TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Financial Statements
For the Year Ended December 31, 2018 and
for the Period from Inception (June 13, 2017)
to December 31, 2017

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Contents

5100 Poplar Ave., 30th Floor ■ Memphis, TN 38137
Main: 901.685.5575 ■ Fax: 901.685.5583 ■ www.mhmcpa.com

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, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the year ended December 31, 2018 and for the period from inception (June 13, 2017) to December 31, 2017 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 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 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, 2018 and 2017, and the results of its activities and changes in net assets, and its cash flows for the year ended December 31, 2018 and for the period from inception (June 13, 2017) to December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1 to the financial statements, for the year ended December 31, 2018, Tennesseans for Quality Early Education Policy and Research adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* and retrospectively applied the update to the financial statements as of and for the period ended December 31, 2017. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
January 29, 2020

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Statements of Financial Position
December 31, 2018 and 2017

Assets

	2018	2017
Assets		
Cash	$ 226,782	$ 395,605
Grants receivable	112,500	40,000
Due from related party	28,620	-
Security deposit	2,790	1,523
Property and equipment, net	996	-
Total assets	$ 371,688	437,128

Liabilities and Net Assets

	2018	2017
Liabilities		
Accounts payable	$ 15,012	$ 4,643
Net assets		
Without donor restrictions	177,972	376,491
With donor restrictions	178,704	55,994
Total net assets	356,676	432,485
Total liabilities and net assets	$ 371,688	$ 437,128

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, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues			
Contributions and grants	$ 398,500	$ 487,145	$ 885,645
Net assets released from restrictions	364,435	(364,435)	-
Total support and other revenues	762,935	122,710	885,645
Expenses			
Program services			
Salaries and benefits	317,066	-	317,066
Public relations and marketing	283,558	-	283,558
Related party contributions	185,762	-	185,762
Professional fees	16,640	-	16,640
Occupancy	10,089	-	10,089
Staff travel	6,348	-	6,348
Insurance	6,062	-	6,062
Office expenses	3,860	-	3,860
Consultant services	1,288	-	1,288
Depreciation	179	-	179
	830,852	-	830,852
Management and general			
Related party contributions	46,441	-	46,441
Salaries and benefits	45,906	-	45,906
Public relations and marketing	27,139	-	27,139
Professional fees	4,160	-	4,160
Occupancy	2,522	-	2,522
Staff travel	1,587	-	1,587
Insurance	1,516	-	1,516
Office expenses	965	-	965
Consultant services	322	-	322
Depreciation	44	-	44
	130,602	-	130,602
Total expenses	961,454	-	961,454
Increase (decrease) in net assets	(198,519)	122,710	(75,809)
Net assets at beginning of year	376,491	55,994	432,485
Net assets at end of year	$ 177,972	$ 178,704	$ 356,676

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 Period from Inception (June 13, 2017) to December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues			
Contributions and grants	$ 493,942	$ 175,000	$ 668,942
Net assets released from restrictions	119,006	(119,006)	-
Total support and other revenues	612,948	55,994	668,942
Expenses			
Program services			
Salaries and benefits	131,875	-	131,875
Consultant services	49,162	-	49,162
Staff travel	7,561	-	7,561
Occupancy	4,736	-	4,736
Professional fees	2,960	-	2,960
Insurance	2,886	-	2,886
Office expenses	1,833	-	1,833
	201,013	-	201,013
Management and general			
Salaries and benefits	18,160	-	18,160
Consultant services	12,290	-	12,290
Staff travel	1,890	-	1,890
Occupancy	1,184	-	1,184
Professional fees	740	-	740
Insurance	722	-	722
Office expenses	458	-	458
	35,444	-	35,444
Total expenses	236,457	-	236,457
Increase in net assets	376,491	55,994	432,485
Net assets at beginning of period	-	-	-
Net assets at end of period	$ 376,491	$ 55,994	$ 432,485

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 Year Ended December 31, 2018 and
For the Period from Inception (June 13, 2017) to December 31, 2017

	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (75,809)	$ 432,485
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	223	-
Changes in operating assets and liabilities		
Grant receivable	(72,500)	(40,000)
Due from related party	(28,620)	-
Security deposit	(1,267)	(1,523)
Accounts payable	10,369	4,643
Net cash provided by (used in) operating activities	(167,604)	395,605
Cash flows from investing activities:		
Purchases of property and equipment	(1,219)	-
Net increase (decrease) in cash	(168,823)	395,605
Cash at beginning of year	395,605	-
Cash at end of year	$ 226,782	$ 395,605

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

Note 1 - Summary of significant accounting policies

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.

