
SPROCKET, INC.

FINANCIAL STATEMENTS

For Year Ended December 31, 2019

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of
Sprocket, Inc.
Paducah, KY

We have reviewed the accompanying financial statements of Sprocket, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Kemper CPA Group LLP

Kemper CPA Group LLP
Paducah, Kentucky

November 19, 2020

SPROCKET INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

| | <u>2019</u> |
|---|-------------------|
| ASSETS | |
| Cash | \$ 168,325 |
| Contributions receivable | 5,757 |
| Property and equipment, net of accumulated depreciation | <u>11,488</u> |
| Total Assets | <u>\$ 185,570</u> |
| LIABILITIES AND NET ASSETS | |
| Accounts payable | 2,108 |
| Deferred Revenue | <u>50,000</u> |
| Total Liabilities | <u>52,108</u> |
| Net Assets | |
| Without donor restrictions | |
| Undesignated | 133,462 |
| With donor restrictions | <u>-</u> |
| Total Net Assets | <u>133,462</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 185,570</u> |

See accompanying notes and accountants' review report.

SPROCKET INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|---------------------------------------|------------------------------------|-------------------|
| REVENUE AND SUPPORT | | | |
| Contributions | \$ 760 | \$ - | \$ 760 |
| Grants and reimbursements | 134,359 | - | 134,359 |
| In-kind contributions | 14,190 | - | 14,190 |
| Program fees | 2,830 | - | 2,830 |
| Miscellaneous | 2,085 | - | 2,085 |
| Released from restrictions | - | - | - |
| Total Revenues and Support | <u>154,224</u> | <u>-</u> | <u>154,224</u> |
| EXPENSES | | | |
| Program services | 90,285 | - | 90,285 |
| Management and general | 38,826 | - | 38,826 |
| Fundraising | - | - | - |
| Total Expenses | <u>129,111</u> | <u>-</u> | <u>129,111</u> |
| Changes in Net Assets | 25,113 | - | 25,113 |
| NET ASSETS - Beginning of Year | <u>108,349</u> | <u>-</u> | <u>108,349</u> |
| NET ASSETS - End of Year | <u>\$ 133,462</u> | <u>\$ -</u> | <u>\$ 133,462</u> |

See accompanying notes and accountants' review report.

SPROCKET INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

| | <u>Program</u> <u>Services</u> | <u>Management</u> <u>and</u> <u>General</u> | <u>Fundraising</u> | <u>Total</u> <u>Expenses</u> |
|---------------------------|-----------------------------------|---|--------------------|---------------------------------|
| Salaries and wages | \$ 36,171 | \$ - | \$ - | \$ 36,171 |
| Payroll taxes | - | 2,745 | - | 2,745 |
| Rent | - | 12,000 | - | 12,000 |
| Small equipment | 1,289 | - | - | 1,289 |
| Professional fees | 46,298 | 16,739 | - | 63,037 |
| Utilities | 48 | - | - | 48 |
| Insurance | - | 2,968 | - | 2,968 |
| Repairs and maintenance | 1,271 | - | - | 1,271 |
| Printing and reproduction | 239 | - | - | 239 |
| Taxes and licenses | - | 35 | - | 35 |
| Supplies | 3,831 | - | - | 3,831 |
| Advertising | - | 1,069 | - | 1,069 |
| Bank Fees | 1 | 33 | - | 34 |
| Meals and entertainment | - | 276 | - | 276 |
| Travel | - | 878 | - | 878 |
| Depreciation | 1,137 | - | - | 1,137 |
| Miscellaneous | - | 2,083 | - | 2,083 |
| Total Expenses | <u>\$ 90,285</u> | <u>\$ 38,826</u> | <u>\$ -</u> | <u>\$ 129,111</u> |

See accompanying notes and accountants' review report.

SPROCKET INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|----------------|
| Changes in net assets | \$ 25,113 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 1,137 |
| Changes in operating assets and liabilities | |
| Grants and program fees receivable | 64,243 |
| Prepaid expenses | 479 |
| Accounts payable | 1,334 |
| Unearned revenue | 14,786 |
| Net Cash Provided by Operating Activities | <u>107,092</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|----------------|
| Purchases of property and equipment | (9,283) |
| Net Cash Used by Investing Activities | <u>(9,283)</u> |

Net Increase (Decrease) in Cash 97,809

Cash - Beginning of Year 70,516

Cash - End of Year \$ 168,325

SUPPLEMENTAL DISCLOSURE

| | |
|--------------------------------|-----------------|
| Noncash contributions received | 14,190 |
| Noncash expenses included | <u>(14,190)</u> |
| | <u>\$ -</u> |

See accompanying notes and accountants' review report.

SPROCKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Sprocket Inc. (the Organization) is a not-for-profit organization organized under the laws of Kentucky. Sprocket is a place to create and develop innovative programs for education, entrepreneurship, and community learning. The Organization is organized exclusively for charitable, educational, and scientific purposes, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under section 501(c)(3) of the Internal Revenue Code, or corresponding section of any future federal tax code. The Organization’s activities are conducted principally in Paducah, Kentucky.

