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Heartline Ministries

Financial Statements

Independent Auditor's Report

December 31, 2022 and 2021



Heartline Ministries

Contents

	<u>Page</u>
<i>INDEPENDENT AUDITOR'S REPORT</i>	<i>1</i>
<i>FINANCIAL STATEMENTS:</i>	
<i>Statements of financial position</i>	<i>3</i>
<i>Statements of activities and changes in net assets</i>	<i>4</i>
<i>Statements of functional expenses</i>	<i>6</i>
<i>Statements of cash flows</i>	<i>8</i>
<i>Notes to financial statements</i>	<i>9</i>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Heartline Ministries
Sunnyside, Washington

Opinion

We have audited the financial statements of Heartline Ministries, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Heartline Ministries as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heartline Ministries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartline Ministries' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Heartline Ministries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartline Ministries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Petersen CPAs + Advisors, PLLC

September 25, 2023

Heartline Ministries
Statements of Financial Position
December 31, 2022 and 2021

Assets	<u>2022</u>	<u>2021</u>
Current Assets:		
Cash and cash equivalents	\$ 918,795	\$ 833,153
Restricted cash	91,607	131,462
Haitian employee receivable	8,483	16,482
Accounts receivable	11,654	11,068
Inventory	3,245	-
Prepaid expense	5,460	4,616
Total current assets	<u>1,039,244</u>	<u>996,781</u>
Property and Equipment:		
Building	1,183,865	1,064,774
Vehicles	172,350	172,350
Equipment	160,226	150,608
Total	<u>1,516,441</u>	<u>1,387,732</u>
Less: accumulated depreciation	474,633	429,838
Total	<u>1,041,808</u>	<u>957,894</u>
Land	469,800	469,800
Total property and equipment	<u>1,511,608</u>	<u>1,427,694</u>
Other Assets:		
Loan receivable	8,761	11,587
Total Assets	<u>\$ 2,559,613</u>	<u>\$ 2,436,062</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 6,599	\$ 9,546
Accrued liabilities	7,424	8,788
Total current liabilities	<u>14,023</u>	<u>18,334</u>
Funds held for others	<u>1,683</u>	<u>1,683</u>
Net Assets:		
Net assets without donor restrictions		
Undesignated	2,452,300	2,284,583
Board designated	350	1,150
Total net assets without donor restrictions	<u>2,452,650</u>	<u>2,285,733</u>
Net assets with donor restrictions	91,257	130,312
Total net assets	<u>2,543,907</u>	<u>2,416,045</u>
Total Liabilities and Net Assets	<u>\$ 2,559,613</u>	<u>\$ 2,436,062</u>

See accompanying notes to financial statements.

Heartline Ministries
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Contributions	\$ 696,060	\$ 249,117	\$ 945,177
Grants	32,820	53,400	86,220
Bakery program sales, less \$47,978 of costs of goods sold	9,122	-	9,122
Education Center tuition and fees, less \$8,520 of costs of goods sold	26,081	-	26,081
Maternity Center fees	3,362	-	3,362
Starting Place fees, less \$15,699 of costs of goods sold	145,254	-	145,254
Rent income	10,450	-	10,450
Investment earnings	45	-	45
Interest income	397	-	397
In-kind services	27,025	-	27,025
Loss on disposal of fixed assets	(5,063)	-	(5,063)
Other income	4,181	-	4,181
Net assets released from restrictions	341,572	(341,572)	-
Total revenue and support	<u>1,291,306</u>	<u>(39,055)</u>	<u>1,252,251</u>
Expenses:			
Program services	868,965	-	868,965
Management and general	142,374	-	142,374
Fundraising	113,050	-	113,050
Total expenses	<u>1,124,389</u>	<u>-</u>	<u>1,124,389</u>
Changes in Net Assets	166,917	(39,055)	127,862
Net Assets, Beginning of Year	<u>2,285,733</u>	<u>130,312</u>	<u>2,416,045</u>
Net Assets, End of Year	<u><u>\$ 2,452,650</u></u>	<u><u>\$ 91,257</u></u>	<u><u>\$ 2,543,907</u></u>

See accompanying notes to financial statements.

