

Change Happens!

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2021 and 2020

Change Happens!

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Independent Auditors' Report

To the Board of Directors of
Change Happens!:

Report on the Financial Statements

We have audited the accompanying financial statements of Change Happens! (Change Happens), which comprise the statements of financial position as of August 31, 2021 and 2020 and the related statements of activities, of functional expenses, and of 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Change Happens as of August 31, 2021 and 2020 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2022 on our consideration of Change Happens' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Change Happens' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Change Happens' internal control over financial reporting and compliance.

Blazek & Vetterling

May 17, 2022

Change Happens!

Statements of Financial Position as of August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash	\$ 1,194,741	\$ 683,924
Contributions receivable:		
Government grants	773,380	593,189
Other	47,997	80,870
Prepaid and other assets	<u>54,771</u>	<u>13,363</u>
Total current assets	2,070,889	1,371,346
Investments (<i>Note 3</i>)	1,215,465	1,005,691
Property and equipment, net (<i>Note 4</i>)	<u> </u>	<u>79,937</u>
TOTAL ASSETS	<u>\$ 3,286,354</u>	<u>\$ 2,456,974</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 411,463	\$ 211,259
Accrued salaries and benefits	335,708	326,363
Paycheck Protection Program refundable advance (<i>Note 2</i>)		518,055
Grant refundable advance (<i>Note 7</i>)	<u>205,200</u>	<u> </u>
Total current liabilities	<u>952,371</u>	<u>1,055,677</u>
Commitments and contingencies (<i>Notes 7 and 8</i>)		
Net assets:		
Without donor restrictions	2,221,473	1,316,902
With donor restrictions (<i>Note 5</i>)	<u>112,510</u>	<u>84,395</u>
Total net assets	<u>2,333,983</u>	<u>1,401,297</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,286,354</u>	<u>\$ 2,456,974</u>

See accompanying notes to financial statements.

Change Happens!

Statement of Activities for the year ended August 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (<i>Note 6</i>)		\$ 6,069,681	\$ 6,069,681
Other	\$ 692,069	581,666	1,273,735
Special events	2,363		2,363
Investment and other income	<u>269,711</u>		<u>269,711</u>
Total revenue	964,143	6,651,347	7,615,490
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>6,623,232</u>	<u>(6,623,232)</u>	
Total	<u>7,587,375</u>	<u>28,115</u>	<u>7,615,490</u>
EXPENSES:			
Program services:			
Adult programs	3,184,801		3,184,801
Youth programs	<u>2,360,114</u>		<u>2,360,114</u>
Total program services	5,544,915		5,544,915
Management and general	1,104,223		1,104,223
Fundraising	<u>33,666</u>		<u>33,666</u>
Total expenses	<u>6,682,804</u>		<u>6,682,804</u>
CHANGES IN NET ASSETS	904,571	28,115	932,686
Net assets, beginning of year	<u>1,316,902</u>	<u>84,395</u>	<u>1,401,297</u>
Net assets, end of year	<u>\$ 2,221,473</u>	<u>\$ 112,510</u>	<u>\$ 2,333,983</u>

See accompanying notes to financial statements.

Change Happens!

Statement of Activities for the year ended August 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (<i>Note 6</i>)		\$ 4,989,915	\$ 4,989,915
Other	\$ 387,767	801,723	1,189,490
Loss on valuation of receivables	(328,533)		(328,533)
Special events	33,185		33,185
Direct donor benefits	(21,598)		(21,598)
Investment and other income	<u>129,598</u>		<u>129,598</u>
Total revenue	200,419	5,791,638	5,992,057
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>5,762,775</u>	<u>(5,762,775)</u>	
Total	<u>5,963,194</u>	<u>28,863</u>	<u>5,992,057</u>
EXPENSES:			
Program services:			
Adult programs	3,398,478		3,398,478
Youth programs	<u>2,608,552</u>		<u>2,608,552</u>
Total program services	6,007,030		6,007,030
Management and general	777,280		777,280
Fundraising	<u>72,334</u>		<u>72,334</u>
Total expenses	<u>6,856,644</u>		<u>6,856,644</u>
CHANGES IN NET ASSETS	(893,450)	28,863	(864,587)
Net assets, beginning of year	<u>2,210,352</u>	<u>55,532</u>	<u>2,265,884</u>
Net assets, end of year	<u>\$ 1,316,902</u>	<u>\$ 84,395</u>	<u>\$ 1,401,297</u>

See accompanying notes to financial statements.

