

ADVANCE MEMPHIS
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 10, 2019

ADVANCE MEMPHIS**Statements of Financial Position****December 31, 2018 and 2017**

	ASSETS	<u>2018</u>	<u>2017</u>
Current assets			
Cash and cash equivalents		\$ 222,505	\$ 166,092
Accounts receivable		120,041	90,341
Grants receivable		89,750	198,500
Other receivables		7,613	6,505
Prepaid insurance		7,945	10,167
Total current assets		<u>447,854</u>	471,605
Property and equipment, net		<u>1,460,405</u>	790,466
Total assets		<u><u>\$ 1,908,259</u></u>	<u><u>\$ 1,262,071</u></u>
	LIABILITIES AND NET ASSETS		
Current liabilities			
Accounts payable		\$ 8,033	\$ 12,587
Accrued salaries and retirement		16,706	15,429
Prepaid rent		16,848	3,000
Other accrued expenses		4,407	1,447
Total current liabilities		<u>45,994</u>	32,463
Net assets			
Without donor restrictions		1,653,527	937,738
With donor restrictions		208,738	291,870
Total net assets		<u>1,862,265</u>	1,229,608
Total liabilities and net assets		<u><u>\$ 1,908,259</u></u>	<u><u>\$ 1,262,071</u></u>

See accompanying notes to the financial statements.

ADVANCE MEMPHIS

Statements of Activities

For the years ended December 31, 2018 and 2017

	2018			2017		
	<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	\$ 1,443,493	\$ -	\$ 1,443,493	\$ 1,248,432	\$ -	\$ 1,248,432
Less: Direct staffing and outsourcing costs	1,353,078	-	1,353,078	1,159,099	-	1,159,099
Net revenues	90,415	-	90,415	89,333	-	89,333
Support and other revenues						
Grants	962,546	103,276	1,065,822	388,130	251,870	640,000
Contributions	626,504	32,250	658,754	376,096	40,000	416,096
Other income	86,503	-	86,503	115,445	-	115,445
Total net revenues and support and other revenues	1,765,968	135,526	1,901,494	969,004	291,870	1,260,874
Reclassifications						
Net assets released from restriction	218,658	(218,658)	-	68,125	(68,125)	-
Total net revenues, support and other revenues, and reclassifications	1,984,626	(83,132)	1,901,494	1,037,129	223,745	1,260,874
Expenses						
Program services, net of direct costs	469,741	-	469,741	394,969	-	394,969
Management and general	740,239	-	740,239	633,799	-	633,799
Fundraising	58,857	-	58,857	84,366	-	84,366
Total expenses	1,268,837	-	1,268,837	1,113,134	-	1,113,134
Change in net assets	715,789	(83,132)	632,657	(76,005)	223,745	147,740
Net assets, beginning of year	937,738	291,870	1,229,608	1,013,743	68,125	1,081,868
Net assets, end of year	\$ 1,653,527	\$ 208,738	\$ 1,862,265	\$ 937,738	\$ 291,870	\$ 1,229,608

See accompanying notes to the financial statements.

ADVANCE MEMPHIS

Statements of Functional Expenses

For the years ended December 31, 2018 and 2017

	2018				2017			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Compensatory expenses								
Salaries and wages								
Staffing and outsourcing	\$ 1,228,052	\$ -	\$ -	\$ 1,228,052	\$ 1,035,318	\$ -	\$ -	\$ 1,035,318
Support services	-	431,967	18,390	450,357	-	308,608	21,060	329,668
Service delivery	152,727	-	1,566	154,293	151,369	-	1,727	153,096
Retirement and health benefits	60,484	92,807	2,843	156,134	-	162,337	11,987	174,324
Payroll taxes	110,231	33,396	1,577	145,204	90,077	30,186	1,743	122,006
Total compensatory expenses	<u>1,551,494</u>	<u>558,170</u>	<u>24,376</u>	<u>2,134,040</u>	1,276,764	501,131	36,517	1,814,412
Other expenses								
Insurance	36,735	27,535	-	64,270	39,637	28,827	-	68,464
Materials and supplies	33,302	-	28,175	61,477	26,579	-	40,667	67,246
Computer supplies	-	55,588	-	55,588	-	8,714	-	8,714
Utilities	46,676	5,491	2,746	54,913	50,517	5,943	2,972	59,432
Depreciation	43,050	5,065	2,532	50,647	43,908	5,166	2,583	51,657
Office	-	31,192	-	31,192	-	30,904	-	30,904
Professional fees	-	21,537	-	21,537	-	20,260	-	20,260
Miscellaneous	21,253	-	-	21,253	21,466	-	-	21,466
Telephone	9,251	10,279	1,028	20,558	14,643	16,271	1,627	32,541
Staff development	-	20,367	-	20,367	-	12,155	-	12,155
Matching funds	20,111	-	-	20,111	20,132	-	-	20,132
Drug testing	16,697	-	-	16,697	12,330	-	-	12,330
Repairs and maintenance	15,929	-	-	15,929	24,552	-	-	24,552
Auto and transportation	14,174	-	-	14,174	8,825	-	-	8,825
Meals	11,605	-	-	11,605	10,276	-	-	10,276
Bank charges	-	5,015	-	5,015	-	4,428	-	4,428
Assistance	2,542	-	-	2,542	4,439	-	-	4,439
Total compensatory and other expenses	<u>1,822,819</u>	<u>740,239</u>	<u>58,857</u>	<u>2,621,915</u>	1,554,068	633,799	84,366	2,272,233
Less: Direct staffing and outsourcing costs reported in the Statement of Activities	<u>1,353,078</u>	-	-	<u>1,353,078</u>	1,159,099	-	-	1,159,099
Total expenses	<u>\$ 469,741</u>	<u>\$ 740,239</u>	<u>\$ 58,857</u>	<u>\$ 1,268,837</u>	<u>\$ 394,969</u>	<u>\$ 633,799</u>	<u>\$ 84,366</u>	<u>\$ 1,113,134</u>

See accompanying notes to the financial statements.

