

Change Happens!

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2022 and 2021

Change Happens!

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Independent Auditors' Report

To the Board of Directors of
Change Happens!:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Change Happens! (Change Happens), which comprise the statements of financial position as of August 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Change Happens as of August 31, 2022 and 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Change Happens 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 Change Happens' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 and *Government 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 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.

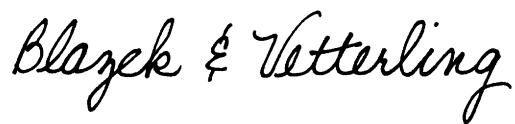
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 Change Happens' 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 Change Happens' 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2023 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.



May 16, 2023

Change Happens!

Statements of Financial Position as of August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash	\$ 1,152,206	\$ 1,194,741
Contributions receivable:		
Government grants	946,917	773,380
Other		47,997
Prepaid and other assets	<u>67,017</u>	<u>54,771</u>
Total current assets	2,166,140	2,070,889
Investments (Note 4)	1,109,130	1,215,465
Operating right-of-use assets, net (Note 5)	<u>279,921</u>	<u> </u>
TOTAL ASSETS	<u>\$ 3,555,191</u>	<u>\$ 3,286,354</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 340,260	\$ 411,463
Accrued salaries and benefits	365,401	335,708
Grant refundable advances (Note 7)	295,846	205,200
Operating lease liabilities (Note 5)	<u>299,664</u>	<u> </u>
Total current liabilities	1,301,171	952,371
Operating lease liabilities (Note 5)	<u>5,134</u>	<u> </u>
Total liabilities	<u>1,306,305</u>	<u>952,371</u>
Commitments and contingencies (Notes 5 and 7)		
Net assets:		
Without donor restrictions	2,106,732	2,221,473
With donor restrictions (Note 6)	<u>142,154</u>	<u>112,510</u>
Total net assets	<u>2,248,886</u>	<u>2,333,983</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,555,191</u>	<u>\$ 3,286,354</u>

See accompanying notes to financial statements.

Change Happens!

Statement of Activities for the year ended August 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Financial assets – government grants <i>(Note 7)</i>		\$ 6,666,554	\$ 6,666,554
Nonfinancial assets <i>(Note 8)</i>	\$ 114,082		114,082
Financial assets – other	431,944	333,070	765,014
Special events	51,871		51,871
Direct donor benefits	(42,825)		(42,825)
Investment and other income	<u>(59,172)</u>	<u> </u>	<u>(59,172)</u>
Total revenue	495,900	6,999,624	7,495,524
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>6,969,980</u>	<u>(6,969,980)</u>	<u> </u>
Total	<u>7,465,880</u>	<u>29,644</u>	<u>7,495,524</u>
EXPENSES:			
Program services:			
Adult programs	3,374,889		3,374,889
Youth programs	<u>2,683,228</u>		<u>2,683,228</u>
Total program services	6,058,117		6,058,117
Management and general	1,367,666		1,367,666
Fundraising	<u>102,955</u>		<u>102,955</u>
Total expenses	<u>7,528,738</u>		<u>7,528,738</u>
CHANGES IN NET ASSETS	(62,858)	29,644	(33,214)
Cumulative effect of new lease accounting standard <i>(Note 2)</i>	(51,883)		(51,883)
Net assets, beginning of year	<u>2,221,473</u>	<u>112,510</u>	<u>2,333,983</u>
Net assets, end of year	<u>\$ 2,106,732</u>	<u>\$ 142,154</u>	<u>\$ 2,248,886</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:			
Financial assets – government grants <i>(Note 7)</i>		\$ 6,069,681	\$ 6,069,681
Nonfinancial assets <i>(Note 8)</i>	\$ 82,548		82,548
Financial assets – other	609,521	581,666	1,191,187
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 Functional Expenses for the year ended August 31, 2022

