TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Financial Statements
For the Years Ended December 31, 2019 and 2018

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Contents

MHM
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, 2019 and 2018, and the related statements of activities and changes in net assets, and cash flows for the years ended December 31, 2019 and 2018 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, 2019 and 2018, and the results of its activities and changes in net assets, and its cash flows for the years ended December 31, 2019 and 2018, in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in note 2 of the financial statements, Tennesseans for Quality Early Education Policy and Research adopted the provisions of Financial Accounting Standards Board Accounting Standards Update 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
September 15, 2020

TENNESSEANS FOR QUALITY EARLY EDUCATION POLICY AND RESEARCH

Statements of Financial Position
December 31, 2019 and 2018

Assets

	2019	2018
Cash	$ 375,238	$ 226,782
Grants receivable	75,000	112,500
Due from related party	29,248	28,620
Security deposit	2,790	2,790
Property and equipment, net	752	996
	$ 483,028	371,688

Liabilities and Net Assets

	2019	2018
Liabilities		
Accounts payable	$ 845	$ 15,012
Net assets		
Without donor restrictions	407,183	177,972
With donor restrictions	75,000	178,704
Total net assets	482,183	356,676
	$ 483,028	$ 371,688

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, 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	366,204	(366,204)	-
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	195	-	195
	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 expense	496	-	496
Consultant services	248	-	248
Depreciation	49	-	49
	107,387	-	107,387
Total expenses	861,993	-	861,993
Increase (decrease) in net assets	229,211	(103,704)	125,507
Net assets at beginning of year	177,972	178,704	356,676
Net assets at end of year	$ 407,183	$ 75,000	$ 482,183

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	283,995	-	283,995
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	3,422	-	3,422
Consultant services	1,288	-	1,288
Depreciation	179	-	179
	830,851	-	830,851
Management and general			
Related party contributions	46,441	-	46,441
Salaries and benefits	45,906	-	45,906
Public relations and marketing	27,249	-	27,249
Professional fees	4,160	-	4,160
Occupancy	2,522	-	2,522
Staff travel	1,587	-	1,587
Insurance	1,516	-	1,516
Office expenses	856	-	856
Consultant services	322	-	322
Depreciation	44	-	44
	130,603	-	130,603
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

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 125,507	$ (75,809)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	244	223
Changes in operating assets and liabilities		
Grants receivable	37,500	(72,500)
Due from related party	(628)	(28,620)
Security deposit	-	(1,267)
Accounts payable	(14,167)	10,369
Net cash provided by (used in) operating activities	148,456	(167,604)
Cash flows from investing activities:		
Purchases of property and equipment	-	(1,219)
Net increase (decrease) in cash	148,456	(168,823)
Cash at beginning of year	226,782	395,605
Cash at end of year	$ 375,238	$ 226,782

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

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) Topic 958, 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-related barrier or

Note 2 - Summary of significant accounting policies (continued)

Revenue recognition (continued)

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. Topic 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, 2019 and 2018.

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, 2019 and 2018.

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, 2019 and 2018 were $173,204 and $311,244, 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.

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.

New accounting pronouncements

Effective January 1, 2019, the Organization adopted the provisions of FASB Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies and improves previous guidance about whether a transfer of assets is a contribution or an exchange transaction. The standard also clarifies whether a contribution is conditional. The ASU has been applied using the modified prospective basis for all grants and contracts that were not completed as of January 1, 2019.

Events occurring after reporting date

Management has evaluated events and transactions that have occurred between December 31, 2019 and September 15, 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 3 - 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 $479,486 and $367,902 as of December 31, 2019 and 2018, respectively. Sources of liquidity, as of December 31, 2019, include cash totaling

Note 3 - Availability and liquidity of resources (continued)

$375,238, grants receivable totaling $75,000, and a receivable due from a related party totaling $29,248. 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, 2019.

Note 4 - Grants receivable

As of December 31, 2019 and 2018, contributors to the Organization have unconditionally promised to provide support for operations. The promised contributions are due as follows:

	2019	2018
Due in less than one year	$ 75,000	$ 112,500

Note 5 - Property and equipment

At December 31, 2019 and 2018 property and equipment consists of the following:

	2019	2018
Computer equipment	$ 1,219	$ 1,219
Less accumulated depreciation	467	223
Net property and equipment	$ 752	$ 996

Note 6 - Lease commitments

The Organization leases office space under a month-to-month operating lease agreement. The agreement provides for monthly payments of $845 and $1,015 for 2019 and 2018, respectively. Rent expense under this lease totaled $8,765 for the year ended December 31, 2019 and $12,612 for the year ended December 31, 2018.

Note 7 - Net assets with donor restrictions

Net assets are restricted for the following purposes as of December 31, 2019 and 2018:

	2019	2018
Personnel costs	$ -	$ 86,204
Future operations	75,000	62,500
Consultants	-	30,000
Total net assets with donor restrictions	$ 75,000	$ 178,704

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, 2019 and 2018 as follows:

	2019	2018
Personnel costs	$ 186,803	$ 149,435
Child care report	87,500	-
Future operations	62,500	40,000
Media production	29,401	175,000
Net assets released from restrictions	$ 366,204	$ 364,435

Net assets without donor restrictions are those available for use for program services and management and general. Net assets without donor restrictions totaled $407,183 and $177,972 as of December 31, 2019 and 2018, 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 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 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, 2019 and 2018.

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

Note 9 - Related party activities (continued)

$168,802 and $232,203 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018. Amounts due from TQEE-C4 totaled $29,248 and $28,620 as of December 31, 2019 and 2018, respectively. These receivables represent certain operating expenses paid by the Organization to be reimbursed by TQEE-C4.

Note 10 - 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.

One grantor accounted for 100% of grants receivable for the year ended December 31, 2019 and two grantors accounted for 100% of grants receivable for the year ended December 31, 2018. Three grantors accounted for approximately 74% of total revenue for the year ended December 31, 2019, and three grantors accounted for 76% of total revenue for the year ended December 31, 2018.

Note 11 - Subsequent events

In early 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, the future impact to the activities of the Organization and the contributions of the donors cannot be determined. As noted in note 3, the Organization has liquidity to meet its operating needs and commitments.