

HEARTLINE MINISTRIES

FINANCIAL STATEMENTS
December 31, 2018

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HEARTLINE MINISTRIES
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

	<u>2018</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,080,380
United States employee advances	3,766
Haitian employee receivables	<u>13,688</u>
Total current assets	1,097,834
PROPERTY AND EQUIPMENT	
Land	469,800
Buildings	534,324
Vehicles	219,850
Equipment	129,146
Accumulated depreciation and amortization	<u>(385,625)</u>
Total property and equipment, net	967,495
OTHER ASSETS	
Loans receivable	7,745
TOTAL ASSETS	<u>\$ 2,073,074</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Payroll taxes payable	<u>1,627</u>
Total liabilities	1,627
NET ASSETS	
Without donor restrictions	
Board designated	187,450
Undesignated	<u>1,562,003</u>
Total net assets without donor restrictions	1,749,453
Total net assets with donor restrictions	<u>321,994</u>
Total net assets	<u>2,071,447</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,073,074</u>

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions and grants	\$ 914,527	\$ 346,707	\$ 1,261,234
Bakery program sales, net of costs	46,917	-	46,917
Education center tuition	7,930	-	7,930
Materinty center fees	4,518	-	4,518
Miscellenous program fees	1,753	-	1,753
Gain on sale of assets	9,000	-	9,000
Interest, dividends and investment gain/loss	<u>101</u>	<u>-</u>	<u>101</u>
 Total support and revenue before net assets released from restrictions	 984,746	 346,707	 1,331,453
 Net assets released from restrictions:			
Satisfaction of purpose restricitons	<u>403,631</u>	<u>(403,631)</u>	<u>-</u>
 Total public support and revenues	 1,388,377	 (56,924)	 1,331,453
 Expenses and losses:			
Maternity center program	324,129	-	324,129
Poverty programs	233,338	-	233,338
Education center programs	169,592	-	169,592
Discipleship and outreach programs	<u>75,226</u>	<u>-</u>	<u>75,226</u>
Total program services	802,285	-	802,285
 Management and general	283,143	-	283,143
Fundraising	<u>85,130</u>	<u>-</u>	<u>85,130</u>
Total supporting activities	368,273		
 Total expenses	<u>1,170,558</u>	<u>-</u>	<u>1,170,558</u>
 Loss on abandonment of assets	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenses and losses	<u>1,170,558</u>	<u>-</u>	<u>1,170,558</u>
 Change in net assets	217,819	(56,924)	160,895
 NET ASSETS, BEGINNING OF YEAR	<u>1,531,634</u>	<u>378,918</u>	<u>1,910,552</u>
 NET ASSETS, END OF YEAR	<u>\$ 1,749,453</u>	<u>\$ 321,994</u>	<u>\$ 2,071,447</u>

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services				Supporting Activities			Total Expenses	
	Maternity Center Program	Poverty Programs	Education Center Programs	Discipleship & Outreach Programs	Total Program Services	Management and General	Fundraising		Total Supporting Activities
Compensation	\$ 98,811	\$ 18,831	\$ 19,013	\$ 22,918	\$ 159,573	\$ 174,072	\$ 19,728	\$ 193,800	\$ 353,373
Compensation - Haitian wages	58,832	50,155	41,991	19,965	170,943	-	-	-	170,943
Automobile expense	6,503	6,329	2,174	1,496	16,502	4,800	-	4,800	21,302
Bank processing and service charges	-	-	-	-	-	19,086	-	19,086	19,086
Bakery and general supplies	24,292	20,626	5,179	11,954	62,051	520	-	520	62,571
Contract labor	-	5,999	-	-	5,999	41,116	53,036	94,152	100,151
Depreciation and amortization	18,841	4,346	1,610	1,108	25,905	-	-	-	25,905
Donations to other not-for-profit organizations	-	-	-	81	81	-	-	-	81
Dues and subscriptions	440	400	148	102	1,090	2,357	2,400	4,757	5,847
Education assistance and materials	324	61,209	10,573	47	72,153	786	2,500	3,286	75,439
Food	3,758	3,519	1,260	801	9,338	854	508	1,362	10,700
Freight and delivery	1,724	1,177	420	602	3,923	1,436	1,114	2,550	6,473
Fuel, diesel and propane	2,666	12,424	2,809	413	18,312	-	-	-	18,312
Individual poverty assistance	-	-	61,787	-	61,787	-	-	-	61,787
Insurance	-	-	-	-	-	2,573	-	2,573	2,573
Marketing	-	159	201	-	360	-	1,969	1,969	2,329
Medical exams	1,267	-	-	-	1,267	-	-	-	1,267
Medicine	3,690	-	-	-	3,690	-	-	-	3,690
Miscellaneous	-	140	444	-	584	529	182	711	1,295
Office supplies	2,202	1,214	1,080	231	4,727	429	62	491	5,218
Payroll taxes and benefits	12,422	3,257	3,309	3,623	22,611	13,425	1,430	14,855	37,466
Professional fees	8,559	11,914	2,886	1,986	25,345	8,959	-	8,959	34,304
Repairs and maintenance	8,648	4,257	3,712	673	17,290	-	-	-	17,290
Security	32,770	17,467	7,513	4,353	62,103	-	-	-	62,103
Taxes and licenses	26,991	1,813	672	462	29,938	20	-	20	29,958
Telephone	533	437	147	98	1,215	780	-	780	1,995
Travel	5,666	5,154	1,506	3,673	15,999	11,401	2,201	13,602	29,601
Utilities	5,190	2,511	1,158	640	9,499	-	-	-	9,499
TOTAL FUNCTIONAL EXPENSES	\$ 324,129	\$ 233,338	\$ 169,592	\$ 75,226	\$ 802,285	\$ 283,143	\$ 85,130	\$ 368,273	\$ 1,170,558

