

**FIRST 8 MEMPHIS, LLC**  
**FINANCIAL STATEMENTS**

June 30, 2021



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
First 8 Memphis, LLC

We have audited the accompanying financial statements of First 8 Memphis, LLC (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, 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 First 8 Memphis, LLC as of June 30, 2021, 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.

**Prior Period Adjustment**

As described in Note 7 to the financial statements, an overstatement of beginning net assets was discovered during the current year and corrected. Our opinion is not modified with respect to this matter.

*Watkins Mikusall, PLLC*

Memphis, Tennessee

March 11, 2022

**FIRST 8 MEMPHIS, LLC**  
**STATEMENT OF FINANCIAL POSITION**

June 30, 2021

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<u>Assets</u>	
Cash	\$ 3,934,326
Restricted cash and cash equivalents	6,331,454
Prepaid expenses	2,000
Other assets	563
Property and Equipment	
Equipment	132,215
Less accumulated depreciation	<u>(20,512)</u>
Property and equipment, net	<u>111,703</u>
Total assets	<u><u>\$ 10,380,046</u></u>
 <u>Liabilities and Net Deficit</u>	
Liabilities	
Accounts payable	\$ 152,108
Classroom expenses payable	1,962,327
Accrued expenses	167,766
Refundable advances	4,910,507
Notes payable	<u>5,136,000</u>
Total liabilities	12,328,708
Net Deficit	
Without donor restrictions	<u>(1,948,662)</u>
Total liabilities and net deficit	<u><u>\$ 10,380,046</u></u>

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

**FIRST 8 MEMPHIS, LLC****STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2021

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Professional services agreement	\$ 9,128,615	\$ -	\$ 9,128,615
State of Tennessee CARES grant	290,537	-	290,537
Related party contributions	222,480	-	222,480
Other contributions	12,533	-	12,533
Interest income	43,012	-	43,012
Total support and revenue	<u>9,697,177</u>	<u>-</u>	<u>9,697,177</u>
Expenses			
Program services	11,634,908	-	11,634,908
Management and general	239,321	-	239,321
Total expenses	<u>11,874,229</u>	<u>-</u>	<u>11,874,229</u>
Change in net assets	(2,177,052)	-	(2,177,052)
Net assets, beginning of year, as previously reported	438,390	-	438,390
Prior period adjustment	<u>(210,000)</u>	<u>-</u>	<u>(210,000)</u>
Net assets, beginning of year, as restated	<u>228,390</u>	<u>-</u>	<u>228,390</u>
Net deficit, end of year	<u>\$ (1,948,662)</u>	<u>\$ -</u>	<u>\$ (1,948,662)</u>

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

**FIRST 8 MEMPHIS, LLC**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2021

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	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and benefits	\$ 395,720	\$ 43,969	\$ 439,689
Classroom expenses	10,646,487	-	10,646,487
Office administration	9,298	68,189	77,487
Staff travel	1,405	1,405	2,810
Insurance	1,320	9,680	11,000
Occupancy	28,762	12,922	41,684
Professional fees	374,112	103,019	477,131
Interest	157,768	-	157,768
Depreciation	20,036	137	20,173
	<u>\$ 11,634,908</u>	<u>\$ 239,321</u>	<u>\$ 11,874,229</u>

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

**FIRST 8 MEMPHIS, LLC**

**STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2021

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Cash Flows From Operating Activities:	
Change in net assets	\$ (2,177,052)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:	
Depreciation	20,173
Changes in operating assets and liabilities:	
Prepaid expenses	402,624
Other assets	(563)
Accounts payable	(77,530)
Classroom expenses payable	1,962,327
Accrued expenses	148,206
Refundable advances	3,371,385
Net cash provided by operating activities	<u>3,649,570</u>
Cash Flows From Investing Activities:	
Proceeds from maturity of restricted certificates of deposit	4,475,314
Purchases of property and equipment	(132,215)
Net cash provided by investing activities	<u>4,343,099</u>
Cash Flows From Financing Activities:	
Proceeds from issuance of notes payable	8,441,063
Principal payments on notes payable	(8,739,063)
Net cash used for financing activities	<u>(298,000)</u>
Net increase in cash and cash equivalents	7,694,669
Cash and restricted cash and cash equivalents, beginning of year	<u>2,571,111</u>
Cash and restricted cash and cash equivalents, end of year	<u>\$ 10,265,780</u>
Cash	\$ 3,934,326
Restricted cash and cash equivalents	6,331,454
Total cash and restricted cash and cash equivalents	<u>\$ 10,265,780</u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for interest	<u>\$ 7,553</u>

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



# FIRST 8 MEMPHIS, LLC

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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### NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Nature of Operations

First 8 Memphis, LLC (the “Organization”) is a Tennessee not-for-profit entity formed in October 2018 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. (“Seeding Success”), which acts as the sole member of the Organization, and an operating agreement governs the relationship.

#### Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

#### 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 in the financial statements. Actual results could differ from those estimates.

#### Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a 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 substantially met. Certain government grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Consequently, at June 30, 2021, contributions totaling \$4,910,507 are recorded as refundable advances and have not been recognized in the accompanying statement of activities because the conditions on which they depend have not yet been met. Subsequent to June 30, 2021, the conditions were met and the refundable advances were recorded as revenue in 2022.

