

Hearts and Hammers - Twin Cities, Inc.

St. Paul, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
December 31, 2019 and 2018



CERTIFIED PUBLIC ACCOUNTANTS

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Carpenter, Evert & Associates

Certified Public Accountants
7760 France Avenue S. Suite 940 Bloomington Minnesota 55435
952.831.0085 carpenterevert.com

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, 2019 and 2018, 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, 2019 and 2018, 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
April 10, 2020

HEARTS AND HAMMERS - TWIN CITIES, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTAL FOR 2018

	2019				2018	
	Total Project Expense	Management & General	Fund- raising	Total Support Services	Total All Services	Total All Services
Personnel Costs	\$ 113,928	\$ 16,220	\$ 32,051	\$ 48,271	\$ 162,199	\$ 160,223
Project Expense	95,109	-	-	-	95,109	130,985
Occupancy	32,978	4,122	4,122	8,244	41,222	39,699
Office Expense	9,546	1,193	1,193	2,386	11,932	17,521
Insurance	8,432	1,054	1,054	2,108	10,540	7,616
Professional Fees	6,023	753	753	1,506	7,529	10,820
Marketing	2,253	282	282	564	2,817	11,418
Depreciation	2,406	-	-	-	2,406	1,417
Total Expense	\$ 270,675	\$ 23,624	\$ 39,455	\$ 63,079	\$ 333,754	\$ 379,699

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, 2018

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

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, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and Cash Equivalents	\$ 113,634	\$ 76,376
Contributions Receivable	3,000	5,400
Prepaid Expenses	7,143	5,795
Total Current Assets	123,777	87,571
Prepaid Expenses - Non-Current	2,711	2,711
Property and Equipment - Net	9,177	7,083
TOTAL ASSETS	\$ 135,665	\$ 97,365
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 331	\$ -
Accrued Personnel Expenses	5,310	5,310
Total Current Liabilities	5,641	5,310
Net Assets Without Donor Restrictions:		
Undesignated	84,367	46,398
Board-Designated - Quasi-Endowment	45,657	45,657
Total Net Assets	130,024	92,055
TOTAL LIABILITIES AND NET ASSETS	\$ 135,665	\$ 97,365

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, 2019 AND 2018

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 37,969	\$ (50,407)
Total Adjustments	<u>(711)</u>	<u>2,311</u>
Net Cash Provided (Used) by Operating Activities	37,258	(48,096)
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	-	(8,500)
Sale of Property and Equipment	-	<u>3,255</u>
Net Cash (Used) by Investing Activities	-	(5,245)
Cash Flows from Financing Activities:		
None	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	37,258	(53,341)
Cash and Cash Equivalents - Beginning of Year	<u>76,376</u>	<u>129,717</u>
Cash and Cash Equivalents - End of Year	<u>\$ 113,634</u>	<u>\$ 76,376</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, 2019 AND 2018

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, 2019 and 2018.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify when the resource provider is receiving commensurate value. The update provides clarification in characterizing grants and similar contracts with resource providers as either exchange transactions or contributions and in determining whether a contribution is conditional when applying the guidance in Subtopic 958-605, Not-for-Profit Entities- Revenue Recognition. The ASU has been applied retrospectively for the periods ended December 31, 2019 and 2018, as required.

Subsequent Events

The Organization has evaluated the effect that subsequent events would have on the financial statements through April 10, 2020, 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>2019</u>	<u>2018</u>	<u>Estimated Useful Lives</u>
Trailers	\$ 8,500	\$ 4,000	3-10 years
Vehicles	<u>8,500</u>	<u>8,500</u>	4 years
	17,000	12,500	
Less Accumulated Depreciation	<u>7,823</u>	<u>5,417</u>	
	<u>\$ 9,177</u>	<u>\$ 7,083</u>	

There was \$2,406 and \$1,417 of depreciation expense recorded for the years ended December 31, 2019 and 2018, respectively.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

4. 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>2019</u>	<u>2018</u>
Program Related Materials and Labor	\$ 57,440	\$ 68,758
Trailers	4,500	-
Event	-	6,641
Professional Fees	-	6,557
Supplies	-	2,045
	<u>\$ 61,940</u>	<u>\$ 84,001</u>

5. Liquidity

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

	<u>2019</u>	<u>2018</u>
Financial Assets		
Cash & Cash Equivalents	\$ 113,634	\$ 76,376
Contribution Receivables	<u>3,000</u>	<u>5,400</u>
Total Financial Assets	116,634	81,776
Less: Assets not available to be used for general expenditures within one year:		
Board Designated – Quasi-Endowment	<u>45,668</u>	<u>45,657</u>
Financial assets available to be used for general expenditures within one year	<u>\$ 70,966</u>	<u>\$ 36,119</u>

The Organization maintains board designated quasi endowment fund, also known as the Legacy Fund of \$45,668 and \$45,657 for the periods ended December 31, 2019 and 2018, respectively. The purpose of the Legacy Fund is to generate income to support normal operational activities. Accordingly, the Legacy Fund is not considered available for use for general expenditures within one year. Although the Organization does not intend to spend from the Legacy Fund, these amounts could be made available if necessary.

As part of the Organization's liquidity plan, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

6. Operating Leases

Rental commitments under a noncancelable lease for office space in effect at December 31, 2019 total \$120,468. The future annual rental commitments are as follows:

Due in the Year Ending December 31,	
2020	\$ 22,058
2021	22,570
2022	23,230
2023	23,890
2024	24,600
2025 and Onwards	<u>4,120</u>
	<u>\$ 120,468</u>

Rent expense of \$36,153 and \$33,221 were recorded for the years ended December 31, 2019 and 2018, respectively.

7. Board-Designated Quasi-Endowment

As of December 31, 2019, the Organization has designated \$45,668 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, 2019 were as follow:

Board-Designated Quasi-Endowment Net Assets, Beginning of Year	\$ 45,657
Investment Return	<u>11</u>
Board-Designated Quasi-Endowment Net Assets, End of Year	<u>\$ 45,668</u>

Board-Designated Quasi-Endowment fund is held in a separate cash account, included in the cash and cash equivalents.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

8. Cash Flow Operating Adjustments

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

	<u>2019</u>	<u>2018</u>
Depreciation Expense	\$ 2,406	\$ 1,417
(Donated) Trailers	(4,500)	-
(Gain) on Disposal of Property	-	(3,255)
Increases (Decreases) in Current Liabilities:		
Accounts Payable	331	(1,695)
Other Accrued Expenses	-	(4,000)
Accrued Personnel Expenses	-	4,810
Deferred Revenue	-	(4,160)
Decreases (Increases) in Current Assets:		
Contributions Receivable	2,400	7,625
Prepaid Expenses	(1,348)	1,569
Total Adjustments	<u>\$ (711)</u>	<u>\$ 2,311</u>