See accompanying notes

HEARTLINE MINISTRIES
STATEMENT OF CASH FLOWS
Year Ended December 31, 2018

	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 160,895
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	25,905
Gain on sale of assets	(9,000)
Change in cash resulting from changes in:	
Haitian employee receivables	(2,183)
Student receivables	7,455
Other receivables	(3,430)
Payroll taxes payable	<u>1,627</u>
Net cash provided by operating activities	<u>181,269</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	9,000
Purchases of property and equipment	<u>(90,115)</u>
Net cash used in investing activities	<u>(81,115)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES	
Loans made	(456)
Proceeds from loans	<u>17,056</u>
Net cash provided by financing activities	<u>16,600</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	116,754
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>963,626</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,080,380</u>

See accompanying notes

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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.

Maternity center program

The maternity center was established to combat the dismal maternal health reality in Haiti through excellent medical care, health education, nutrition, and compassionate support that effectively reduces the high incidence of maternal and infant mortality and prevents children from becoming orphans.

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 and job creation activities.

Education center program

The education center teaches essential income generating skills – empowering Haitian men and women to pursue their dreams, provide for their families, and build a brighter future for their communities. Graduates primarily employ these skills to start small enterprises to meet the financial needs of their families.

Discipleship & Community Outreach programs

The discipleship & community outreach programs include a men's discipleship program and community outreach programs. These programs were created to minister to prisoners, orphanages, children with disabilities, children living in extreme material poverty and elderly Haitians. The programs outreach ministry includes sharing bread baked at the Heartline bakery, evangelism, worship, prayer and developing personal relationships to communicate love and dignity to each person.

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). Under the FASB ASC 958, the statement of financial position includes two classes of net assets: 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, 2018

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.

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 contributions are accounted for 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, 2018. Monthly recurring contributions from donors are considered to be intentions to give. Those contributions are recorded when received.

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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 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 the 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 \$25,905 in 2018.

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, 2018.

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.

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Education center tuition and bakery 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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2018:

General fund	\$ 570,936
Hurricane relief	500
Education center legacy fund	10,239
Capital building funds	213,883
Maternity center expansion and operation fund	80,852
Maternity center specified expense funds	10,785
Missionary support – board designated	187,450
Student sponsorship fund	5,734
Total cash and cash equivalents	<u>\$1,080,380</u>

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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.

Loans receivable consist 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 \$187,450 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.

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	\$213,883
Poverty program: natural disaster assistance	500
Poverty program: student education	5,734
Subject to spending policy and appropriation:	
Maternity center: maternity center expansion and operation	80,853
Maternity center: specified expenses	10,785
Education center: education center grant	10,239
Total net assets with donor restrictions	<u>\$321,994</u>

Net assets of \$419,003 released from restrictions during the year ended December 31, 2018 by incurring expenses satisfying the restricted purpose were as follows:

Purpose restrictions accomplished:	
Capital purchases	\$ 33,212
Discipleship program operation	17,007
Poverty program: individual assistance	74,529
Poverty program: natural disaster assistance	6,740
Poverty program: student education	59,739
Maternity center: expansion costs	52,025
Maternity center operation	150,224
Education center program: specified purchases	1,620
Education center operation	<u>8,535</u>
Total assets released from restrictions	<u>\$403,631</u>

HEARTLINE MINISTRIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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, 2018, 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	\$570,936
Advances and receivables	<u>17,454</u>
Total	<u>\$588,390</u>

Advances and 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 \$40,250 per month.

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 May 20, 2019. Events or transactions occurring after December 31, 2018, but prior to May 20, 2019, that provided additional evidence about conditions that existed at December 31, 2018, have been recognized in the financial statements for the year ended December 31, 2018.