TENNESSEE HIGHER EDUCATION INITIATIVE, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2020

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

TABLE OF CONTENTS

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
Tennessee Higher Education Initiative, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Tennessee Higher Education Initiative, Inc. (the “Organization”) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, 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 entity’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 entity’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 Tennessee Higher Education Initiative, Inc. as of June 30, 2020, 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.

Emphasis of Matter

As discussed in Note 9, towards the end of December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. During 2020, there have been various mandates, and/or requests from federal, state, and local authorities resulting in closures of non-essential businesses, which could negatively impact the Organization's business. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, COVID-19 has caused uncertainties that could affect results of operations and have other material adverse effects to the Organization. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Nashville, Tennessee
December 23, 2020

TENNESSEE HIGHER EDUCATION INITIATIVE, INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS		
Cash and cash equivalents	$	187,423
Prepaid expenses		3,400
Property and equipment, net		14,747
Total Assets	$	205,570
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$	11,739
Total Liabilities		11,739
Net Assets:		
Without donor restrictions		193,831
Total Net Assets		193,831
Total Liabilities and Net Assets	$	205,570

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

TENNESSEE HIGHER EDUCATION INITIATIVE, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support:			
Pledges and contributions	$ 427,034	$ -	$ 427,034
Grants and contracts	523,750	-	523,750
Fundraising income	11,860	-	11,860
Total Revenue, Gains, and Other Support	962,644	-	962,644
Expenses:			
Program	683,337	-	683,337
Management and general	198,022	-	198,022
Total Expenses	881,359	-	881,359
Change in net assets	81,285	-	81,285
Net assets, beginning of year	112,546	-	112,546
Net assets, end of year	$ 193,831	$ -	$ 193,831

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

TENNESSEE HIGHER EDUCATION INITIATIVE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services				Supporting Services	
	Policy Services	College Programs	Transitional Services	Total	Management and General	Total
Salaries and benefits	$ 48,280	$ 323,333	$ 32,436	$ 404,049	$ 55,477	$ 459,526
Tuition	-	140,000	-	140,000	-	140,000
Professional fees	20,693	1,259	2,663	24,615	42,031	66,646
Rent and utilities	-	-	-	-	47,957	47,957
Travel	6,893	10,540	4,102	21,535	15,042	36,577
Transitional services	1,350	-	27,292	28,642	-	28,642
Course materials	-	19,432	-	19,432	114	19,546
Printing and marketing	13,174	-	-	13,174	2,704	15,878
Meetings and celebrations	5,462	1,408	310	7,180	8,192	15,372
Instructor fees	-	8,821		8,821	-	8,821
Technology	704	1,457	257	2,418	6,334	8,752
Office expenses	719	356	81	1,156	6,705	7,861
Charitable contributions	-	-	5,000	5,000	300	5,300
Insurance	-	-	-	-	4,904	4,904
Fundraising expense	-	-	-	-	4,651	4,651
Supplies	104	3,874	-	3,978	-	3,978
Postage	762	1,788	9	2,559	636	3,195
Subscriptions	306	-	-	306	1,521	1,827
Depreciation	-	-	-	-	1,454	1,454
Student records	24	448	-	472	-	472
	$ 98,471	$ 512,716	$ 72,150	$ 683,337	$ 198,022	$ 881,359

TENNESSEE HIGHER EDUCATION INITIATIVE, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

Cash flows from operating activities:		
Change in net assets	$	81,285
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		1,454
Changes in operating assets and liabilities:		
Prepaid expenses		(2,400)
Accounts payable		12,376
Net cash provided by operating activities		92,715
Cash flows from investing activities:		
Purchase of property and equipment		(16,201)
Net cash used in investing activities		(16,201)
Net increase in cash and cash equivalents		76,514
Cash and cash equivalents, beginning of year		110,909
Cash and cash equivalents, end of year	$	187,423

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

Note 1—Nature of operations and summary of significant accounting policies

Description of Business and Nature of Activities – Tennessee Higher Education Initiative, Inc. ("THEI" or the "Organization") funds and coordinates onsite degree-bearing college programs to incarcerated individuals in Tennessee prisons. THEI is a non-profit organization working to create opportunities by providing college access to people inside Tennessee prisons. THEI was founded as a non-profit organization in January 2012, collaborating with the prisons and colleges in Tennessee to provide educational programs.

Financial Statement Presentation – The financial statements of THEI have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are reported as follows:

> *Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of THEI. These net assets may be used at the discretion of THEI's management and the Board of Directors.
>
> *Net Assets With Donor Restrictions* – Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Contributions which are restricted for specific programs are reflected as revenues without donor restrictions if these funds are received and spent in the same fiscal year. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. THEI has no net assets with donor restrictions at June 30, 2020.

Allocation of Functional Expenses – Expenses that can be directly attributed to a particular function are charged to that function. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. Expenses that are allocated consist primarily of salary and related expenses which have been allocated based on time and effort.

