

ADVANCE MEMPHIS
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Memphis, Tennessee
October 20, 2020

ADVANCE MEMPHIS**Statements of Financial Position****December 31, 2019 and 2018**

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 216,065	\$ 222,505
Accounts receivable	115,805	120,041
Grants receivable	242,125	89,750
Other receivables	8,311	7,613
Prepaid insurance	6,715	7,945
Total current assets	589,021	447,854
Property and equipment, net	1,669,964	1,460,405
Total assets	<u>\$ 2,258,985</u>	<u>\$ 1,908,259</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 98,649	\$ 8,033
Accrued salaries and retirement	44,268	16,706
Prepaid rent	3,000	16,848
Other accrued expenses	4,407	4,407
Line of credit	190,676	-
Total current liabilities	341,000	45,994
Net assets		
Without donor restrictions	1,675,860	1,653,527
With donor restrictions	242,125	208,738
Total net assets	1,917,985	1,862,265
Total liabilities and net assets	<u>\$ 2,258,985</u>	<u>\$ 1,908,259</u>

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Statements of Activities

For the years ended December 31, 2019 and 2018

	2019			2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues						
Staffing and outsourcing services	\$ 1,368,278	\$ -	\$ 1,368,278	\$ 1,443,493	\$ -	\$ 1,443,493
Less: Direct staffing and outsourcing costs	1,178,753	-	1,178,753	1,353,078	-	1,353,078
Net revenues	189,525	-	189,525	90,415	-	90,415
Support and other revenues						
Grants	344,656	242,125	586,781	962,546	103,276	1,065,822
Contributions	833,750	-	833,750	626,504	32,250	658,754
Other income	148,542	-	148,542	86,503	-	86,503
Total net revenues and support and other revenues	1,516,473	242,125	1,758,598	1,765,968	135,526	1,901,494
Reclassifications						
Net assets released from restriction	208,738	(208,738)	-	218,658	(218,658)	-
Total net revenues, support and other revenues, and reclassifications	1,725,211	33,387	1,758,598	1,984,626	(83,132)	1,901,494
Expenses						
Program services, net of direct costs	717,244	-	717,244	469,741	-	469,741
Management and general	892,611	-	892,611	740,239	-	740,239
Fundraising	93,023	-	93,023	58,857	-	58,857
Total expenses	1,702,878	-	1,702,878	1,268,837	-	1,268,837
Change in net assets	22,333	33,387	55,720	715,789	(83,132)	632,657
Net assets, beginning of year	1,653,527	208,738	1,862,265	937,738	291,870	1,229,608
Net assets, end of year	\$ 1,675,860	\$ 242,125	\$ 1,917,985	\$ 1,653,527	\$ 208,738	\$ 1,862,265

See accompanying notes to the financial statements.