Fund Accounting – The accounting and reporting policies of Sprocket, Inc. conform to generally accepted accounting principles in the United States of America. They follow the recommendations of FASB Accounting Standards Codification 958, Financial Statements of Not-for-Profit Organizations. The Organization classifies resources for accounting and reporting purposes into separate net asset classes based on the absence or existence of donor-imposed restrictions. A description of the net asset categories is as follows:

Net Assets without donor restrictions – Net assets not subject to donor-imposed restrictions or stipulations as to use or purpose. Such net assets may be designated by the Board of Directors for specific purposes or limited by contractual agreements with outside parties.

Net Assets with donor restrictions – Net assets that are subject to donor-imposed restrictions or stipulations that may or will be met either by actions of the organization or the passage of time. There were no such items in 2019.

Accounts Receivable – Accounts receivable are reported at their outstanding principal balance and are reviewed by the Board of Directors for collectability. No allowance for doubtful accounts was deemed necessary at December 31, 2019.

Property and Equipment – Property and equipment purchased are stated at cost. Items donated are recorded at estimated fair value at the time of donation. Major expenditures and those which substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are charged to operations when incurred. The estimated useful lives of property and equipment are as follows:

| | |
|-------------------------|---------------|
| Buildings | 39 years |
| Building improvements | 15 – 39 years |
| Furniture and equipment | 5 – 7 years |

Depreciation – The Organization provides for depreciation of property and equipment using annual rates which are sufficient to amortize the cost of depreciable assets using straight line method.

Revenue and Revenue Recognition – Contributions, which include unconditional promises to give (contributions receivable), are recognized as support in the period the contribution is received, or the promise is made. Support and revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Contributions received with donor-imposed restrictions are reported as restricted support and increase net assets with donor restrictions. Expenses are reported as decreases in net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. All other support and revenue is recorded when earned.

SPROCKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services and In-Kind Contributions – Volunteers contribute significant amounts of time to program services, administration, and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods, rent, and professional services are recorded at fair value at the date of donation or at the fair value of the rent and services received, respectively. Donated equipment with fair value less than the organization’s capitalization policy is expensed in year received.

Deferred Revenue – Deferred revenue consists contributions from the City and County for their fiscal year end of June 30, 2020. Revenues will be recognized in the next fiscal year. At December 31, 2019, there was \$50,000 in deferred revenue.

Functional Allocation of Expenses – The costs of program and supporting services 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. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income Taxes – The Organization has qualified for as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code, and therefore, is not subject to income tax.

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 and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise of the following:

| | |
|------|-------------------|
| Cash | \$ 168,325 |
| | <u>\$ 168,325</u> |

NOTE C – CONCENTRATION OF BUSINESS AND CREDIT RISK

The Organization maintains its cash accounts in one banking institution located in Paducah, Kentucky. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the year balances may exceed insured limits. There was no uninsured cash balance at December 31, 2019. The Organization has not experienced any losses related to uninsured balances.

SPROCKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE D – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2019:

| | | |
|--------------------------------|----|----------------------|
| Land | \$ | - |
| Buildings and improvements | | - |
| Equipment | | 13,182 |
| Total – at cost | | <u>13,182</u> |
| Less: accumulated depreciation | | <u>(1,694)</u> |
| Net property and equipment | | <u><u>11,488</u></u> |

For the year ended December 31, 2019 depreciation expense was \$1,137.

NOTE E – OPERATING LEASE

Effective January 1, 2018, the Organization was granted rent-free use of the facility operating space by Musselman Properties, LLC for a term of 36 months ending January 1, 2021. Total lease expense charged to operations was \$12,000. Rent expense includes \$12,000 for non-cash rent expense attributable to the rent-free use of the facilities provided by Musselman Properties, LLC.

NOTE F – SUBSEQUENT EVENTS

Subsequent Events – The Organization has evaluated subsequent events through November 19, 2020, which is the date the financial statements were available to be issued.

In 2019, the organization received pledges from the City of Paducah in the amount of \$200,000, McCracken County Library in the amount \$200,000, and the McCracken County Fiscal Court in the amount of \$200,000. All of these pledges are restricted for capital match for the state of Kentucky grant for \$600,000 to be used for the renovation and expansion of existing facilities. In 2020, Sprocket received \$300,000 from the City of Paducah, McCracken County Fiscal Court, and McCracken County Public Library (\$100K each) for programming activities contracted with Codefi. These programs are currently underway. Another \$300,000 from each organization was allocated for an EDA capital match grant application. EDA funding was not yet received as of November 19, 2020.

Effect of COVID-19 Pandemic – On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy. We believe the ultimate financial impact of the COVID-19 pandemic on Sprocket, Inc. is likely to be determined by factors which are uncertain, unpredictable and outside of the control of Sprocket, Inc.. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely future revenues.