

Hearts and Hammers - Twin Cities, Inc.

St. Paul, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
December 31, 2018 and 2017



CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Hearts and Hammers - Twin Cities, Inc.
St. Paul, Minnesota

We have audited the accompanying financial statements of Hearts and Hammers - Twin Cities, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expense, 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 accounting principles generally accepted in the United States of America; 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 fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 Hearts and Hammers - Twin Cities, Inc. as of December 31, 2018 and 2017, 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.

Carpenter Evert and Associates, LTD.
Certified Public Accountants

Minneapolis, Minnesota
February 28, 2019

HEARTS AND HAMMERS - TWIN CITIES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

| | 2018 | | | 2017 | | |
|------------------------------------|----------------------------|-------------------------|------------|----------------------------|-------------------------|------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Support and Revenue: | | | | | | |
| Grants and Contributions | \$ 251,183 | \$ - | \$ 251,183 | \$ 183,618 | \$ - | \$ 183,618 |
| Special Events | | | | | | |
| Special Event Income | 118,400 | - | 118,400 | 85,460 | - | 85,460 |
| Costs of Direct Benefits to Donors | (45,016) | - | (45,016) | (32,789) | - | (32,789) |
| Special Events - Net | 73,384 | - | 73,384 | 52,671 | - | 52,671 |
| Interest Income | 90 | - | 90 | 40 | - | 40 |
| Other Revenue | 4,635 | - | 4,635 | 176 | - | 176 |
| Total Support and Revenue | 329,292 | - | 329,292 | 236,505 | - | 236,505 |
| Expense: | | | | | | |
| Project Expense | 315,322 | - | 315,322 | 242,509 | - | 242,509 |
| Support Services: | | | | | | |
| Management and General | 24,872 | - | 24,872 | 18,586 | - | 18,586 |
| Fundraising | 39,505 | - | 39,505 | 18,586 | - | 18,586 |
| Total Support Services | 64,377 | - | 64,377 | 37,172 | - | 37,172 |
| Total Expense | 379,699 | - | 379,699 | 279,681 | - | 279,681 |
| Change in Net Assets | (50,407) | - | (50,407) | (43,176) | - | (43,176) |
| Net Assets - Beginning of Year | 142,462 | - | 142,462 | 185,638 | - | 185,638 |
| Net Assets - End of Year | \$ 92,055 | \$ - | \$ 92,055 | \$ 142,462 | \$ - | \$ 142,462 |

The accompanying Notes to Financial Statements
are an integral part of these statements.

HEARTS AND HAMMERS - TWIN CITIES, INC.
 STATEMENT OF FUNCTIONAL EXPENSE
 FOR THE YEAR ENDED DECEMBER 31, 2018
 WITH COMPARATIVE TOTAL FOR 2017

| | 2018 | | | | 2017 | |
|----------------------|-----------------------|----------------------|------------------|------------------------|--------------------|--------------------|
| | Total Project Expense | Management & General | Fund-raising | Total Support Services | Total All Services | Total All Services |
| Personnel Costs | \$ 113,546 | \$ 16,022 | \$ 30,655 | \$ 46,677 | \$ 160,223 | \$ 103,990 |
| Project Expense | 130,985 | - | - | - | 130,985 | 93,813 |
| Occupancy | 31,759 | 3,970 | 3,970 | 7,940 | 39,699 | 39,581 |
| Office Expense | 14,017 | 1,752 | 1,752 | 3,504 | 17,521 | 16,211 |
| Marketing | 9,134 | 1,142 | 1,142 | 2,284 | 11,418 | 14,352 |
| Professional Fees | 8,656 | 1,082 | 1,082 | 2,164 | 10,820 | 6,599 |
| Insurance | 6,092 | 762 | 762 | 1,524 | 7,616 | 3,540 |
| Depreciation | 1,133 | 142 | 142 | 284 | 1,417 | - |
| Bad Debts | - | - | - | - | - | 1,595 |
| Total Expense | \$ 315,322 | \$ 24,872 | \$ 39,505 | \$ 64,377 | \$ 379,699 | \$ 279,681 |

The accompanying Notes to Financial Statements are an integral part of this statement.

