



Heart House

Financial Statements
December 31, 2020 and 2019

Heart House

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Independent Auditors' Report

Board of Directors of
Heart House

We have audited the accompanying financial statements of Heart House which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit 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 as of December 31, 2020, and the changes in net assets and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Prior Period Financial Statements

The 2019 financial statements are presented for informational purposes only. We did not audit or review the 2019 financial statements and, accordingly, express no opinion or other form of assurance on them.

A handwritten signature in black ink that reads "Sutton Frost Cary". The signature is written in a cursive, flowing style.

A Limited Liability Partnership

Arlington, Texas
July 27, 2021

Heart House
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
		(Unaudited)
Assets		
Cash	\$ 171,780	\$ 13,164
Total current assets	171,780	13,164
Property and equipment, net	5,663	11,323
Total assets	<u>\$ 177,443</u>	<u>\$ 24,487</u>
Liabilities and Net Assets (Deficit)		
Liabilities:		
Accounts payable	\$ 2,400	\$ 20,999
Credit card payable	-	14,963
Line of credit	-	49,000
Total current liabilities	2,400	84,962
Note payable	49,000	-
Total liabilities	51,400	84,962
Net assets (deficit) without donor restrictions	126,043	(60,475)
Total liabilities and net assets (deficit)	<u>\$ 177,443</u>	<u>\$ 24,487</u>

See notes to financial statements.

Heart House
Statements of Activities
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
		(Unaudited)
Net assets without donor restrictions:		
Support and revenue:		
Contributions	\$ 571,189	\$ 742,540
Government grant	57,000	-
Contributed facilities	113,899	163,185
Contributed professional services	6,800	76,231
Contributed meals	39,888	86,822
Special events, net of direct costs of \$1,648 and \$3,390, respectively	<u>14,775</u>	<u>81,233</u>
Total support and revenue	803,551	1,150,011
Expenses:		
Program	509,292	1,130,548
Administrative	69,648	56,590
Fundraising	<u>38,093</u>	<u>80,346</u>
Total expenses	<u>617,033</u>	<u>1,267,484</u>
Change in net assets	186,518	(117,473)
Net assets (deficit), beginning of year	<u>(60,475)</u>	<u>56,998</u>
Net assets (deficit), end of year	<u><u>\$ 126,043</u></u>	<u><u>\$ (60,475)</u></u>

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
Statement of Functional Expenses
Year Ended December 31, 2019 - Unaudited

	Program	Administrative	Fundraising	Total
Salaries and wages	\$ 564,139	\$ 4,038	\$ 40,789	\$ 608,966
Payroll taxes	27,509	338	3,799	31,646
Employee benefits	21,440	318	3,663	25,421
Donated meals	86,822	-	-	86,822
Security	8,784	-	-	8,784
Supplies	54,764	2,936	3,141	60,841
Field trips	12,703	-	-	12,703
Donated use of facilities	150,276	6,454	6,455	163,185
Professional fees	176,792	19,968	20,287	217,047
Insurance	-	4,552	-	4,552
Equipment lease	14,746	-	-	14,746
Utilities	6,515	-	-	6,515
Marketing and promotions	175	-	108	283
Staff development	4,572	4,175	3	8,750
Special events	1,311	-	3,390	4,701
Depreciation	-	5,660	-	5,660
Other	-	8,151	2,101	10,252
Total expenses	1,130,548	56,590	83,736	1,270,874
Less:				
Direct costs of special events	-	-	(3,390)	(3,390)
Total expenses included in the expense section on the statement of activities	\$ 1,130,548	\$ 56,590	\$ 80,346	\$ 1,267,484

See notes to financial statements.

Heart House
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
		(Unaudited)
Cash flows from operating activities:		
Change in net assets	\$ 186,518	\$ (117,473)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	5,660	5,660
Change in operating assets and liabilities:		
Contributions receivable	-	28,700
Accounts payable	(18,599)	13,796
Credit card payable	(14,963)	6,894
Net cash provided (used) by operating activities	158,616	(62,423)
Cash flows from financing activities:		
Proceeds from line of credit	-	41,500
Payment on line of credit	(49,000)	(7,500)
Proceeds from note payable	49,000	-
Net cash provided by financing activities	-	34,000
Increase (decrease) in cash	158,616	(28,423)
Cash at beginning of year	13,164	41,587
Cash at end of year	<u>\$ 171,780</u>	<u>\$ 13,164</u>

See notes to financial statements.