Statements of Functional Expenses

For the years ended December 31, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Compensatory expenses								
Salaries and wages								
Staffing and outsourcing	\$ 1,075,637	\$ -	\$ -	\$ 1,075,637	\$ 1,228,052	\$ -	\$ -	\$ 1,228,052
Support services	-	496,641	19,121	515,762	-	431,967	18,390	450,357
Service delivery	185,633	-	1,758	187,391	152,727	-	1,566	154,293
Retirement and health benefits	110,375	162,579	4,619	277,573	60,484	92,807	2,843	156,134
Payroll taxes	98,470	35,984	1,650	136,104	110,231	33,396	1,577	145,204
Total compensatory expenses	1,470,115	695,204	27,148	2,192,467	1,551,494	558,170	24,376	2,134,040
Other expenses								
Materials and supplies	108,350	-	58,812	167,162	33,302	-	28,175	61,477
Repairs and maintenance	81,145	-	-	81,145	15,929	-	-	15,929
Depreciation	59,512	3,306	3,306	66,124	43,050	5,065	2,532	50,647
Insurance	29,874	32,561	-	62,435	36,735	27,535	-	64,270
Computer supplies	-	62,268	-	62,268	-	55,588	-	55,588
Utilities	47,345	2,630	2,630	52,605	46,676	5,491	2,746	54,913
Professional fees	-	32,300	-	32,300	-	21,537	-	21,537
Matching funds	32,154	-	-	32,154	20,111	-	-	20,111
Office	-	28,203	-	28,203	-	31,192	-	31,192
Telephone	10,147	11,275	1,127	22,549	9,251	10,279	1,028	20,558
Miscellaneous	21,429	-	-	21,429	21,253	-	-	21,253
Drug testing	14,090	-	-	14,090	16,697	-	-	16,697
Staff development	-	12,825	-	12,825	-	20,367	-	20,367
Bank charges	-	11,731	-	11,731	-	5,015	-	5,015
Meals	10,526	-	-	10,526	11,605	-	-	11,605
Auto and transportation	9,971	-	-	9,971	14,174	-	-	14,174
Assistance	1,339	-	-	1,339	2,542	-	-	2,542
Bad debt expense	-	308	-	308	-	-	-	-
Total compensatory and other expenses	1,895,997	892,611	93,023	2,881,631	1,822,819	740,239	58,857	2,621,915
Less: Direct staffing and outsourcing costs reported in the Statement of Activities	1,178,753	-	-	1,178,753	1,353,078	-	-	1,353,078
Total expenses	\$ 717,244	\$ 892,611	\$ 93,023	\$ 1,702,878	\$ 469,741	\$ 740,239	\$ 58,857	\$ 1,268,837

See accompanying notes to the financial statements.

ADVANCE MEMPHIS

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 55,720	\$ 632,657
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for doubtful accounts	308	-
Depreciation	66,124	50,647
Changes in operating assets and liabilities		
Accounts receivable	3,928	(29,700)
Grants receivable	(152,375)	108,750
Other receivables	(698)	(1,108)
Prepaid insurance	1,230	2,222
Accounts payable	90,616	(4,554)
Accrued salaries and wages	27,562	1,277
Prepaid rent	(13,848)	13,848
Other accrued expenses	-	2,960
	78,567	776,999
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(275,683)	(720,586)
	(275,683)	(720,586)
Net cash used in investing activities		
Cash flows from financing activities		
Net proceeds from line of credit	190,676	-
	190,676	-
Net cash provided by financing activities		
Change in cash and cash equivalents	(6,440)	56,413
Cash and cash equivalents, beginning of year	222,505	166,092
Cash and cash equivalents, end of year	\$ 216,065	\$ 222,505

See accompanying notes to the financial statements.

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 not-for-profit organizations, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, an operating reserve.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be met in perpetuity.

Cash Equivalents

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 concluded that no allowance for doubtful accounts was necessary at December 31, 2019 and 2018.

Grants Receivable

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

Note 2 – Summary of Significant Accounting Policies (continued)

Property, Equipment, and Depreciation

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 forty years for building and improvements and five to ten years for computers, equipment, and furniture.

Donor-Imposed Restrictions

Contributions received are recorded as with donor restriction or without donor restrictions depending on the existence of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction is satisfied, or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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. The Organization is no longer subject to examination by federal authorities for years prior to 2016.

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, 2019 and 2018.

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.

Expense Allocation

Costs of program services and management and general expense are reported by function. Expenses related to more than one function are allocated on the basis of management’s estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

<u>Type of Expense</u>	<u>Method of Allocation</u>
Occupancy and depreciation	Square feet
Communications	Full-time equivalent
Compensation	Time and effort

Note 2 – Summary of Significant Accounting Policies (continued)*Recently Adopted Accounting Standards*

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, with the stated purpose of providing guidance in evaluating whether transactions should be accounted for as contributions or exchanges. In addition, the update introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue.

