

Civic Heart Community Services

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2023 and 2022

Civic Heart Community Services

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Independent Auditors' Report

To the Board of Directors of
Civic Heart Community Services:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Civic Heart Community Services (Civic Heart), which comprise the statements of financial position as of August 31, 2023 and 2022, 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 Civic Heart as of August 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 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 Civic Heart 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 Civic Heart's 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 Civic Heart'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 Civic Heart'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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2024 on our consideration of Civic Heart's 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 Civic Heart's 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 Civic Heart's internal control over financial reporting and compliance.

Blazek & Vetterling

May 16, 2024

Civic Heart Community Services

Statements of Financial Position as of August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash	\$ 1,217,454	\$ 1,152,206
Contributions receivable – government grants	860,983	946,917
Prepaid and other assets	<u>46,621</u>	<u>67,017</u>
Total current assets	2,125,058	2,166,140
Investments (Note 3)	1,192,418	1,109,130
Operating right-of-use assets, net (Note 4)	1,914,788	279,921
Property and equipment, net (Note 5)	<u>1,057,097</u>	<u> </u>
TOTAL ASSETS	<u>\$ 6,289,361</u>	<u>\$ 3,555,191</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 417,836	\$ 340,260
Accrued salaries and benefits	472,117	365,401
Construction payable	565,024	
Grant refundable advances (Note 7)	226,554	295,846
Deferred revenue – government contract	588,204	
Operating lease liabilities (Note 4)	<u>195,478</u>	<u>299,664</u>
Total current liabilities	2,465,213	1,301,171
Operating lease liabilities (Note 4)	<u>1,790,212</u>	<u>5,134</u>
Total liabilities	<u>4,255,425</u>	<u>1,306,305</u>
Commitments and contingencies (Note 7)		
Net assets:		
Without donor restrictions	1,737,346	2,106,732
With donor restrictions (Note 6)	<u>296,590</u>	<u>142,154</u>
Total net assets	<u>2,033,936</u>	<u>2,248,886</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,289,361</u>	<u>\$ 3,555,191</u>

See accompanying notes to financial statements.

Civic Heart Community Services

Statement of Activities for the year ended August 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Financial assets – government grants <i>(Note 7)</i>		\$ 7,275,198	\$ 7,275,198
Financial assets – other	\$ 402,345	413,379	815,724
Nonfinancial assets <i>(Note 8)</i>	95,703		95,703
Government contract income <i>(Note 7)</i>	964,183		964,183
Special events	84,162		84,162
Direct donor benefits	(37,401)		(37,401)
Investment and other income	<u>86,566</u>		<u>86,566</u>
Total revenue	1,595,558	7,688,577	9,284,135
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>7,534,141</u>	<u>(7,534,141)</u>	
Total	<u>9,129,699</u>	<u>154,436</u>	<u>9,284,135</u>
EXPENSES:			
Program services:			
Adult programs	4,140,537		4,140,537
Youth programs	<u>3,534,180</u>		<u>3,534,180</u>
Total program services	7,674,717		7,674,717
Management and general	1,664,996		1,664,996
Fundraising	<u>159,372</u>		<u>159,372</u>
Total expenses	<u>9,499,085</u>		<u>9,499,085</u>
CHANGES IN NET ASSETS	(369,386)	154,436	(214,950)
Net assets, beginning of year	<u>2,106,732</u>	<u>142,154</u>	<u>2,248,886</u>
Net assets, end of year	<u>\$ 1,737,346</u>	<u>\$ 296,590</u>	<u>\$ 2,033,936</u>

See accompanying notes to financial statements.

Civic Heart Community Services

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
Financial assets – other	\$ 431,944	333,070	765,014
Nonfinancial assets <i>(Note 8)</i>	114,082		114,082
Special events	51,871		51,871
Direct donor benefits	(42,825)		(42,825)
Investment and other income	<u>(59,172)</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>	
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	(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.

Civic Heart Community Services

Statement of Functional Expenses for the year ended August 31, 2023

<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	\$ 1,588,273	\$ 1,946,724	\$ 3,534,997	\$ 869,022	\$ 126,462	\$ 4,530,481
Professional fees and contract labor	1,245,192	1,123,307	2,368,499	383,411	13,780	2,765,690
Rent and other direct assistance	747,643	49,820	797,463			797,463
Office rent	113,867	178,791	292,658	82,164	5,220	380,042
Outreach and promotion supplies and services	208,250	18,305	226,555	34,910	1,923	263,388
Supplies	100,906	78,329	179,235	62,166	2,500	243,901
Travel	39,124	44,253	83,377	10,805	38	94,220
Utilities	19,195	13,433	32,628	36,692		69,320
Insurance	2,387	4,458	6,845	58,426	111	65,382
Staff development and training	944	26,293	27,237	35,079		62,316
Equipment and equipment rental	13,113	2,597	15,710	34,269	90	50,069
Depreciation	17,551	5,447	22,998	6,960	303	30,261
Automobile expense	5,691	1,279	6,970	17,636		24,606
Other	<u>38,401</u>	<u>41,144</u>	<u>79,545</u>	<u>33,456</u>	<u>8,945</u>	<u>121,946</u>
Total expenses	<u>\$ 4,140,537</u>	<u>\$ 3,534,180</u>	<u>\$ 7,674,717</u>	<u>\$ 1,664,996</u>	<u>\$ 159,372</u>	9,499,085
Direct donor benefits						<u>37,401</u>
Total						<u>\$ 9,536,486</u>

See accompanying notes to financial statements.