Change Happens!

Statement of Functional Expenses for the year ended August 31, 2021

<u>EXPENSES</u>	<u>ADULT PROGRAMS</u>	<u>YOUTH PROGRAMS</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and benefits	\$ 1,613,805	\$ 1,566,372	\$ 3,180,177	\$ 630,584	\$ 25,520	\$ 3,836,281
Contractual service payments	493,056	331,382	824,438	48,830		873,268
Rental and other direct assistance	814,785	24,676	839,461			839,461
Office rent	81,971	201,676	283,647	30,117	2,101	315,865
General and other professional fees	29,834	33,661	63,495	242,526	105	306,126
Supplies	34,720	124,819	159,539	11,201	1,143	171,883
Outreach and promotion supplies and services	40,568	9,465	50,033	19,703		69,736
Utilities	11,257	13,671	24,928	42,801	454	68,183
Insurance	7,198	6,533	13,731	31,942	306	45,979
Equipment and equipment rental	8,876	14,430	23,306	16,679		39,985
Staff development and training	3,402	13,959	17,361	8,163		25,524
Automobile expense	10,269	3,488	13,757			13,757
Travel	6,858	2,542	9,400	2,654		12,054
Other	<u>28,202</u>	<u>13,440</u>	<u>41,642</u>	<u>19,023</u>	<u>4,037</u>	<u>64,702</u>
Total expenses	<u>\$ 3,184,801</u>	<u>\$ 2,360,114</u>	<u>\$ 5,544,915</u>	<u>\$ 1,104,223</u>	<u>\$ 33,666</u>	<u>\$ 6,682,804</u>

See accompanying notes to financial statements.

Change Happens!

Statement of Functional Expenses for the year ended August 31, 2020

<u>EXPENSES</u>	<u>ADULT PROGRAMS</u>	<u>YOUTH PROGRAMS</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and benefits	\$ 1,514,987	\$ 1,711,703	\$ 3,226,690	\$ 450,719	\$ 12,776	\$ 3,690,185
Contractual service payments	430,421	277,628	708,049	60,158		768,207
Rental and other direct assistance	1,057,062	68,936	1,125,998			1,125,998
Office rent	103,664	227,322	330,986	15,221	3,216	349,423
General and other professional fees	72,131	60,863	132,994	191,814	14,081	338,889
Supplies	73,268	117,526	190,794	27,867	21,003	239,664
Outreach and promotion supplies and services	32,053	12,141	44,194	6,361	18,732	69,287
Utilities	29,027	9,570	38,597	1,120	140	39,857
Insurance	19,932	18,568	38,500	5,044	200	43,744
Equipment and equipment rental	10,693	9,701	20,394	3,380		23,774
Staff development and training	8,015	39,749	47,764	3,072		50,836
Automobile expense	10,722	8,495	19,217	344		19,561
Travel	14,769	24,550	39,319	309	230	39,858
Other	<u>21,734</u>	<u>21,800</u>	<u>43,534</u>	<u>11,871</u>	<u>1,956</u>	<u>57,361</u>
Total expenses	<u>\$ 3,398,478</u>	<u>\$ 2,608,552</u>	<u>\$ 6,007,030</u>	<u>\$ 777,280</u>	<u>\$ 72,334</u>	6,856,644
Direct donor benefits						<u>21,598</u>
Total						<u>\$ 6,878,242</u>

See accompanying notes to financial statements.

Change Happens!

