

ADVANCE MEMPHIS
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Independent Auditor’s Report2

Statements of Financial Position3

Statements of Activities.....4

Statements of Functional Expenses5

Statements of Cash Flows6

Notes to the Financial Statements7



Independent Auditor's Report

Board of Directors
Advance Memphis
Memphis, Tennessee

We have audited the accompanying financial statements of Advance Memphis (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advance Memphis as of December 31, 2017 and 2016, 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.

Frazee Ivy Davis PLC

Memphis, Tennessee
September 19, 2018

ADVANCE MEMPHIS**Statements of Financial Position****December 31, 2017 and 2016**

	ASSETS	<u>2017</u>	<u>2016</u>
Current assets			
Cash and cash equivalents		\$ 166,092	\$ 154,095
Accounts receivable		90,341	184,730
Grants receivable		198,500	68,125
Other receivables		6,505	3,690
Prepaid insurance		10,167	22,922
		<hr/>	<hr/>
Total current assets		471,605	433,562
Property and equipment, net		790,466	825,239
		<hr/>	<hr/>
Total assets		<u>\$ 1,262,071</u>	<u>\$ 1,258,801</u>
	LIABILITIES AND NET ASSETS		
Current liabilities			
Accounts payable		\$ 12,587	\$ 27,176
Accrued salaries and retirement		15,429	65,651
Prepaid rent		3,000	6,000
Other accrued expenses		1,447	4,724
Line of credit		-	73,382
		<hr/>	<hr/>
Total current liabilities		32,463	176,933
Net assets			
Unrestricted		937,738	1,013,743
Temporarily restricted		291,870	68,125
		<hr/>	<hr/>
Total net assets		1,229,608	1,081,868
		<hr/>	<hr/>
Total liabilities and net assets		<u>\$ 1,262,071</u>	<u>\$ 1,258,801</u>

See accompanying notes to the financial statements.

ADVANCE MEMPHIS

Statements of Activities

For the years ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenues						
Staffing and outsourcing services	\$ 1,248,432	\$ -	\$ 1,248,432	\$ 1,447,372	\$ -	\$ 1,447,372
Less: Direct staffing and outsourcing costs	<u>1,159,099</u>	<u>-</u>	<u>1,159,099</u>	<u>1,353,339</u>	<u>-</u>	<u>1,353,339</u>
Net revenues	89,333	-	89,333	94,033	-	94,033
Support and other revenues						
Grants	388,130	251,870	640,000	273,333	68,125	341,458
Contributions	376,096	40,000	416,096	398,393	-	398,393
Other income	<u>115,445</u>	<u>-</u>	<u>115,445</u>	<u>56,746</u>	<u>-</u>	<u>56,746</u>
Total net revenues and support and other revenues	969,004	291,870	1,260,874	822,505	68,125	890,630
Reclassifications						
Net assets released from restriction	<u>68,125</u>	<u>(68,125)</u>	<u>-</u>	<u>55,500</u>	<u>(55,500)</u>	<u>-</u>
Total net revenues, support and other revenues, and reclassifications	<u>1,037,129</u>	<u>223,745</u>	<u>1,260,874</u>	<u>878,005</u>	<u>12,625</u>	<u>890,630</u>
Expenses						
Program services, net of direct costs	394,969	-	394,969	381,660	-	381,660
Management and general	633,799	-	633,799	556,810	-	556,810
Fundraising	<u>84,366</u>	<u>-</u>	<u>84,366</u>	<u>96,638</u>	<u>-</u>	<u>96,638</u>
Total expenses	<u>1,113,134</u>	<u>-</u>	<u>1,113,134</u>	<u>1,035,108</u>	<u>-</u>	<u>1,035,108</u>
Change in net assets	(76,005)	223,745	147,740	(157,103)	12,625	(144,478)
Net assets, beginning of year	<u>1,013,743</u>	<u>68,125</u>	<u>1,081,868</u>	<u>1,170,846</u>	<u>55,500</u>	<u>1,226,346</u>
Net assets, end of year	<u>\$ 937,738</u>	<u>\$ 291,870</u>	<u>\$ 1,229,608</u>	<u>\$ 1,013,743</u>	<u>\$ 68,125</u>	<u>\$ 1,081,868</u>

See accompanying notes to the financial statements.

