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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Montgomery Education Foundation

We have audited the accompanying financial statements of the Montgomery Education Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, the related statements of activities and cash flows for the year then ended, 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 Montgomery Education Foundation as of December 31, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The STARBASE (SB) statement of activities is presented for the purpose 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, 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.

Montgomery, Alabama
October 29, 2021

MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA
DECEMBER 31, 2020

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MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---|--|--------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 176,297 | \$ 2,500 | \$ 178,797 |
| Assessments receivable | <u>30,137</u> | <u>76,756</u> | <u>106,893</u> |
| Total Current Assets | <u>\$ 206,434</u> | <u>\$ 79,256</u> | <u>\$ 285,690</u> |
| FIXED ASSETS | | | |
| Furniture and equipment | \$ 522 | \$ -0- | \$ 522 |
| Accumulated depreciation | <u>(433)</u> | <u>-0-</u> | <u>(433)</u> |
| Total Fixed Assets | <u>\$ 89</u> | <u>\$ -0-</u> | <u>\$ 89</u> |
| TOTAL ASSETS | <u>\$ 206,523</u> | <u>\$ 79,256</u> | <u>\$ 285,779</u> |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accrued expenses | \$ 9,500 | \$ -0- | \$ 9,500 |
| Payroll tax liabilities | <u>10,066</u> | <u>-0-</u> | <u>10,066</u> |
| Total Liabilities | <u>\$ 19,566</u> | <u>\$ -0-</u> | <u>\$ 19,566</u> |
| NET ASSETS | <u>\$ 186,957</u> | <u>\$ 79,256</u> | <u>\$ 266,213</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 206,523</u> | <u>\$ 79,256</u> | <u>\$ 285,779</u> |

See independent auditors' report.
See notes to financial statements.

MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|---|--|----------------------------|
| RECEIPTS | | | |
| Cash contributions | \$ 30,738 | \$ -0- | \$ 30,738 |
| COVID relief income | 182,500 | -0- | 182,500 |
| Dream Makers | -0- | 2,500 | 2,500 |
| Grant income | 209,511 | -0- | 209,511 |
| Charter Schools – grant | -0- | 191,971 | 191,971 |
| Starbase DO – grant | -0- | 683,712 | 683,712 |
| Interest income | 350 | -0- | 350 |
| Program fees | <u>45,308</u> | <u>-0-</u> | <u>45,308</u> |
| Gross receipts | \$ 468,407 | \$ 878,183 | \$ 1,346,590 |
| Net assets released from restrictions | <u>179,171</u> | <u>(179,171)</u> | <u>-0-</u> |
| Total receipts | <u>\$ 647,578</u> | <u>\$ 699,012</u> | <u>\$ 1,346,590</u> |
| DISBURSEMENTS | | | |
| Program expense: | | | |
| President | \$ 25,080 | \$ 25,080 | \$ 50,160 |
| Program personnel | 70,849 | 472,273 | 543,122 |
| Payroll taxes | 11,600 | 37,590 | 49,190 |
| Fees for consultants | -0- | 53,625 | 53,625 |
| Fees for management services | 45,308 | -0- | 45,308 |
| Dues and subscriptions | 97 | -0- | 97 |
| Legal and professional fees | 6,672 | 23,910 | 30,582 |
| Recruiting | -0- | 5,469 | 5,469 |
| Information technology | -0- | 16,748 | 16,748 |
| Interest | 6,437 | -0- | 6,437 |
| Travel | -0- | 915 | 915 |
| Conferences, conventions and meetings | 41 | 80 | 121 |
| Insurance | -0- | 10,081 | 10,081 |
| Professional development | -0- | 1,244 | 1,244 |
| Program events | -0- | 9,371 | 9,371 |
| Program supplies/equipment | <u>67,029</u> | <u>165,649</u> | <u>232,678</u> |
| Total program expense | <u>\$ 233,113</u> | <u>\$ 822,035</u> | <u>\$ 1,055,148</u> |
| Operating expense: | | | |
| President | \$ 15,048 | \$ 15,048 | \$ 30,096 |
| Personnel | 7,872 | 52,475 | 60,347 |
| Payroll taxes | 1,489 | 4,823 | 6,312 |
| Dues and subscriptions | 422 | -0- | 422 |
| Travel | 138 | -0- | 138 |
| Finance/payroll fees | 3,310 | -0- | 3,310 |
| Supplies/equipment | 1,153 | -0- | 1,153 |
| Legal and professional fees | 14,902 | -0- | 14,902 |
| Rent | 14,253 | -0- | 14,253 |
| Interest | 4,315 | -0- | 4,315 |
| Equipment rental | 1,665 | -0- | 1,665 |
| Office expense | 2,983 | -0- | 2,983 |
| Information technology | 1,499 | -0- | 1,499 |
| Conferences, conventions and meetings | 60 | 119 | 179 |
| Depreciation expense | 59 | -0- | 59 |
| Insurance | <u>9,944</u> | <u>-0-</u> | <u>9,944</u> |
| Total operating expense | <u>\$ 79,112</u> | <u>\$ 72,465</u> | <u>\$ 151,577</u> |

See independent auditors' report.

