

Hearts and Hammers - Twin Cities, Inc.

St. Paul, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
December 31, 2023 and 2022



CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Hearts and Hammers - Twin Cities, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023 and 2022, 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 Hearts and Hammers - Twin Cities, Inc. as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hearts and Hammers - Twin Cities, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 fraud or error.

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 Hearts and Hammers - Twin Cities, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Hearts and Hammers - Twin Cities, Inc. '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 Hearts and Hammers - Twin Cities, Inc. '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.

Capiter Ent and Associates, LTD.
Certified Public Accountants

Minneapolis, Minnesota
March 14, 2024

HEARTS AND HAMMERS - TWIN CITIES, INC.
 STATEMENT OF FUNCTIONAL EXPENSE
 FOR THE YEAR ENDED DECEMBER 31, 2023
 WITH COMPARATIVE TOTAL FOR 2022

	2023				2022	
	Total Program	Management & General	Fund-raising	Total Support Services	Total All Services	Total All Services
Personnel Costs	\$ 139,082	\$ 21,682	\$ 56,053	\$ 77,735	\$ 216,817	\$ 172,250
Project Expense	52,653	-	-	-	52,653	50,566
Occupancy	40,052	5,007	5,007	10,014	50,066	48,427
Office Expense	18,583	2,416	2,323	4,739	23,322	15,355
Professional Fees	8,715	1,090	1,090	2,180	10,895	4,512
Insurance	7,405	926	926	1,852	9,257	9,079
Marketing	1,043	131	131	262	1,305	23,256
Depreciation	563	-	-	-	563	1,458
Total Expense	\$ 268,096	\$ 31,252	\$ 65,530	\$ 96,782	\$ 364,878	\$ 324,903

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, 2022

	Support Services				Total All Services
	Total Program	Management & General	Fund- raising	Total Support Services	
Personnel Costs	\$ 116,142	\$ 17,225	\$ 38,883	\$ 56,108	\$ 172,250
Project Expense	50,566	-	-	-	50,566
Occupancy	38,688	4,903	4,836	9,739	48,427
Office Expense	12,282	1,538	1,535	3,073	15,355
Professional Fees	3,610	451	451	902	4,512
Insurance	7,263	908	908	1,816	9,079
Marketing	18,604	2,326	2,326	4,652	23,256
Depreciation	1,458	-	-	-	1,458
Total Expense	\$ 248,613	\$ 27,351	\$ 48,939	\$ 76,290	\$ 324,903

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, 2023 AND 2022

	2023	2022
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 347,063	\$ 250,705
Investments	52,416	42,161
Contributions Receivable	24,500	14,885
Prepaid Expenses	10,993	6,470
Total Current Assets	434,972	314,221
Prepaid Expenses - Non-Current	2,711	2,711
Operating Right-Of-Use Asset - Net	26,604	48,485
Property and Equipment - Net	-	563
TOTAL ASSETS	\$ 464,287	\$ 365,980
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 605	\$ 475
Accrued Personnel Expenses	10,226	10,766
Deferred Revenue	1,000	-
Operating Lease Liability - Current	23,979	22,418
Total Current Liabilities	35,810	33,659
Long - Term Liabilities:		
Operating Lease Liability - Long Term	4,101	28,081
Total Liabilities	39,911	61,740
Net Assets Without Donor Restrictions:		
Undesignated	370,744	261,647
Board-Designated - Quasi-Endowment	53,632	42,593
Total Net Assets	424,376	304,240
TOTAL LIABILITIES AND NET ASSETS	\$ 464,287	\$ 365,980

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, 2023 AND 2022

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 120,136	\$ 74,586
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	563	1,458
Realized and Unrealized (Gain) Loss on Investments	(10,255)	2,303
Net Change in Operating Lease Activities	(538)	123
Decreases (Increases) in Liabilities:		
Accounts Payable	130	(404)
Deferred Revenue	1,000	-
Accrued Salaries	(540)	1
Increases (Decreases) in Assets:		
Contributions Receivable	(9,615)	(8,885)
Prepaid Expenses	(4,523)	(6)
Net Cash Provided by Operating Activities	<u>96,358</u>	<u>69,176</u>
Cash Flows from Investing Activities:		
Purchase of Investments	-	(142,573)
Proceeds from Sale of Investments	-	100,000
Net Cash (used) by Investing Activities	<u>-</u>	<u>(42,573)</u>
Cash Flows from Financing Activities:		
None	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	96,358	26,603
Cash and Cash Equivalents - Beginning of Year	<u>250,705</u>	<u>224,102</u>
Cash and Cash Equivalents - End of Year	<u>\$ 347,063</u>	<u>\$ 250,705</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, 2023 AND 2022

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, 2023 and 2022.

Investments

The Organization carries its investments at fair value.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

1. Summary of Significant Accounting Policies (continued)

Promises-To-Give (Contributions 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. Deferred revenue consists of payments on the special event that pertain to the next fiscal year. The following provides information about significant changes in deferred revenue related to special events for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Deferred Revenue – Beginning of Year	\$ -	\$ -
Decreases due to revenue recognized	-	-
Increases due to cash received	<u>1,000</u>	-
Deferred Revenue – End of Year	<u>\$ 1,000</u>	<u>\$ -</u>

The Organization records contributions of nonfinancial assets at fair market value at date of donation. The Organization's policy related to contributions of nonfinancial assets is to utilize the assets given to carry out the mission of the organization. If an asset is provide that does not allow the Organization to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist.

