

HEART OF THE CITY
Financial Statements and
Independent Auditors' Report

December 31, 2018

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Business Development
Software Implementation
Tax and Accounting

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Heart of the City

We have audited the accompanying financial statements of Heart of the City (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis, as of December 31, 2018, and the related statement of support, revenue, expenses and changes in net assets – modified cash basis for the year 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 the modified cash basis of accounting as described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Heart of the City as of December 31, 2018, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses-modified cash basis on page 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

COLE, MARTIN & CO., LTD.

Certified Public Accountants

Buffalo Grove, Illinois

September 6, 2019

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**HEART OF THE CITY
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2018**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 369,845
Restricted cash	17,265
Total Cash and cash equivalents	<u>387,110</u>
Certificate of deposit	5,006
Accounts Receivable	29,308
Prepaid Expenses	62,289
Total Current Assets	<u>483,713</u>

PROPERTY AND EQUIPMENT - AT COST

Furniture and equipment	34,552
	<u>34,552</u>
Less accumulated depreciation	13,669
Net Property and Equipment	<u>20,883</u>

OTHER ASSETS

Security deposit	3,490
Total Assets	<u>\$ 508,086</u>

LIABILITIES AND NET ASSETS

Accounts Payables	\$ 65,446
Accrued Expenses	35,903
Total Current Liabilities	<u>101,349</u>
Total Liabilities	<u>101,349</u>

NET ASSETS

Without donor restrictions	389,472
With donor restrictions	17,265
Total Net Assets	<u>406,737</u>
Total Liabilities and Net Assets	<u>\$ 508,086</u>

The accompanying notes are an integral part of these financial statements

HEART OF THE CITY
STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGE IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 1,273,644	\$ 20,000	\$ 1,293,644
Grants	24,197		24,197
Registration fees	97,931		97,931
In-kind	13,853		13,853
Interest income	3		3
Miscellaneous income	7,462		7,462
Net assets released from restrictions	20,000	(20,000)	-
Total Revenue and Support	1,437,090	-	1,437,090
Expenses			
Programs	697,751		697,751
General and Administrative	548,724		548,724
Loss from disposal of fixed assets	761		761
Total Expenses	1,247,236	-	1,247,236
Change in net assets	189,854	-	189,854
Net assets, beginning of year	199,618	17,265	216,883
Net assets, end of year	\$ 389,472	\$ 17,265	\$ 406,737

The accompanying notes are an integral part of these financial statements

Heart of the City
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

1. Nature of Organization

The Heart of the City is a non-profit corporation qualified as a private operating foundation organized as a community outreach program to make soccer more accessible to all children under the laws of the State of Illinois.

2. Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, certain revenues and the related assets are recognized when received rather than when earned. The financial statements of Heart of the City reflect significant assets, payables and other liabilities of the Organization.

3. Basis of Presentation

The financial statements of the Organization have been prepared on the modified cash basis of accounting. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified as follows:

- a) Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.
- b) Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

4. Cash and Cash Equivalents

The Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

5. Revenue and Support

The Organization's support comes primarily from contributions and registration fees. Contributions are recorded as received. Registration fees are recorded upon registration of the participant. The Organization follows ASC No. 958, "Accounting for Contributions Received and Contributions Made", and thus, support received is recorded as without donor restrictions or with donor restrictions depending on the existence or nature of any donor restrictions.

Grants and other contributions of cash and other assets are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, donor restricted net assets are reclassified to without donor restricted net assets.

Heart of the City
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES – CONTINUED

6. Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and classified by the Internal Revenue Service as a private operating foundation, effective date of exemption is April 7, 2014.

The Organization's Forms 990-PF, *Return of Private Foundation*, for the years ending 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they were filed.

7. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. Property and Equipment

The Organization capitalizes all items which have a unit cost greater than \$1,000 and a useful life more than one year. Maintenance and repairs that do not extend the useful life of the applicable assets are expensed as incurred. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. As of December 31, 2018 the Organization has no donated assets. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from three to five years. Depreciation expense was \$6,497 for the year ended December 31, 2018.

9. Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2018, which is included in program services expenses and general and administrative expenses, was \$5,913 and \$3,025, respectively.

NOTE B - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE C – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 6, 2019, the date which the financial statements were available to be issued.