See notes to financial statements.

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---|--|---------------------------------|
| Fundraising expense: | | | |
| President | \$ 1,672 | \$ 1,672 | \$ 3,344 |
| Payroll taxes | 165 | 536 | 701 |
| Conferences, conventions and meetings | 26 | 51 | 77 |
| Professional development | 1,301 | -0- | 1,301 |
| Total fundraising expense | <u>\$ 3,164</u> | <u>\$ 2,259</u> | <u>\$ 5,423</u> |
| TOTAL DISBURSEMENTS | <u>\$ 315,389</u> | <u>\$ 896,759</u> | <u>\$ 1,212,148</u> |
| CHANGE IN NET ASSETS | \$ 332,189 | \$ (197,747) | \$ 134,442 |
| NET ASSETS, JANUARY 1, 2020 | <u>(145,232)</u> | <u>277,003</u> | <u>131,771</u> |
| NET ASSETS, DECEMBER 31, 2020 | <u><u>\$ 186,957</u></u> | <u><u>\$ 79,256</u></u> | <u><u>\$ 266,213</u></u> |

MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|---------------------------------|
| Increase in net assets | \$ 134,442 |
| Adjustment to reconcile change in net assets to net cash used by operating activities: | |
| Depreciation | 59 |
| Change in operating assets and liabilities: | |
| Decrease in assessments receivable | 170,110 |
| (Decrease) in accounts payable | (31,230) |
| Increase in accrued expenses | 750 |
| (Decrease) in line of credit | (140,400) |
| Increase in payroll liabilities | <u>3,326</u> |
| Net cash provided by operating activities | <u>\$ 137,057</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | \$ 137,057 |
| CASH AND CASH EQUIVALENTS, JANUARY 1, 2020 | <u>41,740</u> |
| CASH AND CASH EQUIVALENTS, DECEMBER 31, 2020 | <u><u>\$ 178,797</u></u> |
| SUPPLEMENTAL CASH FLOWS DISCLOSURES: | |
| Cash paid during the year for: | |
| Interest | \$ 10,728 |

See independent auditors' report.
See notes to financial statements.

MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA
DECEMBER 31, 2020

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Montgomery Education Foundation (the "Foundation") was founded in 2013 for the purpose of improving the quality of public education and reliable results to raise standards while generating resources for public schools from local governments, businesses, individuals and philanthropic foundations.

Basis of Presentation

These 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). Under this method of accounting, the Foundation recognizes revenues in the accounting period in which they are earned, rather than when they are received, and expenses in the period in which they are incurred, rather than when they are paid.

The Foundation reports information regarding its financial position in compliance with GAAP, and as such, follows ASU No. 2016-14 (FASB ASC 958-210) regarding the classification of net assets using two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Please reference the net asset classification section - continued in Note 1 regarding further disclosures.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost if purchased or fair value if contributed. Property and equipment purchased but then reimbursed by grants is not considered to be property of the Foundation. Depreciation is provided on a straight-line basis over the estimated useful life of each depreciable asset. The estimated useful life for office furniture and equipment is three to seven years.

Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized.

Expenditures incurred for website development and creation are capitalized and amortized over an estimated useful life of five years. Expenditures for monthly maintenance fees are expensed as incurred.

Tax Status

The Foundation is a not-for-profit corporation formed pursuant to the not-for-profit provisions of the State of Alabama and is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending December 31, 2018, 2019 and 2020 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Accounting for Contributions

The Foundation accounts for contributions received and contributions made based on the determination of the restrictions placed on contributions and unconditional promises to give, as well as recognition of a contribution at estimated fair value in the period the promise to give is made. All contributions are considered available for unrestricted use, unless specifically restricted by the donor.

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MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA
DECEMBER 31, 2020

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Foundation accounts for contributions received on behalf of other organizations as agency transactions in accordance with FASB ASC 958-605-25-23, *Transfers of Assets to a Non-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*.

Donated Goods and Services

Donated goods are reflected as contributions at their estimated fair market value at the date of donation. The Foundation recognizes contribution revenue for certain services received at the fair value of those services. Such revenues are recognized by the Foundation when the services received either create or enhance nonfinancial assets, or the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

Date of Management's Review

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

In preparing the financial statements, Management evaluated subsequent events through October 29, 2021, the date the financial statements were available to be issued.

Net Asset Classification

In prior years, the Foundation presented the statement of financial position using three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets, following GAAP FASB No. 117. The Foundation adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* effective for the December 31, 2018 year end. GAAP mandated this guidance in order to improve the net asset classification requirements, the information presented in the financial statements, and the notes regarding not-for-profit entity's liquidity, financial performance, and cash flows. Implementing this net asset reclassification, the Foundation reports information regarding its financial position and results of operations according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

Main provisions of this guidance include the: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

Reference Note 6 and Note 7 for further disclosures of the two net asset classes and the types of transactions affecting each class.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances at one institution. The cash balance at the financial institutions is insured by the Federal Deposit Insurance Corporation up to \$ 250,000 on interest-bearing accounts. At December 31, 2020, the Foundation had no uninsured balances.

