

HEARTLINE MINISTRIES

FINANCIAL STATEMENTS
December 31, 2010

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HEARTLINE MINISTRIES
STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS

	<u>2010</u>
CURRENT ASSETS	
Cash	\$ 541,228
Other receivable	6,000
Prepaid rent	<u>20,700</u>
Total current assets	567,928
Property and equipment	
Land	469,800
Buildings	241,873
Vehicles	182,650
Equipment	100,601
Accumulated depreciation	<u>(207,605)</u>
Total property and equipment, net	787,319
TOTAL ASSETS	<u>\$ 1,355,247</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 25,189
Payroll taxes	1,016
Women's program savings	<u>8,424</u>
Total liabilities	34,629
NET ASSETS	
Unrestricted	
Board designated	78,862
Undesignated	<u>1,160,433</u>
Total unrestricted net assets	1,239,295
Restricted	<u>81,323</u>
Total net assets	<u>1,320,618</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,355,247</u>

See accompanying notes.

HEARTLINE MINISTRIES
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended December 31, 2010

	2010		
	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 452,979	\$ 1,470,530	\$ 1,923,509
In-kind contributions	1,166,460		1,166,460
Adoption fees	72,430	-	72,430
Guest home rental income	29,068		29,068
Women's program sales	106,962	-	106,962
Interest, dividends and investment gain	<u>7,268</u>	<u>-</u>	<u>7,268</u>
 Total support and revenue before net assets released from restrictions	 <u>1,835,167</u>	 <u>1,470,530</u>	 <u>3,305,697</u>
 Net assets released from restrictions	 <u>1,389,207</u>	 <u>(1,389,207)</u>	 <u>-</u>
 Total support and revenue	 <u>3,224,374</u>	 <u>81,323</u>	 <u>3,305,697</u>
FUNCTIONAL EXPENSES			
Program services:			
Children's homes and adoption program	98,844	-	98,844
General program	173,916		173,916
Women's program	167,191	-	167,191
Earthquake relief program	1,960,468	-	1,960,468
 Total program services	 <u>2,400,419</u>	 <u>-</u>	 <u>2,400,419</u>
Supporting services:			
General and administrative	<u>29,108</u>	<u>-</u>	<u>29,108</u>
 Total expenses	 <u>2,429,527</u>	 <u>-</u>	 <u>2,429,527</u>
 Change in net assets	 794,847	 81,323	 876,170
 NET ASSETS, BEGINNING OF YEAR	 <u>444,448</u>	 <u>-</u>	 <u>444,448</u>
 NET ASSETS, END OF YEAR	 <u>\$ 1,239,295</u>	 <u>\$ 81,323</u>	 <u>\$ 1,320,618</u>

See accompanying notes.

HEARTLINE MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010

	<u>Program Services</u>					<u>Supporting Services</u>		<u>Total</u>
	<u>Children's Home And Adoption</u>	<u>General Program</u>	<u>Women's Programs</u>	<u>Earthquake Relief</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Total Supporting Services</u>	
Compensation - Director	\$ 2,711	\$ -	\$ 5,810	\$ 28,084	\$ 36,605	\$ 3,874	\$ 3,874	\$ 40,479
Compensation - Missionaries	13,529	-	-	13,529	27,058	-	-	27,058
Compensation - Haitian wages	18,380	-	19,958	79,969	118,307	-	-	118,307
Depreciation	6,699	-	6,548	31,649	44,896	4,751	4,751	49,647
Rent	9,413	-	8,600	29,947	47,960	-	-	47,960
Food	4,702	-	3,864	27,903	36,469	-	-	36,469
Supplies	7,430	-	31,708	94,987	134,125	20,478	20,478	154,603
Payments to women	-	-	64,052	-	64,052	-	-	64,052
Repairs and maintenance	6,219	-	7,557	53,210	66,986	-	-	66,986
Fuel, diesel and propane	3,931	-	344	15,443	19,718	-	-	19,718
Housing Assistance	-	-	-	141,781	141,781	-	-	141,781
Individual Assistance	-	21,109	-	-	21,109	-	-	21,109
Insurance	-	-	154	419	573	-	-	573
Automobile expense	51	-	573	4,215	4,839	-	-	4,839
Travel	14,565	-	2,079	147,355	163,999	5	5	164,004
Utilities	356	-	1,530	35,262	37,148	-	-	37,148
Educational materials	42	16,278	916	4,878	22,114	-	-	22,114
Security	90	-	538	2,601	3,229	-	-	3,229
Adoption expense	4,687	-	-	-	4,687	-	-	4,687
Donations	-	123,540	-	27,180	150,720	-	-	150,720
Telephone	2,338	-	445	5,678	8,461	-	-	8,461
Medical exams	-	-	781	6,226	7,007	-	-	7,007
Freight and delivery	1,391	-	9,895	10,445	21,731	-	-	21,731
Payroll taxes	1,121	-	516	3,530	5,167	-	-	5,167
Bank service charges	674	-	1,135	6,033	7,842	-	-	7,842
Office supplies	281	-	188	4,436	4,905	-	-	4,905
Medicine	234	-	-	18,928	19,162	-	-	19,162
Scholarship expense	-	12,989	-	-	12,989	-	-	12,989
Professional Services - In-Kind	-	-	-	1,166,460	1,166,460	-	-	1,166,460
Professional fees	-	-	-	320	320	-	-	320
TOTAL FUNCTIONAL EXPENSES	\$ 98,844	\$ 173,916	\$ 167,191	\$ 1,960,468	\$ 2,400,419	\$ 29,108	\$ 29,108	\$ 2,429,527