Heartline Ministries
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Contributions	\$ 708,854	\$ 254,257	\$ 963,111
Grants	77,300	54,750	132,050
Bakery program sales, less \$47,971 of costs of goods sold	12,947	-	12,947
Education Center tuition and fees, less \$9,801 of costs of goods sold	52,351	-	52,351
Maternity Center fees	4,173	-	4,173
Starting Place fees, less \$6,209 of costs of goods sold	65,688	-	65,688
Rent income	19,834	-	19,834
Investment earnings	91	-	91
Interest income	1,137	-	1,137
In-kind services	22,400	-	22,400
Other income	2,516	-	2,516
Net assets released from restrictions	344,178	(344,178)	-
Total revenue and support	<u>1,311,469</u>	<u>(35,171)</u>	<u>1,276,298</u>
Expenses:			
Program services	897,742	-	897,742
Management and general	123,423	-	123,423
Fundraising	108,753	-	108,753
Total expenses	<u>1,129,918</u>	<u>-</u>	<u>1,129,918</u>
Changes in Net Assets	181,551	(35,171)	146,380
Net Assets, Beginning of Year	<u>2,104,182</u>	<u>165,483</u>	<u>2,269,665</u>
Net Assets, End of Year	<u>\$ 2,285,733</u>	<u>\$ 130,312</u>	<u>\$ 2,416,045</u>

See accompanying notes to financial statements.

Heartline Ministries
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services			
	Maternity Center Program	Poverty Programs	Education Center Programs	Discipleship & Outreach Programs
Salaries and wages	\$ 46,320	\$ 12,957	\$ 17,073	\$ 9,979
Salaries and wages - Haitian wages	128,082	31,230	60,834	15,586
Employee benefits and taxes	10,160	2,059	3,851	1,362
Automobile expense	6,656	3,346	4,988	1,121
Bad debt expense	-	-	-	-
Bank fees	-	-	-	-
Bakery and general supplies	20,872	9,500	5,020	1,046
Contract labor	853	471	449	147
Depreciation	12,772	5,435	17,965	1,037
Contributions to other NFP organizations	-	-	-	-
Dues and subscriptions	-	-	-	-
Education and materials	9,111	28,554	7,864	14,728
Food	4,451	4,686	2,181	713
Postage and delivery	3,417	919	735	240
Fuel	6,727	8,050	4,349	662
Individual poverty assistance	1,695	48,915	695	227
In-kind services	7,584	4,192	3,998	1,330
Insurance	-	-	-	-
Marketing	3,470	350	-	-
Medical exams	2,034	-	-	-
Medicine	3,054	-	-	98
Miscellaneous	2,601	10	2,163	1,033
Office supplies	1,840	613	716	191
Professional fees	407	225	214	70
Repairs and maintenance	5,631	1,570	3,098	532
Security	28,268	8,244	28,267	2,571
Taxes and licenses	519	287	274	89
Telephone	566	175	265	55
Travel	5,337	1,692	911	2,412
Utilities	3,288	715	682	223
Total expenses	<u>\$ 315,715</u>	<u>\$ 174,195</u>	<u>\$ 166,592</u>	<u>\$ 55,452</u>

Program Services		Support Services		
Starting Place Programs	Total Program Services	Management and General	Fundraising	Total
\$ 103,308	\$ 189,637	\$ 73,630	\$ 47,741	\$ 311,008
-	235,732	-	-	235,732
7,898	25,330	5,884	3,903	35,117
-	16,111	-	-	16,111
-	-	254	-	254
2,868	2,868	22,913	-	25,781
8,319	44,757	-	245	45,002
530	2,450	1,395	43,673	47,518
9,922	47,131	-	-	47,131
-	-	-	-	-
108	108	1,789	5,747	7,644
-	60,257	-	25	60,282
2,108	14,139	109	173	14,421
867	6,178	28	2,654	8,860
-	19,788	-	-	19,788
-	51,532	-	-	51,532
3,776	20,880	3,425	2,720	27,025
2,492	2,492	1,755	-	4,247
413	4,233	-	4,967	9,200
-	2,034	-	-	2,034
-	3,152	-	-	3,152
359	6,166	149	-	6,315
3,722	7,082	-	542	7,624
4,131	5,047	16,500	-	21,547
1,485	12,316	-	-	12,316
-	67,350	-	-	67,350
-	1,169	100	-	1,269
-	1,061	1,800	-	2,861
257	10,609	12,043	660	23,312
4,448	9,356	600	-	9,956
<u>\$ 157,011</u>	<u>\$ 868,965</u>	<u>\$ 142,374</u>	<u>\$ 113,050</u>	<u>\$ 1,124,389</u>

See accompanying notes to financial statements.