<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	\$ 1,589,288	\$ 1,738,675	\$ 3,327,963	\$ 740,157	\$ 99,047	\$ 4,167,167
Contractual service payments	594,477	378,409	972,886	46,126		1,019,012
Rental and other direct assistance	695,726	63,032	758,758			758,758
General and other professional fees	41,846	17,060	58,906	329,574	2,398	390,878
Office rent	158,666	224,915	383,581	22,741		406,322
Supplies	43,824	116,538	160,362	38,946	50	199,358
Outreach and promotion supplies and services	137,177	34,000	171,177	23,731	250	195,158
Utilities	17,685	13,694	31,379	53,167		84,546
Insurance	12,516	5,705	18,221	42,612		60,833
Travel	26,572	24,334	50,906	4,347		55,253
Staff development and training	3,071	26,126	29,197	24,811		54,008
Equipment and equipment rental	19,592	2,906	22,498	20,726	27	43,251
Automobile expense	10,342	2,566	12,908	6,111		19,019
Other	<u>24,107</u>	<u>35,268</u>	<u>59,375</u>	<u>14,617</u>	<u>1,183</u>	<u>75,175</u>
Total expenses	<u>\$ 3,374,889</u>	<u>\$ 2,683,228</u>	<u>\$ 6,058,117</u>	<u>\$ 1,367,666</u>	<u>\$ 102,955</u>	7,528,738
Direct donor benefits						<u>42,825</u>
Total						<u>\$ 7,571,563</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
General and other professional fees	29,834	33,661	63,495	242,526	105	306,126
Office rent	81,971	201,676	283,647	30,117	2,101	315,865
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
Travel	6,858	2,542	9,400	2,654		12,054
Staff development and training	3,402	13,959	17,361	8,163		25,524
Equipment and equipment rental	8,876	14,430	23,306	16,679		39,985
Automobile expense	10,269	3,488	13,757			13,757
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!

Statements of Cash Flows for the years ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (33,214)	\$ 932,686
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Amortization of operating right-of-use assets	321,962	
Realized and unrealized (gain) loss on investments	119,756	(203,788)
Gain on sale of property		(20,063)
Changes in operating assets and liabilities:		
Contributions receivable	(125,540)	(147,318)
Prepaid and other assets	(12,246)	(41,408)
Accounts payable and accrued expenses	(71,203)	200,204
Accrued salaries and benefits	29,693	9,345
Grant refundable advance	90,646	205,200
Operating lease liabilities	(348,968)	
Paycheck Protection Program refundable advance	<u> </u>	<u>(518,055)</u>
Net cash provided (used) by operating activities	<u>(29,114)</u>	<u>416,803</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(244,059)	(358,160)
Sales of investments	243,921	457,717
Net change in cash and money market mutual funds held as investments	(13,283)	(105,543)
Proceeds from sale of land	<u> </u>	<u>100,000</u>
Net cash provided (used) by investing activities	<u>(13,421)</u>	<u>94,014</u>
NET CHANGE IN CASH	(42,535)	510,817
Cash, beginning of year	<u>1,194,741</u>	<u>683,924</u>
Cash, end of year	<u>\$ 1,152,206</u>	<u>\$ 1,194,741</u>
 <i>Supplemental disclosure for cash flow information:</i>		
Operating right-of-use assets financed by new lease liabilities	\$46,538	

See accompanying notes to financial statements.

Change Happens!

Notes to Financial Statements for the years ended August 31, 2022 and 2021

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 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.

HIV Prevention – The HIV/Wellness Program engages, educates, and empowers those in marginalized Harris County communities regarding sexual health, substance abuse, and community health by testing and screening, disseminating print and media information, providing linkages to care, and referring individuals to essential services.

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.

Block Grants for Prevention and Treatment of Substance Abuse – The Rescue Youth Program aims to prevent youth involvement in drugs, alcohol, gangs, and other self-destructive and unhealthy activities. The program is delivered in schools, local shelters, community centers, and after-school and summer programs. This community-based program utilizes evidence-based curriculum for youth ranging from 6 to 18 years old.

Girls in the Juvenile Justice System – The VOICES wraparound program targets girls under 18 years of age who face the risk of justice involvement. VOICES provides gender specific group therapy and 6 to 12 months of holistic case management. The goal is to provide tools to enhance self-esteem, connect with others, adopt healthy living (body, mind, and spirit), and plan for the future. VOICES empowers participants to discover themselves and work toward transformation.

