Heart House

Financial Statements
December 31, 2021 and 2020

SFC
Sutton Frost Cary LLP
Certified Public Accountants

Heart House
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Sutton Frost Cary LLP
Certified Public Accountants

Independent Auditors' Report

Board of Directors of
Heart House

Opinion

We have audited the accompanying financial statements of Heart House which comprise the statements of financial positions as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heart House as of December 31, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heart House and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 these financial statements in accordance with GAAP 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 error or fraud.

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 Heart House's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 Heart House's 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 Heart House's 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.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
July 14, 2022

Heart House
Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Cash	$ 288,450	$ 171,780
Total current assets	288,450	171,780
Property and equipment, net	-	5,663
Total assets	$ 288,450	$ 177,443
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 4,000	$ 2,400
Total current liabilities	4,000	2,400
Note payable	15,574	49,000
Total liabilities	19,574	51,400
Net assets without donor restrictions	264,876	126,043
Net assets with donor restrictions	4,000	-
Total net assets	268,876	126,043
Total liabilities and net assets	$ 288,450	$ 177,443

See notes to financial statements.

Heart House
Statements of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	$ 526,864	$ 15,000	$ 541,864
Government grant	40,000	-	40,000
Contributed facilities	93,840	-	93,840
Contributed meals	46,804	-	46,804
Contributed furniture	38,840	-	38,840
Net assets released from restrictions	11,000	(11,000)	-
Total support and revenue	757,348	4,000	761,348
Expenses:			
Program	516,780	-	516,780
Administrative	66,977	-	66,977
Fundraising	34,758	-	34,758
Total expenses	618,515	-	618,515
Change in net assets	138,833	4,000	142,833
Net assets at beginning of year	126,043	-	126,043
Net assets at end of year	$ 264,876	$ 4,000	$ 268,876

See notes to financial statements.

Heart House
Statements of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	$ 571,189	$ -	$ 571,189
Government grant	57,000	-	57,000
Contributed facilities	113,899	-	113,899
Contributed professional services	6,800	-	6,800
Contributed meals	39,888	-	39,888
Special events, net of direct costs of $1,648	14,775	-	14,775
Total support and revenue	803,551	-	803,551
Expenses:			
Program	509,292	-	509,292
Administrative	69,648	-	69,648
Fundraising	38,093	-	38,093
Total expenses	617,033	-	617,033
Change in net assets	186,518	-	186,518
Net assets (deficit), beginning of year	(60,475)	-	(60,475)
Net assets (deficit), end of year	$ 126,043	$ -	$ 126,043

See notes to financial statements.

Heart House
Statement of Functional Expenses
Year Ended December 31, 2021

	Program	Administrative	Fundraising	Total
Salaries and wages	$ 225,456	$ 34,000	$ 17,000	$ 276,456
Payroll taxes	19,028	2,534	1,267	22,829
Employee benefits	16,832	2,010	1,004	19,846
Donated meals	46,804	-	-	46,804
Security	3,477	-	-	3,477
Supplies	21,256	-	623	21,879
Field trips	2,565	-	-	2,565
Donated use of facilities	93,840	-	-	93,840
Donated classroom furnishings	38,840	-	-	38,840
Professional fees	32,378	21,433	13,872	67,683
Insurance	-	4,388	-	4,388
Equipment lease	4,251	-	-	4,251
Equipment purchases	194	-	-	194
Utilities	3,868	-	-	3,868
Marketing and promotions	944	-	-	944
Staff development	1,384	-	-	1,384
Depreciation	5,663	-	-	5,663
Other	-	2,612	992	3,604
Total expenses	$ 516,780	$ 66,977	$ 34,758	$ 618,515

See notes to financial statements.

Heart House
Statement of Functional Expenses
Year Ended December 31, 2020

	Program	Administrative	Fundraising	Total
Salaries and wages	$ 264,039	$ 32,608	$ 16,304	$ 312,951
Payroll taxes	22,484	2,381	1,190	26,055
Employee benefits	22,937	1,501	750	25,188
Donated meals	39,888	-	-	39,888
Security	4,888	-	-	4,888
Supplies	11,788	-	242	12,030
Field trips	135	-	-	135
Donated use of facilities	104,787	4,556	4,556	113,899
Professional fees	23,956	14,763	13,466	52,185
Insurance	-	5,919	-	5,919
Equipment lease	8,477	-	-	8,477
Utilities	4,419	-	-	4,419
Marketing and promotions	124	-	-	124
Staff development	1,370	-	-	1,370
Special events	-	-	1,648	1,648
Depreciation	-	5,660	-	5,660
Other	-	2,260	1,585	3,845
Total expenses	509,292	69,648	39,741	618,681
Less:				
Direct costs of special events	-	-	(1,648)	(1,648)
Total expenses included in the expense section on the statement of activities	$ 509,292	$ 69,648	$ 38,093	$ 617,033

See notes to financial statements.

Heart House
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 142,833	$ 186,518
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,663	5,660
Change in operating assets and liabilities:		
Accounts payable	1,600	(18,599)
Credit card payable	-	(14,963)
Net cash provided by operating activities	150,096	158,616
Cash flows from financing activities:		
Payments on notes payable	(33,426)	-
Payment on line of credit	-	(49,000)
Proceeds from note payable	-	49,000
Net cash used by financing activities	(33,426)	-
Increase in cash	116,670	158,616
Cash at beginning of year	171,780	13,164
Cash at end of year	$ 288,450	$ 171,780

See notes to financial statements.

