

# Hearts and Hammers - Twin Cities, Inc.

St. Paul, Minnesota

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Financial Statements  
Auditor's Report  
For the Years Ended  
December 31, 2020 and 2019



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, 2020 and 2019, 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, 2020 and 2019, 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  
March 13, 2021

HEARTS AND HAMMERS - TWIN CITIES, INC.  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Support and Revenue:				
Grants and Contributions	\$ 164,736	\$ -	\$ 306,711	\$ -
Special Events				
Special Event Income	45,414	-	100,810	-
Costs of Direct Benefits to Donors	(7,152)	-	(35,909)	-
Special Events - Net	38,262	-	64,901	-
Interest Income	10	-	111	-
Total Support and Revenue	203,008	-	371,723	-
Expense:				
Program Expense	136,666	-	270,675	-
Support Services:				
Management and General	17,143	-	23,624	-
Fundraising	31,757	-	39,455	-
Total Support Services	48,900	-	63,079	-
Total Expense	185,566	-	333,754	-
Change in Net Assets	17,442	-	37,969	-
Net Assets - Beginning of Year	130,024	-	92,055	-
Net Assets - End of Year	\$ 147,466	\$ -	\$ 130,024	\$ -
			Total	Total
			\$ 164,736	\$ 306,711
			45,414	100,810
			(7,152)	(35,909)
			38,262	64,901
			10	111
			203,008	371,723
			136,666	270,675
			17,143	23,624
			31,757	39,455
			48,900	63,079
			185,566	333,754
			17,442	37,969
			130,024	92,055
			\$ 147,466	\$ 130,024
			\$ -	\$ -
			\$ 164,736	\$ 306,711
			45,414	100,810
			(7,152)	(35,909)
			38,262	64,901
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			203,008	371,723
			136,666	270,675
			17,143	23,624
			31,757	39,455
			48,900	63,079
			185,566	333,754
			17,442	37,969
			130,024	92,055
			\$ 147,466	\$ 130,024
			\$ -	\$ -

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, 2020  
 WITH COMPARATIVE TOTAL FOR 2019

	2020				2019	
	Total Program	Management & General	Fund- raising	Total Support Services	Total All Services	Total All Services
Personnel Costs	\$ 66,626	\$ 10,155	\$ 24,769	\$ 34,924	\$ 101,550	\$ 162,199
Occupancy	35,034	4,379	4,379	8,758	43,792	41,222
Office Expense	8,795	1,100	1,100	2,200	10,995	11,932
Program Day	10,909	-	-	-	10,909	95,109
Insurance	6,918	865	865	1,730	8,648	10,540
Professional Fees	3,712	464	464	928	4,640	7,529
Marketing	1,440	180	180	360	1,800	2,817
Depreciation	3,232	-	-	-	3,232	2,406
<b>Total Expense</b>	<b>\$ 136,666</b>	<b>\$ 17,143</b>	<b>\$ 31,757</b>	<b>\$ 48,900</b>	<b>\$ 185,566</b>	<b>\$ 333,754</b>

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, 2019

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

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, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and Cash Equivalents	\$ 139,490	\$ 113,634
Contributions Receivable	50	3,000
Prepaid Expenses	5,958	7,143
Total Current Assets	145,498	123,777
Prepaid Expenses - Non-Current	2,711	2,711
Property and Equipment - Net	4,896	9,177
TOTAL ASSETS	\$ 153,105	\$ 135,665
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 329	\$ 331
Accrued Personnel Expenses	5,310	5,310
Total Current Liabilities	5,639	5,641
Net Assets Without Donor Restrictions:		
Undesignated	101,788	84,367
Board-Designated - Quasi-Endowment	45,678	45,657
Total Net Assets	147,466	130,024
TOTAL LIABILITIES AND NET ASSETS	\$ 153,105	\$ 135,665

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, 2020 AND 2019

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 17,442	\$ 37,969
Total Adjustments	<u>8,414</u>	<u>(711)</u>
Net Cash Provided by Operating Activities	25,856	37,258
Cash Flows from Investing Activities:		
None	-	-
Cash Flows from Financing Activities:		
None	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	25,856	37,258
Cash and Cash Equivalents - Beginning of Year	<u>113,634</u>	<u>76,376</u>
Cash and Cash Equivalents - End of Year	<u>\$ 139,490</u>	<u>\$ 113,634</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, 2020 AND 2019

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.