HEARTS AND HAMMERS - TWIN CITIES, INC.
 STATEMENT OF FUNCTIONAL EXPENSE
 FOR THE YEAR ENDED DECEMBER 31, 2017

| | Total Project Expense | Support Services | | | Total All Services |
|----------------------|-----------------------------|-------------------------|------------------|------------------------------|--------------------------|
| | | Management & General | Fund- raising | Total Support Services | |
| Personnel Costs | \$ 83,192 | \$ 10,399 | \$ 10,399 | \$ 20,798 | \$ 103,990 |
| Project Expense | 93,813 | - | - | - | 93,813 |
| Occupancy | 31,665 | 3,958 | 3,958 | 7,916 | 39,581 |
| Office Expense | 12,969 | 1,621 | 1,621 | 3,242 | 16,211 |
| Marketing | 11,482 | 1,435 | 1,435 | 2,870 | 14,352 |
| Professional Fees | 5,279 | 660 | 660 | 1,320 | 6,599 |
| Insurance | 2,832 | 354 | 354 | 708 | 3,540 |
| Bad Debts | 1,277 | 159 | 159 | 318 | 1,595 |
| Total Expense | \$ 242,509 | \$ 18,586 | \$ 18,586 | \$ 37,172 | \$ 279,681 |

The accompanying Notes to Financial Statements
 are an integral part of this statement.

HEARTS AND HAMMERS - TWIN CITIES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

| <u>ASSETS</u> | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 76,376 | \$ 129,717 |
| Contributions Receivable | 5,400 | 13,025 |
| Prepaid Expenses | 5,795 | 7,364 |
| Total Current Assets | 87,571 | 150,106 |
| Prepaid Expenses - Non-Current | 2,711 | 2,711 |
| Property and Equipment - Net | 7,083 | - |
| TOTAL ASSETS | \$ 97,365 | \$ 152,817 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities: | | |
| Accounts Payable | \$ - | \$ 1,695 |
| Other Accrued Expenses | - | 4,000 |
| Accrued Personnel Expenses | 5,310 | 500 |
| Deferred Revenue | - | 4,160 |
| Total Current Liabilities | 5,310 | 10,355 |
| Net Assets Without Donor Restrictions: | | |
| Undesignated | 46,398 | 96,895 |
| Board-Designated - Quasi-Endowment | 45,657 | 45,567 |
| Total Net Assets | 92,055 | 142,462 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 97,365 | \$ 152,817 |

The accompanying Notes to Financial Statements
are an integral part of these statements.

HEARTS AND HAMMERS - TWIN CITIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

| | <u>2018</u> | <u>2017</u> |
|---|------------------|-------------------|
| <u>Increase (Decrease) in Cash and Cash Equivalents</u> | | |
| Cash Flows from Operating Activities: | | |
| Change in Net Assets | \$ (50,407) | \$ (43,176) |
| Total Adjustments | <u>2,311</u> | <u>(14,558)</u> |
| Net Cash (Used) by Operating Activities | (48,096) | (57,734) |
| Cash Flows from Investing Activities: | | |
| Purchase of Property and Equipment | (8,500) | - |
| Sale of Property and Equipment | <u>3,255</u> | <u>-</u> |
| Net Cash (Used) by Investing Activities | (5,245) | - |
| Cash Flows from Financing Activities: | | |
| None | <u>-</u> | <u>-</u> |
| Net (Decrease) in Cash and Cash Equivalents | (53,341) | (57,734) |
| Cash and Cash Equivalents - Beginning of Year | <u>129,717</u> | <u>187,451</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 76,376</u> | <u>\$ 129,717</u> |

The accompanying Notes to Financial Statements
are an integral part of these statements.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Summary of Significant Accounting Policies

Organizational Purpose

Hearts and Hammers - Twin Cities, Inc. (the Organization) assists deserving homeowners with limited abilities, elderly, and military veterans by organizing teams of volunteers to paint and make exterior repairs and improvements to their homes at no cost to the homeowner so that they may continue living independently.

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and purpose. A description of the groupings is as follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Property and equipment is reported as net assets without donor restrictions.

Net Assets with Donor Restrictions – The part of net assets of the Organization resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions pursuant to those stipulations.

Promises-To-Give (Grants Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Doubtful Accounts

The Organization extends credit to its customers on terms it establishes for individual customers. Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and the Organization does not charge interest on accounts receivable balances. The Organization reviews accounts receivable on a periodic basis and writes off delinquent receivables when they are considered uncollectible. The Organization does not have an allowance for doubtful accounts at December 31, 2018 and 2017.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

All major expenditures for property and equipment over \$600 are capitalized at cost. Depreciation is provided through the use of the straight-line method over an estimated useful life.

Deferred Revenue

Deposits made for events in the following fiscal year are recorded as deferred revenue.

Contributions

Contributions are recorded when received and recognized as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as with donor restrictions until the donor-imposed restrictions expire or are fulfilled. Net assets with donor restrictions are reclassified to net assets without donor restrictions in the period donor-imposed restrictions expire or are fulfilled and are reported in the Statement of Activities under the Support and Revenue Category – Net Assets Released from Restrictions except when the receipt and expiration occur in the period in which case the contribution is shown as without donor restrictions.

Functional Allocation of Expense

Salaries and related expenses are allocated based on job descriptions and estimates. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

Income Tax

The Organization has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and has adopted Accounting for Uncertainty in Income Taxes, ASC 740-10. The Organization's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. The Organization continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. In compliance with its exempt status, the Organization annually files a Return of Organization Exempt From Income Tax (Form 990).

