

THE SYCAMORE INSTITUTE, INC.

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

And Report of Independent Auditor

THE SYCAMORE INSTITUTE, INC.
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR1-2

FINANCIAL STATEMENTS

Statements of Financial Position 3

Statements of Activities..... 4

Statements of Functional Expenses5-6

Statements of Cash Flows 7

Notes to the Financial Statements.....8-12

Report of Independent Auditor

To the Board of Directors
The Sycamore Institute, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of The Sycamore Institute, Inc. ("Sycamore") (a nonprofit organization), 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 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 The Sycamore Institute, Inc. 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.

Emphasis of Matter

As discussed in Note 9, towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been various mandates and/or requests from federal, state, and local authorities resulting in closures of non-essential businesses, which could negatively impact Sycamore's operations. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant reduction of contributions could negatively impact Sycamore's operations for an indeterminable time period. Other financial impacts could occur though such potential impacts are unknown at this time. Our opinion is not modified with respect to this matter.

Cheng Beikant LLP

Nashville, Tennessee
June 23, 2020

THE SYCAMORE INSTITUTE, INC.
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash	\$ 401,138	\$ 326,082
Contribution receivable	29,048	-
Prepaid expenses and other	24,152	27,329
Property and equipment, net	-	3,697
Total Assets	\$ 454,338	357,108
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 11,615	\$ 12,979
Accrued expenses	19,757	18,416
Total Liabilities	31,372	31,395
Net Assets:		
Without donor restrictions	382,966	223,213
With donor restrictions	40,000	102,500
Total Net Assets	422,966	325,713
Total Liabilities and Net Assets	\$ 454,338	\$ 357,108

THE SYCAMORE INSTITUTE, INC.
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Changes in Net Assets Without Donor Restrictions:		
Contributions and Support Without Donor Restrictions:		
Contributions	\$ 662,302	\$ 161,818
Net assets released from time restrictions	62,500	500,000
Total Contributions and Support Without Donor Restrictions and Releases from Restrictions	724,802	661,818
Interest income	3,660	-
Total Contributions and Support	728,462	661,818
Expenses:		
Program services	485,639	444,477
Supporting Services:		
General and administrative expenses	48,850	47,830
Fundraising expenses	34,220	32,054
Total Expenses	568,709	524,361
Increase in Net Assets Without Donor Restrictions	159,753	137,457
Changes in Net Assets With Donor Restrictions:		
Contributions	-	102,500
Net assets released from time restrictions	(62,500)	(500,000)
Decrease in Net Assets With Donor Restrictions	(62,500)	(397,500)
Change in net assets	97,253	(260,043)
Net assets, beginning of year	325,713	585,756
Net assets, end of year	\$ 422,966	\$ 325,713

THE SYCAMORE INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Salaries	\$ 316,281	\$ 21,520	\$ 22,549	\$ 360,350
Fringe benefits	59,545	2,993	2,943	65,481
	375,826	24,513	25,492	425,831
Rent	59,635	3,892	4,044	67,571
Professional fees	3,235	16,895	2,973	23,103
Travel	17,788	1,583	-	19,371
Dues and subscriptions	8,219	537	557	9,313
Furniture and equipment maintenance	5,607	366	380	6,353
Telephone	4,140	271	280	4,691
Technology support	3,694	241	250	4,185
Depreciation	3,511	186	-	3,697
Insurance	2,557	168	173	2,898
Supplies	1,052	71	71	1,194
Printing	368	-	-	368
Miscellaneous	-	127	-	127
Postage	7	-	-	7
	<u>\$ 485,639</u>	<u>\$ 48,850</u>	<u>\$ 34,220</u>	<u>\$ 568,709</u>