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).

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

1. Summary of Significant Accounting Policies (continued)

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.

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.

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 14, 2024, which is the date financial statements were available to be issued.

Leases

The Organization determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Reclassifications

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

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 payers, substantially all of whom are local residents. In addition, grants and contributions receivable are from local residents, governments or institutions.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

3. Liquidity and Availability

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

	<u>2023</u>	<u>2022</u>
Financial Assets		
Cash and Cash Equivalents	\$ 347,063	\$ 250,705
Investments	52,416	42,161
Contributions Receivable	<u>24,500</u>	<u>14,885</u>
Total Financial Assets	423,979	307,751
Less: Assets not available to be used for general expenditures within one year:		
Board Designated – Quasi-Endowment	<u>196,826</u>	<u>42,593</u>
Financial assets available to be used for general expenditures within one year	<u>\$ 227,153</u>	<u>\$ 265,158</u>

The Organization maintains board designated quasi endowment fund, also known as the Legacy Fund of \$186,861 and \$42,593 for the periods ended December 31, 2023 and 2022, 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.

4. Investments

The Organization held the following investments as of:

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Exchange - Traded Funds	<u>\$ 45,047</u>	<u>\$ 52,416</u>	<u>\$ 45,047</u>	<u>\$ 42,161</u>

Investment income included the following as of:

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Interest Income	\$ 7,356	\$ 778
Realized and Unrealized Gain (Loss)	<u>10,255</u>	<u>(2,303)</u>
	<u>\$ 17,611</u>	<u>\$ (1,525)</u>

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

5. Fair Value

Fair value is defined as the price that an organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used in determining the value of investments. ASC 820 established a three-tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical investments.
- Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – Significant unobservable inputs.

The following is a summary of the inputs used to determine the fair value of the investments at December 31, 2023:

	Level 1	Level 2	Level 3	Total
Exchange - Traded Funds	\$ 52,416	\$ -	\$ -	\$ 52,416

The following is a summary of the inputs used to determine the fair value of the investments at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Exchange - Traded Funds	\$ 42,161	\$ -	\$ -	\$ 42,161

6. Property and Equipment

The Organization owned the following assets as of December 31:

	2023	2022	Estimated Useful Lives
Trailers	\$ 7,000	\$ 7,000	3-10 years
Vehicles	8,500	8,500	4 years
	15,500	15,500	
Less Accumulated Depreciation	15,500	14,937	
	\$ -	\$ 563	

There was \$563 and \$1,458 of depreciation expense recorded for the years ended December 31, 2023 and 2022, respectively.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

7. Board-Designated Quasi-Endowment

As of December 31, 2023, the Organization has designated \$53,632 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, 2023 were as follow:

Board-Designated Quasi-Endowment Net Assets, Beginning of Year	\$ 42,593
Investment Return	<u>11,039</u>
Board-Designated Quasi-Endowment Net Assets, End of Year	<u>\$ 53,632</u>

Composition of and changes in endowment net assets for the year ended December 31, 2022 were as follow:

Board-Designated Quasi-Endowment Net Assets, Beginning of Year	\$ 45,657
Investment Return (Decline)	<u>(3,064)</u>
Board-Designated Quasi-Endowment Net Assets, End of Year	<u>\$ 42,593</u>

Board-Designated Quasi-Endowment fund is held in the investment account.

8. Operating Leases

The Organization has an operating lease for office space. The right-of-use (ROU) assets represent the Organization's right to use underlying assets for the lease term, and the lease liabilities represent the Organization's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities were calculated based on the present value of future lease payments over the lease terms. The Organization has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments.

HEARTS AND HAMMERS - TWIN CITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

8. Operating Leases (continued)

The following summarizes the line items in the statements of financial position which include amounts for operating leases as of:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Operating Leases:		
Operating Lease Right of Use Asset	\$ 26,604	\$ 48,485
Operating Lease Liabilities - Current	\$ 23,979	\$ 22,418
Operating Lease Liabilities - Noncurrent	4,101	28,081
Total Operating Lease Liabilities	<u>\$ 28,080</u>	<u>\$ 50,499</u>

The following summarizes the weighted average remaining lease term and discount rate as of:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Weighted Average Remaining Lease Term:		
Operating Leases	1.17 years	2.17 years
Weighted Average Discount Rate:		
Operating Leases	3.82%	3.82%

Maturities of lease liabilities as of December 31, 2023 were as follows:

2024	\$ 24,600
2025	<u>4,120</u>
Total Lease Payments	28,720
Less Present Value Discount	<u>640</u>
Present Value of Lease Liabilities	<u>\$ 28,080</u>

The following summarizes the line items in the statements of activities which include the components of lease expense for the year ended:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Operating lease expense included in Occupancy	<u>\$ 23,352</u>	<u>\$ 23,352</u>

The following summarizes cash flow information related to leases for the year ended:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of Lease liabilities:		
Operating cash flows from operating leases	<u>\$ 23,890</u>	<u>\$ 23,230</u>