

ADVANCE MEMPHIS
FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

Board of Directors
Advance Memphis
Memphis, Tennessee

Opinion

We have audited the financial statements of Advance Memphis (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and 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 Advance Memphis as of December 31, 2021 and 2020, 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 ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Advance Memphis 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 Advance Memphis's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's 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 auditor's 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 GAAS 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 GAAS, 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 Advance Memphis'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 Advance Memphis'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.

Frazier Ivy Davis PLLC

Memphis, Tennessee
August 3, 2022

ADVANCE MEMPHIS***Statements of Financial Position******December 31, 2021 and 2020***

	ASSETS	<u>2021</u>	<u>2020</u>
Current assets			
Cash and cash equivalents		\$ 140,560	\$ 182,707
Accounts receivable		142,109	152,721
Grants receivable		204,000	179,625
Other receivables		2,888	2,388
Prepaid insurance		3,730	6,161
		<hr/>	<hr/>
Total current assets		493,287	523,602
Grants receivable		-	30,000
Property and equipment, net		2,049,242	1,673,113
		<hr/>	<hr/>
Total assets		<u>\$ 2,542,529</u>	<u>\$ 2,226,715</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable		\$ 49,404	\$ 29,618
Accrued salaries and retirement		21,015	29,174
Prepaid rent and security deposits		3,000	3,000
Other accrued expenses		4,973	4,780
Line of credit		88,054	-
		<hr/>	<hr/>
Total current liabilities		166,446	66,572
Net assets			
Without donor restrictions		2,172,083	1,951,018
With donor restrictions		204,000	209,125
		<hr/>	<hr/>
Total net assets		2,376,083	2,160,143
		<hr/>	<hr/>
Total liabilities and net assets		<u>\$ 2,542,529</u>	<u>\$ 2,226,715</u>

See accompanying notes to the financial statements.

Statements of Activities

For the years ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Staffing and outsourcing services	\$ 948,124	\$ -	\$ 948,124	\$ 1,032,040	\$ -	\$ 1,032,040
Less: Direct staffing and outsourcing costs	<u>1,166,655</u>	<u>-</u>	<u>1,166,655</u>	<u>1,171,152</u>	<u>-</u>	<u>1,171,152</u>
Net expenses	(218,531)	-	(218,531)	(139,112)	-	(139,112)
Support and other revenues						
Grants	246,325	173,500	419,825	185,684	149,125	334,809
Contributions	847,426	-	847,426	788,495	-	788,495
In-kind contributions	7,665	-	7,665	-	-	-
Paycheck Protection Program funding	-	-	-	221,000	-	221,000
Other income	<u>384,574</u>	<u>-</u>	<u>384,574</u>	<u>255,586</u>	<u>-</u>	<u>255,586</u>
Total net expenses and support and other revenues	1,267,459	173,500	1,440,959	1,311,653	149,125	1,460,778
Reclassifications						
Net assets released from restriction	<u>178,625</u>	<u>(178,625)</u>	<u>-</u>	<u>182,125</u>	<u>(182,125)</u>	<u>-</u>
Total net expenses, support and other revenues, and reclassifications	<u>1,446,084</u>	<u>(5,125)</u>	<u>1,440,959</u>	<u>1,493,778</u>	<u>(33,000)</u>	<u>1,460,778</u>
Expenses						
Program services, net of direct costs	681,066	-	681,066	649,054	-	649,054
Management and general	333,266	-	333,266	345,106	-	345,106
Fundraising	<u>204,433</u>	<u>-</u>	<u>204,433</u>	<u>224,460</u>	<u>-</u>	<u>224,460</u>
Total expenses	<u>1,218,765</u>	<u>-</u>	<u>1,218,765</u>	<u>1,218,620</u>	<u>-</u>	<u>1,218,620</u>
Loss on disposal of property and equipment	<u>(6,254)</u>	<u>-</u>	<u>(6,254)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	221,065	(5,125)	215,940	275,158	(33,000)	242,158
Net assets, beginning of year	<u>1,951,018</u>	<u>209,125</u>	<u>2,160,143</u>	<u>1,675,860</u>	<u>242,125</u>	<u>1,917,985</u>
Net assets, end of year	<u>\$ 2,172,083</u>	<u>\$ 204,000</u>	<u>\$ 2,376,083</u>	<u>\$ 1,951,018</u>	<u>\$ 209,125</u>	<u>\$ 2,160,143</u>

See accompanying notes to the financial statements.

