



**Heart House – Dallas**

**Financial Statements  
December 31, 2018 and 2017**

# Heart House - Dallas

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## **Independent Auditors' Report**

Board of Directors of  
Heart House - Dallas

We have audited the accompanying financial statements of Heart House - Dallas which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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 error or fraud.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit includes performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heart House - Dallas as of December 31, 2018 and 2017, and the changes in net assets and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Sutton Frost Cary*

A Limited Liability Partnership

Arlington, Texas  
April 30, 2019

**Heart House - Dallas**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

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	2018	2017
<b>Assets</b>		
Cash	\$ 41,588	\$ 78,168
Contributions receivable	28,700	-
<b>Total current assets</b>	<b>70,288</b>	<b>78,168</b>
Property and equipment, net	16,982	-
<b>Total assets</b>	<b>\$ 87,270</b>	<b>\$ 78,168</b>

**Liabilities and Net Assets**

<b>Liabilities:</b>		
Accounts payable	\$ 7,203	\$ -
Credit card payable	8,069	-
Line of credit	15,000	12,500
<b>Total current liabilities</b>	<b>30,272</b>	<b>12,500</b>
<b>Net assets:</b>		
Without donor restrictions	28,298	65,668
With donor restrictions	28,700	-
Total net assets	56,998	65,668
<b>Total liabilities and net assets</b>	<b>\$ 87,270</b>	<b>\$ 78,168</b>

See notes to financial statements.

**Heart House - Dallas**  
**Statements of Activities**  
**Years Ended December 31, 2018 and 2017**

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	2018	2017
<b>Net assets without donor restrictions:</b>		
<b>Support and revenue:</b>		
Contributions	\$ 579,817	\$ 395,766
Contributed facilities	149,752	129,090
Contributed meals	36,309	68,357
Special events, net of direct costs of \$11,714 and \$11,969, respectively	45,063	46,907
<b>Total support and revenue</b>	<b>810,941</b>	<b>640,120</b>
<b>Expenses:</b>		
Program	720,235	548,197
Administrative	49,552	38,474
Fundraising	78,524	33,142
<b>Total expenses</b>	<b>848,311</b>	<b>619,813</b>
<b>Change in net assets without donor restrictions</b>	<b>(37,370)</b>	<b>20,307</b>
<b>Net assets with donor restrictions-</b>		
Contributions	28,700	-
<b>Change in net assets</b>	<b>(8,670)</b>	<b>20,307</b>
<b>Net assets, beginning of year</b>	<b>65,668</b>	<b>45,361</b>
<b>Net assets, end of year</b>	<b>\$ 56,998</b>	<b>\$ 65,668</b>

See notes to financial statements.

**Heart House - Dallas**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	Program	Administrative	Fundraising	Total
Salaries and wages	\$ 327,067	\$ 15,000	\$ 27,500	\$ 369,567
Payroll taxes	23,626	1,084	1,986	26,696
Employee benefits	29,470	1,352	2,478	33,300
Donated meals	36,309	-	-	36,309
Security	11,953	785	-	12,738
Supplies	46,659	1,330	8,894	56,883
Field trips	17,573	-	-	17,573
Donated use of facilities	134,776	7,488	7,488	149,752
Professional fees	55,257	18,973	29,031	103,261
Insurance	2,971	796	81	3,848
Equipment lease	6,715	-	-	6,715
Utilities	10,158	-	-	10,158
Marketing and promotions	9,165	728	693	10,586
Staff development	3,632	1,535	-	5,167
Special events	-	-	11,714	11,714
Other	4,904	481	373	5,758
<b>Total expenses</b>	<b>720,235</b>	<b>49,552</b>	<b>90,238</b>	<b>860,025</b>
<b>Less expenses included with revenues on the statement of activities</b>				
Direct costs of special events	-	-	(11,714)	(11,714)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 720,235</b>	<b>\$ 49,552</b>	<b>\$ 78,524</b>	<b>\$ 848,311</b>

See notes to financial statements.