#### In-Kind Contributions

Donated services are recorded at their respective fair values in the period received when they create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed goods are recorded at fair value at the date of donation. For the year ended June 30, 2021, in-kind contributions consisted of a discount received on office space rental totaling \$10,500.

#### Concentrations and Credit Risks

Deposit concentration risk is managed by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed federally insured limits of \$250,000 in the aggregate. To date, the Organization has not experienced any losses in such accounts nor does management believe there is any significant credit risk on its deposits.

### Cash and Restricted 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. Certain cash and cash equivalents are restricted under the escrow agreement described in Note 3.

### Property and Equipment

Purchases of property and equipment are stated at cost at the date of acquisition or fair value at the date of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of five years. The Organization capitalizes purchases of long-lived assets over \$1,500. Repairs and maintenance that do not add value or extend the life of the assets are expensed as incurred.

### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no donor-imposed restrictions of a perpetual nature at June 30, 2021. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. If a restriction expires in the reporting period in which the revenue was recognized, revenue is reported as an increase in net assets without donor restrictions.

### Functional Allocation of Expenses

The cost of providing various programs and supporting services have been reported on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that are identified with a specific program or support service are charged directly to the appropriate function. Other shared costs have been allocated among the program and supporting services benefited based on the relative time and effort expended for the related functions.

### Income Taxes

As a single member non-profit limited liability company, the Organization is exempt from Tennessee state income taxes under provisions of the Tennessee tax regulations. Additionally, since Seeding Success is the sole member of the Organization, the Organization is considered a disregarded entity for federal income tax purposes. Accordingly, no provision for income taxes is included in the accompanying financial statements.

### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

### Date of Management's Review

The Organization evaluated its June 30, 2021 financial statements for subsequent events through March 11, 2022, the date the financial statements were available to be issued. Except as disclosed in Note 3, the Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

### **NOTE 2 – LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure within one year of the statement of financial position date comprise the following:

Cash	\$ 3,934,326
Restricted cash and cash equivalents	6,331,454
	<u>\$ 10,265,780</u>

Restricted cash and cash equivalents of \$6,331,454 is available for general expenditure but subject to the escrow agreement discussed in Note 3.

### **NOTE 3 – PROFESSIONAL SERVICES AGREEMENT**

In August 2019, the Organization entered into a Professional Services Agreement (the "Agreement") with the City of Memphis and Shelby County to act as the fiscal agent for a Pre-K program, in which the Organization will oversee and manage the education of pre-kindergarten students in Shelby County. Certain 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, which must be verified by an independent third-party validator. These outcome measures consist of the following: consistent attendance, development of early reading skills, and kindergarten readiness. The term of the Agreement includes the following school years: 2019-2020, 2020-2021, and 2021-2022, unless otherwise terminated under the Agreement.

For the year ended June 30, 2021, contribution revenue from the Agreement amounted to approximately 94% of total support and revenue.

### Notes Payable

In connection with the Agreement, in August 2019, the Organization entered into 24-month social impact loan agreements with a senior lender for \$6,054,400 and a subordinate lender for \$1,513,600 to fund the Pre-K program for the 2019-2020 school year. The senior loan has a simple interest rate of 7% and the subordinate loan has a simple interest rate of 2%, and all interest is due at maturity. Both loans are collateralized by certain assets of the Organization. Under the loan agreements and the Agreement, funds are transferred from an

escrow account directly to the lenders, on a quarterly basis, to satisfy the principal and interest requirements. Any principal balance remaining after all outcome payments have been applied will be forgiven. The amount of funds released from escrow are contingent upon the Organization meeting certain outcome measures; however, the Organization received a waiver for 2019-2020 school year outcome measures. The escrow funds were released to fully repay the remaining obligation during the year ended June 30, 2021.

In November 2020, the Organization entered into 24-month social impact loan agreements with a senior lender for \$6,080,000 and a subordinate lender for \$1,520,000 to fund the Pre-K program for the 2020-2021 school year. The terms of these loans are the same as the terms of the 2019-2020 school year loans discussed above. Subsequent to June 30, 2021, the available escrow funds were released to repay the outstanding balance of \$5,136,000.

Subsequent to June 30, 2021, the Organization entered into 24-month social impact loan agreements with a senior lender for \$5,850,000 and a subordinate lender for \$2,000,000 to fund the Pre-K program for the 2021-2022 school year. The terms of these loans are the same as the terms of the 2019-2020 school year loans discussed above.

#### **NOTE 4 – LEASES**

The Organization leases office space under an operating lease on a month-to-month basis. Total lease expense for the year ended June 30, 2021, was \$34,500.

#### **NOTE 5 – RETIREMENT PLAN**

The Organization maintains a 401(k) retirement plan, sponsored by its member, Seeding Success, for all full-time employees at least twenty-one 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 year ended June 30, 2021, were \$6,271.

#### **NOTE 6 – RELATED PARTY TRANSACTIONS**

For the year ended June 30, 2021, Seeding Success provided data management services and certain fringe benefits to the Organization for which it was charged approximately \$110,000. At June 30, 2021, the Organization had not yet paid these amounts and they are included in accounts payable. Additionally, contributions of \$222,480 were received from Seeding Success during the year ended June 30, 2021.

#### **NOTE 7 – PRIOR PERIOD ADJUSTMENT**

The Organization understated its classroom expenses and payables in the prior year. Accordingly, the Organization restated its beginning net asset balances which resulted in a decrease of \$210,000 to net assets without donor restrictions.