Statements of Functional Expenses

For the years ended December 31, 2021 and 2020

	2021				2020			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Compensatory expenses								
Salaries and wages								
Staffing and outsourcing	\$ 958,390	\$ -	\$ -	\$ 958,390	\$ 994,508	\$ -	\$ -	\$ 994,508
Support services	96,789	167,978	105,562	370,329	41,000	206,452	132,546	379,998
Service delivery	90,838	-	5,825	96,663	206,627	-	-	206,627
Retirement and health benefits	24,268	21,726	14,407	60,401	21,325	17,779	11,414	50,518
Payroll taxes	88,672	12,997	8,618	110,287	97,193	16,154	10,371	123,718
Total compensatory expenses	1,258,957	202,701	134,412	1,596,070	1,360,653	240,385	154,331	1,755,369
Other expenses								
Materials and supplies	130,743	-	48,758	179,501	60,597	-	51,447	112,044
Insurance	160,043	3,109	2,510	165,662	123,499	3,925	2,946	130,370
Depreciation	72,133	4,007	4,007	80,147	67,892	3,772	3,772	75,436
Utilities	68,157	3,786	3,786	75,729	58,974	3,276	3,276	65,526
Repairs and maintenance	68,149	3,786	3,786	75,721	47,207	2,623	2,623	52,453
Professional fees	-	31,146	-	31,146	-	17,271	-	17,271
Matching funds	28,877	-	-	28,877	36,627	-	-	36,627
Computer supplies	-	27,725	-	27,725	-	16,325	-	16,325
Staff development	-	20,188	-	20,188	-	11,417	-	11,417
Office	-	19,100	-	19,100	-	19,633	-	19,633
Property taxes	11,155	620	620	12,395	9,818	545	545	10,908
Miscellaneous	9,037	2,383	-	11,420	16,370	2,971	-	19,341
Marketing	5,622	-	5,623	11,245	4,077	-	4,078	8,155
Bank charges	-	10,682	-	10,682	-	12,442	-	12,442
Telephone	7,939	1,533	931	10,403	9,589	2,857	1,442	13,888
Meals	9,115	-	-	9,115	4,337	-	-	4,337
Drug testing	8,777	-	-	8,777	9,543	-	-	9,543
Auto and transportation	6,546	-	-	6,546	6,315	-	-	6,315
Bad debt	-	2,500	-	2,500	-	7,664	-	7,664
Assistance	2,471	-	-	2,471	4,708	-	-	4,708
Total compensatory and other expenses	1,847,721	333,266	204,433	2,385,420	1,820,206	345,106	224,460	2,389,772
Less: Direct staffing and outsourcing costs reported in the Statement of Activities	1,166,655	-	-	1,166,655	1,171,152	-	-	1,171,152
Total expenses	\$ 681,066	\$ 333,266	\$ 204,433	\$ 1,218,765	\$ 649,054	\$ 345,106	\$ 224,460	\$ 1,218,620

See accompanying notes to the financial statements.

ADVANCE MEMPHIS

Statements of Cash Flows

For the years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 215,940	\$ 242,158
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for doubtful accounts	2,500	7,664
Depreciation	80,147	75,436
Loss on disposal of property and equipment	6,254	-
Changes in operating assets and liabilities:		
Accounts receivable	8,112	(44,580)
Grants receivable	5,625	32,500
Other receivables	(500)	5,923
Prepaid insurance	2,431	554
Accounts payable	19,786	(69,031)
Accrued salaries and retirement	(8,159)	(15,094)
Other accrued expenses	193	373
Net cash provided by operating activities	332,329	235,903
Cash flows from investing activities		
Purchases of property and equipment	(462,530)	(78,585)
Net cash used in investing activities	(462,530)	(78,585)
Cash flows from financing activities		
Net change in line of credit	88,054	(190,676)
Net cash provided by (used in) financing activities	88,054	(190,676)
Change in cash and cash equivalents	(42,147)	(33,358)
Cash and cash equivalents, beginning of year	182,707	216,065
Cash and cash equivalents, end of year	\$ 140,560	\$ 182,707
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 2,126	\$ 6,087

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 basis 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.

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, 2021 and 2020.

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 restrictions 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.

Revenue from Contracts with Customers

Program related income is generated by the Organization's operational activities and, therefore, considered separate from the Organization's contributed support. The Organization has evaluated its staffing and outsourcing contracts and determined that its contracts qualify for recognizing revenue over the life of the contract. The primary criterion management has identified is that the customer simultaneously receives and consumes the benefit provided by the Organization's performance as the Organization performs its obligations under the contract. The Organization uses an input method for measuring progress on its contracts. Input methods use measures that are incurred in the process of satisfying performance obligations. Accordingly, management considers the amount of labor time incurred to be the best available measure of inputs to the contract. For multiple contracts with a single customer, the Organization accounts for each contract separately.