ADVANCE MEMPHIS

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 632,657	\$ 147,740
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	50,647	51,657
Changes in operating assets and liabilities		
Accounts receivable	(29,700)	94,389
Grants receivable	108,750	(130,375)
Other receivables	(1,108)	(2,815)
Prepaid insurance	2,222	12,755
Accounts payable	(4,554)	(14,589)
Accrued salaries and wages	1,277	(50,222)
Prepaid rent	13,848	(3,000)
Other accrued expenses	2,960	(3,277)
Net cash provided by operating activities	776,999	102,263
Cash flows from investing activities		
Purchases of property and equipment	(720,586)	(16,884)
Net cash used in investing activities	(720,586)	(16,884)
Cash flows from financing activities		
Net proceeds from line of credit	-	(73,382)
Net cash used in financing activities	-	(73,382)
Change in cash and cash equivalents	56,413	11,997
Cash and cash equivalents, beginning of year	166,092	154,095
Cash and cash equivalents, end of year	\$ 222,505	\$ 166,092
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ -	\$ 1,725

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 nonprofit organizations, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Recently Adopted Accounting Standards

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016–14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (“ASU 2016–14”), effective for annual periods beginning after December 15, 2017, with early adoption permitted. During 2018, the Organization adopted ASU 2016–14 and has implemented the requirements retrospectively. The most significant changes within ASU 2016–14 impacted the following areas:

Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.

Investment Return – Investment return will be reported net of external and direct internal investment expenses, and those netted expenses are no longer required to be disclosed.

Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.

Liquidity and Availability of Resources – ASU 2016–14 requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity’s financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.

Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. ASU 2016–14 removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Note 2 – Summary of Significant Accounting Policies (continued)*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, 2018 and 2017.

Grants Receivable

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

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 2015.

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, 2018 and 2017.

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*

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

Subsequent Events

Management has evaluated subsequent events through September 10, 2019, the date the financial statements were available to be issued.

Note 3 – Property and Equipment

As of December 31, 2018 and 2017, property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 1,399,055	\$ 864,831
Land	214,386	35,646
Furniture and fixtures	82,028	74,406
Computers and equipment	<u>76,662</u>	<u>76,662</u>
	1,772,131	1,051,545
Accumulated depreciation	<u>(311,726)</u>	<u>(261,079)</u>
Property and equipment, net	<u>\$ 1,460,405</u>	<u>\$ 790,466</u>
Depreciation expense for the year	<u>\$ 50,647</u>	<u>\$ 51,657</u>

Note 4 – With Donor Restriction Net Assets

As of December 31, 2018 and 2017, temporarily restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Time restrictions	\$ 89,750	\$ 198,500
Purpose restrictions		
TAG program	63,212	49,054
960 Bellevue property and improvements	40,776	-
Getting Ready to Work Program	10,000	-
Financial Literacy course	5,000	-
IDA program	-	15,931
Suzette warehouse equipment	-	20,000
Forklift training and repairs	-	8,385
	<u>\$ 208,738</u>	<u>\$ 291,870</u>

For the years ended December 31, 2018 and 2017, 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>2018</u>	<u>2017</u>
Time restrictions	\$ 168,500	\$ 68,125
Purpose restrictions	<u>50,158</u>	-
	<u>\$ 218,658</u>	<u>\$ 68,125</u>

Note 5 – Direct Staffing and Outsourcing Costs

For the years ended December 31, 2018 and 2017, direct staffing and outsourcing costs consisted of the following:

	<u>2018</u>	<u>2017</u>
Wages	\$ 1,228,052	\$ 1,035,318
Payroll taxes	88,291	84,144
Workers compensation insurance	<u>36,735</u>	<u>39,637</u>
Direct staffing and outsourcing costs	<u>\$ 1,353,078</u>	<u>\$ 1,159,099</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, 2018. The Organization made contributions of \$47,398 for the year ended December 31, 2018.

Note 7 – Concentrations of Risk

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. 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.

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, 2018 and 2017, 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>2018</u>	<u>2017</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 222,505	\$ 166,092
Accounts receivable	120,041	90,341
Grants receivable	89,750	198,500
Other receivables	<u>7,613</u>	<u>6,505</u>
Total financial assets	<u>\$ 439,909</u>	<u>\$ 461,438</u>
Amounts not available to be used within one year:		
Restricted net assets expected to be available in greater than one year	<u>(98,138)</u>	<u>(73,212)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 341,771</u>	<u>\$ 388,226</u>