

Cincinnati Preschool Promise, LLC

Financial Statements

June 30, 2017

(with Independent Auditors' Report)



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INDEPENDENT AUDITORS' REPORT

The Board of Managers
Cincinnati Preschool Promise, LLC:

Report on the Financial Statements

We have audited the accompanying financial statements of Cincinnati Preschool Promise, LLC (a not-for-profit limited liability company), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the period from inception to June 30, 2017, 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 Cincinnati Preschool Promise, LLC as of June 30, 2017 and the changes in its net assets and its cash flows for the initial period then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Report of Cincinnati Public Schools Levy Funds presented on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
October 31, 2017

Cincinnati Preschool Promise, LLC
Statement of Financial Position
June 30, 2017

Assets:	
Cash	\$ 564,981
Accounts receivable	750,312
Property and equipment	<u>45,000</u>
Total assets	\$ <u>1,360,293</u>
Liabilities and net assets:	
Liabilities:	
Accounts payable	\$ <u>1,146,530</u>
Net assets:	
Unrestricted	193,489
Temporarily restricted	<u>20,274</u>
Total net assets	<u>213,763</u>
Total liabilities and net assets	\$ <u>1,360,293</u>

See accompanying notes to the financial statements.

Cincinnati Preschool Promise, LLC
Statement of Activities
Period from Inception to June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Contributions	\$ 100	62,274	62,374
Property taxes revenue	1,323,835	-	1,323,835
Donated goods and services	62,665	-	62,665
Net assets released from restrictions	<u>42,000</u>	<u>(42,000)</u>	<u>-</u>
 Total revenues	 <u>1,428,600</u>	 <u>20,274</u>	 <u>1,448,874</u>
Expenses:			
Program services	689,582	-	689,582
Management and general	<u>545,529</u>	<u>-</u>	<u>545,529</u>
 Total expenses	 <u>1,235,111</u>	 <u>-</u>	 <u>1,235,111</u>
 Change in net assets	 <u>193,489</u>	 <u>20,274</u>	 <u>213,763</u>
 Net assets at beginning of period	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Net assets at end of period	 \$ <u>193,489</u>	 <u>20,274</u>	 <u>213,763</u>

See accompanying notes to the financial statements.

Cincinnati Preschool Promise, LLC
Statement of Functional Expenses
Period from Inception to June 30, 2017

	<u>Tuition Assistance</u>	<u>Quality Improvement</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total</u>
Contract wages	\$ 10,153	10,153	20,306	26,776	47,082
Professional fees	415,858	204,586	620,444	471,267	1,091,711
Equipment	901	901	1,802	18,928	20,730
Occupancy	-	-	-	22,000	22,000
Printing and publications	5,403	5,403	10,806	2,004	12,810
Marketing and promotions	16,550	16,550	33,100	115	33,215
Travel	55	55	110	147	257
Meetings and conferences	122	122	244	1,492	1,736
Office expenses	1,385	1,385	2,770	1,377	4,147
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,423</u>	<u>1,423</u>
 Total expenses	 \$ <u>450,427</u>	 <u>239,155</u>	 <u>689,582</u>	 <u>545,529</u>	 <u>1,235,111</u>

See accompanying notes to the financial statements.

Cincinnati Preschool Promise, LLC
Statement of Cash Flows
Period from Inception to June 30, 2017

Cash flows from operating activities:

Change in net assets	\$ 213,763
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Effects of change in operating assets and liabilities:	
Accounts receivable	(750,312)
Accounts payable	<u>1,101,530</u>
Net cash provided by operating activities	<u>564,981</u>
Net change in cash	564,981
Cash at beginning of year	<u>-</u>
Cash at end of year	<u><u>564,981</u></u>
Supplemental disclosures of cash flow information:	
Property and equipment in accounts payable	\$ <u>45,000</u>

See accompanying notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of Cincinnati Preschool Promise, LLC (the "Organization") are set forth to facilitate the understanding of data presented in the financial statements.

Organization and business description

Cincinnati Preschool Promise, LLC is a not-for-profit limited liability company with Articles of Organization filed with the Ohio Secretary of State on September 28, 2016. Originally known as Cincinnati PEO, LLC, ("PEO" meaning "Preschool Expansion Organization") it changed its name to Cincinnati Preschool Promise, LLC in March 2017.

The Organization's mission is to expand access to quality community provider preschools located within the geographic boundaries of the Cincinnati City School District in Hamilton County, Ohio (the "School District"). It focuses on access to quality preschools because attending a quality preschool is considered a key step to preparing children for future educational achievement.