ADVANCE MEMPHIS

Statements of Functional Expenses

For the years ended December 31, 2017 and 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Compensatory expenses								
Salaries and wages								
Staffing and outsourcing	\$1,035,318	\$ -	\$ -	\$1,035,318	\$ 1,207,529	\$ -	\$ -	\$ 1,207,529
Support services	-	308,608	21,060	329,668	-	262,739	43,622	306,361
Service delivery	151,369	-	1,727	153,096	159,383	-	1,568	160,951
Payroll taxes	90,077	30,186	1,743	122,006	116,831	19,249	4,197	140,277
Retirement and health benefits	-	162,337	11,987	174,324	-	159,316	27,402	186,718
Total compensatory expenses	1,276,764	501,131	36,517	1,814,412	1,483,743	441,304	76,789	2,001,836
Other expenses								
Insurance	39,637	28,827	-	68,464	45,025	23,513	-	68,538
Materials and supplies	26,579	-	40,667	67,246	50,933	-	15,039	65,972
Utilities	50,517	5,943	2,972	59,432	30,787	3,622	1,811	36,220
Depreciation	43,908	5,166	2,583	51,657	36,047	4,241	2,120	42,408
Telephone	14,643	16,271	1,627	32,541	7,907	8,784	879	17,570
Office	-	30,904	-	30,904	-	29,304	-	29,304
Repairs and maintenance	24,552	-	-	24,552	18,134	-	-	18,134
Miscellaneous	21,466	-	-	21,466	11,762	-	-	11,762
Professional fees	-	20,260	-	20,260	-	17,834	-	17,834
Matching funds	20,132	-	-	20,132	15,684	-	-	15,684
Drug testing	12,330	-	-	12,330	13,893	-	-	13,893
Staff development	-	12,155	-	12,155	-	14,691	-	14,691
Meals	10,276	-	-	10,276	10,687	-	-	10,687
Auto and transportation	8,825	-	-	8,825	7,618	-	-	7,618
Computer supplies	-	8,714	-	8,714	-	9,815	-	9,815
Assistance	4,439	-	-	4,439	2,779	-	-	2,779
Bank charges	-	4,428	-	4,428	-	3,462	-	3,462
Bad debts	-	-	-	-	-	240	-	240
Total compensatory and other expenses	1,554,068	633,799	84,366	2,272,233	1,734,999	556,810	96,638	2,388,447
Less: Direct staffing and outsourcing costs reported in the Statement of Activities	1,159,099	-	-	1,159,099	1,353,339	-	-	1,353,339
Total expenses	\$ 394,969	\$ 633,799	\$ 84,366	\$1,113,134	\$ 381,660	\$ 556,810	\$ 96,638	\$ 1,035,108

See accompanying notes to the financial statements.

ADVANCE MEMPHIS

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 147,740	\$ (144,478)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for bad debts	-	240
Depreciation	51,657	42,408
Changes in operating assets and liabilities		
Accounts receivable	94,389	(80,958)
Grants receivable	(130,375)	12,375
Other receivables	(2,815)	655
Prepaid insurance	12,755	(17,978)
Accounts payable	(14,589)	2,894
Accrued salaries and wages	(50,222)	48,192
Prepaid rent	(3,000)	6,000
Other accrued expenses	(3,277)	206
Net cash provided by (used in) operating activities	102,263	(130,444)
Cash flows from investing activities		
Purchases of property and equipment	(16,884)	(231,330)
Net cash used in investing activities	(16,884)	(231,330)
Cash flows from financing activities		
Net proceeds from line of credit	(73,382)	73,382
Proceeds from issuance of note payable	-	-
Principal payments on note payable	-	(26,000)
Net cash provided by (used in) financing activities	(73,382)	47,382
Change in cash and cash equivalents	11,997	(314,392)
Cash and cash equivalents, beginning of year	154,095	468,487
Cash and cash equivalents, end of year	\$ 166,092	\$ 154,095
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 1,725	\$ 772

Note 1 – Nature of Operations

Advance Memphis (the “Organization”) is a nonprofit corporation organized under the laws of the State of Tennessee. Located in one of the nation's poorest zip code areas, its mission is to foster economic revitalization of the Cleaborn-Foote neighborhood by empowering residents with knowledge, resources, and skills to be economically self-sufficient through its Biblically based training and staffing programs. The Organization manages an outsourcing and staffing service through which graduates of its training programs apply learned skills with continuing oversight by Advance Memphis. The Organization leases portions of its buildings to local entrepreneurs and businesses that typically employ their graduates.

Note 2 – Summary of Significant Accounting Policies*Basis of Accounting*

The accompanying financial statements have been prepared using the accrual basis of accounting. Under this method of accounting, support and revenue are recognized in the period earned and expenses are recognized when incurred.