Second Chance Act Reentry Initiative – The Youth C.A.N. program serves youth under 18 who are placed in juvenile residential facilities in Harris County, Texas. The Youth C.A.N. program supports all aspects of a youth's life ranging from educational needs to family-related needs for reentry into the broader community. The program's mission is to empower and support youth as they create a new beginning for themselves by providing a positive environment, combined with trauma-informed, culturally relevant, and holistic wraparound case management; mentors; connection to resources; and commitment to individual pathway plans.

Connecting Kids to Coverage – The CKC program reduces the number of children who are eligible for, but not enrolled in, Medicaid and CHIP (Children's Health Insurance Program), and improves retention of enrolled children. The target population for the program includes children and pregnant women living in Harris County and/or Houston, Texas.

Teens Making A Choice – TMAC is a teen pregnancy prevention program that targets African American and Hispanic youth ages 15 to 19. The program utilizes Love Notes Sexual Risk Avoidance, an evidence-based program curriculum, that addresses effective risk avoidance and empowers youth with the skills needed to further their own personal development. TMAC empowers teens to voluntarily refrain from non-marital sexual activity, and engage in fewer risky behaviors, thereby reducing teen pregnancy.

Refugee Youth Mentoring Program – The program addresses the needs of refugee youth and supports them with mentorship and other opportunities. Youth ages 15 to 18 are provided one-on-one mentorship while young adults 18 to 24 years old are provided with group mentoring.

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 contribution revenue. At August 31, 2022, 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.

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.

Contributed nonfinancial assets are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is 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.

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.

NOTE 2 – ADOPTION OF NEW ACCOUNTING STANDARDS

Change Happens adopted 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. The ASU also requires expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. Change Happens adopted the new standard effective September 1, 2021 using the modified retrospective method. Therefore, comparative information for fiscal year 2021 has not been restated and continues to be reported under Accounting Standards Codification (ASC) 840. A one-time cumulative effect adjustment of \$51,883 was made to beginning net assets for the year ended August 31, 2022.

Change Happens also adopted the amendments of ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments have been applied on a retrospective basis to the financial statements for the year ended August 31, 2021. Adoption of this ASU expanded the presentation and disclosures related to contributions, but did not have an impact on net assets.

NOTE 3 – 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>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 1,152,206	\$ 1,194,741
Contributions receivable	946,917	821,377
Other receivables	9,263	5,021
Investments	<u>1,109,130</u>	<u>1,215,465</u>
Total financial assets	3,217,516	3,236,604
Grant refundable advances for use in future periods	<u>(200,000)</u>	<u>(68,400)</u>
Total financial assets available for general expenditure	<u>\$ 3,017,516</u>	<u>\$ 3,168,204</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 9 within one year.

In April 2020, Change Happens received financial relief of \$518,055 from the U. S. Small Business Administration’s Paycheck Protection Program. Change Happens received notice of forgiveness and recognized government contribution revenue of \$518,055 for the year ended August 31, 2021.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following:

	<u>2022</u>	<u>2021</u>
Common stocks	\$ 494,795	\$ 518,552
Mutual funds	183,553	206,654
Exchange-traded funds	169,305	227,773
Corporate bonds	<u>97,194</u>	<u>105,407</u>
Investments, at fair value	944,847	1,058,386
Cash	<u>164,283</u>	<u>157,079</u>
Total investments	<u>\$ 1,109,130</u>	<u>\$ 1,215,465</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, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stocks	\$ 494,795			\$ 494,795
Mutual funds:				
Equity	95,148			95,148
Fixed-income	79,216			79,216
Money market	9,189			9,189
Equity exchange-traded funds	169,305			169,305
Corporate bonds	<u> </u>	\$ 97,194	<u> </u>	<u>97,194</u>
Total assets measured at fair value	<u>\$ 847,653</u>	<u>\$ 97,194</u>	<u>\$ 0</u>	<u>\$ 944,847</u>

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
Mutual funds:				
Equity	113,110			113,110
Fixed-income	90,434			90,434
Money market	3,110			3,110
Equity exchange-traded funds	227,773			227,773
Corporate bonds		<u>\$ 105,407</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>

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 5 – OPERATING LEASES

Change Happens leases office space under non-cancelable operating leases. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term.