To this aim the Organization currently focuses its resources on two main programs, Tuition Assistance and Quality Improvement.

Tuition Assistance provides financial support to help families afford quality preschools. The support is paid directly to eligible quality preschool providers. The other program, Quality Improvement, provides financial assistance and coaching to preschool providers in order to help increase the number of quality preschool spaces available within the geographic boundaries of the School District. The Organization also expends financial resources for management and general ("M&G") expenses. M&G expenses are generally referred to as administrative costs. These M&G expenses are considered necessary for the organization to operate effectively, but are not attributable to a specific program.

The Organization considers a preschool program to be a quality preschool if it is rated three, four, or five stars using the State of Ohio's Step Up To Quality Scale. The scale is an integral part of the Step Up To Quality program administered by the Ohio Department of Education and the Ohio Department of Job and Family Services.

As it relates to Tuition Assistance, the Organization provides assistance to eligible four and three year-old children, focusing first on the older children since they are the closest to missing out on a quality preschool education given they enter kindergarten the soonest. Within each age grouping the Organization first helps children living in families with lower incomes, up to 200% of the Federal Poverty Level (FPL), before helping those living in families with higher incomes, up to 300% of FPL. If funds remain available after the previously listed groupings have been helped, the Organization may support children who live in families with even larger incomes. There are a series of eligibility requirements and support calculations used to determine the amount, if any, that will be provided as tuition assistance for any given child attending a quality preschool.

As it relates to Quality Improvement, the Organization provides assistance for quality improvements at eligible preschool programs not currently rated as three, four, or five stars in the previously mentioned Step Up To Quality Scale. The aim of the assistance is to help those preschools achieve a three, four, or five star rating and thereby increase the number of quality community provider preschool slots available for children living in the geographic boundaries of the School District. The Organization develops

individualized plans for each preschool provider. The plan serves as the roadmap for the provider to achieve a three, four, or five star rating. The plans not only help the provider focus its efforts, but also guide the type of financial support provided by the Organization.

The Organization does not currently engage in significant fundraising activities and is almost exclusively funded by revenue generated by a property tax levy approved in November 2016 by voters residing within the boundaries of the School District. The tax levy is described in more detail in Note 2.

The Organization is subject to a Master Agreement For Preschool Expansion Services (the "Master Agreement"), between the School District, the Organization, and the United Way of Greater Cincinnati (the "UWGC"). The Master Agreement describes more specifically the aspirations, goals, and focus of the Organization, the School District, and UWGC. A copy of the agreement is available on the Organization's website (www.cincy-promise.org).

Income taxes

The Organization is a not-for-profit limited liability company and has filed the necessary documents in order to become exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code.

Financial statement presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets which have no donor restrictions; and temporarily restricted net assets, which have donor-imposed restrictions that will likely expire in the future. The Organization does not expect to have any permanently restricted net assets, those which have donor-imposed restrictions which do not expire, in the foreseeable future and therefore does not use that asset class for its reporting.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash concentrations

The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash. Cash in excess of federally insured limits was approximately \$315,000 as of June 30, 2017.

Accounts receivable

Accounts receivable consists of amounts due from the tax levy's trusted entity (United Way of Greater Cincinnati) for services provided by the Organization. Accounts receivable outstanding longer than the contractual payment terms are considered past due. The Organization reviews past due accounts to determine if an allowance for doubtful accounts is necessary. Accounts receivable are written off when they are determined to be uncollectible. As of June 30, 2017, no allowance for doubtful accounts has been recorded.

Property and equipment

Property and equipment are recorded at cost or fair value at the time of the gift in the case of donated items. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets. The cost of maintenance and repairs is charged to expense as incurred; expenditures are capitalized if they are in excess of \$5,000 or have a useful life exceeding one year in length. Property and equipment consist of software development costs in progress at June 30, 2017.

Contributions

All contributions made to the Organization are considered available for unrestricted use, unless specifically restricted by the donor. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated materials and services

The Organization records the estimated fair value of certain donated materials and services as an expense in its financial statements, and similarly increases revenue by a like amount. The Organization records donated goods and services when the amounts contributed are greater than \$2,500. Donated materials and services for the current year total \$62,665 and primarily include legal services.

Functional allocation of expenses

The costs of providing the various programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Advertising expenses

Advertising costs are expensed in the period in which they are incurred. During the period from inception to June 30, 2017 total advertising expense was \$33,215.

