

**PROJECT PNEUMA, INC.**

**Financial Statements Together with  
Report of Independent Public Accountants**

**For the Year Ended December 31, 2021**



**S B & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

**DECEMBER 31, 2021**

**CONTENTS**

<b>REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7



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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS**

To the Board of Directors of  
Project Pneuma, Inc.

### ***Opinion***

We have audited the statement of financial position of Project Pneuma, Inc. (the Organization), as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization 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 (GAAS). 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 the Organization 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.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls 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 the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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### ***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 GAAS 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 controls. 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 GAAS, 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 controls 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 the Organization's internal controls. 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 the Organization'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 controls-related matters that we identified during the audit.

Owings Mills, Maryland  
October 27, 2022

*SB & Company, LLC*

**PROJECT PNEUMA, INC.**

**Statement of Financial Position  
As of December 31, 2021**

<b>ASSETS</b>	
Cash	\$ 560,020
Accounts receivable	399,160
Equipment and vehicles, net	<u>43,400</u>
<b>Total Assets</b>	<b><u><u>\$ 1,002,580</u></u></b>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	<u>\$ 47,764</u>
 <b>Net Assets</b>	
Without donor restrictions	804,816
With donor restrictions	<u>150,000</u>
<b>Total Net Assets</b>	<b><u>954,816</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 1,002,580</u></u></b>

The accompanying notes are an integral part of this financial statement.

**PROJECT PNEUMA, INC.**

**Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2021**

**NET ASSETS WITHOUT DONOR RESTRICTIONS**

**Revenue and Other Support**

Program service fees	\$ 1,194,535
Grants	200,275
Contributions	123,726
In-kind contributions - services	69,781
Federal grant - Paycheck Protection Program	169,575
<b>Total Revenue and Other Support</b>	<u>1,757,892</u>

**Expenses**

Program services	708,093
Management and general	532,776
<b>Total Expenses</b>	<u>1,240,869</u>
<b>Change in Net Assets Without Donor Restrictions</b>	<u>517,023</u>

**NET ASSETS WITH DONOR RESTRICTIONS**

Grants	<u>150,000</u>
Changes in total net assets	667,023
Net assets, beginning of year	287,793
<b>Net Assets, End of Year</b>	<u>\$ 954,816</u>

The accompanying notes are an integral part of this financial statement.

# PROJECT PNEUMA, INC.

## Statement of Functional Expenses For the Year Ended December 31, 2021

	Social and Emotional Learning	Summer Program	Total Program Services	Management and General	Total
Salaries and wages	\$ 177,452	\$ 22,850	\$ 200,302	\$ 372,123	\$ 572,425
Payroll expenses	9,191	1,735	10,926	28,213	39,139
Health insurance	9,618	-	9,618	26,005	35,623
Advertising	164,274	-	164,274	-	164,274
Contract services	62,764	128,514	191,278	-	191,278
Legal and professional services	18,732	-	18,732	32,017	50,749
Depreciation	41,678	-	41,678	2,639	44,317
Miscellaneous	416	1,635	2,051	22,763	24,814
Rent and lease	-	13,734	13,734	4,915	18,649
School supplies	1,959	13,721	15,680	-	15,680
Events	14,750	500	15,250	-	15,250
Food and clothing	6,922	3,072	9,994	4,078	14,072
Telephone	2,825	-	2,825	10,076	12,901
Charitable contributions	-	-	-	10,000	10,000
Vehicle expenses	9,149	56	9,205	302	9,507
Office supplies	12	-	12	8,604	8,616
Professional development	550	-	550	2,838	3,388
Incentives and gifts	-	-	-	4,232	4,232
Dues & subscriptions	-	-	-	2,424	2,424
Transportation	1,984	-	1,984	-	1,984
Insurance	-	-	-	1,125	1,125
Bank charges and fees	-	-	-	422	422
<b>Total</b>	<b>\$ 522,276</b>	<b>\$ 185,817</b>	<b>\$ 708,093</b>	<b>\$ 532,776</b>	<b>\$ 1,240,869</b>

The accompanying notes are an integral part of this financial statement.

**PROJECT PNEUMA, INC.**

**Statement of Cash Flows  
For the Year Ended December 31, 2021**

<b>Cash Flows from Operating Activities</b>	
Changes in net assets	\$ 667,023
Adjustments to reconcile changes in net assets to net cash from operating activities	
Federal grant - Paycheck Protection Program	(169,575)
Depreciation	44,317
Effects of changes in non-cash operating assets and liabilities	
Accounts receivable	(210,964)
Accounts payable and accrued liabilities	47,764
<b>Net Cash from Operating Activities</b>	<u>378,565</u>
 <b>Cash Flows from Investing Activities</b>	
Purchase of equipment	<u>(16,879)</u>
 <b>Cash Flows from Financing Activities</b>	
Proceeds from note payable - Paycheck Protection Program	<u>84,775</u>
Net change in cash	446,461
Cash, beginning of year	<u>113,559</u>
<b>Cash, End of Year</b>	<u><u>\$ 560,020</u></u>

The accompanying notes are an integral part of this financial statement.



# **PROJECT PNEUMA, INC.**

## **Notes to the Financial Statements**

**December 31, 2021**

### **1. BACKGROUND OF THE ORGANIZATION**

Project Pneuma, Inc. (the Organization) is a 501(c)(3) non-profit organization based in the heart of downtown Baltimore, Maryland. The Organization's mission is to breathe new life holistically into the young men they serve by challenging them intellectually, strengthening them physically, nurturing them emotionally and uplifting them spiritually. The Organization strives to teach young men the art of forgiveness, self-control and discipline while giving them exposure to a new world of endless possibilities.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Accounting**

The accompanying financial statements of the Organization are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### **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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue, support and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

#### **Accounts Receivable**

Accounts receivable represent amounts earned by the Organization but not collected as of year-end. The Organization records all receivables at their estimated net realizable value. An allowance for doubtful accounts, if necessary is based on the Organization's historical collection experience. As of December 31, 2021, there was no allowance for doubtful accounts as management believes that receivables are fully collectible.