**Heart House - Dallas**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2017**

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	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 264,756	\$ 24,918	\$ 21,803	\$ 311,477
Payroll taxes	17,844	1,679	1,469	20,992
Donated meals	68,357	-	-	68,357
Supplies	40,700	-	-	40,700
Donated use of facilities	116,181	6,454	6,455	129,090
Professional fees	2,633	5,329	3,415	11,377
Insurance	4,618	-	-	4,618
Equipment lease	6,860	-	-	6,860
Utilities	13,291	-	-	13,291
Marketing and promotions	8,796	-	-	8,796
Staff development	3,483	-	-	3,483
Special events	-	-	11,969	11,969
Other	678	94	-	772
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total expenses</b>	548,197	38,474	45,111	631,782
<b>Less expenses included with revenues on the statement of activities</b>				
Direct costs of special events	-	-	(11,969)	(11,969)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total expenses included in the expense section on the statement of activities</b>	<u>\$ 548,197</u>	<u>\$ 38,474</u>	<u>\$ 33,142</u>	<u>\$ 619,813</u>

See notes to financial statements.

**Heart House - Dallas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (8,670)	\$ 20,307
Change in operating assets and liabilities:		
Contributions receivable	(28,700)	-
Accounts payable	7,203	(1,744)
Credit card payable	8,069	-
<b>Net cash provided (used) by operating activities</b>	<b>(22,098)</b>	<b>18,563</b>
<b>Cash flows from investing activities-</b>		
Purchases of property and equipment	(16,982)	-
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit	20,000	20,000
Payments on line of credit	(17,500)	(7,500)
<b>Net cash provided by financing activities</b>	<b>2,500</b>	<b>12,500</b>
<b>Increase (decrease) in cash</b>	<b>(36,580)</b>	<b>31,063</b>
<b>Cash at beginning of year</b>	<b>78,168</b>	<b>47,105</b>
<b>Cash at end of year</b>	<b>\$ 41,588</b>	<b>\$ 78,168</b>

See notes to financial statements.

# Heart House - Dallas

## Notes to Financial Statements

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### 1. Organization

Heart House - Dallas (Organization) is a nonprofit organization incorporated in the state of Texas that provides safety, education, and opportunity to refugee and underprivileged children. The Organization uses education as a catalyst to combat poverty and promote equity among the city's most vulnerable refugee children and provide mental and behavioral health to refugee children in the afterschool space. Daily, the Organization serves 240 children speaking over 30 different languages and dialects from multiple backgrounds and ethnicities. The Organization provides these services through the Head, Heart, Hands (H<sup>3</sup>) program, a holistic endeavor that strengthens the students' cognitive (head), emotional (heart) and behavioral (hands) development so that they can grow into strong leaders in the United States and abroad.

The Organization is primarily supported by contributions and grants from foundations, civic and religious organizations, corporations and individuals.

### 2. Summary of Significant Accounting Policies

The accounting policies of the Organization conform to U.S. generally accepted accounting policies (GAAP). The more significant accounting policies of the Organization are described below.

#### ***Basis of Accounting***

The Organization prepares the financial statements on the accrual basis of accounting.

#### ***Financial Statement Presentation***

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Net assets without donor restrictions* - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

*Net assets with donor restrictions* - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy. As of December 31, 2018 and 2017, no such net asset restrictions existed.

## Heart House - Dallas

### Notes to Financial Statements

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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. Expirations of temporary restrictions on 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. The Organization chooses to show restricted contributions whose restrictions are met in the same reporting period as contributions without donor restrictions.

#### ***Financial Instruments and Credit Risk Concentrations***

Financial instruments which are potentially subject to concentrations of credit risk consist of cash. Cash is placed with a high credit quality financial institution to minimize risk. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2018 and 2017, the Organization has no uninsured amounts.

#### ***Fixed Assets***

Fixed assets with useful lives that exceed one year are recorded at cost or fair value, if donated. Routine maintenance and repair costs are expensed as incurred. Depreciation is calculated using the straight line method over estimated useful lives of the assets ranging from five to seven years. Major classes of fixed assets are:

Furniture and equipment	\$ 75,127
Playground improvements	<u>43,043</u>
	118,170
Accumulated depreciation	<u>(101,188)</u>
	<u><u>\$ 16,982</u></u>

#### ***Income Taxes***

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the years ended December 31, 2018 and 2017. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax return and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2018 and 2017, there are no uncertain tax positions taken or

## **Heart House - Dallas**

### **Notes to Financial Statements**

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expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

#### ***Revenue Recognition***

Contributions, grants and similar gifts are generally recorded only upon receipt unless evidence of an unconditional promise to give (pledge) has been received. Donated goods and materials, and use of facilities are reflected as contributions at their estimated fair values at date of receipt.

