

**PROJECT TRANSFORMATION
TENNESSEE, INC.
FINANCIAL STATEMENTS**

Year Ended December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project Transformation Tennessee, Inc.

Opinion

We have audited the accompanying financial statements of Project Transformation Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Transformation Tennessee, Inc. as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Project Transformation Tennessee, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management 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, 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 Project Transformation Tennessee, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Project Transformation Tennessee, Inc'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 Project Transformation Tennessee, Inc'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.

Grannis & Associates, P.C.

Murfreesboro, TN
June 7, 2022

PROJECT TRANSFORMATION TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2021

ASSETS

Current Assets:

Cash and cash equivalents	\$ 911,067
Prepaid expenses	20,554
Employee Retention Credit receivable	207,956
Unconditional promises to give, net	<u>76,884</u>
Total Current Assets	<u>1,216,461</u>

Long-term Unconditional Promises to Give, Net	50,017
Furniture, Equipment and Improvements, Net	19,039
Cash Restricted for Afterschool and Summer Programs	<u>15,000</u>
Total Assets	<u>\$ 1,300,517</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 6,929
Accrued expenses	4,956
Credit cards payable	<u>2,170</u>
Total Current Liabilities	<u>14,055</u>

Net Assets:

Without donor restrictions	1,144,561
With donor restrictions	<u>141,901</u>
Total Net Assets	<u>1,286,462</u>
Total Liabilities and Net Assets	<u>\$ 1,300,517</u>

See Accompanying Notes and Independent Auditors' Report

PROJECT TRANSFORMATION TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

SUPPORT, REVENUES AND RECLASSIFICATIONS	Without Donor Restrictions	With Donor Restrictions	Total
Registration fees	\$ 3,600	\$ -	\$ 3,600
Private gifts and grants	774,071	82,605	856,676
Noncash donations	39,009	-	39,009
Government grants	30,698	-	30,698
Noncash government grants	7,028	-	7,028
Fundraising income	8,305	-	8,305
Gain (loss) on disposal of fixed assets	(47)	-	(47)
Interest income	1,861	-	1,861
Employee Retention Credit income	207,956	-	207,956
Other income	585	-	585
Total Support and Revenues	<u>1,073,066</u>	<u>82,605</u>	<u>1,155,671</u>
Net assets released from restrictions	<u>239,742</u>	<u>(239,742)</u>	<u>-</u>
Total Support, Revenues and Reclassifications	<u>1,312,808</u>	<u>(157,137)</u>	<u>1,155,671</u>
Expenses:			
Program activities			
Afterschool and summer program	782,860	-	782,860
Supporting activities			
Management and general	147,626	-	147,626
Fundraising	100,892	-	100,892
Total supporting activities	<u>248,518</u>	<u>-</u>	<u>248,518</u>
Total Expenses	<u>1,031,378</u>	<u>-</u>	<u>1,031,378</u>
Change in net assets	281,430	(157,137)	124,293
Net assets, beginning of year	<u>863,131</u>	<u>299,038</u>	<u>1,162,169</u>
Net assets, end of year	<u>\$ 1,144,561</u>	<u>\$ 141,901</u>	<u>\$ 1,286,462</u>

See Accompanying Notes and Independent Auditors' Report

PROJECT TRANSFORMATION TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2021

	Program Activities	Supporting Activities		Total Functional Expenses
	Afterschool and Summer Program	Management and General	Fundraising	
Advertising and marketing	\$ -	\$ 6,422	\$ -	\$ 6,422
Bank fees	-	3,425	-	3,425
Contracted services	-	7,800	-	7,800
Depreciation	697	1,046	-	1,743
Employee benefits	37,088	2,714	5,428	45,230
Enrichment program	92,549	-	-	92,549
Facilities and equipment	29,442	7,361	-	36,803
Fundraising	-	-	6,866	6,866
Insurance	-	17,330	-	17,330
Intern expenses	20,072	-	-	20,072
License and permits	-	260	-	260
Membership and dues	-	473	-	473
Office expenses	-	2,774	-	2,774
Payroll taxes	42,059	3,078	6,155	51,292
Professional development	2,095	233	-	2,328
Professional services	-	30,969	-	30,969
Rent	-	15,150	-	15,150
Salaries and wages	548,398	42,930	82,443	673,771
Supplies	1,414	376	-	1,790
Travel and conventions	5,015	1,254	-	6,269
Utilities	4,031	4,031	-	8,062
Total	\$ 782,860	\$ 147,626	\$ 100,892	\$ 1,031,378