Program and Supporting Services – The following program and supporting services are included in the accompanying financial statements:

> *Policy Services* – Expenses related to planning key policies and the development of tools and reports focused on sharing best practices across the state to advance the Organization's strategic priorities.
>
> *College Programs* – Expenses related to tuition, course materials, and instructors at partner colleges for cohorts of classes in the prisons in the state of Tennessee.
>
> *Transitional Services* – Expenses related to the successful transition for students who are returning to the community post incarceration.
>
> *Management and General* – Includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or activity. Includes costs associated with providing coordination and articulation of THEI's program strategy, business management, general recordkeeping, budgeting, and related purposes.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1—Nature of operations and summary of significant accounting policies (continued)

Income Taxes – The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the IRC. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Organization follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance related to unrecognized tax benefits. The guidance describes the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements.

Cash and Cash Equivalents – The Organization considers all cash funds, cash bank accounts, and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured.

Property and Equipment – Property and equipment are stated at acquisition cost, or estimated fair value if donated, less accumulated depreciation, which is computed by the straight-line method over an estimated useful life of the assets.

Contributions – Contributions are recognized when received as contributions without restriction if specified for the current period and there are no donor-imposed restrictions. Contributions specified for future periods or with donor-imposed restrictions are recognized in the period received as contributions with restrictions. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions are satisfied in the year in which the contributions are recognized.

Recently Adopted Accounting Pronouncements – In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The Organization adopted the standard effective July 1, 2019, noting no impact of adoption on the Organization's financial statements.

In January 2016, FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the year ended June 30, 2020. The Organization evaluated the new standard and determined the accounting standard did not require a change to the Organization's practice for recording financial assets and liabilities.

Note 1—Nature of operations and summary of significant accounting policies (continued)

Forthcoming Accounting Pronouncements – In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the year ending June 30, 2021. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the fiscal year ending June 30, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent Events – THEI evaluated subsequent events through December 23, 2020, when these financial statements were available to be issued.

Note 2—Liquidity and availability of financials resources

THEI regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, THEI considers all expenditures related to its ongoing activities of supporting prison education in Tennessee, as well as the conduct of services undertaken to support those activities to be general expenditures. As a part of THEI's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Financial assets available for general expenditure, that is, without donor or other restrictions limited their use, within one year of the statement of financial position date, compromise the following at June 30, 2020:

Cash and cash equivalents	$ 187,423
Financial assets available to meet cash needs for general expenditure within one year	$ 187,423

The Organization is substantially supported by contributions and grants. As part of the Organization's liquidity management, it structures financial assets to be available for general expenditures, and liabilities, and other obligations as they come due.

Note 3—Grant revenue

The Organization receives funding for tuition and general operation expenses for incarcerated individuals in Tennessee. The Tennessee Department of Correction provides a direct appropriation grant to the Organization to be used for programs and services that provide access to onsite degree-bearing higher education for individuals in Tennessee prisons. The amount of $250,000 is a recurring grant each year, and an additional nonrecurring contribution of $250,000 was provided during the fiscal year ended June 30, 2020.

Each year, the Organization receives $70,000 from a foundation based in North Carolina to cover the costs of program coordinators' salaries. The Organization was also awarded a grant in the amount of $125,000 for a year of project planning related to the statewide coalition initiative.

Note 4—Property and equipment

Property and equipment consists of furniture and fixtures of $14,453, software of $1,748 less accumulation depreciation of $ 1,454. Depreciation expense totaled $1,454 for the year ended June 30, 2020.

Note 5—Concentrations

THEI maintains cash and cash equivalents within institutions insured by the Federal Deposit Insurance Corporation. In management's opinion, risk related to each deposit is minimal. As of June 30, 2020, there were no balances in excess of federal deposit limits.

THEI received approximately 52% and 13% of total revenue, gains, and other support from two major grantors, respectively, in fiscal 2020 (see Note 3).

Note 6—Commitments

THEI leases office space under a three-year, noncancelable agreement which expires May 31, 2022. Rental expense under this lease agreement was $41,800 for the year ended June 30, 2020.

Future minimum lease payments required under this lease agreement at June 30, 2020 are as follows:

Years Ending December 31,		
2021	$	42,129
2022		39,687
2023		-
2024		-
2025, and thereafter		-
	$	81,816

Note 7—Related party transactions

Contributions from board members, whether made by the board members or their respective employers, totaled $8,164 for the year ended June 30, 2020.

Note 8—Retirement plan

THEI maintains a SIMPLE IRA Plan for certain eligible employees. Retirement plan expense for the year ended June 30, 2020 totaled $9,279, and is included in salary and related expenses in the accompanying statement of functional expenses.

Note 9—Uncertainty

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. COVID-19 could have a material adverse impact on the economic and market conditions and trigger a period of global economic shutdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Organization, its performance, and its financial results.