Contributions of services are recorded at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation.

A number of volunteers contribute significant time to the Organization. Because the value of these hours do not meet the requirements for recognition, the estimated value of such hours is not reflected in the accompanying financial statements. For the years ended December 31, 2018 and 2017, management estimates the total of such hours donated to be approximately 10,000 and 7,200, respectively.

#### ***Functional Allocation of Expense***

The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

Certain categories of expenses are attributable to program activities, administrative support, and fundraising activities. These expenses include salaries, payroll taxes and other benefits, supplies, donated use of facilities, and professional fees. Donated use of facilities is allocated based on square footage used. Other expenses are allocated based on estimates of time and effort.

#### ***Estimates***

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates.

#### ***New Accounting Pronouncements***

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

## Heart House - Dallas

### Notes to Financial Statements

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The Organization considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Organization's financial position and changes in net assets.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The effective date of ASU 2014-09 is for annual periods beginning after December 15, 2018 for the majority of not-for-profit organizations.

In 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) Subject to Topic 958, *Not-for-Profit Entities* or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance. The standard is effective for annual periods beginning after December 15, 2018 for the majority of not-for-profit entities. The changes in this standard should generally be applied on a retrospective basis in the year that it is first applied.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use (ROU) assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2019.

The Organization is currently assessing the impact that adopting this new guidance will have on the financial statements.

#### ***Accounting Pronouncements Adopted***

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amends the previous reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation

## **Heart House - Dallas**

### **Notes to Financial Statements**

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of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended December 31, 2018 with retrospective application for the 2017 financial statements. The Organization opted to not disclose liquidity and availability information for 2017 as permitted under the ASU in the year of adoption. As a result, the Organization changed its presentation of net asset classes and expanded the footnote disclosures as required by the ASU.

### **3. In-Kind Contributions**

#### ***Donated Facilities***

The owners of the apartment complexes in which the Organization operates donate space, utilities and building maintenance. The estimated fair value of the donated space is reflected in the accompanying financial statements as contributions and donated use of facilities in the amount of \$149,752 and \$129,090 for the years ended December 31, 2018 and 2017, respectively.

#### ***Donated Food***

The Organization receives donated food throughout the year. The estimated fair value of these donations is reflected in the accompanying financial statements as contributions and donated meals totaling \$36,309 and \$68,357 for the years ended December 31, 2018 and 2017, respectively.

### **4. Line of Credit**

The Organization has a \$20,000 unsecured line of credit with Frost Bank, with a maturity date of April 24, 2019. Interest accrues at the *Wall Street Journal* Prime Rate (5.50% at December 31, 2018) plus 1.75%. The outstanding balance on the line of credit at December 31, 2018 was \$15,000.

### **5. Net Assets With Donor Restrictions**

Net assets with donor restrictions consist of \$28,700 and are restricted for time as of December 31, 2018. There were no net assets with donor restrictions as of December 31, 2017.

**Heart House - Dallas**  
**Notes to Financial Statements**

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**6. Concentrations**

For the year ended December 31, 2017, contributions received from two donors totaled approximately 23% of total revenue. There were no concentrations for the year ended December 31, 2018.

**7. Leases**

The Organization has an operating lease for office equipment expiring in February 2021. The following is a schedule of future minimum lease payments due under the lease agreement for the years ending December 31:

2019	\$ 7,977
2020	8,608
2021	1,435

Lease expense related to office equipment totaled \$6,715 and \$6,860 for the years ended December 31, 2018 and 2017, respectively.

**8. Liquidity and Availability of Resources**

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash	\$ 41,588
Contributions receivable	<u>28,700</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 70,288</u>

The Organization receives significant revenue from contributions and an annual fundraising luncheon, which are available to meet annual cash needs for general expenditures. During the year ended December 31, 2018, the level of liquidity was managed within the Organization's expectations. Additionally, the Organization has a \$20,000 line of credit that may be drawn upon if needed.

**9. Subsequent Events**

The Organization evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.