Statements of Cash Flows for the years ended August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 932,686	\$ (864,587)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation		64
Realized and unrealized gain on investments	(203,788)	(112,139)
Loss on valuation of receivables		328,533
Gain on sale of property	(20,063)	
Changes in operating assets and liabilities:		
Contributions receivable	(147,318)	(389,178)
Prepaid and other assets	(41,408)	245,285
Accounts payable and accrued expenses	200,204	(30,085)
Accrued salaries and benefits	9,345	114,328
Paycheck Protection Program refundable advance	(518,055)	518,055
Grant refundable advance	<u>205,200</u>	<u>(50,000)</u>
Net cash provided (used) by operating activities	<u>416,803</u>	<u>(239,724)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(358,160)	(210,319)
Sales of investments	457,717	224,024
Net change in cash and money market mutual funds held as investments	(105,543)	(25,365)
Proceeds from sale of land	100,000	
Purchases of property and equipment	<u> </u>	<u>(22,476)</u>
Net cash provided (used) by investing activities	<u>94,014</u>	<u>(34,136)</u>
NET CHANGE IN CASH	510,817	(273,860)
Cash, beginning of year	<u>683,924</u>	<u>957,784</u>
Cash, end of year	<u>\$ 1,194,741</u>	<u>\$ 683,924</u>

See accompanying notes to financial statements.

Change Happens!

Notes to Financial Statements for the years ended August 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Change Happens! (Change Happens) is a local, community based, nonprofit organization incorporated on March 1, 1990, primarily to empower families to help themselves. To accomplish its mission, Change Happens provides a variety of programs and services to adults and at-risk youth in Houston and Harris County.

The Adult programs consist of the following:

The Young Fathers Can program provides comprehensive reentry support services, including mentoring, workforce training and problem-solving skills, to address the successful and safe transition of young fathers ages 17 to 24 from detention, out-of-home placement, or incarceration back to their families and communities.

Self Sufficiency Fund seeks to provide training for targeted employment opportunities to allow adult temporary assistance for needy families (TANF) recipients and individuals at risk of becoming dependent on public assistance to achieve self sufficiency.

The Rescue in Motion Permanent Houston programs provide permanent, subsidized housing and support services to chronically homeless men and women with disabilities.

Services To Aid in Retaining Shelter (STAIRS 2.0) seeks to integrate behavioral health treatment and services for substance use disorders and co-occurring mental and substance use disorders, permanent housing, and other critical services for individuals who are experiencing homelessness 18 years of age and older living in Houston/Harris County.

The Navigator program sends trained navigators into the community to educate consumers and assist them with finding low-cost health insurance coverage options for the Affordable Act Marketplace in Harris and Fort Bend Counties.

The Change Happens! Case Management for Children & Pregnant Women program is a Medicaid benefit that provides health-related case management services to children birth through 20 years of age.

The Northern Third Ward (NTW) Neighborhood Implementation Project identifies critical issues in the Third Ward through resident and stakeholder participation, to formulate strategies for the successful development and enhancement of the NTW Houston community. During 2020, this project also received COVID-19 relief funding to serve the region's most vulnerable neighbors impacted by COVID-19, including utility, rent and other direct assistance.

The Youth programs consist of the following:

Helping Youth Prevent Engaging in Risky Behavior (HYPE) – The HYPE 2.0 program was designed to educate youth ages 14-19 on abstinence, teen pregnancy prevention, HIV/AIDS, STDs/STIs, and positive youth development. The HYPE 3.0 program focuses on African-American and Hispanic/Latino youth, ages 14-19 living in Houston, Texas and attending schools in the Houston Independent School District. It uses the evidence-based curriculum, Love Notes, to empower youth with the skills needed to further their own personal development, form and maintain healthy relationships, and commit or recommit to leaving sex out of their youthful relationships while they work toward success in education and employment.

Imagine Now! Standing Intently to Generate Health and Transcendence (INSIGHT) is a sexual risk avoidance education (SRAE) program that targets African-American and Hispanic/Latino youth, ages 14-19 living in Houston, Texas to empower participants to make healthy decisions, and provide tools to prevent pregnancy, sexually transmitted infections and diseases, as well as lower youth engagement in other risky behaviors.

My Brother's Keeper is a mentoring program to help boys and young men of color improve academic achievement, self-esteem, social competence, and avoidance of high-risk behavior by providing a relationship with a caring adult.