#### **Equipment and Vehicles, Net**

Equipment and vehicles purchased with a cost greater than \$1,000 and having a useful life of at least one year are capitalized at cost. Donated property and equipment are capitalized at the estimated fair market value on the date received. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

# **PROJECT PNEUMA, INC.**

## **Notes to the Financial Statements December 31, 2021**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Net Assets**

Net assets without donor restrictions are assets and contributions that are not restricted by donors or for which restrictions have expired.

Net assets with donor restrictions are those whose use by the Organization has been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as net assets without donor restrictions.

Net assets with donor restrictions as of December 31, 2021 were restricted for Social Emotional Learning (SEL) programming.

#### **Support and Revenue**

Grants and contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions. Grants and contributions are recognized when an unconditional promise to give is received. Conditional promises to give, with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

Program service fees qualify as exchange transactions and are recognized when the performance obligation is met.

#### **In-kind Contributions**

The Organization recognizes contributed services if the services meet any of the following criteria: a) they create or enhance non-financial assets; or b) they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

# PROJECT PNEUMA, INC.

## Notes to the Financial Statements December 31, 2021

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **In-kind Contributions** (continued)

These contributed services are recognized as in-kind contributions when received in the accompanying statement of activities and changes in net assets. In-kind contributions and expenses of \$69,781 were recorded in the accompanying statement of activities and changes in net assets and statement of functional expenses for the year ended December 31, 2021 related to rent and tutoring services. In-kind rent in the amount of \$14,952 is reflected as rent and lease expense and tutoring services in the amount of \$54,829 are reflected as contracted services in the accompanying statement of functional expenses for the year ended December 31, 2021. Tutoring services were provided by a third party and were valued at the fair market value of the services.

#### **Functional Allocation of Expenses**

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities and changes in net assets and in the statement of functional expenses. Accordingly, certain costs have been allocated or directly coded among the programs and supporting services which benefited from those costs. Management and general expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Organization. The shared costs are allocated based on time and effort.

#### **Income Taxes**

The Organization is a not-for-profit organization that is exempt from Federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code and is recognized as such by the Internal Revenue Service.

The provisions included in accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return.

The Organization performed an evaluation of uncertain tax positions as of December 31, 2021, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of December 31, 2021, the statute of limitations for fiscal years 2018 through 2021 remains open for the U.S. Federal jurisdiction tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

## PROJECT PNEUMA, INC.

### Notes to the Financial Statements December 31, 2021

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of December 31, 2021, reduced by amounts not available for general use within one year because of donor-imposed restrictions:

Cash	\$	560,020
Accounts receivable		399,160
Financial assets available to meet cash needs		<u>959,180</u>
Less: net assets with donor restrictions		150,000
Financial assets available to meet cash needs within one year	\$	<u><u>809,180</u></u>

The Organization manages its liquidity following two guiding principles: operating within a prudent range of financial soundness and stability, and maintaining adequate liquid assets to fund near-term operating needs.

##### Recent Accounting Pronouncements

In July 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which presents contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. This standard will be effective retrospectively for periods beginning after June 15, 2021.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard will require the Organization to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases and Leases (Topic 842): Targeted Improvements*, which provides further clarity and transition options for adoption of FASB ASU No. 2016-02. These standards will be effective for periods beginning after December 15, 2021.

Management is evaluating the effects of these pronouncements on the financial statements and will implement these pronouncements by their effective dates.

## PROJECT PNEUMA, INC.

### Notes to the Financial Statements December 31, 2021

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Subsequent Events

The Organization's management evaluated the accompanying financial statements for subsequent events and transactions through October 27, 2022, the date these financial statements were available for issue, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

#### 3. EQUIPMENT AND VEHICLES

As of December 31, 2021, equipment and vehicles consisted of the following:

	<u>Amount</u>	<u>Useful Life</u>
Computers and equipment	\$ 21,002	5 - 7 years
Furniture and fixtures	6,778	5 years
Vehicles	70,000	7 years
Total	<u>97,780</u>	
Less: accumulated depreciation	<u>54,380</u>	
<b>Equipment and Vehicles, Net</b>	<u><u>\$ 43,400</u></u>	

Depreciation expense was \$44,317, for the year ended December 31, 2021.

#### 4. NOTE PAYABLE – PAYROLL PROTECTION PROGRAM

On March 17, 2021, the Organization obtained a Payroll Protection Program (PPP) note payable from a bank for \$84,775. The terms of the note require the proceeds to be spent on eligible expenses, which are primarily payroll related costs. Part or all of the note could have been forgiven based on meeting certain conditions as set forth in the note agreement. Any portion of the PPP note that is not forgiven must be repaid over two years after a six-month deferral period at an interest rate of 1%. This note was fully forgiven during the year ended December 31, 2021 and recognized a revenue in the accompanying statement of activities and changes in net assets for the year ended December 31, 2021.

During the year ended December 31, 2020, the Organization obtained a PPP note from a bank in the amount of \$84,800. This note was forgiven during the year ended December 31, 2021 and was recognized as revenue in the accompanying statement of activities and changes in net assets for the year ended December 31, 2021.