Net Assets

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

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor-or grantor-imposed restrictions. The board has designated, from net assets without donor restrictions, net assets for Board-Designated - Quasi-Endowment.

Net Assets with Donor Restrictions – Net assets subject to donor-or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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, 2020 and 2019.

HEARTS AND HAMMERS - TWIN CITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

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.

Revenue and Revenue Recognition

The Organization recognizes grants and contributions when cash, securities or other assets, an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. A portion of the Organization's revenue is derived from cost-reimbursable county grant, which is conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific grant provisions. The Organization records special events revenue net of the fair value of direct benefits to donors.

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, 2020 AND 2019

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.

Subsequent Events

The Organization has evaluated the effect that subsequent events would have on the financial statements through March 13, 2021, 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>2020</u>	<u>2019</u>	<u>Estimated Useful Lives</u>
Trailers	\$ 7,000	\$ 8,500	3-10 years
Vehicles	<u>8,500</u>	<u>8,500</u>	4 years
	15,500	17,000	
Less Accumulated Depreciation	<u>10,604</u>	<u>7,823</u>	
	<u>\$ 4,896</u>	<u>\$ 9,177</u>	

There was \$3,232 and \$2,406 of depreciation expense recorded for the years ended December 31, 2020 and 2019, respectively.

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>2020</u>	<u>2019</u>
Program Related Materials and Labor	\$ -	\$ 57,440
Trailers	-	4,500
	<u>\$ -</u>	<u>\$ 61,940</u>

HEARTS AND HAMMERS - TWIN CITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

5. Liquidity

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

	<u>2020</u>	<u>2019</u>
Financial Assets		
Cash and Cash Equivalents	\$ 139,490	\$ 113,634
Contributions Receivable	<u>50</u>	<u>3,000</u>
Total Financial Assets	139,540	116,634
Less: Assets not available to be used for general expenditures within one year:		
Board Designated – Quasi-Endowment	<u>45,678</u>	<u>45,668</u>
Financial assets available to be used for general expenditures within one year	<u>\$ 93,862</u>	<u>\$ 70,966</u>

The Organization maintains board designated quasi endowment fund, also known as the Legacy Fund of \$45,678 and \$45,668 for the periods ended December 31, 2020 and 2019, 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.

6. Operating Leases

Rental commitments under a noncancelable lease for office space in effect at December 31, 2020 total \$98,410. The future annual rental commitments are as follows:

Due in the Year Ending December 31,	
2021	\$ 22,570
2022	23,230
2023	23,890
2024	24,600
2025	<u>4,120</u>
	<u>\$ 98,410</u>

Rent expense of \$35,746 and \$36,153 were recorded for the years ended December 31, 2020 and 2019, respectively.

HEARTS AND HAMMERS - TWIN CITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

7. Board-Designated Quasi-Endowment

As of December 31, 2020, the Organization has designated \$45,678 of net assets without donor restrictions as a general endowment fund (the Fund) to the support the mission of the Organization. Since the amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

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, 2020 were as follow:

Board-Designated Quasi-Endowment Net Assets, Beginning of Year	\$ 45,668
Investment Return	<u>10</u>
Board-Designated Quasi-Endowment Net Assets, End of Year	<u>\$ 45,678</u>

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.

8. Uncertainties and Contingencies

The COVID-19 outbreak in the United States has caused business disruption through both mandated and voluntary closing of organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. Therefore, the Organization expects this matter to negatively impact its operating results, but reasonable estimates cannot be made at this time.

HEARTS AND HAMMERS - TWIN CITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

9. 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>2020</u>	<u>2019</u>
Depreciation Expense	\$ 3,232	\$ 2,406
Donated Trailers	-	(4,500)
Loss on Disposal of Property	1,049	-
Increases (Decreases) in Current Liabilities:		
Accounts Payable	(2)	331
Decreases (Increases) in Current Assets:		
Contributions Receivable	2,950	2,400
Prepaid Expenses	<u>1,185</u>	<u>(1,348)</u>
Total Adjustments	<u>\$ 8,414</u>	<u>\$ (711)</u>