Heartline Ministries
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services			
	Maternity Center Program	Poverty Programs	Education Center Programs	Discipleship & Outreach Programs
Salaries and wages	\$ 35,931	\$ 12,101	\$ 15,146	\$ 8,784
Salaries and wages - Haitian wages	93,761	33,431	64,817	16,638
Employee benefits and taxes	8,901	3,452	4,828	1,913
Automobile expense	4,228	2,125	1,696	763
Bad debt expense	-	-	-	-
Bank fees	-	-	-	-
Bakery and general supplies	5,848	4,567	12,661	639
Contract labor	403	2,194	312	103
Depreciation	12,139	6,346	15,794	1,182
Contributions to other NFP organizations	-	21,967	-	-
Dues and subscriptions	-	-	-	-
Education and materials	6,355	59,374	21,743	21,755
Food	3,528	4,993	2,451	807
Postage and delivery	685	515	321	106
Fuel	3,319	7,392	3,516	250
Individual poverty assistance	3,211	45,126	1,721	571
In-kind services	4,928	4,480	3,808	1,344
Insurance	-	-	-	-
Marketing	-	64	-	-
Medical exams	10,114	-	-	-
Medicine	5,808	-	-	-
Miscellaneous	3,834	2,690	6,660	773
Office supplies	2,193	1,452	1,513	967
Professional fees	-	-	-	-
Repairs and maintenance	7,836	2,541	5,741	641
Security	28,252	11,306	29,880	3,136
Taxes and licenses	1,291	1,180	1,000	329
Telephone	405	176	303	49
Travel	5,293	1,125	1,365	2,822
Utilities	2,650	585	496	163
Total expenses	<u>\$ 250,913</u>	<u>\$ 229,182</u>	<u>\$ 195,772</u>	<u>\$ 63,735</u>

Program Services		Support Services			
Starting Place Programs	Total Program Services	Management and General	Fundraising	Total	
\$ 83,538	\$ 155,500	\$ 68,850	\$ 46,350	\$ 270,700	
-	208,647	-	-	208,647	
6,620	25,714	6,067	3,726	35,507	
-	8,812	-	-	8,812	
-	-	403	-	403	
-	-	19,522	-	19,522	
30,154	53,869	-	142	54,011	
315	3,327	13,083	40,371	56,781	
9,508	44,969	-	-	44,969	
-	21,967	-	-	21,967	
108	108	1,478	4,368	5,954	
890	110,117	-	-	110,117	
944	12,723	835	470	14,028	
35	1,662	30	2,976	4,668	
-	14,477	-	-	14,477	
-	50,629	-	-	50,629	
3,136	17,696	2,464	2,240	22,400	
2,301	2,301	1,244	-	3,545	
3,972	4,036	-	5,703	9,739	
-	10,114	-	-	10,114	
-	5,808	-	-	5,808	
114	14,071	123	-	14,194	
3,443	9,568	15	756	10,339	
4,531	4,531	-	-	4,531	
2,436	19,195	-	-	19,195	
-	72,574	-	-	72,574	
2,207	6,007	100	-	6,107	
-	933	900	-	1,833	
50	10,655	7,709	1,651	20,015	
3,838	7,732	600	-	8,332	
<u>\$ 158,140</u>	<u>\$ 897,742</u>	<u>\$ 123,423</u>	<u>\$ 108,753</u>	<u>\$ 1,129,918</u>	