See Accompanying Notes and Independent Auditors' Report

PROJECT TRANSFORMATION TENNESSEE, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 124,293
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Change in operating assets and liabilities:	
Increase in prepaid expenses	(138)
Increase in employee retention credit receivable	(207,956)
Decrease in unconditional promises to give	148,170
Increase in accounts payable	4,770
Decrease in accrued expense	(2,436)
Decrease in credit cards payable	(1,207)
Decrease in cash restricted for afterschool and summer programs	44,032
Change in allowance for doubtful accounts	(29,634)
Change in pledge discount	(5,431)
Loss on disposal of fixed assets	47
Depreciation	1,743
Net Cash Provided by Operating Activities	<u>76,253</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Purchases of property and equipment	<u>(10,361)</u>
Net Cash Used by Financing Activities	<u>(10,361)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	65,892
Cash and Cash Equivalents at Beginning of Year	<u>845,175</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 911,067</u></u>

See Accompanying Notes and Independent Auditors' Report

PROJECT TRANSFORMATION TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Project Transformation Tennessee, Inc. (the Organization) are as follows:

ORGANIZATION AND NATURE OF ACTIVITIES

The Organization (a Tennessee corporation) was established on August 30, 2011. The purpose of the corporation is to provide leadership development and career and ministry opportunities for young adults as well as offering afterschool and summer programs that encourage literacy and enrich the lives of children and youth in low-income neighborhoods. The Organization is a Chapter of Project Transformation National.

BASIS OF PRESENTATION

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP); consequently, revenue and gains are recognized when earned, and expenses and losses are recognized when incurred.

BASIS OF PRESENTATION

The Organization classifies information regarding its financial position and activities based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

- > 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.
- > Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

PROPERTY AND EQUIPMENT

Property and equipment in excess of \$1,000 are carried at cost and are being depreciated using the straight-line method over their estimated useful lives of 7 years. Maintenance and repairs are charged to expense in the period incurred. Depreciation expense for the year is \$1,743.

DONATED PROPERTY AND EQUIPMENT

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment earnings are presented net of investment fees.

PROJECT TRANSFORMATION TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

DONATED SERVICES

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with the summer and afterschool programs.

CONTRIBUTIONS

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

PROMISES TO GIVE

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. The allowance for doubtful accounts totaled \$33,403 at December 31, 2021.

CONTRACT REVENUE

The Organization's revenue includes amounts for registration fees for the different afterschool or summer programs being offered to children. These services are considered to be a single performance obligation that is satisfied at the point in time when the service is rendered. Registration fees are required to be paid in advance of services being provided. However, payments are generally received in the same period as the service being provided. These amounts are recorded in the Statement of Activities as registration fee income in the period that the performance obligation has been satisfied. Registration fees for future periods are recorded as deferred revenues on the Statement of Financial Position at year-end.

PROJECT TRANSFORMATION TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

INCOME TAXES

Project Transformation Tennessee, Inc. is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The Financial Accounting Standards Board issued ASC 740-10, which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. There was no impact to the Organization's financial statements as a result of the implementation of ASC 740-10.

COST ALLOCATION

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time spent. Other expense items are allocated on the basis of estimates of actual usage within each functional category.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents and unconditional promises to give to be received in less than one year approximate fair value because of the short maturity of those financial instruments. The fair value of unconditional promises to give to be received in more than one year is determined based on future cash flows discounted at 3.5%.

The Organization's financial instruments at December 31, 2021, are summarized as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and equivalents	\$ 911,067	\$ 911,067
Cash restricted for afterschool and summer programs	15,000	15,000
Unconditional promises to give, net	126,901	126,901

ADVERTISING

The Organization follows the policy of charging the costs of advertising and marketing to expense as incurred.

NOTE B - CONCENTRATION OF CREDIT RISK

The Organization maintains a bank account in one commercial bank. Cash in this account at times exceeded \$250,000. The Federal Deposit Insurance Corporation (FDIC) secures this bank account up to \$250,000. At December 31, 2021, the Organization's uninsured cash balance was \$8. The Organization also maintains an ICS account which allows balances over \$250,000 to be insured by placing these funds in other ICS network banks in order to take advantage of that institutions FDIC limit. All amounts in this account were considered insured at December 31, 2021.