THE SYCAMORE INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Salaries	\$ 288,812	\$ 21,591	\$ 21,591	\$ 331,994
Fringe benefits	55,088	3,034	2,881	61,003
	<u>343,900</u>	<u>24,625</u>	<u>24,472</u>	<u>392,997</u>
Rent	52,541	3,762	3,739	60,042
Professional fees	4,911	16,793	1,755	23,459
Travel	9,848	442	437	10,727
Dues and subscriptions	6,973	499	496	7,968
Depreciation	7,545	397	-	7,942
Technology support	6,680	478	475	7,633
Telephone	4,347	311	309	4,967
Printing	2,942	30	30	3,002
Insurance	2,513	180	179	2,872
Furniture and equipment maintenance	1,805	129	128	2,062
Supplies	429	31	31	491
Miscellaneous	-	150	-	150
Postage	43	3	3	49
	<u>\$ 444,477</u>	<u>\$ 47,830</u>	<u>\$ 32,054</u>	<u>\$ 524,361</u>

THE SYCAMORE INSTITUTE, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 97,253	\$ (260,043)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,697	7,942
Decrease (increase) in:		
Contribution receivable	(29,048)	3,038
Grant receivable	-	500,000
Prepaid expenses	3,177	(5,337)
Increase (decrease) in:		
Accounts payable	(1,364)	10,885
Accrued expenses	1,341	6,042
Net cash provided by operating activities	<u>75,056</u>	<u>262,527</u>
Net increase in cash	75,056	262,527
Cash, beginning of year	<u>326,082</u>	<u>63,555</u>
Cash, end of year	<u><u>\$ 401,138</u></u>	<u><u>\$ 326,082</u></u>

THE SYCAMORE INSTITUTE, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Nature of activities and summary of significant accounting policies

Nature of Activities – The Sycamore Institute, Inc. (“Sycamore”) is an independent, statewide, nonpartisan public policy research center for Tennessee. Sycamore was established to provide reliable, accessible data, and research to inform and support the creation of sound, sustainable public policy for Tennessee.

Basis of Presentation – The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Resources are classified based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

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 the actions of Sycamore or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. At December 31, 2019 and 2018, there are no funds required to be maintained in perpetuity.

Contributions – In accordance with U.S. GAAP for nonprofit organizations, contributions and grants are recognized when the donor makes a promise to give to Sycamore that is, in substance, unconditional. Contributions are recorded as increases in net assets with or without donor restrictions depending on the existence or nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Conditional contributions are recognized when the specified donor conditions have been met.

Contributions receivable are considered fully collectible and no allowance for doubtful accounts has been provided. All such contributions receivable are expected to be collected in less than one year and are considered to approximate fair value.

Functional Allocation of Expenses –The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses that can be directly attributed to a particular function are charged to that function. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. Certain salaries and wages have been allocated to program, management and general, and fundraising based on time and effort estimates made by management.

Cash – Cash consists of a checking account and a money market account held in a financial institution.

Property and Equipment – It is Sycamore’s policy to capitalize all property and equipment over \$2,500. Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in the statements of activities. Depreciation is provided over the estimated useful lives of the assets (currently three years) and computed on the straight-line method.

Vacation Leave – Accruals for accumulated unpaid vacation have been provided and are included as accrued expenses. No accrual is made for accumulated sick leave, since such benefits do not vest.

THE SYCAMORE INSTITUTE, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Nature of activities and summary of significant accounting policies (continued)

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP 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.

Income Taxes – Sycamore is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Sycamore follows guidance for the financial statement recognition measurement and disclosure of uncertain tax positions. Income tax positions must meet a more likely than not recognition threshold to be recognized.

As of December 31, 2019 and 2018, Sycamore did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

Sycamore files U.S. Federal Form 990 for organizations exempt from income tax. Tax returns are subject to audit by the U.S. Internal Revenue Service for three years following the date of filing.

Adoption of New Accounting Pronouncements – In May 2014, the Federal Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for Sycamore for the year ended December 31, 2019 and was adopted as of January 1, 2019 using a modified retrospective approach, which resulted in no cumulative effect adjustment to net assets as of January 1, 2019. There was no change in the timing and amount of revenue recognition as a result of the adoption of this ASU.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard was adopted for the fiscal year ended December 31, 2019. There was no change in the timing and amount of revenue recognition as a result of the adoption of this ASU.