Heartline Ministries
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
<i>Increase in Cash and Cash Equivalents and Restricted Cash:</i>		
Changes in net assets	\$ 127,862	\$ 146,380
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	47,131	44,969
(Increase) decrease in assets:		
Haitian employee receivable	10,747	(1,547)
Accounts receivable	(586)	8,233
Inventory	(3,245)	-
Prepaid expenses	(844)	(2,152)
Loan receivable	78	367
Increase (decrease) in liabilities:		
Accounts payable	(2,947)	4,111
Accrued liabilities	(1,364)	308
Deferred revenue	-	(2,000)
Funds held for others	-	(1,282)
Total Adjustments	48,970	51,007
Net cash provided by operating activities	176,832	197,387
<i>Cash Flows From Investing Activities:</i>		
Purchase of property and equipment	(131,045)	(133,610)
Net cash used by investing activities	(131,045)	(133,610)
<i>Net Increase in Cash and Cash Equivalents and Restricted Cash</i>	45,787	63,777
<i>Cash and Cash Equivalents and Restricted Cash, Beginning of the Year</i>	964,615	900,838
<i>Cash and Cash Equivalents and Restricted Cash, End of the Year</i>	\$ 1,010,402	\$ 964,615
<i>Cash and Cash Equivalents and Restricted Cash Consists of:</i>		
Cash and cash equivalents	\$ 918,795	\$ 833,153
Restricted cash	91,607	131,462
	\$ 1,010,402	\$ 964,615

Non-Cash Operating Activities:

During the years end December 31, 2022 and 2021, the Organization recognized total foreign currency translation gain (loss) of \$2,250 and (\$8,505), respectively, on cash and cash equivalents.

During the year ended December 31, 2022, the Organization recognized total foreign currency translation unrealized gain of \$2,748 on Haitian employee receivables.

During the year ended December 31, 2022, the Organization recognized total foreign currency translation unrealized loss of \$2,748 on loans outstanding.

Heartline Ministries

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Organization and Summary of Significant Accounting Policies:

Organization:

Heartline Ministries (the Organization or “Heartline”), was founded in 2000 to strengthen Haitian families and prevent children from becoming orphans. Today, Heartline Ministries holistically addresses the root causes of orphanhood and extreme material poverty through multiple ministries with children and their families.

The Organization’s mission is investing in families. We do this through a holistic approach that focuses on maternal healthcare, economic empowerment, children’s education, and community outreach.

Major programs include:

Maternal Health – Giving birth in Haiti is extremely dangerous for most women and girls. Haiti tragically has some of the highest maternal and infant mortality rates in the world. At Heartline, we believe birth is a human rights issue. The Heartline Maternity Center combats 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. The Heartline Maternity Center provides expectant mothers in Haiti with a full prenatal program, labor and delivery services with certified midwives and nurses, and a six-month postpartum program of weekly medical care, child development education, and breastfeeding support. Medical clinics open to the wider community are also held each week to provide pregnancy tests, ultrasounds, and free birth control to promote healthy timing and spacing of pregnancy as a proven strategy to reduce maternal mortality and improve child survival rates. When women and girls enter the Heartline Maternity Center doors, they find love, joy and celebration, compassionate relationships, empowering education, excellent maternal care, and respect.

Economic Empowerment – Empowering Haitians with education and income-generating skills to catalyze economic development and break the chronic cycle of poverty. Low educational levels and a dismal economic landscape leave many Haitians trapped in the chronic cycle of material poverty. Haitian men and women lack access to basic necessities like nutritious food, adequate health care, and the means to pay for their children’s education because of scarce financial resources and economic opportunities. Graduates primarily employ these skills to start small enterprises to meet the financial needs of their families. The Heartline 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. What started with a few treadle sewing machines and a single class of students, has grown tremendously! Students now have the opportunity to study sewing, advanced sewing, and cooking. Staffed entirely by Haitians, the Education Center is proud that many teachers started at the Education Center as students themselves. Education Center graduates have increased income potential and ability to provide for their families, self-confidence, and hope for the future.

Heartline Ministries
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Organization (continued):

Major programs include (continued):

Children’s Education – Empowering children in Haiti through education. Forced to choose between meeting basic survival necessities and sending their children to school, many families cannot afford the cost of education. Far too often, children in Haiti do not have the opportunity to learn, grow, and thrive. Student sponsors invest in the life of a child and changes this reality for their family. Heartline Ministries partners with neighborhood schools just outside of Cité Soleil and in the community of Corail to provide children from materially poor families with the opportunity to attend school. Sponsorship not only impacts the life of a child today, but also has the power to catalyze lasting transformation for individuals, families, and communities in Haiti.

