



First 8 Memphis

Financial Statements

For the Six-Month Period Ended June 30, 2020

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Independent Auditors' Report

Board of Directors
First 8 Memphis
Memphis, Tennessee

We have audited the accompanying financial statements of First 8 Memphis, LLC (a nonprofit organization, "the Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and functional expenses and cash flows for the six-month period 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.

Auditors' 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 auditors' 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 the Organization as of June 30, 2020, and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Memphis, Tennessee

January 27, 2021

First 8 Memphis
Statement of Financial Position
June 30, 2020

ASSETS

Cash	\$	1,063,474
Escrow funds - restricted cash equivalents		1,507,637
Escrow funds - restricted certificates of deposit		4,474,975
Prepaid expenses		<u>404,624</u>

Total assets \$ 7,450,710

LIABILITIES AND NET ASSETS

Accounts payable	\$	19,638
Accrued expenses		19,560
Contract liability - escrow agreement		1,539,122
Term loans		<u>5,434,000</u>

Total liabilities 7,012,320

Net assets:

Without donor restrictions 438,390

Total net assets 438,390

Total liabilities and net assets \$ 7,450,710

First 8 Memphis
Statement of Activities and Functional Expenses
Six-Month Period Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and other revenues:			
Contributions	\$ -	\$ 4,256,878	\$ 4,256,878
Interest and other revenues	82,555	-	82,555
Net assets released from restrictions	<u>6,526,878</u>	<u>(6,526,878)</u>	<u>-</u>
Total revenues	6,609,433	(2,270,000)	4,339,433
Expenses:			
Program services:			
Wages and related benefits	4,347,482	-	4,347,482
Consultant services	252,898	-	252,898
Office administration	584,934	-	584,934
Staff travel	40,171	-	40,171
Insurance	1,439	-	1,439
Occupancy	1,301	-	1,301
Legal and accounting	8,814	-	8,814
	<u>5,237,039</u>	<u>-</u>	<u>5,237,039</u>
Management and general:			
Wages and related benefits	133,930	-	133,930
Office administration	41,781	-	41,781
Staff travel	9,806	-	9,806
Meals and events	2,680	-	2,680
Insurance	3,522	-	3,522
Occupancy	1,951	-	1,951
Legal and accounting	21,578	-	21,578
	<u>215,248</u>	<u>-</u>	<u>215,248</u>
Total expenses	<u>5,452,287</u>	<u>-</u>	<u>5,452,287</u>
Forgiveness of accrued interest	<u>78,606</u>	<u>-</u>	<u>78,606</u>
Change in net assets	1,235,752	(2,270,000)	(1,034,248)
Net assets (deficit), beginning of year	<u>(797,362)</u>	<u>2,270,000</u>	<u>1,472,638</u>
Net assets, end of year	<u>\$ 438,390</u>	<u>\$ -</u>	<u>\$ 438,390</u>

First 8 Memphis
Statement of Cash Flows
Six-Month Period Ended June 30, 2020

Cash flows from operating activities:	
Change in net assets	\$ (1,034,248)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Changes in operating assets and liabilities:	
Prepaid expenses	(404,624)
Accounts payable	(2,284,522)
Accrued expenses	(60,776)
Contract liability - escrow agreement	<u>(4,256,878)</u>
Total adjustments	<u>(7,006,800)</u>
Net cash used in operating activities	(8,041,048)
Cash flows used in investing activities:	
Changes in restricted certificates of deposit	<u>1,737,676</u>
Net cash provided by investing activities	<u>1,737,676</u>
Cash flows from financing activities:	
Payments on long-term debt	<u>(1,393,000)</u>
Net cash used in financing activities	<u>(1,393,000)</u>
Net decrease in cash	(7,696,372)
Cash and cash equivalents, beginning of year	<u>10,267,483</u>
Cash and cash equivalents, end of year	<u>\$ 2,571,111</u>
Cash	\$ 1,063,474
Escrow funds - restricted cash equivalents	<u>1,507,637</u>
Cash and restricted cash, end of year	<u>\$ 2,571,111</u>

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization and activities

First 8 Memphis, LLC (the “Organization”) was formed in October 2018, and is a Tennessee not-for-profit entity that manages private and public funds dedicated to the expansion of services for children from birth to age eight in Shelby County, Tennessee. The Organization was formed by Seeding Success, Inc., which acts as the sole member of the Organization, and an operating agreement governs the relationship.