Recently Issued Accounting Guidance

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842) (“ASU 2016-02”). The new standard requires lessees to record assets and liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02, as amended, is effective for annual periods beginning after December 15, 2021, with an option to early adopt. The Organization is currently reviewing its significant lease arrangements to assess the potential impact on its financial statements.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which impacts virtually all aspects of an entity’s revenue recognition. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based, comprehensive framework for addressing revenue recognition issues.

Subsequent Events

Management has evaluated subsequent events through October 20, 2020, the date the financial statements were available to be issued.

Note 3 – Property and Equipment

As of December 31, 2019 and 2018, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 1,642,812	\$ 1,399,055
Land	214,386	214,386
Furniture and fixtures	91,920	82,028
Computers and equipment	<u>98,696</u>	<u>76,662</u>
	2,047,814	1,772,131
Accumulated depreciation	<u>(377,850)</u>	<u>(311,726)</u>
Property and equipment, net	<u>\$ 1,669,964</u>	<u>\$ 1,460,405</u>
Depreciation expense for the year	<u>\$ 66,124</u>	<u>\$ 50,647</u>

Note 4 – With Donor Restriction Net Assets

As of December 31, 2019 and 2018, temporarily restricted net assets consisted of the following:

	<u>2019</u>	<u>2018</u>
Time restrictions	\$ 242,125	\$ 89,750
Purpose restrictions		
TAG program	-	63,212
960 Bellevue property and improvements	-	40,776
Getting Ready to Work Program	-	10,000
Financial Literacy course	-	5,000
	<u>\$ 242,125</u>	<u>\$ 208,738</u>

For the years ended December 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
Time restrictions	\$ 89,750	\$ 168,500
Purpose restrictions	<u>118,988</u>	<u>50,158</u>
	<u>\$ 208,738</u>	<u>\$ 218,658</u>

Note 5 – Direct Staffing and Outsourcing Costs

For the years ended December 31, 2019 and 2018, direct staffing and outsourcing costs consisted of the following:

	<u>2019</u>	<u>2018</u>
Wages	\$ 1,075,637	\$ 1,228,052
Payroll taxes	73,242	88,291
Workers compensation insurance	<u>29,874</u>	<u>36,735</u>
Direct staffing and outsourcing costs	<u>\$ 1,178,753</u>	<u>\$ 1,353,078</u>

Note 6 – 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. The Organization did not make any contributions for the year ended December 31, 2019. The Organization made contributions of \$118,834 for the year ended December 31, 2019.

Note 7 – Concentrations of Risk

For the year ended December 31, 2019, four customers accounted for approximately fifty-eight percent (58%) of accounts receivable and approximately forty-four (44%) of gross revenues from staffing and outsourcing services.. For the year ended December 31, 2018, four customers accounted for approximately fifty percent (50%) of accounts receivable and approximately sixty-two percent (62%) of gross revenues from staffing and outsourcing services.

Note 8 – Availability of Resources and Liquidity

As part of its ongoing liquidity management, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As of December 31, 2019 and 2018, the Organization’s current unrestricted financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 216,065	\$ 222,505
Accounts receivable	115,805	120,041
Grants receivable	242,125	89,750
Other receivables	<u>8,311</u>	<u>7,613</u>
Total financial assets	<u>\$ 582,306</u>	<u>\$ 439,909</u>
Amounts not available to be used within one year:		
Restricted net assets expected to be available in greater than one year	<u>(60,000)</u>	<u>(98,138)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 522,306</u>	<u>\$ 341,771</u>

Note 9 – Subsequent Events

On March 11, 2020 the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact change in net assets. Other financial impact could occur though such impact is unknown at this time.

On April 14, 2020, the Organization received a Small Business Administration (“SBA”) loan in the amount of \$221,000 for the Payroll Protection Program (“PPP”) in order to keep staff employed during the coronavirus pandemic. PPP loans may qualify for forgiveness under some circumstances which include: the loan is only used to cover qualified expenses and the employer pays 100% of payroll dollars to employees during the eight weeks after the loan is funded. Any unforgiven portions are repayable over a 2-year period with payments of principal and interest at a rate of 1% per annum.