Community Outreach – The Heartline Outreach and Discipleship ministry was established in response to the direction of Jesus in Matthew 25:35-40 to feed the hungry, clothe the stranger, and visit the sick and imprisoned as prioritized ways of ministering in the name of Jesus. The team ministers with lonely prisoners, children with disabilities, children living in extreme material poverty, and aging Haitians. Outreach ministry includes sharing bread baked at the Heartline bakery, evangelism, worship and prayer, and developing personal relationships to communicate love and the dignity of each person. Through word and deed, the Heartline team lavishes love on each beloved child and adult made in the image of God, communicating that they are not forgotten or worthless, but have unsurpassable worth to God.

Kid’s Club – The Heartline Outreach and Discipleship team ministers with approximately 200 children living in extreme material poverty every Sunday afternoon. Kid’s Club includes a meal, worship, a message from the Bible, and play! Many of the children do not attend school and have families unable to provide for their basic needs. They look forward to Kid’s Club each week for the food, loving relationships, singing, and opportunity to hear about God’s love.

Prison Outreach – There is a conspicuous need for prison outreach ministry in Port au Prince. Haiti’s penal system is the most congested of any country in the world, with a formidable 454% occupancy level. Most incarcerated Haitians have not been convicted of a crime, but are imprisoned during lengthy pretrial detention, frequently for many years. Due to severe overcrowding and malnutrition-related illnesses and other preventable diseases, many Haitians die in prison while waiting to see a judge. The Heartline Outreach and Discipleship team is grateful to minister at three different prisons for juvenile boys, men and women each week. Delivering bread to share with both prisoners and prison guards opens the door to sharing the Gospel with physically and spiritually hungry prisoners through worship, prayer, teaching, and mentoring.

Heartline Ministries
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Organization (continued):

Major programs include (continued):

Community Outreach (continued):

Children with Disabilities – Children with disabilities in Haiti are acutely vulnerable. Families often face stigma and ridicule as a result of having a child with disabilities due to the widespread belief that disability is a curse from evil spirits. Parents frequently relinquish children with disabilities to orphanages or hide them away at home, excluding them from participating in school and other community life. Set against the backdrop of widespread material poverty, children with disabilities face tremendous hardship, misunderstanding, and failure to thrive. The Heartline Outreach and Discipleship team is grateful to minister with Mephibosheth House that cares for children with developmental disabilities. Every week, the Heartline team delivers bread and other food, and spends several hours worshipping, praying, and playing with the children.

Bakery – The Heartline Bakery provides jobs and vocational training to previously unemployed men. Utilizing over 500 pounds of flour daily to make delicious bread and pizza, the Heartline Bakery is open six days a week, selling baked goods to the wider community and supplying bread for all of Heartline’s Outreach and Discipleship ministries.

Summary of Significant Accounting Policies:

Basis of Presentation – The financial statements of the Organization have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred. The Organization reports information regarding its financial position and activities according to two classes of net assets: Net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to or no longer subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and cash equivalents – Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature.

Heartline Ministries
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Summary of Significant Accounting Policies (continued):

Restricted cash – Restricted cash consists of funds received and maintained for missionary support as well as donor restricted contributions. The donors are aware that contributions to the missionary funds are only board designated for missionary funding, and if funds are needed for general purposes, they may be released without notification as they are considered unrestricted. At December 31, 2022 and 2021, total restricted cash was as follows:

	2022	2021
Board designated	\$ 350	\$ 1,150
Donor designated	91,257	130,312
Total restricted cash	\$ 91,607	\$ 131,462

Concentrations of Credit Risk – The Organization maintains cash balances in financial institutions that at times during the year may exceed the federally insured limits. Management does not believe there is significant risk associated with amounts maintained in financial institutions.

The Organization maintains funds in certain foreign bank accounts that are subject to risk of loss in accordance with the rules and regulations governing financial assets in those countries. The Organization is not aware of any events that would subject those funds to an unusual level of risk of loss as of the date of issuance of these financial statements. At December 31, 2022 and 2021, the balances in foreign bank accounts totaled \$58,370 and \$29,403, respectively.

Accounts Receivable – Accounts receivable represents amounts due from exchange transactions when service is rendered. The Organization reviews all outstanding accounts and determines collectability of its receivables based on past experience. Management believes that all outstanding accounts receivable are collectible in full, therefore no allowance for uncollectible receivables has been provided.