Heart House

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 (H3) 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.

During 2019, the Organization served approximately 190 children at 7 different sites or classrooms. 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. 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 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.

Heart House

Notes to Financial Statements

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, 2020 and 2019, 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, 2020 and 2019, 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.

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, 2020 and 2019. 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.

Heart House

Notes to Financial Statements

Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2020 and 2019, 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, 2020 and 2019, the Organization received approximately 124 and 470 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.

Heart House

Notes to Financial Statements

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.

Accounting Pronouncements Adopted

The Organization adopted FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) as of and for the year ended December 31, 2020 with retrospective application for the 2019 financial statements. Topic 606 is a comprehensive new revenue recognition standard that supersedes 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.

Heart House

Notes to Financial Statements

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 Organization adopted FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*, as of and for the year ended December 31, 2020 with retrospective application for the 2019 financial statements. ASU 2018-08 was issued 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. Analysis of various provisions of these standards resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2020	2019
Furniture and equipment	\$ 75,127	\$ 75,127
Playground improvements	43,044	43,044
	118,171	118,171
Accumulated depreciation	(112,508)	(106,848)
	<u>\$ 5,663</u>	<u>\$ 11,323</u>

Depreciation expense was \$5,660 for the years ended December 31, 2020 and 2019.

4. 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 \$113,899 and \$163,185 for the years ended December 31, 2020 and 2019, respectively.

Heart House

Notes to Financial Statements

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 \$39,888 and \$86,822 for the years ended December 31, 2020 and 2019, 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 \$6,800 and \$76,231 for the years ended December 31, 2020 and 2019, respectively.

5. 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, 2020 totaled \$49,000.

Minimum required future principal payments on the note are as follows for the years ending December 31:

2021	\$ 15,427
2022	16,338
2023	17,235

6. Line of Credit

The Organization had a \$50,000 unsecured line of credit with a financial institution, having a maturity date of April 15, 2020. Interest accrued at the *Wall Street Journal* Prime Rate (3.25% and 4.75% at December 31, 2020, and 2019, respectively) plus 2.50%. The outstanding balance on the line of credit totaled \$49,000 at December 31, 2019. The line of credit was converted to long-term debt on December 4, 2020.

Heart House

Notes to Financial Statements

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:

2021	\$ 3,918
2022	3,918
2023	1,633

Lease expense related to office equipment totaled \$8,477 and \$14,746 for the years ended December 31, 2020 and 2019, 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 \$171,780 and \$13,164 for the years ended December 31, 2020 and 2019, respectively.

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, 2020, the level of liquidity was managed within the Organization's expectations.

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

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The coronavirus outbreak has severely restricted the level of economic activity in the north central Texas area. Given the uncertainty of the spread of the coronavirus, the related financial impact to the Organization, if any, cannot be determined at this time.

On April 17, 2020 the Organization entered into an unsecured loan (PPP Loan) in the aggregate amount of \$57,000 with a bank pursuant to the Paycheck Protection Program (PPP), which is sponsored by the Small Business Administration (SBA), and is part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), as amended by the Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act). The PPP provides for loans to qualifying businesses, the proceeds of which may only be used for payroll costs, rent, utilities, mortgage interest and interest on other pre-existing indebtedness. The PPP Loan matures on April 17, 2022, bears interest at a fixed rate of 1% per annum and is payable in monthly installments commencing on the earlier of the date on which the amount of loan forgiveness is determined or August 2021. The PPP Loan, and accrued interest, may be forgiven partially or in full if certain conditions are met.

Heart House

Notes to Financial Statements

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 19, 2021 the Organization applied for and received forgiveness of the entire amount of the PPP loan.

10. Subsequent Events

In March 2021, the Organization received a second PPP loan in the amount of \$40,000.

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