

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

Year Ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project Transformation Tennessee, Inc.

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, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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.

Accountant's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from 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 Project Transformation Tennessee, Inc. as of December 31, 2017, 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.

Grannis & Associates, P.C.

Murfreesboro, TN

June 18, 2018

PROJECT TRANSFORMATION TENNESSEE, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

Cash and cash equivalents	\$ 399,538
Prepaid expenses	11,227
Unconditional promises to give, net	269,082
Grants receivable	5,000
Investment	143
Furniture, equipment, and improvements, net	16,470
Other assets	350
Cash restricted for afterschool and summer programs	52,100
Total Assets	<u>\$ 753,910</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 8,017
Accrued expense	7,129
Total Liabilities	<u>15,146</u>

Net Assets:

Unrestricted	417,581
Temporarily restricted	321,183
Total Net Assets	<u>738,764</u>

Total Liabilities and Net Assets	<u>\$ 753,910</u>
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PROJECT TRANSFORMATION TENNESSEE, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

SUPPORT, REVENUES AND RECLASSIFICATIONS	Unrestricted	Temporarily Restricted	Total
Registration Fees	\$ 5,310	\$ -	\$ 5,310
Private gifts and grants	496,190	319,483	815,673
Noncash donations	29,921	-	29,921
Noncash government grants	62,101	-	62,101
Fund-raising income	21,149	-	21,149
Other income	754	-	754
Total Support and Revenues	<u>615,425</u>	<u>319,483</u>	<u>934,908</u>
Net assets released from restrictions	305,214	(305,214)	-
Total Support, Revenues and Reclassifications	<u>920,639</u>	<u>14,269</u>	<u>934,908</u>
Expenses:			
Program Services	604,436	-	604,436
Management and General	109,079	-	109,079
Fundraising	80,465	-	80,465
Total Expenses	<u>793,980</u>	<u>-</u>	<u>793,980</u>
Change in Net Assets	126,659	14,269	140,928
Net Assets, Beginning of Year	290,922	306,914	597,836
Net Assets, End of Year	<u>\$ 417,581</u>	<u>\$ 321,183</u>	<u>\$ 738,764</u>

See Accompanying Notes and Independent Auditors' Report

PROJECT TRANSFORMATION TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Total Functional Expenses
Advertising and marketing	\$ 3,297	\$ 824	\$ -	\$ 4,121
Bank fees	-	1,832	-	1,832
Depreciation	647	970	-	1,617
Employee benefits	19,515	3,855	723	24,093
Enrichment program	97,581	-	-	97,581
Facilities and equipment	4,321	1,080	-	5,401
Fundraising	-	-	3,956	3,956
Insurance	-	11,346	-	11,346
Intern expenses	81,231	-	-	81,231
License and permits	-	499	-	499
Membership and dues	350	-	-	350
Office expenses	-	7,836	-	7,836
Payroll taxes	26,555	2,496	5,344	34,395
Professional development	-	3,985	-	3,985
Professional services	-	25,551	-	25,551
Rent	-	11,550	-	11,550
Salaries and wages	350,018	32,902	70,442	453,362
Supplies	7,932	2,109	-	10,041
Travel and conventions	10,744	-	-	10,744
Utilities	2,245	2,244	-	4,489
Total	<u>\$ 604,436</u>	<u>\$ 109,079</u>	<u>\$ 80,465</u>	<u>\$ 793,980</u>

See Accompanying Notes and Independent Auditors' Report

PROJECT TRANSFORMATION TENNESSEE, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 140,928
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Change in operating assets and liabilities:	
Increase in prepaid expenses	(1,547)
Decrease in unconditional promises to give	36,109
Increase in grants receivable	(5,000)
Decrease in accounts payable	(4,125)
Increase in accrued expense	4,182
Decrease in cash restricted for afterschool and summer programs	17,210
Increase security deposits	(350)
Change in allowance for doubtful accounts	(67,752)
Change in pledge discount	165
Depreciation	1,617
Net Cash Provided by Operating Activities	<u>121,437</u>