During 2022, lease costs associated with operating leases was \$346,382. Lease costs recognized during 2021, prior to the adoption of the new accounting standard was \$315,865.

During the year ended August 31, 2022, cash paid for amounts included in the measurement of operating lease liabilities was \$373,388.

As of August 31, 2022, the weighted-average remaining lease term for all operating leases is 14 months. The weighted-average discount rate associated with operating leases as of August 31, 2022 is 4.25%.

Undiscounted cash flows related to operating leases as of August 31, 2022 are as follows:

2023	\$ 299,664
2024	<u>12,000</u>
Total undiscounted cash flows	311,664
Less discount to present value	<u>(6,866)</u>
Total discount present value of lease liabilities	<u>\$ 304,798</u>

One of the noncancelable facility lease agreements 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 paid Change Happens CDC approximately \$340,000 in 2022 and \$300,000 in 2021 for office space rental.

In May 2022, Change Happens entered into a lease agreement that will commence in 2023 for office space. The term of the agreement is 130 months with monthly rent payments from \$22,799 to \$27,685. Change Happens will recognize an operating right-of-use asset and a lease liability when this lease agreement commences in 2023.

Additionally, Change Happens entered into a vehicle lease agreement in May 2023. The lease expires in May 2028 and requires monthly payments of \$1,200.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
COVID-19 relief	\$ 63,250	\$ 84,791
Financial Literacy	24,033	
Disaster assistance	24,003	22,892
Other	<u>30,868</u>	<u>4,827</u>
Total net assets with donor restrictions	<u>\$ 142,154</u>	<u>\$ 112,510</u>

NOTE 7 – 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>2022</u>	<u>2021</u>
Federal government grants:		
U. S. Department of Health and Human Services	\$ 5,234,364	\$ 4,097,405
U. S. Department of Housing and Urban Development	998,791	1,033,884
U. S. Department of Justice	319,899	205,971
U. S. Small Business Administration – Paycheck Protection Program		518,055
State grants	<u>113,500</u>	<u>214,366</u>
Total government grants	<u>\$ 6,666,554</u>	<u>\$ 6,069,681</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 8 – CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets were recognized as follows:

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ ACTIVITIES	DONOR RESTRICTIONS	VALUATION TECHNIQUES AND INPUTS	FISCAL YEAR 2022	FISCAL YEAR 2021
Contributed goods	Utilized for program services, management and general and fundraising	None	Fair value estimated based on selling price of similar goods and services.	\$56,424	\$44,754
Contributed services for Continuum of Care Program	Utilized for program services	None	Fair value estimated based on comparable salary for similar services.	\$42,658	\$37,794
Donated facilities for program event	Utilized for program services	None	Fair value estimated based on rent charged for comparable space.	\$15,000	
Total contributed nonfinancial assets				<u>\$114,082</u>	<u>\$82,548</u>

NOTE 9 – CONDITIONAL CONTRIBUTIONS

Change Happens has received conditional contributions contingent upon meeting certain criteria specified by donors or government agencies. These amounts are not recorded in these financial statements as the conditions have not been met. Refundable advances are recorded for amounts received in advance from those conditional contributions receivable, which totaled approximately \$296,000 at August 31, 2022. At August 31, 2022, Change Happens has approximately \$6,000,000 of conditional contributions from various government agencies and approximately \$87,000 from a non-government donor which have not been recognized in the accompanying financial statements because the conditions have not been met. Change Happens will recognize these contributions as qualifying grant expenditures are incurred and/or performance requirements are met.

NOTE 10 – 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 \$137,000 and \$139,000 to the §401(k) profit sharing plan in 2022 and 2021, 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 both 2022 and 2021.

NOTE 11 – SUBSEQUENT EVENTS

Effective April 25, 2023, Change Happens filed an amendment to the Articles of Incorporation to change its name to Civic Heart Community Services.

Management has evaluated subsequent events through May 16, 2023, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than as disclosed above and the new vehicle lease disclosed in Note 5, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