Haitian Employee Receivable and Loan Receivable – The Organization has a Poverty Assistance Policy that allows the Organization to support individuals in need in Haiti. The Organization has a set of criteria by which it can objectively make distributions to individuals who are financially or otherwise distressed. An agreement is signed that indicates the amount provided and the terms of repayment. Funds provided to employees of the Organization are shown separately on the statement of financial position and are all current receivables. As of December 31, 2022 and 2021, the balance in Haitian employee receivable was \$8,483 and \$16,482, respectively. In some cases, the need is much greater and a more significant loan is provided to an individual. These loans are shown on the statement of financial position as loans receivable. At December 31, 2022 and 2021, the balance in loans receivable was \$8,761 and \$11,587, respectively.

The Organization reviews all outstanding accounts and determines collectability of receivables at year end. Management believes that all outstanding receivables are collectible in full, therefore no allowance for uncollectible receivables has been provided.

Property and Equipment – Property and equipment are recorded at cost for purchased assets and at fair market value at the time of donation for donated assets. Expenditures for maintenance, repairs, and renewals are charged to expense as incurred, whereas major purchases of long-lived assets and betterments that increase the useful lives of assets are capitalized. The Organization has a capitalization threshold of \$2,500.

Heartline Ministries
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Summary of Significant Accounting Policies (continued):

Depreciation – Depreciation is generally taken over the useful service life of the asset using the straight-line method. Asset lives range as follows:

Furniture and equipment	5 to 10 years
Building	40 years

Depreciation expense was \$47,131 and \$44,969 for the years ended December 31, 2022 and 2021, respectively.

Revenue and Revenue Recognition – The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been substantially met.

Program revenue is recognized at the time of service.

The Organization provides schooling and education to individuals in Croix Des Bouquets, Haiti for those who would like to learn income-generating skills. Students are required to pay sixty percent of tuition in the first semester, thirty percent of tuition in the second semester, and the remaining ten percent at the completion of the year. Tuition revenue is recognized upon receipt.

Gifts In-Kind Contributions – The Organization receives contributions in a form other than cash or investments. Most are donated supplies, which are recorded as contributions at the date of the gift and as expense when the donated items are placed into service or distributed. If the Organization receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Organization’s capitalization policy. During the years ended December 31, 2022 and 2021, there were no in-kind contributions.

The Organization receives in-kind contributions of time and pro bono services from members of the community. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Organization. During the years ended December 31, 2022 and 2021, the Organization received donated financial services related to tax return preparation, financial statement preparation, and bookkeeping services of \$27,025 and \$22,400, respectively. All donated services and assets were utilized by the Organization’s programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Funds Held for Others – The Organization receives and distributes assets under an agreement with Port Au Prince Fellowship, a non denominational church in Port Au Prince Haiti. These assets are included in cash and the corresponding liability in the same amount is reflected under the title “Funds Held for Others” on the accompanying statement of financial position. At December 31, 2022 and 2021, the balance in funds held for others for each year was \$1,683.

Advertising – The Organization expenses advertising as incurred. Advertising expense was \$9,200 and \$9,739 for the years ended December 31, 2022 and 2021, respectively.

Heartline Ministries
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Summary of Significant Accounting Policies (continued):

Inventory – Inventory consists primarily of baking ingredients for the Bakery. Inventory is stated at the lower of cost or net realizable value.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Functional Expense Allocation – The costs of providing the programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses that can be identified with a specific program or support service are charge directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

Salaries and wages, benefits and payroll tax allocations are determined during the annual budgeting based on the Accounting Manager and Executive Director’s review of the tasks performed by each employee or contractor.

General costs that are primarily Haiti related are allocated to the Haiti programs using the total expenses of each program.

General costs that are related to the entire organization are allocated using program costs.

Federal Income Tax – Under provisions of Section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from federal income taxes, except for net income from unrelated business activities. For the years ended December 31, 2022 and 2021, the Organization had no unrelated business activities subject to federal income taxes.

Management evaluated the Organization’s tax positions and concluded that the Organization has taken no uncertain tax positions that require adjustments to the financial statements or that call into question their tax-exempt status.

Recent Accounting Pronouncements – During the year ended December 31, 2022, the Organization adopted the requirements of Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). This standard requires lessees to recognize leases on the statement of financial position as right-of-use (ROU) assets and lease liabilities based on the value of the discounted future lease payments, while lessor accounting will remain substantially unchanged. The standard requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. In adopting ASC 842, the Organization elected to use practical expedients, including but not limited to, not reassessing past lease accounting, and not recording assets or liabilities for leases with terms of one year or less. Adoption of ASU No. 2016-02 did not have an impact on the financial statements of the Organization for the year ended December 31, 2022.