1. Organization

Heart House (Organization) is a nonprofit organization incorporated in the State of Texas. The Organization's mission is to use education as a catalyst to combat poverty and promote equity among the city's most vulnerable: refugee and immigrant students ages 5 to 14. These students are from multiple backgrounds and ethnicities and speak numerous languages – most of whom regard English as their second language. The mission is accomplished through providing mental health and academic support in out of school time (OST) programming. The Organization provides the OST services through the Head, Heart, Hands (H 3) 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.

In early 2020, due to circumstances arising from the COVID-19 pandemic, the Organization reduced capacity to 3 sites or classrooms serving approximately 60 to 70 children. During the COVID-19 shelter-in-place time frame, the Organization transitioned to a temporary virtual model to continue providing services until onsite services resumed. In 2021 the Organization fully reopened program to in-person but have not expanded beyond the three classrooms. The Organization is supported primarily by contributions, grants, and gifts in-kind from foundations, civic and religious organizations, corporations, and individuals.

2. Summary of Significant Accounting Policies

The accounting policies of the Organization conform to accounting policies generally accepted in the United States of America (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 of directors approved spending policy. As of December 31, 2021, $4,000 of net assets were restricted. As of December 31, 2020, no such net asset restrictions existed.

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, 2021, the Organization had an uninsured bank balance amount totaling $38,463.

Fixed Assets

Fixed assets with a cost greater than or equal to $1,000 and useful lives that exceed three years 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.

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, 2021 and 2020. 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, 2021 and 2020, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets or an unconditional promise to give is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

The Organization recognizes the fair value of donated goods as in-kind contributions upon receipt of goods. Donated use of facilities are recognized as contributions at estimated fair value at date of receipt.

The Organization recognizes contribution revenue for certain services received at fair value of these services, provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

In order to enable the Organization to meet its mission, a substantial number of volunteers donate significant amounts of their time to the Organization’s programs and fundraising functions. During the years ended December 31, 2021 and 2020, the Organization received approximately 800 and 124 hours of contributed services, respectively. These amounts do not meet the requirements for recognition in the financial statements.

Special event revenue is recognized at the time of the event.

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.

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 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, 2021.

In 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Organization will be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and additional quantitative and qualitative disclosures will be required. The standard takes effect for annual reporting periods beginning after June 15, 2021.

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

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2021	2020
Furniture and equipment	$ 75,127	$ 75,127
Playground improvements	43,044	43,044
	118,171	118,171
Accumulated depreciation	(118,171)	(112,508)
	$ -	$ 5,663

Depreciation expense was $5,663 and $5,660 for the years ended December 31, 2021 and 2020, respectively.

4. Net Assets With Donor Restrictions

Net assets with donor restrictions totaling $4,000 at December 31, 2021 are restricted for the Better Together Feasibility Grant.

5. 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 amounts of $93,840 and $113,899 for the years ended December 31, 2021 and 2020, 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 in the amount of $46,804 and $39,888 for the years ended December 31, 2021 and 2020, respectively.

Donated Professional Services

The Organization received donated professional services throughout the year. The estimated fair value of these services are reflected in the accompanying financial statements as contributed professional services in the amount of $0 and $6,800 for the years ended December 31, 2021 and 2020, respectively.

Donated Furniture

The Organization received donated furniture throughout the year. The estimated fair value of these donations is reflected in the accompanying financial statements as contributed furniture in the amount of $38,840 for the year ended December 31, 2021. None of the furniture met the Organization's capitalization policy.

6. Long-Term Debt

In December 2020, the Organization entered into a $49,000 unsecured loan agreement with a financial institution. The loan bears interest at 5.75% with payments of principal and interest of $1,487 due each month, until maturity in December 2023, when all outstanding principal and interest is due. The balance outstanding on the loan at December 31, 2021 totaled $15,574. The future principal payments on the note is $15,574 for December 31, 2022.

7. Leases

The Organization has an operating lease for office equipment expiring in February 2023. The following is a schedule of future minimum lease payments due under the lease agreement for the years ending December 31:

2022	3,918
2023	1,633

Lease expense related to office equipment totaled $4,251 and $8,477 for the years ended December 31, 2021 and 2020, 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 consist of cash of $288,450 and $171,780 as of December 31, 2021 and 2020, respectively.

The Organization receives significant revenue from contributions, foundations and North Texas Giving Day, which are available to meet annual cash needs for general expenditures. During the years ended December 31, 2021 and 2020, the level of liquidity was managed within the Organization's expectations.

9. Coronavirus Aid, Relief, and Economic Security Act and Other Coronavirus Events

During April 2020, the Organization received loan proceeds in the amount of $57,000 from a financial institution under the Paycheck Protection Program (PPP), established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan requires monthly payments of principal and interest at 1.00% starting in 2021. The CARES Act loan includes a feature that allows for forgiveness of the loan if the funds are used for eligible purposes, including payroll and benefits, and if the Organization maintains its payroll levels. The Organization received formal forgiveness of the loan in March 2021.

The Organization has elected to account for the PPP forgivable loan as a conditional contribution in accordance with FASB 958. Accordingly, the Organization has recognized $57,000 as government grant revenue in the accompanying statement of activities for the year ended December 31, 2020.

On March 17, 2021, the Organization received a second PPP loan (PPP 2 Loan) totaling $40,000. On August 18, 2021, the Organization received forgiveness of the entire amount of the PPP 2 Loan. Accordingly, the Organization has recognized $40,000 as government grant revenue in the accompanying statement of activities for the year ended December 31, 2021.

10. 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.