Financial Statement Presentation

Under accounting standards for nonprofit organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consist primarily of amounts due from customers for staffing services provided. The Organization records receivables at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analyzing specific accounts. Past due balances and delinquent receivables are charged against the allowance, or written off to bad debt expense, when they are determined to be uncollectible by management. Based on the Organization's collection history and management's assessment of each customer's creditworthiness, it has concluded that no allowance for doubtful accounts is necessary at December 31, 2017 and 2016.

Grants Receivable

Grants receivable are recorded when they are determined to be an unconditional promise to give.

Property and Equipment

Property and equipment is recorded at acquisition cost, if purchased, or at estimated fair value at the date of the contribution, if contributed. Major renewals and betterments that extend the useful lives of assets are also recorded at cost. Expenditures for normal repair and maintenance are expensed as they occur. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, generally seven to thirty-nine years for building and improvements and five to ten years for computers, equipment, and furniture.

Note 2 – Summary of Significant Accounting Policies (continued)*Donor-Imposed Restrictions*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is satisfied or expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction is satisfied, or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Sections 509(a)(1) and 170(b)(1)(A)(vi). The Organization files tax returns in the United States federal jurisdiction and is not currently under tax examination. The Organization is no longer subject to examination by federal authorities for years prior to 2014.

Based on the evaluation of the Organization's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended December 31, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through September 19, 2018, the date the financial statements were available to be issued.

Note 3 – Property and Equipment

As of December 31, 2017 and 2016, property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 864,831	\$ 860,887
Computers and equipment	76,662	76,662
Furniture and fixtures	74,406	61,466
Land	<u>35,646</u>	<u>35,646</u>
	1,051,545	1,034,661
Accumulated depreciation	<u>(261,079)</u>	<u>(209,422)</u>
Property and equipment, net	<u>\$ 790,466</u>	<u>\$ 825,239</u>
Depreciation expense for the year	<u>\$ 51,657</u>	<u>\$ 42,408</u>

Note 4 – Line of Credit

The Organization has up to \$100,000 of credit available under a revolving line of credit agreement with a local bank that is collateralized by real property. Interest is payable monthly at 4.00%. The agreement is expected to be renewed under substantially similar terms when it matures on November 20, 2018. There were no amounts outstanding on the line of credit at December 31, 2017. The amount outstanding on the line of credit at December 31, 2016 was \$73,382.

Note 5 – Temporarily Restricted Net Assets

As of December 31, 2017 and 2016, temporarily restricted net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Time restrictions	\$ 198,500	\$ 68,125
Purpose restrictions		
Forklift training and repairs	8,385	-
Suzette warehouse equipment	20,000	-
TAG program	49,054	-
IDA program	<u>15,931</u>	<u>-</u>
	<u>\$ 291,870</u>	<u>\$ 68,125</u>

Note 5 – Temporarily Restricted Net Assets (continued)

For the years ended December 31, 2017 and 2016, net assets were released from restrictions by the passage of time or incurring expenses satisfying the purpose of restrictions imposed by donors as follows:

	<u>2017</u>	<u>2016</u>
Time restrictions	<u>\$ 68,125</u>	<u>\$ 55,500</u>
	<u><u>\$ 68,125</u></u>	<u><u>\$ 55,500</u></u>

Note 6 – Direct Staffing and Outsourcing Costs

For the years ended December 31, 2017 and 2016, direct staffing and outsourcing costs consisted of the following:

	<u>2017</u>	<u>2016</u>
Wages	<u>\$ 1,035,318</u>	<u>\$ 1,207,529</u>
Payroll taxes	<u>84,144</u>	<u>100,785</u>
Workers compensation insurance	<u>39,637</u>	<u>45,025</u>
Direct staffing and outsourcing costs	<u><u>\$ 1,159,099</u></u>	<u><u>\$ 1,353,339</u></u>

Note 7 – Retirement Plan

The Organization sponsors a Simple IRA Plan for qualified employees meeting service and compensation requirements. Employees are allowed to make elective deferrals into the plan and are fully vested in any contributions made to their account, including employer matching funds of \$47,398 and \$42,495 contributed, respectively, for the years ended December 31, 2017 and 2016.

Note 8 – Concentrations of Risk

For the year ended December 31, 2017, three customers accounted for approximately fifty-four percent (54%) of accounts receivable and approximately sixty-two percent (62%) of gross revenues from staffing and outsourcing services. For the year ended December 31, 2016, three customers accounted for approximately seventy-nine percent (79%) of accounts receivable and approximately fifty-seven percent (57%) of gross revenues from staffing and outsourcing services.