Heartline Ministries
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Summary of Significant Accounting Policies (continued):

Recent Accounting Pronouncements (continued) – During the year ended December 31, 2022, the Organization also retrospectively adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, issued by the FASB. The pronouncement was issued to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU No. 2020-07 does not change the existing recognition and measurement requirements for contributed nonfinancial assets. The new standard requires that contributed nonfinancial assets are presented separately in the statement of activities and changes in net assets. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. Adoption of ASU No. 2020-07 did not have an impact on the financial statements of the Organization for the year ended December 31, 2022.

Reclassification – Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Subsequent Events – Subsequent events have been evaluated through September 25, 2023, which is the date the financial statements were available to be issued. See further disclosure in Note 8.

Note 2 – Liquidity:

The following table reflects the Organization’s financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as board designated assets. The Board designations could be drawn upon if the board approves that action.

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 918,795	\$ 833,153
Restricted cash	91,607	131,462
Haitian employee receivable	8,483	16,482
Accounts receivable	11,654	11,068
Loan receivable	8,761	11,587
Financial assets, at year end	1,039,300	1,003,752
Less: Those unavailable for general expenditure within one year, due to:		
Loan receivable	(8,761)	(11,587)
Funds held for others	(1,683)	(1,683)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,028,856	\$ 990,482

The Organization’s goal is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Heartline Ministries
Notes to Financial Statements
December 31, 2022 and 2021

Note 3 – Net Assets Without Donor Restrictions:

The Organization’s Board of Directors has a policy to designate amounts of net assets without donor restrictions for specified purposes as follows for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 2,452,300	\$ 2,284,583
Board designated - missionary funds	350	1,150
	<u>\$ 2,452,650</u>	<u>\$ 2,285,733</u>

Note 4 – Net Assets With Donor Restrictions:

Net assets with donor restrictions consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Building fund	\$ 8,422	\$ 86,922
Capital project - auditorium	10,000	5,000
Education Center building fund	5,000	-
Maxima Housing	1,760	31,735
Mechanic Garage capital	30,590	-
Scholarship fund	10,198	-
Solar fund	5,403	-
Starting Place	4,088	-
Student sponsorship	15,796	6,655
Total net assets with donor restrictions	<u>\$ 91,257</u>	<u>\$ 130,312</u>

Net assets released from restrictions consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Building fund	\$ 78,500	\$ 35,481
Discipleship	4,909	7,500
Education Center	32,403	60,799
Individual assistance	23,824	165,024
Maternity Center	151,663	-
Maxima housing	-	27,637
Mechanic Garage capital	1,145	-
Scholarship fund	1,234	8,717
Starting Place - US	5,615	17,753
Student sponsorship	42,279	21,267
Total net assets released from restriction	<u>\$ 341,572</u>	<u>\$ 344,178</u>

Heartline Ministries
Notes to Financial Statements
December 31, 2022 and 2021

Note 5 – Foreign Currency Translation:

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect on reporting dates, and revenue and expenses are translated at rates in effect on transaction dates. Translation gains and losses are included in current results. Total foreign currency translation gain/(loss) of \$2,250 and (\$8,505) for the years ended December 31, 2022 and 2021, respectively, are included in miscellaneous expense.

Note 6 – Lease Income:

The Organization entered into a lease agreement with an unrelated entity on April 1, 2020. The Organization (lessor) leases property (10,000 square feet of real property) for \$2,000 per month to the unrelated entity. The lease expired on March 31, 2022 and was not renewed. The lease continued month-to-month until August 2022, at which time the lessee vacated the property.

Note 7 – Risks and Uncertainties:

The Organization conducts some of its operations in Port-au-Prince, Haiti and surrounding communities. There are times that programs and operations could be disrupted due to political impacts in Haiti and unsafe environments, which could have an impact program revenue.

Note 8 – Subsequent Event:

The Organization is in the process of selling the U.S.-based Starting Place. The purchase and sale agreement have not been finalized. The final sale is expected to be completed in October 2023.