

**TENNESSEANS FOR QUALITY EARLY
EDUCATION POLICY AND RESEARCH**

Financial Statements
For the Years Ended December 31, 2020 and 2019

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

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Independent Auditor's Report

Board of Directors
Tennesseans for Quality Early Education Policy and Research
Memphis, Tennessee

We have audited the accompanying financial statements of Tennesseans for Quality Early Education Policy and Research, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets and cash flows for the years ended December 31, 2020 and 2019 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 Organization'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 organization'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 Tennesseans for Quality Early Education Policy and Research as of December 31, 2020 and 2019, and the results of its activities and changes in net assets and its cash flows for the years ended December 31, 2020 and 2019, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." The signature is written in a cursive, flowing style.

Memphis, Tennessee
November 2, 2021

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Statements of Financial Position December 31, 2020 and 2019

<u>Assets</u>		
	<u>2020</u>	<u>2019</u>
Cash	\$ 559,823	\$ 375,238
Grants receivable	150,000	75,000
Due from related party	52,001	29,248
Security deposit	-	2,790
Property and equipment, net	<u>-</u>	<u>752</u>
	<u>\$ 761,824</u>	<u>483,028</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable	\$ 27,921	\$ 845
Commitments and contingencies		
Net assets		
Without donor restrictions	583,903	407,183
With donor restrictions	<u>150,000</u>	<u>75,000</u>
Total net assets	<u>733,903</u>	<u>482,183</u>
	<u>\$ 761,824</u>	<u>\$ 483,028</u>

The accompanying notes are an integral
part of these financial statements.

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues			
Contributions and grants	\$ 575,065	\$ 150,000	\$ 725,065
Net assets released from restrictions	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>
Total support and other revenues	650,065	75,000	725,065
Expenses			
Program services			
Related party contributions	106,101	-	106,101
Salaries and benefits	73,818	-	73,818
Public relations and marketing	52,036	-	52,036
Field organizers	38,530	-	38,530
Consultant services	24,549	-	24,549
Professional fees	17,176	-	17,176
Office expenses	14,082	-	14,082
Insurance	5,546	-	5,546
Staff travel	5,202	-	5,202
Occupancy	1,556	-	1,556
Depreciation	<u>82</u>	<u>-</u>	<u>82</u>
	338,678	-	338,678
Management and general			
Related party contributions	26,525	-	26,525
Salaries and benefits	18,454	-	18,454
Public relations and marketing	13,009	-	13,009
CEO hire costs	49,998	-	49,998
Field organizers	9,633	-	9,633
Consultant services	6,137	-	6,137
Professional fees	4,294	-	4,294
Office expense	3,521	-	3,521
Insurance	1,387	-	1,387
Staff travel	1,300	-	1,300
Occupancy	389	-	389
Depreciation	<u>20</u>	<u>-</u>	<u>20</u>
	<u>134,667</u>	<u>-</u>	<u>134,667</u>
Total expenses	<u>473,345</u>	<u>-</u>	<u>473,345</u>
Increase in net assets	176,720	75,000	251,720
Net assets at beginning of year	<u>407,183</u>	<u>75,000</u>	<u>482,183</u>
Net assets at end of year	<u>\$ 583,903</u>	<u>\$ 150,000</u>	<u>\$ 733,903</u>

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part of these financial statements.

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues			
Contributions and grants	\$ 725,000	\$ 262,500	\$ 987,500
Net assets released from restrictions	<u>366,204</u>	<u>(366,204)</u>	<u>-</u>
Total support and other revenues	1,091,204	(103,704)	987,500
Expenses			
Program services			
Salaries and benefits	319,143	-	319,143
Public relations and marketing	141,441	-	141,441
Related party contributions	138,042	-	138,042
Child care report expenses	95,852	-	95,852
Field organizers	17,008	-	17,008
Professional fees	16,400	-	16,400
Staff travel	11,496	-	11,496
Occupancy	7,423	-	7,423
Insurance	4,628	-	4,628
Office expenses	1,986	-	1,986
Consultant services	992	-	992
Depreciation	<u>195</u>	<u>-</u>	<u>195</u>
	754,606	-	754,606
Management and general			
Public relations and marketing	31,763	-	31,763
Related party contributions	30,760	-	30,760
Salaries and benefits	29,596	-	29,596
Field Organizers	4,252	-	4,252
Professional fees	4,100	-	4,100
Child care report expenses	2,088	-	2,088
Staff travel	1,536	-	1,536
Occupancy	1,342	-	1,342
Insurance	1,157	-	1,157
Office expenses	496	-	496
Consultant services	248	-	248
Depreciation	<u>49</u>	<u>-</u>	<u>49</u>
	<u>107,387</u>	<u>-</u>	<u>107,387</u>
Total expenses	<u>861,993</u>	<u>-</u>	<u>861,993</u>
Increase (decrease) in net assets	229,211	(103,704)	125,507
Net assets at beginning of year	<u>177,972</u>	<u>178,704</u>	<u>356,676</u>
Net assets at end of year	<u>\$ 407,183</u>	<u>\$ 75,000</u>	<u>\$ 482,183</u>

The accompanying notes are an integral
part of these financial statements.