Subsequent events

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through October 31, 2017, the date on which the financial statements were available to be issued.

2. TAX LEVY FUNDING:

The Organization is funded almost exclusively by a portion of the funds generated by a tax levy Cincinnati-area voters approved on November 8, 2016. The levy was referred to as Issue 44 on the ballot, was proposed by the Cincinnati City School District, of Hamilton County, Ohio, (School District), and was expected to generate approximately \$48,000,000 dollars per year for the School District. Preschool expansion is approximately \$15,000,000 annually, or 15/48th of the estimated \$48,000,000 to be collected annually from the levy. The Organization receives a portion of the \$15,000,000 since some of the preschool expansion funds are used by the School District for its own preschool expansion efforts.

The Organization's funds come from the portion of the levy funds allocated for preschool expansion. The allocated funds are passed through United Way of Greater Cincinnati (UWGC). UWGC is a charitable organization with a history of involvement, support, and investment in work that focuses on solutions to

community issues. In the second step UWGC transfer funds to the Organization as the Organization requests them. This process was created and outlined in the Master Agreement for Preschool Expansion Services (Master Agreement).

3. RELATED PARTY TRANSACTIONS:

As required by the Master Agreement, the Organization's Board of Managers must include individuals nominated by the School District, UWGC, and the Cincinnati Promise Alliance, formerly known as Cincinnati Preschool Promise, an Ohio non-profit corporation. These individuals are able to vote in matters of the Organization.

The Master Agreement also provides that UWGC will receive \$200,000 annually as an administrative fee. As part of this fee the UWGC agrees to provide the Organization with executive management, financial and administrative support, including human resources, advocacy and fundraising. During the period from inception to June 30, 2017, the Organization paid UWGC \$85,000 in regards to this fee.

UWGC is reimbursed for additional expenses relating to start-up and ongoing activities performed by UWGC employees. During the period from inception to June 30, 2017, the Organization reimbursed UWGC \$122,082 for these services.

The Organization and UWGC are further related as UWGC is the sole member of the Organization and also leases space to the Organization. Subsequent to year end, the Organization entered into a one-year lease for office space with monthly payments due to UWGC of approximately \$2,400.

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of \$20,274 to be used to build awareness and engagement for the Organization's programs.

5. COMMITMENTS AND CONTINGENCIES

The Organization has entered into an agreement with MextrixIQ to provide ongoing data system support and maintenance through June 2022. Expenses incurred and due to MextrixIQ for the period from inception to June 30, 2017 totaled \$70,588.

The following is a schedule by fiscal year of future estimated payments required under the agreement:

2018	\$ 486,580
2019	492,062
2020	501,055
2021	511,476
2022	532,941
Thereafter	<u>89,481</u>
	\$ <u>2,613,595</u>

Cincinnati Preschool Promise, LLC
 Report of Cincinnati Public School Levy Funds
 January through June 30, 2017

	<u>Tuition</u>	<u>Quality</u>	<u>Total</u>	<u>Management</u>	<u>Designated for</u>	<u>Total</u>
	<u>Assistance</u>	<u>Improvements</u>	<u>Program</u>	<u>and General</u>	<u>Future Periods</u>	
Property taxes revenue	\$ <u>468,427</u>	<u>221,156</u>	<u>689,583</u>	<u>485,863</u>	<u>148,389</u>	<u>1,323,835</u>
Contract wages	\$ 10,153	10,153	20,306	26,776	-	47,082
Professional fees	394,858	183,586	578,444	411,602	-	990,046
Equipment	901	901	1,802	18,928	-	20,730
Occupancy	-	-	-	22,000	-	22,000
Printing and publications	5,403	5,403	10,806	2,004	-	12,810
Marketing and promotions	15,050	15,050	30,100	115	-	30,215
Travel	55	55	110	147	-	257
Meetings and conferences	122	122	244	1,492	-	1,736
Office expenses	1,385	1,386	2,771	1,376	-	4,147
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,423</u>	<u>-</u>	<u>1,423</u>
Total expenses	<u>427,927</u>	<u>216,656</u>	<u>644,583</u>	<u>485,863</u>	<u>-</u>	<u>1,130,446</u>
Revenue less expenses	\$ <u>40,500</u>	<u>4,500</u>	<u>45,000</u>	<u>-</u>	<u>148,389</u>	<u>193,389</u>

Note: This supplemental schedule includes only levy expenses incurred and levy revenue received by the Organization.

