organization.

Basis of Presentation and Accounting Changes

Heartline prepares its financial statements in accordance with the Not-for-Profit Entities topic of the FASB Accounting Standards Codification (FASB ASC 958). On January 1, 2017 we adopted ASU 2016-4, *Presentation of Financial Statements for Not-for-profit Entities* and ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Upon adoption, we have revised the reporting for net assets in the statement of financial position to include two classes of net assets rather than the previously required three classes of net assets. That is, net assets with donor restrictions and net assets without donor restrictions. In addition, the statement of activities reports the amount of the change in each of the two classes of net assets. The two classes of net assets are as follows:

Net assets with donor restrictions

Net assets with donor restrictions is the portion of net assets that are subject to donor-imposed restrictions. Donor restrictions are stipulations from donors that specify a use for a contributed asset that is more specific than broad limits resulting from the nature of Heartline's activities, the environment in which it operates, and the purposes

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

specified in its articles of incorporation and bylaws. Donor imposed restrictions on Heartline's use of the asset may be temporary or permanent.

Permanent restrictions impose limits that are permanent, for example, stipulating that resources be invested in perpetuity. Temporary restrictions may include stipulations that resources may be used on after a specified date, for a particular program or service or to acquire buildings and equipment.

Net assets without donor restrictions

Net assets without donor restrictions is the portion of the net assets that are not subject to donor-imposed restrictions.

Heartline accounts for contributions and grants as either increasing net assets with donor restrictions or increasing net assets without donor restrictions. When a donor-imposed restriction is satisfied or otherwise lapses, the net assets with donor restrictions are reclassified to net assets without donor restrictions 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 may report the support as unrestricted.

In addition, ASU 2016-4, *Presentation of Financial Statements for Not-for-profit Entities* requires additional disclosures, including, but not limited to information regarding the composition of net assets with donor restrictions, information about liquid resources and Heartline's ability to meet cash needs for general expenditures within one year of the balance sheet date.

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

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 contributions are accounted as refundable advances until the conditions have been substantially met or explicitly waived by the donor. There were no pledges or grants receivable or conditional contributions at December 31, 2017. Monthly recurring contributions from donors are considered to be intentions to give. Those contributions are recorded when received.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Investment income (including interest and dividends) and realized and unrealized gains and losses are reported in the statements of activities and change 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 net assets without donor restrictions 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 \$2,500 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. Depreciation and amortization expense charged to operations was \$25,489 in 2017.

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, 2017.

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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 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

Woman's program sales and bakery program sales are recognized as revenue when earned.

Allocation of Expenses

The costs of providing the various programs and other activities have been summarized by both their natural classification and their functional classification in the statement of functional expenses. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain costs are attributable to more than one program or supporting function. These costs have been allocated among the programs and supporting services benefited. Compensation and contract labor have been allocated based on the responsibilities of each employee or contractor and the estimated amount of time spent on specific programs and activities. Allocation of certain costs incurred in Haiti, primarily Haitian wages, supplies, repairs and other costs are allocated to programs based on the relative efforts spent on each program using management's knowledge of activities and other costs expended for each program.

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 170 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.

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2017:

General fund	\$ 340,034
Hurricane relief	3,290
Education center legacy fund	11,859
Maternity center and general building fund	223,490
Maternity center expansion and operation fund	132,878
Missionary support – board designated	244,674
Student sponsorship fund	7,401
Total cash and cash equivalents	<u>\$ 963,626</u>

NOTE 3 – RECEIVABLES

Heartline regularly loans small amounts to its Haitian employees for living needs. In addition, Heartline grants credit to students of the education center for tuition. Tuition is collected during the time frame of the course being taught.

The note receivable consists of an amount due from Habiquad for the reimbursement of a previous deposit. The note is non-interest bearing and calls for monthly payments of \$500. In addition, Habiquad and Heartline have entered into a Consent Judgment Agreement that is now in default. Heartline pursued collection during 2017 and determined that a partial settlement would be the best result. As of December 31, 2017, the note receivable has been written down to \$15,000, the amount collected in 2018 pursuant to a settlement agreement.

Loans receivable consistent of amounts loaned to third party organizations providing housing and water availability in a residential area previously supported by Heartline's earthquake relief fund. Repayments will be made based on cash flow of the organizations.

Management believes no allowance for doubtful accounts is necessary.

NOTE 4 –DESIGNATED NET ASSETS WITHOUT DONOR RESTRICTIONS

Heartline's Board of Directors has designated assets of \$244,674 for future missionary support from net assets without donor restrictions. The board designates certain donations for future salaries and costs related to the critical program work performed by missionaries.

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 –NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes and periods:

Subject to expenditures for specified purpose:	
Future capital improvements	\$223,490
Poverty program: natural disaster assistance	3,290
Poverty program: student education	7,401
Subject to spending policy and appropriation:	
Women’s program: maternity center expansion and operation	\$132,878
Woman’s program: education center	<u>11,859</u>
Total net assets with donor restrictions	<u>\$378,918</u>

Net assets of \$406,701 were released from restrictions during the year ended December 31, 2017 by incurring expenses satisfying the restricted purpose were as follows:

Purpose restrictions accomplished:	
Capital purchases	\$ 11,963
Discipleship program operation	35,588
Poverty program: individual assistance	46,367
Poverty program: natural disaster assistance	80,256
Poverty program: student education assistance	57,724
Women’s program: maternity center expansion and operation	13,033
Women’s program: education center operation and capital purchases	35,509
Women’s program general operation	<u>126,261</u>
Total assets released from restrictions	<u>\$406,701</u>

NOTE 6 - 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 7 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects Heartline’s financial assets as of December 31, 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial condition date.

Cash	\$340,034
Receivables	<u>19,296</u>
Total	<u>\$359,330</u>

Receivables are subject to implied time restrictions but are expected to be collected within one year. Heartline has a goal to maintain adequate cash on hand to meet at least 90 days of general operating expenses not provided by net assets with donor restrictions, which are, on average \$25,000 per month.

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 7 – LIQUIDITY AND AVAILABILITY OF RESOURCES – CONTINUED

Heartline receives a substantial amount of restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Heartline must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Heartline's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations become due. Management expects a significant portion of contributions with purpose restrictions received in the next year will have the purpose restriction met within the year. In addition, the education center tuition and bakery sales provide program revenue to pay program expenses. Historically, Heartline has also utilized board designated funds for missionary support for general operations when other financial assets are not available.

NOTE 8 – SUBSEQUENT EVENTS

Management evaluated subsequent events through August 15, 2018. Events or transactions occurring after December 31, 2017, but prior to August 15, 2018, that provided additional evidence about conditions that existed at December 31, 2017, have been recognized in the financial statements for the year ended December 31, 2017.

Events or transactions that provided evidence about conditions that did not exist at December 31, 2017, 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, 2017. These events include Heartline petitioning the State of Washington to modify net assets restricted for the purpose of building a maternity center in Haiti. Under the Revised Code of Washington, the State granted the petition to modify the restriction from the building of a maternity center to the construction and operation of education buildings on the site originally planned for a maternity center. The restricted net assets will be reclassified in 2018.