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Statements of Cash Flows For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Increase in net assets	\$ 251,720	\$ 125,507
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	102	244
Loss on disposal of fixed assets	650	-
Changes in operating assets and liabilities		
Grants receivable	(75,000)	37,500
Due from related party	(22,753)	(628)
Security deposit	2,790	-
Accounts payable	<u>27,076</u>	<u>(14,167)</u>
Net cash provided by operating activities	184,585	148,456
Cash at beginning of year	<u>375,238</u>	<u>226,782</u>
Cash at end of year	\$ <u>559,823</u>	\$ <u>375,238</u>

The accompanying notes are an integral
part of these financial statements.

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Notes to Financial Statements
December 31, 2020 and 2019

Note 1 - Organization and activities

Tennesseans for Quality Early Education Policy and Research (the "Organization") was formed on June 13, 2017, as a Tennessee not-for-profit corporation. The Organization is classified as a public charity rather than a private foundation based upon a final ruling by the Internal Revenue Service received in 2017. The Organization's mission is to create the foundation for a thriving Tennessee through bipartisan advocacy of early childhood education policies that result in strong academic outcomes for all of Tennessee's third graders.

Note 2 - Summary of significant accounting policies

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.

Support and revenues

Contributions and grants received are recorded as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Donor restrictions can be modified only by written request from the original donor or other authorized party. All other donor-restricted support is reported as an increase in net assets with donor restrictions. Expirations of donor-imposed restrictions on net assets, that is, when a stipulated time restriction ends or purpose restriction is accomplished, are reported in the statement of activities and changes in net assets as net assets released from restrictions between the classes of net assets.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years, if any, are recorded at the present value of their estimated future cash flows, using risk-adjusted interest rates applicable to the years in which the promises are to be received.

Revenue recognition

Contributions and grants are recognized as revenues when written documentation is received and all conditions have been satisfied for the Organization to be eligible to receive the grant or contribution.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Notes to Financial Statements (Continued) December 31, 2020 and 2019

Note 2 - Summary of significant accounting policies (continued)

Revenue recognition (continued)

related barrier or other measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. ASC 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. There were no conditional grant advance liabilities as of December 31, 2020 and 2019.

Grants receivable

Receivables consist of unconditional promises to give and are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current status of individual accounts. Balances still outstanding after a reasonable period of time has elapsed are generally written off through a charge to the valuation allowance and a credit to the appropriate receivable. Based upon its assessment of the donors outstanding balances and current relationships with them, management has concluded that no valuation allowance is necessary on balances outstanding as of December 31, 2020 and 2019.

Property and equipment

Property and equipment items are recorded at acquisition cost, if purchased, or the estimated fair value on the date received, if donated, less accumulated depreciation. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. Depreciation and amortization is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives are five years for computer equipment.

Advertising

Advertising costs and public relations and marketing costs are expensed as incurred. Total costs incurred for the years ended December 31, 2020 and 2019 were \$65,045 and \$173,204, respectively.

Functional allocation of expenses

Program services, management and general, or fundraising expenses, if applicable, have been allocated by function based upon management's estimate of the costs relating to each function. Directly identifiable expenses are classified as program services or management and general. Expenses related to more than one function are allocated on the basis of management's estimates of the costs related to each function. Management and general expense includes those expenses that are not directly identifiable with any specific function but provide for overall support and direction of the Organization.

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Notes to Financial Statements (Continued) December 31, 2020 and 2019

Note 2 - Summary of significant accounting policies (continued)

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly exempt from Tennessee state income taxes under provisions of the Tennessee tax regulations. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Organization files informational returns with the Internal Revenue Service and the State of Tennessee. The Organization's informational returns are subject to examinations by tax authorities for three years after they are filed.

Events occurring after reporting date

Management has evaluated events and transactions that have occurred between December 31, 2020 and November 2, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Note 3 - Liquidity and availability of resources

The Organization regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the usage of its available funds. The Organization has various sources of liquidity at its disposal totaling \$761,824 and \$479,486 as of December 31, 2020 and 2019, respectively. Sources of liquidity, as of December 31, 2020, include cash totaling \$559,823, grants receivable totaling \$150,000, and a receivable due from a related party totaling \$52,001. There are no assets subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Grants receivable includes those subject to implied time restrictions but are expected to be collected within one year. For purposes of analyzing resources available to meet general expenses over a 12-month period, the Organization considers all expenses related to its ongoing activities of advocacy of early education for Tennessee's third graders.