Accounting Policies for Future Pronouncements – In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the fiscal year ending December 31, 2022. Sycamore is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

THE SYCAMORE INSTITUTE, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 2—Property and equipment

Property and equipment consists of the following at December 31:

	2019	2018
Furniture and equipment	\$ 13,146	\$ 13,146
Website	11,000	11,000
	24,146	24,146
Less accumulated depreciation	(24,146)	(20,449)
Property and equipment, net	\$ -	\$ 3,697

Note 3—Concentration of credit risk

Sycamore maintains its cash in bank deposit accounts which may exceed federally insured limits during the year. Amounts in excess of uninsured balances for the years ended December 31, 2019 and 2018 were \$154,514 and \$0-, respectively. Sycamore has not experienced any losses in such accounts. In management's opinion, Sycamore is not exposed to any significant credit risk relating to cash balances.

Note 4—Concentration of support

Sycamore has received a majority of its support from a single grant from The Healing Trust, a separate nonprofit organization. The Healing Trust awarded Sycamore a grant in the amount of up to \$2,500,000 to be paid in cash and administrative services through 2020. Amounts recognized under this grant for the years ended December 31, 2019 and 2018 totaled \$500,000 annually. The grant contains certain conditions requiring Sycamore to match the funds awarded for 2020; therefore, Sycamore will not recognize the conditional funding until the conditions are met. Failure to receive future grant distributions could have an adverse effect on the operations of Sycamore.

Note 5—Operating leases

Office Lease – During 2017, Sycamore entered into a five-year agreement to lease the office space for its operations. The agreement requires monthly payments of approximately \$4,500. The total paid for the years ended December 31, 2019 and 2018 was approximately \$58,000 and \$54,000, respectively.

Office Equipment Lease – During 2017, Sycamore entered into a three-year agreement to lease a copy machine. The agreement requires monthly payments of approximately \$120. The total paid for the years ended December 31, 2019 and 2018 was approximately \$2,000 and \$1,750, respectively.

Future minimum lease payments for these leases are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 57,212
2021	58,311
2022	19,627
2023	-
2024	-
	<u>\$ 135,150</u>

THE SYCAMORE INSTITUTE, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 6—Employee benefit plan

Sycamore sponsors a safe harbor defined contribution plan covering all employees who are over the age of 21 and have completed three months of service. Safe harbor contributions and employer matches vest immediately. Total contributions to the plan by Sycamore were \$12,018 and \$13,056 for the years ended December 31, 2019 and 2018, respectively.

Note 7—Net assets with donor restrictions

The net assets with donor restrictions consist of the following at December 31:

	2019	2018
Time restricted grant	\$ 40,000	\$ 60,000
Research grant	-	42,500
	<u>\$ 40,000</u>	<u>\$ 102,500</u>

Note 8—Liquidity and availability of resources

Sycamore regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Sycamore considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31:

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 401,138	\$ 326,082
Contributions receivable	29,048	-
Less amounts not available to be used within one year:		
Net assets with donor restriction for specific time	<u>(20,000)</u>	<u>(82,500)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 410,186</u>	<u>\$ 243,582</u>

Sycamore's cash flows have seasonal variations during the year attributable to the timing of contributions and grants received. To manage liquidity, Sycamore has a goal of maintaining cash reserve balances equal to six months of average operating expenses, approximating \$280,000 for 2019.

THE SYCAMORE INSTITUTE, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 9—Evaluation of subsequent events

Sycamore has evaluated subsequent events through June 23, 2020, when the financial statements were available to be issued.

During early 2020, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. There have been mandates from federal, state, and local authorities regarding forced closures of non-essential establishments, which could negatively impact Sycamore’s operations. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, uncertainties caused by COVID-19 could affect contributions and support and have other material adverse effects to Sycamore. It is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact.

Subsequent to December 31, 2019, Sycamore obtained a federal loan of approximately \$73,550 under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Paycheck Protection Program. Sycamore intends to transition such loan to a grant under the program’s loan forgiveness provisions.