Donated Materials and Services

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Tax Status

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 2018.

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, 2021 and 2020.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include the following:

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

Subsequent Events

Management has evaluated subsequent events through August 3, 2022, the date the financial statements were available to be issued.

Note 3 – Property and Equipment

As of December 31, 2021 and 2020, property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 2,093,692	\$ 1,700,395
Land	214,386	214,386
Furniture and fixtures	150,810	112,922
Machinery and equipment	43,501	98,696
	2,502,389	2,126,399
Accumulated depreciation	(453,147)	(453,286)
Property and equipment, net	\$ 2,049,242	\$ 1,673,113
Depreciation expense for the year	\$ 80,147	\$ 75,436

Note 4 – Line of Credit

As of December 31, 2021, the Organization had a revolving line of credit agreement with a financial institution for a maximum borrowing amount of \$100,000. The agreement provides for payment of interest monthly at the Wall Street Journal Prime minus 0.25% (3% at December 31, 2021). As of December 31, 2021, the line of credit had an outstanding balance of \$88,054. As of December 31, 2020, the line of credit had no amounts outstanding. The line matured June 30, 2022 and the Organization does not intend to renew at this time.

Note 5 – Net Assets with Donor Restrictions

As of December 31, 2021 and 2020, net assets with donor restrictions restricted by time totaled \$204,000 and \$209,125, respectively.

For the years ended December 31, 2021 and 2020, net assets released from restrictions by the passage of time totaled \$178,625 and \$182,125, respectively.

Note 6 – Paycheck Protection Program Funding

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. In April 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. The terms of the PPP loan indicate that the Organization must utilize the proceeds to fund/offset qualifying expenses over an eight-week period and specify that the Organization must repay the principal of the loan back plus interest, which accrues at 1% semi-annually. Upon maturity, the loan and accrued interest payable may be forgiven if the Organization fulfills the agreed upon terms. The Organization elected to treat the PPP loan in accordance with the FASB *ASC 958-605, Not-for-Profit Entities: Revenue Recognition*, government grant contribution model. Under this model, an entity may recognize the expected forgiveness of the loan into revenue in relation to the expenses incurred if it believes all the conditions for forgiveness have been substantially met. The Organization expended the required funds and believes it substantially met all of the requirements for forgiveness during the year ended December 31, 2020. Therefore, Paycheck Protection Program funding of \$221,000 has been recognized as support in the accompanying statements of activities and no loan balance is reflected in the statements of financial position. The Organization applied for, and received, forgiveness for the PPP loan in full from the SBA in November 2020.

Note 7 – Direct Staffing and Outsourcing Costs

For the years ended December 31, 2021 and 2020, direct staffing and outsourcing costs consisted of the following:

	<u>2021</u>	<u>2020</u>
Wages	\$ 958,390	\$ 994,508
Payroll taxes	74,154	77,817
Workers compensation and health insurance	<u>134,111</u>	<u>98,827</u>
Direct staffing and outsourcing costs	<u>\$ 1,166,655</u>	<u>\$ 1,171,152</u>

Note 8 – 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 made contributions of \$25,522 for the year ended December 31, 2021. The Organization did not make any contributions for the year ended December 31, 2020.

Note 9 – Concentrations of Risk

For the year ended December 31, 2021, three customers accounted for approximately eighty-nine percent (89%) of accounts receivable and approximately sixty-two (62%) of gross revenues from staffing and outsourcing services. For the year ended December 31, 2020, four customers accounted for approximately sixty-seven percent (67%) of accounts receivable and approximately fifty-eight (58%) of gross revenues from staffing and outsourcing services.

Note 10 – 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, 2021 and 2020, the Organization's current unrestricted financial assets available within one year of the statement of financial position date for general expenditure were as follows:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 140,560	\$ 182,707
Accounts receivable	142,109	152,721
Grants receivable	204,000	209,625
Other receivables	<u>2,888</u>	<u>2,388</u>
Total financial assets	<u>\$ 489,557</u>	<u>\$ 547,441</u>
Amounts not available to be used within one year:		
Restricted net assets expected to be available in greater than one year	<u>-</u>	<u>(30,000)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 489,557</u>	<u>\$ 517,441</u>