Civic Heart Community Services

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
Professional fees and contract labor	636,323	395,469	1,031,792	375,700	2,398	1,409,890
Rent and other direct assistance	695,726	63,032	758,758			758,758
Office rent	158,666	224,915	383,581	22,741		406,322
Outreach and promotion supplies and services	137,177	34,000	171,177	23,731	250	195,158
Supplies	43,824	116,538	160,362	38,946	50	199,358
Travel	26,572	24,334	50,906	4,347		55,253
Utilities	17,685	13,694	31,379	53,167		84,546
Insurance	12,516	5,705	18,221	42,612		60,833
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.

Civic Heart Community Services

Statements of Cash Flows for the years ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (214,950)	\$ (33,214)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	30,261	
Amortization of operating right-of-use assets	312,073	321,962
Realized and unrealized (gain) loss on investments	(63,638)	119,756
Changes in operating assets and liabilities:		
Contributions receivable	85,934	(125,540)
Prepaid and other assets	20,396	(12,246)
Accounts payable and accrued expenses	77,576	(71,203)
Accrued salaries and benefits	106,716	29,693
Grant refundable advances	(69,292)	90,646
Deferred revenue	588,204	
Operating lease liabilities	<u>(266,048)</u>	<u>(348,968)</u>
Net cash provided (used) by operating activities	<u>607,232</u>	<u>(29,114)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(358,653)	(244,059)
Purchase of property	(522,334)	
Sales of investments	464,505	243,921
Net change in cash and money market mutual funds held as investments	<u>(125,502)</u>	<u>(13,283)</u>
Net cash used by investing activities	<u>(541,984)</u>	<u>(13,421)</u>
NET CHANGE IN CASH	65,248	(42,535)
Cash, beginning of year	<u>1,152,206</u>	<u>1,194,741</u>
Cash, end of year	<u>\$ 1,217,454</u>	<u>\$ 1,152,206</u>
<i>Supplemental disclosure for cash flow information:</i>		
Operating right-of-use assets financed by new lease liabilities	\$1,946,940	\$46,538

See accompanying notes to financial statements.

Civic Heart Community Services

Notes to Financial Statements for the years ended August 31, 2023 and 2022

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Civic Heart Community Services (Civic Heart), formerly 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, Civic Heart 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:

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 (18 years of age and older living in Houston/Harris County) who are experiencing homelessness.

The Navigator program sends trained navigators into the community to educate consumers and assist them with finding low-cost health insurance coverage options from the Affordable Act Marketplace in Harris and 59 counties in East Texas.

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 program was designed to educate youth ages 14-19 on abstinence, teen pregnancy prevention, HIV/AIDS, STDs/STIs, and positive youth development. 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.

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 – Civic Heart 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, 2023, 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 are recorded at cost if purchased or at fair value at the date of gift if donated. Civic Heart's policy is to capitalize property and equipment purchases over \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 7 to 10 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.

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.

Government contract income – Civic Heart has an agreement with Harris County to provide support to build local capacity for non-profit organizations to provide prevention and intervention services to youth at risk or who are involved in the juvenile justice system. Revenue is recognized over time as performance obligations are met using the input method based on the labor hours expended and third-party costs incurred. At August 31, 2023, 2022 and 2021, deferred revenue from government contract income was \$588,204, \$0 and \$0, respectively. Civic Heart has no contract assets from government contract income at August 31, 2023, 2022 or 2021.

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 or fundraising 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 and depreciation 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 – 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>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 1,217,454	\$ 1,152,206
Contributions receivable	860,983	946,917
Other receivables	14,950	9,263
Investments	<u>1,192,418</u>	<u>1,109,130</u>
Total financial assets	3,285,805	3,217,516
Grant refundable advances for use in future periods	<u>(200,000)</u>	<u>(200,000)</u>
Total financial assets available for general expenditure	<u>\$ 3,085,805</u>	<u>\$ 3,017,516</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Civic Heart 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.

Civic Heart 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. Civic Heart 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.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following:

	<u>2023</u>	<u>2022</u>
Common stocks	\$ 457,019	\$ 494,795
Exchange-traded funds	210,302	169,305
Mutual funds	194,583	183,553
Corporate bonds	<u>88,950</u>	<u>97,194</u>
Investments, at fair value	950,854	944,847
Cash	<u>241,564</u>	<u>164,283</u>
Total investments	<u>\$ 1,192,418</u>	<u>\$ 1,109,130</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, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stocks	\$ 457,019			\$ 457,019
Equity exchange-traded funds	210,302			210,302
Mutual funds:				
Equity	75,985			75,985
Fixed-income	61,188			61,188
Money market	57,410			57,410
Corporate bonds	<u> </u>	\$ 88,950	<u> </u>	<u>88,950</u>
Total assets measured at fair value	<u>\$ 861,904</u>	<u>\$ 88,950</u>	<u>\$ 0</u>	<u>\$ 950,854</u>

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
Equity exchange-traded funds	169,305			169,305
Mutual funds:				
Equity	95,148			95,148
Fixed-income	79,216			79,216
Money market	9,189			9,189
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>

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 Civic Heart 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 – OPERATING LEASES

Civic Heart 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.