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 reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively for the periods ended December 31, 2018 and 2017, as required.

Subsequent Events

The Organization has evaluated the effect that subsequent events would have on the financial statements through February 28, 2019, which is the date financial statements were available to be issued.

2. Significant Concentrations of Credit Risk

The Organization provides services within the Twin Cities area. The amounts due for services provided are from individuals, or their third-party payors, substantially all of whom are local residents. In addition, grants and contributions receivable are from local residents, governments or institutions.

3. Property and Equipment

The Organization owned the following assets as of December 31:

| | <u>2018</u> | <u>2017</u> | <u>Estimated Useful Lives</u> |
|-------------------------------|-----------------|--------------|-------------------------------|
| Trailers | \$ 4,000 | \$ 4,000 | 3-10 years |
| Vehicles | <u>8,500</u> | <u>5,000</u> | 3-10 years |
| | 12,500 | 9,000 | |
| Less Accumulated Depreciation | <u>5,417</u> | <u>9,000</u> | |
| | <u>\$ 7,083</u> | <u>\$ -</u> | |

There was \$1,417 and \$-0- of depreciation expense recorded for the years ended December 31, 2018 and 2017, respectively.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

4. Liquidity

The following represents the Organization's financial assets at December 31, 2018:

| | |
|--|------------------|
| Financial Assets | |
| Cash and Cash Equivalents | \$ 30,719 |
| Contributions Receivable | <u>5,400</u> |
| Total financial assets available for general expenditures within one year | <u>\$ 36,119</u> |

\$45,657 of cash and cash equivalents has been designated by the Board as a Legacy Fund. The purpose of the Legacy Fund is to generate income to support normal operational activities. Accordingly, the fund has not been included in the quantitative analysis above. The Legacy Fund may be drawn down to pay for normal, everyday expenses, if authorized by the Board.

5. In-kind Contributions

The Organization values in-kind contributions at fair market value at date of donation. In-kind contributions were as follows as of December 31:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|------------------|------------------|
| Program Related Materials and Labor | \$ 68,758 | \$ 5,453 |
| Event | 6,641 | - |
| Professional Fees | 6,557 | - |
| Supplies | 2,045 | - |
| Rent | - | 9,665 |
| Website Work | - | 3,843 |
| | <u>\$ 84,001</u> | <u>\$ 18,961</u> |

6. Operating Leases

Rental commitments under a noncancelable lease for office space in effect at December 31, 2018 total \$27,648. The future annual rental commitments are as follows:

| | |
|--|------------------|
| <u>Due in the Year Ending December 31,</u> | |
| 2019 | \$ 22,086 |
| 2020 | <u>5,562</u> |
| | <u>\$ 27,648</u> |

Rent expense of \$33,221 and \$35,028 was recorded for the years ended December 31, 2018 and 2017, respectively.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

7. Board-Designated Quasi-Endowment

As of December 31, 2018, the Organization has designated \$45,657 of net assets without donor restrictions as a general endowment fund (the Fund) to the support the mission of the Organization.

Income earned by the Fund shall be distributed to the Organization's operating account on January 1 of each year unless otherwise determined by the Board. In addition, the Board may vote at any board meeting to transfer up to 5% of the principal balance of the Fund to the Organization operating fund in a given calendar year.

If the Organization requires long-term use of the principal of the Fund, the board shall be allowed to distribute such funds upon unanimous consent of the board.

Composition of and changes in endowment net assets for the year ended December 31, 2018 were as follow:

| | |
|--|------------------|
| Board-Designated Quasi-Endowment Net Assets, Beginning of Year | \$ 45,567 |
| Investment Return | 90 |
| Board-Designated Quasi-Endowment Net Assets, End of Year | <u>\$ 45,657</u> |

8. Cash Flow Operating Adjustments

Adjustments to reconcile Change in Net Assets to Net Cash (Used) by Operating Activities were as follows as of December 31:

| | <u>2018</u> | <u>2017</u> |
|---|-----------------|--------------------|
| Depreciation Expense | \$ 1,417 | \$ - |
| (Gain) Loss on Disposal of Property | (3,255) | 16,223 |
| Increases (Decreases) in Current Liabilities: | | |
| Accounts Payable | (1,695) | (1,548) |
| Other Accrued Expenses | (4,000) | 4,000 |
| Accrued Personnel Expenses | 4,810 | (22,439) |
| Deferred Revenue | (4,160) | 4,160 |
| Decreases (Increases) in Current Assets: | | |
| Contributions Receivable | 7,625 | (4,880) |
| Prepaid Expenses | 1,569 | (10,074) |
| Total Adjustments | <u>\$ 2,311</u> | <u>\$ (14,558)</u> |