PROJECT TRANSFORMATION TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE C - MAJOR DONORS

Grants, donations, and promises to give are generally due from individuals and organizations primarily from Tennessee. Three donors aggregated approximately 12% of total support and revenue in 2021.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021, consist of:

Office equipment	\$ 14,015
Leasehold improvements	11,595
Less accumulated depreciation	<u>(6,571)</u>
	<u>\$ 19,039</u>

NOTE E - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises for which payment has not been received are included in the financial statements as pledges receivable and support in the appropriate net asset category. The Organization has discounted long-term pledges to their estimated net present value, using a discount rate of 3.5%.

Promises to give expected to be collected in:

Less than one year	\$ 100,964
One to five years	65,250
More than five years	<u>800</u>
	167,014
Less allowance for uncollectible promises to give	(33,403)
Less discount on promises to give	<u>(6,710)</u>
Net unconditional promises to give	<u>\$ 126,901</u>

NOTE F - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year-end	\$ 1,052,968
Less those unavailable for general expenditures within one year, due to:	
Restricted by donor with time or purpose restrictions	(50,017)
Subject to appropriation and satisfaction of donor restrictions	<u>(15,000)</u>
Financial assets available to meet cash needs for general expenditures within one year.	<u>\$ 987,951</u>

The Organization is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

PROJECT TRANSFORMATION TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE G - RETIREMENT PLAN

The Organization maintains a 403(b) plan for the benefit of its eligible employees. The Organization has agreed to match each participant's salary deferrals dollar-for-dollar up to 3% of each participants compensation. The Organization's contributions to the plan for the year ended December 31, 2021 are \$8,355.

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted follow the following purposes and periods:

Subject to expenditure for specified purpose:	
Summer program - Murfreesboro	\$ 10,000
Summer program - Nashville	5,000
Subject to passage of time - for periods after December 31, 2021	<u>126,901</u>
	<u>\$ 141,901</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors during fiscal years ended December 31, 2021, are as follows:

Purpose restrictions accomplished:	
Afterschool and summer programs	\$ 48,569
Subject to passage of time	<u>191,173</u>
	<u>\$ 239,742</u>

NOTE I - OPERATING LEASES

The Organization entered into a sublease agreement with Scarritt Bennett Center on August 14, 2017 for its office space. The initial lease term was for two years with a two year extensions available if requested 90 days prior to expiration of the current term. The Organization extended this lease on August 15, 2021 for an additional two years. Current lease payments are \$1,250. Rent expense under this sublease totaled \$15,150 in 2021.

The following are future minimum lease payments required under the lease:

2022	<u>\$ 8,750</u>
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NOTE J - CONSEQUENCES OF COVID-19

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease ("COVID-19") as a pandemic, and the Organization expects operations to be affected as the virus continues to proliferate. The Organization has adjusted certain aspects of operations to protect employee's and those they serve while still meeting the needs of the organization. The Organization will continue to monitor the situation closely and it is possible that they will implement further measures. In light of the uncertainty as to the severity and duration of the pandemic, the impact on revenues, support, and financial position is uncertain at this time.

PROJECT TRANSFORMATION TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE K - FAIR VALUE MEASUREMENTS

Equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. Investments in stocks and bonds, which are listed on national securities exchanges, quoted on NASDAQ or on the over-the-counter market are valued at the last reported sales price, or in the absence of a recorded sale, at the value between the most recent bid and asked prices. Investments without readily determinable fair values are carried at estimated fair value. Gains and losses on investments are reported in the statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulations.

FASB ASC 820-10 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market prices observability used in measuring fair value.

This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level I - Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level II input could result in the Level II measurement becoming a Level III measurement.

Level III - Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following is the fair value measurement of investments measured on a recurring basis at December 31, 2021:

**Fair Value Measurements at Reporting
Date Using:**

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash and cash equivalents	\$ 100	\$ 100

NOTE L - SUBSEQUENT EVENTS

Subsequent events were evaluated through June 7, 2022, which is the date the financial statements were available to be issued.

PROJECT TRANSFORMATION TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE M - EMPLOYEE RETENTION CREDIT

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020, and the subsequent extension of the CARES Act, the Organization is eligible for a refundable employee retention credit subject to certain criteria. The Organization recognized as other income a \$207,956 employee retention credit during the year ended December 31, 2021. Such claimed employee retention credit has not been received at year-end, but can be reasonably expected to be received shortly after. The total amount of the credit is recorded as ERC receivable on the statement of financial position.

NOTE N - NONCASH DONATIONS

The Organization received the following gifts-in-kind for the year ended December 31, 2021:

Supplies	\$ 4,396
Donated food - organizations	34,613
Donated food - government	<u>7,028</u>
Total noncash donations	<u>\$ 46,037</u>

All gifts-in-kind received by the Organization were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.