Civic Heart has adopted the following accounting policy elections:

- *Short-term leases* – Civic Heart has elected to not recognize lease assets and liabilities for leases with terms of 12 months or less. Instead, these leases are recognized as expense on a straight-line basis over the lease term.
- *Discount rates* – Civic Heart elected to use its incremental borrowing rate as the discount rate when the rate implicit in a lease is not readily determinable.

Lease costs associated with operating leases were \$339,638 in 2023 and \$346,382 in 2022. Short-term lease costs were \$52,904 in 2023 and \$59,040 in 2022.

Cash paid for amounts included in the measurement of operating lease liabilities was \$286,217 in 2023 and \$373,388 in 2022.

The weighted-average remaining lease term for all operating leases as of August 31, 2023 and 2022 is 126 months and 14 months, respectively. The weighted-average discount rate associated with operating leases as of August 31, 2023 and 2022 is 8.22% and 4.25%, respectively.

Undiscounted cash flows related to operating leases as of August 31, 2023 are as follows:

2024	\$ 195,478
2025	257,846
2026	263,817
2027	269,788
2028	301,272
Thereafter	<u>1,796,236</u>
Total undiscounted cash flows	3,084,437
Less discount to present value	<u>(1,098,747)</u>
Total discount present value of lease liabilities	<u>\$ 1,985,690</u>

One of the noncancelable facility lease agreements expired in May 2023 and was with Change Happens Community Development Corporation (Change Happens CDC), which is operated by the founder and former officer of Civic Heart, but is an unrelated entity. Civic Heart paid Change Happens CDC approximately \$240,000 in 2023 and \$340,000 in 2022 for office space rental.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2023 consist of the following:

Leasehold improvements	\$ 822,156
Furniture, fixtures and equipment	<u>265,202</u>
Total property and equipment, at cost	1,087,358
Accumulated depreciation	<u>(30,261)</u>
Property and equipment, net	<u>\$ 1,057,097</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
COVID-19 relief	\$ 63,250	\$ 63,250
Financial Literacy	56,933	24,033
Outreach	55,930	
Disaster assistance	24,003	24,003
Mentoring	9,868	
Other	<u>86,606</u>	<u>30,868</u>
Total net assets with donor restrictions	<u>\$ 296,590</u>	<u>\$ 142,154</u>

NOTE 7 – GOVERNMENT GRANTS AND CONTRACTS

Civic Heart is the recipient of government grants and contracts from federal, state, and local governmental agencies. Should these grants and contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred.

Government grants and contracts recognized are as follows:

	<u>2023</u>	<u>2022</u>
Government grants:		
Federal government grants:		
U. S. Department of Health and Human Services	\$ 5,810,540	\$ 5,234,364
U. S. Department of Housing and Urban Development	1,076,549	998,791
U. S. Department of Justice	285,889	319,899
State grants	<u>102,220</u>	<u>113,500</u>
Total government grants	<u>7,275,198</u>	<u>6,666,554</u>
Government contract:		
Harris County	<u>964,183</u>	<u> </u>
Total government grants and contracts	<u>\$ 8,239,381</u>	<u>\$ 6,666,554</u>

Government grants and contracts 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 Civic Heart’s 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 2023	FISCAL YEAR 2022
Contributed goods	Utilized for program services, management and general and fundraising	None	Fair value estimated based on selling price of similar goods and services.	\$68,703	\$56,424
Contributed services for Continuum of Care Program	Utilized for program services	None	Fair value estimated based on comparable salary for similar services.	\$27,000	\$42,658
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>\$95,703</u>	<u>\$114,082</u>

NOTE 9 – CONDITIONAL CONTRIBUTIONS

Civic Heart 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 \$227,000 at August 31, 2023. At August 31, 2023, Civic Heart has approximately \$5,600,000 of conditional contributions from various government agencies and approximately \$77,000 from a non-government donor which have not been recognized in the accompanying financial statements because the conditions have not been met. Civic Heart will recognize these contributions as qualifying grant expenditures are incurred and/or performance requirements are met.

NOTE 10 – RETIREMENT PLANS

Civic Heart sponsors a §401(k) profit sharing plan covering all full-time employees with at least one year of service. Civic Heart 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. Civic Heart paid approximately \$145,000 and \$137,000 to the §401(k) profit sharing plan in 2023 and 2022, respectively.

Civic Heart 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. Civic Heart paid \$10,000 to the §457(b) plan in both 2023 and 2022.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 16, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, 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.