Fiscal year end

During the current period, the Organization changed its reporting fiscal year end from December 31st to June 30th.

Programs and special projects

In 2019, the Organization was engaged by the City of Memphis and Shelby County to act as the fiscal agent for a Pre-K program, in which the Organization oversees and manages the education of pre-kindergarten students in Shelby County. Funds from the governmental entities for the Pre-K program are held in a controlled escrow account and are released from escrow upon the Organization meeting certain outcome measures. These outcome measures consist of the following: consistent attendance, development of early reading skills, and kindergarten readiness. The term of the agreement with the City of Memphis and Shelby County includes the following school years: 2019-2020, 2020-2021, and 2021-2022, unless otherwise terminated under the agreement.

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets in which no payer or donor-imposed restrictions were stipulated beyond the general stated purposes of the Organization. At the discretion of the Organization’s management and board of directors, these net assets may be expended for any purpose in performing the primary objectives of the Organization.

Net assets without donor restrictions consist of two categories: undesignated funds and board designated funds. Undesignated funds are available for any purpose within the scope of the Organization’s activities. Designated funds have been appropriated by the Organization’s board of directors for a specific activity or group of activities. Such designations could be changed by action of 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 pursuant to those stipulations, or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds to be maintained in perpetuity.

First 8 Memphis Notes to Financial Statements

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. The Pre-K program was the Organization's only donor-restricted program in 2020. Donor-restricted revenues were \$4,256,878 for the six-month period ended June 30, 2020.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Contributions and support

Contributions received are recorded as with donor restrictions or without donor restrictions depending upon the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restriction. When a donor restriction expires in the same year received, revenue first flows through donor restricted net assets as an increase and is also shown as a release during the same year.

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of beneficial interest is received. Conditional promises to give – that is, those 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.

Consequently, at June 30, 2020, contributions approximating \$1,539,000 are recorded as contract liabilities and have not been recognized in the accompanying statement of activities because the conditions on which they depend have not yet been met. Management expects to meet these conditions in fiscal year 2021 by incurring qualifying expenditures.

Cash and cash equivalents

The Organization considers all highly liquid debt instruments with original maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist of cash held in a bank and money market mutual funds. Certificates of deposits are excluded from cash equivalents.

In-kind donations

Donated supplies and services are recorded as contributions at their estimated fair values at the date of donation. The Organization received approximately \$36,000 of in-kind marketing services during 2020.

Functional expense allocation

The cost of providing various programs and supporting services have been reported on a functional basis in the statement of activities and functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management. The expenses that are allocated include wages and related benefits, consulting services, meals and events, office administration, and travel expenses. These expenses are allocated based on time and effort. Occupancy and depreciation are allocated based on square footage.

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 an exempt organization return in the United States federal jurisdiction.

First 8 Memphis Notes to Financial Statements

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Pandemic

In March 2020, the outbreak and spread of the COVID-19 virus was classified as a pandemic by the World Health Organization. The spread of the virus has disrupted the Organization's activities along with the activities of the Organization's vendors, service providers, donors, and grantors. These disruptions could adversely affect the Organization's ability to obtain and deliver certain services the program recipients expect. The economic uncertainty has not been fully determined but could have a significant impact on the Organization's financial condition, changes in net assets, and cash flows. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

In June 2020, the Organization determined that due to the challenges associated with the COVID-19 outbreak, available data will not be sufficient to fully determine the anticipated final outcomes of the Pre-K program for the 2019-2020 school year. The Organization has received authorization from the City of Memphis and Shelby County to distribute funds from escrow to repay the outstanding principal loan balance as scheduled (see note 4). Interest accrued on the outstanding principal balance has also been waived.