Federal income tax status – Change Happens is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. At August 31, 2021, all contributions receivable are expected to be collected within one year.

An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and analysis of individual balances each period.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses. Cash held for long-term purposes is grouped with investments and is excluded from cash for purposes of cash flow.

Property and equipment is reported at cost if purchased and at fair value at the date of gift if donated. Additions and improvements with a cost of more than \$5,000 are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives of 3 to 5 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as grant refundable advances.

In-kind contributions – Contributed materials, services and use of facilities are recognized as contributions at fair value when an unconditional commitment is received from the donor. The related expense is recognized as contributed materials, services and facilities are used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In 2021 and 2020, approximately \$24,000 and \$121,000, respectively, in donated services and related mileage were recorded for program consulting and administrative services. During 2021 and 2020, approximately \$58,700 and \$81,000, respectively, in donated supplies and equipment were provided for adult and youth program needs.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as refundable advances. Direct donor benefits represent the cost of goods and services provided to attendees of special events.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Facility costs are allocated based on square footage and time and percentages of estimated time for employees in each space. Other shared costs are allocated based on percentages of estimated time and effort for each program.

Estimates – Management makes estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Change Happens is required to adopt this ASU for fiscal year ending August 31, 2022. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Under this ASU, entities are required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and to disclose a disaggregation of the amount of contributed nonfinancial assets recognized, by category, that depicts the type of contributed nonfinancial assets and certain qualitative information. This ASU is required to be applied on a retrospective basis and will be adopted by Change Happens in the year ended August 31, 2022.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of August 31 comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 1,194,741	\$ 683,924
Contributions receivable	821,377	674,059
Other receivables	5,021	12,763
Investments	<u>1,215,465</u>	<u>1,005,691</u>
Total financial assets	3,236,604	2,376,437
Grant refundable advance for use in 2023	<u>(68,400)</u>	<u> </u>
Total financial assets available for general expenditure	<u>\$ 3,168,204</u>	<u>\$ 2,376,437</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Change Happens considers all expenditures related to its mission and ongoing activities, as well as all expenditures made toward functions that support those activities, to be general expenditures.

Change Happens has a goal to maintain financial assets, which consist of cash on hand to meet 60 days of normal operating expenses, including costs reimbursed by grants. Change Happens is substantially supported by government grants and other contributions. Management expects to incur qualifying expenditures and recognize the conditional government grant contributions disclosed in Note 7 within one year.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. As a result of stay-at-home orders and other restrictions, some services were suspended or transitioned to an on-line format. In April 2020, Change Happens received financial relief of \$518,055 from the Small Business Administration's Paycheck Protection Program. Change Happens received notice of forgiveness and recognized government contribution revenue of \$518,055 in the year ended August 31, 2021.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following:

	<u>2021</u>	<u>2020</u>
Common stocks	\$ 518,552	\$ 419,599
Exchange-traded funds	227,773	173,477
Mutual funds	206,654	176,119
Corporate bonds	<u>105,407</u>	<u>188,526</u>
Investments, at fair value	1,058,386	957,721
Cash	<u>157,079</u>	<u>47,970</u>
Total investments	<u>\$ 1,215,465</u>	<u>\$ 1,005,691</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at August 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stocks	\$ 518,552			\$ 518,552
Equity exchange-traded funds	227,773			227,773
Mutual funds:				
Equity	113,110			113,110
Fixed income	90,434			90,434
Money market	3,110			3,110
Corporate bonds	<u> </u>	\$ 105,407	<u> </u>	<u>105,407</u>
Total assets measured at fair value	<u>\$ 952,979</u>	<u>\$ 105,407</u>	<u>\$ 0</u>	<u>\$ 1,058,386</u>

Assets measured at fair value at August 31, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stocks	\$ 419,599			\$ 419,599
Equity exchange-traded funds	173,477			173,477
Mutual funds:				
Equity	87,657			87,657
Fixed income	81,786			81,786
Money market	6,676			6,676
Corporate bonds	<u> </u>	\$ 188,526	<u> </u>	<u>188,526</u>
Total assets measured at fair value	<u>\$ 769,195</u>	<u>\$ 188,526</u>	<u>\$ 0</u>	<u>\$ 957,721</u>

