

FIRST 8 MEMPHIS, LLC
FINANCIAL STATEMENTS

June 30, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
First 8 Memphis, LLC

Opinion

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of First 8 Memphis, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about First 8 Memphis, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will

always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 First 8 Memphis, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First 8 Memphis, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 15, 2023

FIRST 8 MEMPHIS, LLC
STATEMENT OF FINANCIAL POSITION

June 30, 2023

<u>Assets</u>	
Cash	\$ 6,328,512
Accounts receivable, net of allowance of \$128,701	61,375
Prepaid expenses	43,811
Property and Equipment	
Equipment	132,215
Less accumulated depreciation	<u>(73,398)</u>
Property and equipment, net	58,817
Other asset	<u>27,095</u>
Total assets	<u><u>\$ 6,519,610</u></u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable	\$ 23,064
Classroom expenses payable	1,381,725
Accrued expenses	<u>65,161</u>
Total liabilities	1,469,950
Net Assets	
Without donor restrictions	4,931,653
With donor restrictions	<u>118,007</u>
Total net assets	<u>5,049,660</u>
Total liabilities and net assets	<u><u>\$ 6,519,610</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, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Professional services agreement	\$ 20,161,156	\$ -	\$ 20,161,156
Contributions	869,314	118,007	987,321
Other revenues	20,358	-	20,358
Interest income	110,735	-	110,735
Total support and revenue	<u>21,161,563</u>	<u>118,007</u>	<u>21,279,570</u>
Expenses			
Program services	14,175,961	-	14,175,961
Management and general	688,433	-	688,433
Total expenses	<u>14,864,394</u>	<u>-</u>	<u>14,864,394</u>
Change in net assets	6,297,169	118,007	6,415,176
Net deficit, beginning of year	<u>(1,365,516)</u>	<u>-</u>	<u>(1,365,516)</u>
Net assets, end of year	<u>\$ 4,931,653</u>	<u>\$ 118,007</u>	<u>\$ 5,049,660</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, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and benefits	\$ 350,809	\$ 428,766	\$ 779,575
Classroom expenses	12,130,401	-	12,130,401
Office administration	8,656	63,476	72,132
Staff travel	17,394	21,260	38,654
Insurance	1,588	11,648	13,236
Occupancy	49,632	22,298	71,930
Professional fees	362,413	140,985	503,398
Grants to others	750,000	-	750,000
Interest and success fees	478,625	-	478,625
Depreciation	26,443	-	26,443
	<u>\$ 14,175,961</u>	<u>\$ 688,433</u>	<u>\$ 14,864,394</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, 2023

Cash Flows From Operating Activities:	
Change in net assets	\$ 6,415,176
Adjustments to Reconcile Change in Net Assets	
to Net Cash Provided By (Used For) Operating Activities:	
Depreciation	26,443
Changes in operating assets and liabilities:	
Accounts receivable	(23,220)
Prepaid expenses	(43,811)
Other asset	(27,095)
Accounts payable	1,082
Classroom expenses payable	(42,896)
Accrued expenses	(141,045)
Refundable advances	(5,361,156)
Net cash provided by operating activities	803,478
Cash Flows From Financing Activities:	
Principal payments on notes payable	(4,635,796)
Net decrease in cash and cash equivalents	(3,832,318)
Cash and restricted cash and cash equivalents, beginning of year	10,160,830
Cash, end of year	\$ 6,328,512
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for interest	\$ 222,419

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

FIRST 8 MEMPHIS, LLC

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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.

Donated Materials and Services

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. The Organization received no such contributed services or goods for the year ended June 30, 2023.

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 were restricted under the escrow agreement described in Note 3. At June 30, 2023, all escrow funds had been released and there was no restricted cash.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for an allowance for uncollectible accounts based upon a review of the individual accounts, past experience, current economic conditions, and other pertinent factors which form a basis for determining the adequacy of the allowance. An allowance of \$128,701 was recorded at June 30, 2023.

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, 2023. 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.

Date of Management's Review

The Organization evaluated its June 30, 2023 financial statements for subsequent events through December 15, 2023, the date the financial statements were available to be issued. 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	\$ 6,328,512
Accounts receivable	61,375
Less net assets with donor restrictions	<u>(118,007)</u>
	<u>\$ 6,271,880</u>

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. In October 2022, the Agreement was renewed for three additional school years: 2022-2023, 2023-2024, and 2024-2025, that provides funding up to \$14,800,000, \$16,000,000, and \$17,000,000, respectively.

For the year ended June 30, 2023, contribution revenue from the Agreement amounted to approximately 95% 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. The escrow funds were released to fully repay the remaining obligation during the year ended June 30, 2022.

In November 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. The available escrow funds were released to repay the outstanding balance of \$4,635,796 during the year ended June 30, 2023.

NOTE 4 – LINE OF CREDIT

The Organization has an unsecured revolving line of credit with a bank with borrowings up to \$4,200,000. Interest is variable based on the lender’s base commercial rate (currently 8.25%) and is due monthly, with all unpaid accrued interest and outstanding principal due on November 30, 2024. There were no outstanding borrowings on the line of credit at June 30, 2023.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows at June 30:

Purpose restricted for speaker series	\$ 18,007
Time restricted for future periods	100,000
	<u>\$ 118,007</u>

NOTE 6 – 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, 2023, were \$15,140.

NOTE 7 – RELATED PARTY TRANSACTIONS

For the year ended June 30, 2023, Seeding Success provided data management services and certain fringe benefits to the employees of the Organization, for which it was charged approximately \$214,000. At June 30, 2023, amounts due to Seeding Success totaled \$26,139. Additionally, contributions of \$765,000 were received from Seeding Success during the year ended June 30, 2023.