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.

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.

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.

Note 1 - Summary of significant accounting policies (continued)

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, 2018 and 2017.

Advertising

Advertising costs are expenses as incurred. Total costs incurred for the year ended December 31, 2018 was $206,754. No advertising costs were incurred in 2017.

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.

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.

New accounting pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU revises the net asset classification structure from three classes to two classes (net assets without donor

Note 1 - Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

restrictions and net assets with donor restrictions). The ASU also requires qualitative and quantitative disclosures on liquidity and the availability of resources to fund operations. The Organization has adopted the provisions of this new standard and adjusted the presentation of the financial statements accordingly. The ASU has been applied retrospectively to the financial statements as of and for the period ended December 31, 2017.

Events occurring after reporting date

Management has evaluated events and transactions that have occurred between December 31, 2018 and January 29, 2020, 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 2 - Availability and liquidity 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 $367,902 and $435,605 as of December 31, 2018 and 2017, respectively. Sources of liquidity, as of December 31, 2018, include cash totaling $226,782, grants receivable totaling $112,500, and a receivable due from a related party totaling $28,620. Sources of liquidity as of December 31, 2017 include cash of $395,605 and grants receivable of $40,000. 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 at December 31, 2018.

Note 3 - Grants receivable

As of December 31, 2018 and 2017, contributors to the Organization have unconditionally promised to provide support for operations. The promised contributions are due as follows:

	2018	2017
Due in less than one year	$ 112,500	$ 40,000

Note 4 - Property and equipment

At December 31, 2018 and 2017 property and equipment consists of the following:

	2018	2017
Computer equipment	$ 1,219	$ -
Less accumulated depreciation	223	-
Net property and equipment	$ 996	$ -

Note 5 - Lease commitments

The Organization leases office space under a month-to-month operating lease agreement. The agreement provides for monthly payments of $1,015 and $1,185 for 2018 and 2017, respectively. Rent expense under this lease totaled $12,612 for the year ended December 31, 2018 and $5,920 for the period ended December 31, 2017.

Note 6 - Net assets with donor restrictions

Net assets are restricted for the following purposes as of December 31, 2018 and 2017:

	2018	2017
Personnel costs	$ 86,204	$ 15,994
Future operations	62,500	40,000
Consultants	30,000	-
Total net assets with donor restrictions	$ 178,704	$ 55,994

Note 7 - 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, 2018 and 2017 as follows:

	2018	2017
Media production	$ 175,000	$ -
Personnel costs	149,435	119,006
Future operations	40,000	-
Net assets released from restrictions	$ 364,435	$ 119,006

Net assets without donor restrictions are those available for use for program services and management and general. Net assets without donor restrictions totaled $177,972 and $376,491 as of December 31, 2018 and 2017, respectively.

Note 8 - 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 Tennessee 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. Support provided to the Organization by Memphis Tomorrow totaled $50,000 for the year ended December 31, 2018 and $293,942 for the period ended December 31, 2017.

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 $232,203 for the year ended December 31, 2018. These expenses are reflected as related party contributions in the accompanying statement of activities and changes in net assets for the year ended December 31, 2018. There were no such expenses for the period ended December 31, 2017. Amounts due from TQEE-C4 totaled $28,620 as of December 31, 2018 and represent certain operating expenses paid by the Organization to be reimbursed by TQEE-C4.

Note 9 - Concentration 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.

Two grantors accounted for 100% of grants receivable for the year ended December 31, 2018 and one grantor accounted for 100% of grants receivable for the period ended December 31, 2017. Three grantors accounted for approximately 76% of total revenue for the year ended December 31, 2018, and three grantors accounted for 100% of total revenue for the period ended December 31, 2017.