Valuation methods used for assets measured at fair value are as follows:

- *Common stocks* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.
- *Corporate bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves, and broker quotes to calculate fair values.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Change Happens believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2021</u>	<u>2020</u>
Land		\$ 57,526
Furniture, fixtures and equipment	\$ 674,431	<u>696,907</u>
Total property and equipment	674,431	754,433
Accumulated depreciation	<u>(674,431)</u>	<u>(674,496)</u>
Property and equipment, net	<u>\$ 0</u>	<u>\$ 79,937</u>

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
COVID-19 relief	\$ 84,791	\$ 20,722
Disaster assistance	22,892	14,688
Third Ward development		31,959
Other	<u>4,827</u>	<u>17,026</u>
Total net assets with donor restrictions	<u>\$ 112,510</u>	<u>\$ 84,395</u>

NOTE 6 – GOVERNMENT GRANTS

Change Happens is a party to contracts with federal, state, and local governmental agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of government grants recognized consist of the following:

	<u>2021</u>	<u>2020</u>
Federal government grants:		
U. S. Department of Health and Human Services	\$ 4,097,405	\$ 3,831,321
U. S. Department of Housing and Urban Development	1,033,884	948,683
Small Business Administration – Paycheck Protection Program	518,055	
U. S. Department of Justice	205,971	50,704
State and other grants	<u>214,366</u>	<u>159,207</u>
Total government grants	<u>\$ 6,069,681</u>	<u>\$ 4,989,915</u>

Government grants require fulfillment of certain conditions as set forth in the agreements and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance with the terms of the agreements. Management believes such disallowances, if any, would not be material to Change Happens' financial position or changes in net assets.

NOTE 7 – CONDITIONAL CONTRIBUTIONS

The Northern Third Ward Neighborhood Implementation Project received \$205,200 from a private foundation in advance of the milestones outlined in the grant agreement. This amount is reflected as a refundable advance at August 31, 2021, and will be recognized as contribution revenue in years 2022 and 2023 as the milestones are achieved and conditions outlined in the grant agreement have been met.

Additionally, Change Happens' is awarded cost-reimbursable federal grant contributions, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Revenue is recognized when Change Happens has incurred expenditures in compliance with specific contract or grant provisions. At August 31, 2021, Change Happens has approximately \$3.5 million of governmental conditional contributions that will be recognized as services are provided and qualifying expenditures are incurred.

NOTE 8 – LEASE COMMITMENTS

Lease commitments – Change Happens leases office space and office equipment under noncancelable operating lease agreements. The office lease is with Change Happens Community Development Corporation (Change Happens CDC), which is operated by the founder and former officer of Change Happens, but is an unrelated entity. Change Happens executed a new office space lease in March 2022 and the lease with Change Happens CDC was terminated. Rent expense was \$315,864 and \$349,423 in 2021 and 2020, respectively. Future minimum lease payments after execution of the new lease are due as follows:

2022	\$ 343,132
2023	321,586
2024	270,389
2025	264,360
2026	270,331
Thereafter	<u>2,072,538</u>
Total	<u>\$ 3,542,336</u>

NOTE 9 – RETIREMENT PLANS

Change Happens sponsors a §401(k) profit sharing plan covering all full-time employees with at least one year of service. Change Happens contributes 3% of each eligible employees' salary and matches up to 4% for employees contributing to the §401(k) profit sharing plan. Employees are fully vested after three years of service. Change Happens paid approximately \$139,000 and \$76,000 to the §401(k) profit sharing plan in 2021 and 2020, respectively.

Change Happens also has a discretionary §457(b) plan for certain management employees. Employee contributions are made pre-tax and are tax deferred to the employee up to \$15,000 per year. Additionally, a discretionary incentive contribution by the employer may be made. Change Happens paid \$10,000 to the §457(b) plan in 2021 and 2020.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 17, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, other than the lease agreement disclosed in Note 8, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.