Subsequent events

The Organization evaluated the effect subsequent events would have on the consolidated financial statements through January 27, 2021, which is the date the financial statements were available to be issued.

2. Availability and Liquidity

The Organization's financial assets include cash of \$1,063,473 and restricted escrow funds of \$5,982,612, which are available for general expenditure within one year of the statement of financial position date subject to the escrow agreement discussed in Note 1.

3. Fair Value Measurements

Fair value as defined under GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value

**First 8 Memphis
Notes to Financial Statements**

measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following is a description of the valuation methodologies used for assets measured at fair value:

Money Market Mutual funds

Mutual funds are publicly traded investments and are valued daily at the closing price reported on the active market on which the funds are traded.

Certificates of deposit

These certificates are valued using pricing models maximizing the use of observable inputs for similar certificates.

The following table sets forth by level within the fair value hierarchy the Organization’s assets accounted for at fair value on a recurring basis as of June 30, 2020:

	Assets at Fair Value as of June 30, 2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual fund	\$ 1,507,637	\$ -	\$ -	\$ 1,507,637
Certificates of deposits	<u>4,474,975</u>	<u>-</u>	<u>-</u>	<u>4,474,975</u>
Escrow funds, at fair value	<u>\$ 5,982,612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,982,612</u>

These cash equivalents and investments are subject to the escrow agreement described in Note 1.

4. Debt

On August 27, 2019, the Organization entered into a 24-month loan agreement with a senior lender and a subordinate lender to fund the Pre-K program. The loan has a simple interest rate of 7%, and all interest is due at maturity. The loan is collateralized by certain assets of the Organization and is subject to a Limited Recourse Carve-Out agreement executed by Seeding Success. Under the loan agreements and the Professional Services Agreement with the City of Memphis and Shelby County, funds are transferred from an escrow account directly to the lenders, on a quarterly basis, to satisfy the principal and interest requirements. As discussed in Note 1, the amount of the funds released from escrow are contingent upon the Organization meeting certain outcome measures; however, during the period, the Organization received a waiver for 2019-2020 school year outcome measures. During fiscal year 2021, the available escrow funds will be released to repay the debt upon maturity.

5. Net Assets with Donor Restrictions

For the six-month period ended June 30, 2020, net assets totaling \$6,526,878 were released from restrictions by incurring qualifying expenses related to the Pre-K program. There we no net assets with donor restrictions at June 30, 2020.

6. Retirement Plan

The Organization participates in a 401(k) retirement plan, sponsored by its member, Seeding Success, for all full-time employees at least twenty-one (21) years of age who have completed four months of continuous employment. Optional employee contributions are withheld from the employees' compensation. The Plan Sponsor will make a matching contribution for each participant equal to 100% of the participant's salary contributions, up to 3% of annual compensation, and 50% of the participant's salary contributions, between 3-5% of annual compensation. Employer contributions for the period ended June 30, 2020, were \$1,050.

7. Related Party Transaction

For the period ended June 30, 2020, the Organization had expenses to its member for rent and other expenses totaling \$12,087.

8. Concentrations of Risk

Contribution revenue for the six-month period ended June 30, 2020 relates entirely to the agreement with City of Memphis and Shelby County.

The Organization has concentrated its credit risk for cash and restricted 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 in such accounts and management believes the Organization is not exposed to significant credit risk to cash.

9. Subsequent Event

Subsequent to June 30, 2020, First 8 received funding of \$12.5 million from the City of Memphis and Shelby County, subject to the escrow agreement. First 8 also entered a new 20-month loan agreement with the senior lender in the amount of \$6,080,000 and the subordinate lender in the amount of \$1,520,000 to fund the Pre-K program. The loans carry simple interest of 7% and 2% for the senior loan and subordinate loan, respectively. All interest is due at maturity.