NOTE D - OPERATING LEASE

On October 5, 2016 the Organization entered into a lease for office space in Waukegan effective November 15, 2016. Lease terms require the monthly payment of rent of \$1,887 (inclusive of common area maintenance, insurance and real estate taxes) plus utilities. The lease is a two year lease which expired on November 14, 2018.

On May 11, 2018 the Organization entered into a lease for office space in Waukegan effective June 1, 2018. Lease terms require the monthly payment of rent of \$2,163 (exclusive of common area maintenance, insurance and real estate taxes) plus utilities. The lease is a three year lease which expires on May 31, 2021.

Heart of the City
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE D - OPERATING LEASE – CONTINUED

Future commitments under the lease are as followed:

<u>Year</u>	
2019	25,956
2020	25,956
2021	10,815
	<u>\$ 62,727</u>

NOTE E – CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at two financial institutions in Illinois. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2018, the Organization's uninsured cash balances totaled approximately \$65,636.

NOTE F – RESTRICTED CASH

Restricted cash is related to donor restricted funds for the recreational league expenses.

NOTE G – CERTIFICATE OF DEPOSIT

Certificates of deposit represent temporary investments of excess cash. The current certificate of deposit bears an interest rate of .15% with a maturity date of July 27, 2019.

NOTE H – RELATED PARTY TRANSACTIONS

During 2018 the Organization paid \$35,288 to an entity owned by a current director of the Organization. The entity provided human resources consulting services to the Organization. \$2,431 is due to the entity at December 31, 2018.

NOTE I – MAJOR DONOR

The Organization has one major donor that accounted for approximately 87% of revenue and support for the year ended December 31, 2018. The Organization expects to maintain this relationship with the donor.

NOTE J – WITH DONOR RESTRICTIONS NET ASSETS

During 2017, funds received from one donor which were temporarily restricted and not fully expended. These funds were restricted for Recreational League expenses. The balance remaining at December 31, 2018 is \$17,265.

NOTE K – DONATED SERVICES AND IN-KIND SUPPORT

The Organization may receive services, equipment and material without payment or compensation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Materials and other noncash donations are recorded at cost or estimated fair value determined at the date of donation. For the year ended December 31, 2018, the Organization recorded professional fees that totaled \$13,853, which is included in in-kind support and revenue in the statement of support, revenues, expenses and change in net assets.

NOTE L – SIGNIFICANT VENDORS

The Organization purchased approximately 12% of its expenditures from one vendor in 2018. Payables due to this vendor aggregated approximately -0-% of total accounts payable at December 31, 2018.

Heart of the City
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE M – LIQUIDITY

Heart of the City's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash & cash equivalents	\$ 369,845
Accounts Receivable, net	29,308
Investments - Certificates of deposit	5,006
Financial Assets, at Year End available to meet cash needs for general expenditures within one year	<u>\$ 404,159</u>

Heart of the City's financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date.

As part of Heart of the City's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Heart of the City invests cash in excess of daily requirements in short-term investments.

SUPPLEMENTARY INFORMATION

**HEART OF THE CITY
SCHEDULE OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services	General and Administrative	Total
Advertising	\$ 5,913	\$ 3,025	\$ 8,938
Bank Charges	-	968	968
Depreciation	3,968	2,529	6,497
Dues and subscriptions	2,696	-	2,696
Educational expense	290	17,304	17,594
Employee Benefits	16,030	11,319	27,349
Equipment	1,398	3,522	4,920
Field rental expense	82,892	-	82,892
In-kind - Professional Fees	-	13,853	13,853
Insurance	27,773	14,675	42,448
Legal expense	-	26,758	26,758
League fees	9,058	-	9,058
Meals	6,746	-	6,746
Miscellaneous	-	8,223	8,223
Payroll Taxes	27,752	19,598	47,350
Printing and publications	16,732	-	16,732
Professional fees	53,092	85,172	138,264
Professional fees, accounting	-	12,346	12,346
Rent	18,130	33,975	52,105
Repairs and maintenance	-	3,815	3,815
Salaries	334,220	236,009	570,229
Staff development	-	7,281	7,281
Supplies	53,653	14,618	68,271
Telephone and utilities	5,071	21,616	26,687
Tournament expenses	32,337	-	32,337
Travel, conferences and meetings	-	11,918	11,918
Volunteer Recognition	-	200	200
	<u>\$ 697,751</u>	<u>\$ 548,724</u>	<u>\$ 1,246,475</u>

The accompanying notes are an integral part of these financial statements