

SOPHIA'S HEART FOUNDATION, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sophia's Heart Foundation, Inc

We have audited the accompanying statement of financial position of Sophia's Heart Foundation, Inc as of December 31, 2009 and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sophia's Heart Foundation, Inc as of December 31, 2009, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

June 25, 2010

SOPHIA'S HEART FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009

ASSETS

Current Assets	
Cash	\$ 22,194
Inventory	<u>16,550</u>
Total Current Assets	<u>38,744</u>
Fixed Assets	
Office Equipment	1,097
Vehicles	3,301
Accumulated Depreciation	<u>(1,026)</u>
Total Fixed Assets, net	<u>3,372</u>
Other Assets	
Trademark	2,800
Accumulated Amortization	<u>(187)</u>
Total Other Assets	<u>2,613</u>
TOTAL ASSETS	<u><u>\$ 44,729</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ <u>-</u>
Total Current Liabilities	<u>-</u>
Net Assets	
Unrestricted Net Assets	<u>44,729</u>
Total Net Assets	<u>44,729</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 44,729</u></u>

The accompanying notes are an integral part of these financial statements

SOPHIA'S HEART FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2009

Revenue

Contributions	\$ 151,876
Sales on Merchandise, net	4,654
Miscellaneous	6,795
Interest	36
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Total Revenues	163,361

Expenses

Advertising	15,486
Amortization	187
Bank Fees	357
Contributions	125
Depreciation	1,026
Dues & Subscriptions	250
Miscellaneous	1,053
Postage	2,875
Processing Fees	2,531
Professional Fees	44,270
Program	40,316
Repairs & Maintenance	388
Scholarships	2,931
Special Events	2,991
Supplies	2,317
Telephone	1,279
Travel	3,110
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Total Expenses	121,492

Change in Net Assets	41,869
Net Assets, January 1, 2009	<hr/> 2,860
Net Assets, December 31, 2009	<hr/> <hr/> \$ 44,729

The accompanying notes are an integral part of these financial statements

SOPHIA'S HEART FOUNDATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 41,869
Depreciation and Amortization	1,213
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase in Inventory	<u>(16,550)</u>
Net Cash Provided by Operating Activities	<u>26,532</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of equipment and vehicles	(4,398)
Purchase of trademark	<u>(2,800)</u>
Net Cash Used by Investing Activities	<u>(7,198)</u>
Net Increase in Cash	19,334
Cash, January 1, 2009	<u>2,860</u>
Cash, December 31, 2009	<u>\$ 22,194</u>

The accompanying notes are an integral part of these financial statements.

SOPHIA'S HEART FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Organization and Purpose:

Sophia's Heart Foundation, Inc. is a non-profit organization that exists primarily to help mend and heal the hearts of children and families who have been touched by poverty, sickness, disease, broken homes and broken dreams and incorporated December 3, 2008 under the laws of the State of Tennessee

Basis of Presentation:

The Foundation presents its financial statements on the accrual basis of accounting, where as revenues are recognized when earned and expenses recognized when incurred

Cash and Cash Equivalents:

The Foundation considers all highly liquid investments with a maturity of three months or less with purchased to be cash equivalents

Income Taxes:

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is considered a private non-operating foundation. Accordingly, no provision has been made in the financial statements

The Foundation has evaluated its tax positions in accordance with the Codification Standard relating to Accounting for Uncertainty in Income Taxes. The Foundation believes that it has taken no uncertain tax positions.

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 the financial statements and disclosures. Accordingly, actual results could differ from those estimates

Classification of Restricted and Unrestricted Net Assets:

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic related to Presentation of Financial Statements of Not-for-Profit Organizations. Under the FASB Accounting Standards Codification, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

SOPHIA'S HEART FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONTINUED

Classification of Restricted and Unrestricted Net Assets - continued:

The Codification requires Sophia's Heart Foundation, Inc to report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purposed restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted funds received and released from restrictions in the same period are reported as unrestricted support. At December 31, 2009, and for the year then ended, there were no permanent restrictions on assets.

Advertising:

Sophia's Heart Foundation, Inc. expenses advertising costs as incurred. Advertising costs for 2009 were \$15,486.

Depreciation:

It is the Foundation's policy to capitalize property and equipment over \$500. All purchases less than that amount are expenses in the period incurred. Donated property and equipment are reported as contributions at estimated fair value. Unless donor-restricted, all donated property and equipment are reported as increases in unrestricted net assets. Property and equipment are depreciated over estimated useful lives using the straight-line method. Useful lives range from 3 years for computer to 5 years for furniture, equipment and vehicles.

Concentration of Credit Risk:

Financial instruments that potentially subject Sophia's Heart Foundation, Inc. to concentrations of credit risk consist principally of cash on deposit. Cash deposits are primarily in financial institutions in Tennessee and at times, may exceed FDIC limits (\$250,000 as of December 31, 2009). The cash deposits did not exceed federally insured amounts of December 31, 2009. Management does not believe that significant credit risk exists at December 31, 2009.

Inventories:

Inventories, which consist of merchandise for sale, are recorded at the lower of cost or market using the first-in, first-out basis of accounting.

SOPHIA'S HEART FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

2. DONATED SERVICES

Officers, members of the Board of Directors, and other volunteers of the Foundation have assisted the Foundation in the accomplishment of its goals and objectives by the donation of their time and services. No amounts have been reflected in the financial statements as it was not practical to determine the valuation of such services to the Foundation, and the Foundation exercises no significant control over the major elements of donated services.

3. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 25, 2010 which is the date the financial statements were available to be issued.