See accompanying notes.

HEARTLINE MINITRIES
STATEMENT OF CASH FLOWS
Year Ended December 31, 2010

	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ 876,170
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	49,647
Gain on sale of property and equipment	(1,616)
Change in cash resulting from changes in:	
Other receivable	(6,000)
Prepaid rent	(20,700)
Accounts payable	(694)
Payroll taxes	(1,780)
Women's program savings	<u>3,779</u>
Net cash provided by operating activities	<u>898,806</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	2,500
Purchases of property and equipment	<u>(591,607)</u>
Net cash used in investing activities	<u>(589,107)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 309,699
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>231,529</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 541,228</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 operate an orphanage, women's program and other programs in Port-au-Prince, Haiti.

Children's home and adoption program

The children's home was established to give the children of Haiti the love, respect and attention they deserve and need while finding permanent homes in loving Christian families via adoption. The organization maintained two single-family dwellings for the approximately 20 children cared for at any one time. All but two children were able to join their families in the United States under the humanitarian parole process following the January 2010 earthquake. The adoption program will be terminated with the completion of the last two adoptions in order for the organization to focus on its other programs.

Women's program

Established to provide a place for women to learn how to take care of their babies, learn life skills, be listened to, be loved and hear God's word. It includes faith-based classes for prenatal, early childhood development, literacy and sewing. We also provide sewing graduates the opportunity to produce products that are sold through our "Haitian Creations" online store in the United States.

Earthquake Relief

On January 12, 2010, the earthquake in Haiti devastated Port-Au-Prince. Luckily all of our facilities survived. We interrupted all of our programs and setup an emergency field hospital that served well over 1,000 patients. In response to the earthquake we are expanded all of our education programs, opened a maternity center for our birthing program and opened a guest house to serve all the travelers' that no longer have safe places to stay. We also providing housing assistance and other services to those displaced by the earthquake.

General Program

Our general programs include sharing the gospel of Jesus Christ, and serving the people in need in Haiti. This includes holding a summer English camp for children and sponsoring children's primary school education. We also provide emergency relief, education and economic assistance to individuals within our programs.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2010, 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

included as support until the conditions are substantially met. There were no pledges or grants receivable at December 31, 2010.

Monthly pledges from donors are considered to be intentions to give, rather than promises 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 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 \$49,647 in 2010.

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, 2010.

Donated Materials and Services

Donated 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. The organization received donated services from doctors, nurses, physical therapists and other medical professionals related to the emergency field hospital established following the January 12, 2010 earthquake in Haiti. Approximately 37,000 hours of professional services with a value of \$1,166,000 were received in 2010. These professional services have been recorded as revenue and expense in the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, the organization received a substantial amount of non-professional volunteer services following the earthquake. The organization also receives donated general and administrative services by volunteers in the United States. However, these services do not qualify for recording under the guidelines of authoritative accounting literature.

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 2008, 2009 and 2010 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 \$47,960 for the year ended December 31, 2010.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2010:

General fund	\$ 157,126
Earthquake fund	211,000
Women's program	94,240
Building fund – board designated	67,666
Missionary support – board designated	<u>11,196</u>
Total cash and cash equivalents	<u>\$ 541,228</u>

NOTE 4 – RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions for that are restricted for earthquake relief.

NOTE 5 – SUBSEQUENT EVENTS

Management evaluated subsequent events through August 26, 2011, Events or transactions occurring after December 31, 2010, but prior to August 26, 2011, that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010, 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, 2010.