CASH FLOW FROM INVESTING ACTIVITIES

Purchase of fixed assets	<u>(13,249)</u>
Net Cash Used by Investing Activities	<u>(13,249)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	108,188
Cash and Cash Equivalents at Beginning of Year	<u>291,350</u>
Cash and Cash Equivalents at End of Year	<u>\$ 399,538</u>

See Accompanying Notes and Independent Auditors' Report

PROJECT TRANSFORMATION TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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 ACCOUNTING

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 reports information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- > Unrestricted net assets - Net assets not subject to donor imposed stipulations.
- > Temporarily restricted net assets - Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- > Permanently restricted net assets - Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

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 \$1,617.

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 unrestricted support unless the donor has restricted the donated asset to a specific purpose.

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.

PROJECT TRANSFORMATION TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2017

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

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers all demand deposits to be cash equivalents.

DONATED SERVICES

No amounts have been reflected in the financial statements for donated services. The Organization 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 increases in unrestricted, temporarily, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the donor restrictions. When restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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.

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, 2017, are summarized as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and equivalents	\$ 399,538	\$ 399,538
Cash restricted for afterschool and summer programs	52,100	52,100
Unconditional promises to give	269,082	269,082

PROJECT TRANSFORMATION TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Unconditional promises to give are stated net of an allowance for doubtful accounts. The Organization estimates the allowance based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful accounts totaled \$71,272 at December 31, 2017.

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, 2017, the Organization had a balance of \$168,104 in uninsured cash.

NOTE C - MAJOR DONORS

Promises to give are generally due from individuals and organizations primarily from Tennessee. Three donors aggregated approximately 21% of total revenue in 2017.

NOTE D - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises for which payment has not been received are included in the financial statements as pledges receivable and revenue 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	\$ 181,079
One to five years	174,919
More than five years	<u>360</u>
	<u>356,358</u>
Less allowance for uncollectible promises to give	(71,272)
Less discount on promises to give	<u>(16,004)</u>
Net unconditional promises to give	<u><u>\$ 269,082</u></u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017, consist of:

Office equipment	\$ 9,514
Leasehold Improvements	11,595
Less accumulated depreciation	<u>(4,639)</u>
	<u><u>\$ 16,470</u></u>

PROJECT TRANSFORMATION TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE F - 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, 2017 were \$4,313.

NOTE G - RESTRICTIONS ON NET ASSETS

Unrestricted net assets at December 31, 2017 are comprised of the following:

Undesignated	\$ 401,112
Plant assets	16,470
	<u>\$ 417,582</u>

Temporarily restricted net assets at December 31, 2017 are available for the following purposes:

Time restriction	\$ 269,082
Afterschool program	11,006
Summer program - Murfreesboro	6,250
Summer program - Memphis	29,845
Summer program - Nashville	5,000
	<u>\$ 321,183</u>

Net assets released from restriction:

Time restriction	\$ 156,909
Afterschool and summer programs	148,305
	<u>\$ 305,214</u>

NOTE H - SUBSEQUENT EVENTS

Subsequent events were evaluated through June 18, 2018, which is the date the financial statements were available to be issued. After December 31, 2017 the Organization has added two additional program sites and closed one site.

NOTE I - 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 unrestricted net assets unless their use is temporarily or permanently 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.

PROJECT TRANSFORMATION TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE I - FAIR VALUE MEASUREMENTS - (continued)

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, 2017:

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

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash and cash equivalents	\$ 143	\$ 143

NOTE J - OPERATING LEASES

The Organization entered into a lease agreement with Tulip Street United Methodist Church in January 2012 for its office space. The initial lease term was for two years with one year extensions available on an annual basis. The lease terminated in August 2017. Rent expense under this lease totaled \$2,025 in 2017.

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. Current lease payment is \$1,000. Rent expense under this sublease totalled \$4,500 in 2017.

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

2018	\$ 12,000
2019	<u>7,500</u>
	<u>\$ 19,500</u>