In addition to the financial assets available to meet general expenses over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenses not covered by sources of liquidity as of December 31, 2020.

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Notes to Financial Statements (Continued) December 31, 2020 and 2019

Note 4 - Grants receivable

As of December 31, 2020 and 2019, contributors to the Organization have unconditionally promised to provide support for operations. The promised contributions are due as follows:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ <u>150,000</u>	\$ <u>75,000</u>

Note 5 - Property and equipment

At December 31, 2020 and 2019 property and equipment consists of the following:

	<u>2020</u>	<u>2019</u>
Computer equipment	\$ -	\$ 1,219
Less accumulated depreciation	<u>-</u>	<u>467</u>
Net property and equipment	\$ <u>-</u>	\$ <u>752</u>

Note 6 - Lease commitments

The Organization leased office space under a month-to-month operating lease agreement. The agreement provided for monthly payments of \$845 for 2019. Rent expense under this lease totaled \$8,765 for the year ended December 31, 2019. This lease agreement was terminated during 2019.

Note 7 - Net assets with donor restrictions

Net assets are restricted for the following purposes as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Future operations	\$ <u>150,000</u>	\$ <u>75,000</u>

Note 8 - Net assets released from donor restrictions

Net assets were released from donor restrictions by incurring costs or expenses satisfying the restricted purposes for the years ended December 31, 2020 and 2019 as follows:

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Notes to Financial Statements (Continued) December 31, 2020 and 2019

Note 8 - Net assets released from donor restrictions (continued)

	<u>2020</u>	<u>2019</u>
Future operations	\$ 75,000	\$ 62,500
Personnel costs	-	186,803
Child care report	-	87,500
Media production	-	29,401
	<u> </u>	<u> </u>
Net assets released from restrictions	\$ <u>75,000</u>	\$ <u>366,204</u>

Net assets without donor restrictions are those available for use for program services and management and general. Net assets without donor restrictions totaled \$583,903 and \$407,183 as of December 31, 2020 and 2019, respectively.

Note 9 - Related party activities

Related parties include Memphis Tomorrow and Tennesseans for Quality Early Education - C4 (TQEE-C4). Memphis Tomorrow has provided significant support to the Organization and its leadership was instrumental in the formation of Tennesseans for Quality Early Education Policy and Research. Memphis Tomorrow is considered a related party, as a member of its management serves on the Board of Directors of the Organization and serves as interim Chief Executive Officer. Support provided to the Organization by Memphis Tomorrow totaled \$50,000 for each of the years ended December 31, 2020 and 2019.

TQEE-C4 is a separate legal entity with a purpose to promote social welfare. TQEE-C4 is considered a related party as it shares common management with the Organization. The Organization pays certain operating expenses on behalf of TQEE-C4. Such expenses totaled \$132,626 and \$168,802 for the years ended December 31, 2020 and 2019, respectively. Certain of these expenses are reflected as related party contributions in the accompanying statements of activities and changes in net assets for the years ended December 31, 2020 and 2019. Amounts due from TQEE-C4 totaled \$52,001 and \$29,248 as of December 31, 2020 and 2019, respectively. These receivables represent certain operating expenses paid by the Organization to be reimbursed by TQEE-C4.

Note 10 - Concentrations of risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash. The Organization has concentrated its credit risk for cash by maintaining deposits in a financial institution which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The Organization has not experienced any losses of such funds and management believes the Organization is not exposed to significant credit risk to cash.

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Notes to Financial Statements (Continued) December 31, 2020 and 2019

Note 10 - Concentrations of risk (continued)

Two grantors accounted for 100% of grants receivable as of December 31, 2020 and one grantor accounted for 100% of grants receivable as of December 31, 2019. Three grantors accounted for approximately 90% of total revenue for the year ended December 31, 2020, and three grantors accounted for 74% of total revenue for the year ended December 31, 2019.

Note 11 - Risks and uncertainties

In March 2020, there was a global outbreak of COVID-19 that has been classified as a pandemic. It has detrimentally affected workforces, economies, and financial markets globally. As of the report date, the pandemic has had minimal impact on the Organization's operations and donations. However, any potential future direct and indirect negative impact to the activities of the Organization and the contributions of the donors cannot be determined, but they could have a prospective material impact, including the collectability of receivables and a decline in contributions revenue. As noted in note 3, the Organization has liquidity to meet its operating needs and commitments.