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MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA
DECEMBER 31, 2020

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - COMPENSATED ABSENCES

The Foundation's policy on compensated absences is to recognize the costs when actually paid to employees. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements.

NOTE 4 - OPERATING LEASES

The Foundation leases its office facilities on a month-to-month agreement. The total rental expense for the office space during the year ended December 31, 2020 amounted to \$ 14,253.

The Foundation leases a photocopier under a five-year non-cancellable lease. The lease agreement commenced on November 1, 2019 and expires on October 31, 2024, with a minimum payment of \$ 151 per month. The lease agreement stipulates that additional charges may be applied when the number of images exceeds the guaranteed minimum images per quarter with an annual minimum lease amount of \$ 1,812. Total lease expense for the photocopier during the year ended December 31, 2020 amounted to \$ 1,665.

Future minimum lease payments required under all of the leases are as follows:

| Year Ending December 31, | Amount |
|-----------------------------|----------|
| 2020 | \$ 1,232 |
| 2021 | 1,812 |
| 2022 | 1,812 |
| 2023 | 1,812 |
| 2024 | 1,812 |
| | \$ 8,480 |

NOTE 5 - SHORT-TERM NOTES PAYABLE

The Foundation obtained a line of credit with ServisFirst Bank on July 2, 2019 in the amount of \$ 141,000 that matured on July 1, 2020. The line of credit was renewed for \$ 141,000 on July 23, 2020 and is scheduled to mature on July 1, 2022. The note bears interest at the ServisFirst Prime rate (index) plus 1.00% over the index, but not less than 5% or greater than the lesser of 18% or the maximum rate allowable by law. The loan is unsecured but the lender has the right to automatically withdraw funds from the Foundations checking account until the outstanding balance is satisfied. This automatic payment can be voluntarily terminated by the Foundation or Lender at any time for any reason. \$ -0- was outstanding, as the line of credit was paid in full during the year ended December 31, 2020.

NOTE 6 - NET ASSETS WITHOUT DONOR RESTRICTIONS

- (a) **Net Assets Without Donor Restrictions (Undesignated)** – Contributions and other assets that are not subject to donor-imposed restrictions. Items that affect this net asset class principally consist of fees for service and related expenses associated with core activities of the Foundation such as: educational support, grants, donations, instruction, sponsored research, licensing/continuing education fees, program registration, and conference/event revenue.
- (b) **Net Assets Without Donor Restrictions (Board Designated)** – In addition, this net asset category does not have donor restrictions, but is designated by the Board of Directors (the Board) for its use. These assets include investment funds and returns on investments for long-term purpose, any funds functioning as endowment funds, and philanthropic donations without donor restrictions, that are designated by the Board.

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MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA
DECEMBER 31, 2020

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

- (a) **Net Assets With Donor Restrictions** – Support that is stipulated by the donor to be used for a specific purpose, period of time, or that creates a permanent source of donor designated revenue. Items that affect this net asset class are gifts for which donor-imposed restrictions are to be maintained permanently or have not been met in the year of receipt; including: gifts and grants for buildings/equipment not yet placed in service, term endowments, annuity and life income gifts, donor restricted pledges, and any donor support to be maintained permanently by the Foundation. The Foundation had \$ 79,256 in donor restricted net assets as of the date of the statement of financial position.

NOTE 8 - SUPPLEMENTAL INFORMATION ON STARBASE STATEMENT OF ACTIVITIES

The Foundation is partnered with the Department of Defense's STARBASE (SB), a non-profit program, where 5th graders from Montgomery, Autauga, and Elmore counties are able to learn using professional lab equipment in SB's STEM lab, building and programming robots and launching rockets. SB's agreement with the Foundation includes providing the Foundation with government funded grants to reimburse the Foundation's program and operating expenses for that period. For the SB year ended September 30, 2020, SB funded a cost reimbursement grant in the amount of \$ 677,500 to the Foundation.

The supplementary information for SB's statement of activities is presented for the purpose of additional analysis and is not a required part of the financial statements. The following statement of activities includes the receipts and disbursements for the Starbase DOD's fiscal year ended October 1, 2019 through September 30, 2020.

NOTE 9 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation's primary source of support consists of the grant reimbursement agreements with the aforementioned related non-profits, Starbase DOD, and the newly formed Charter Schools. These grant agreements are cost reimbursement grants where the Foundation incurs the initial expense and Starbase or the Charter Schools reimburse the Foundation. All reimbursement grants are generated once a month from expense invoices the Foundation incurs, then submitted to the related organization's Director, and upon review, are reimbursed shortly following. Thus, the restrictions on financial assets consists of reimbursement receivables the Foundation has incurred as expenses, but not yet received. It should also be noted, these amounts historically have been reimbursed during the subsequent statement of financial position, and therefore are available for general use within one year of the current financial position date.

NOTE 10 - PAYCHECK PROTECTION PROGRAM

In response to the coronavirus (COVID-19) outbreak in 2020, the U.S. Federal Government enacted the Coronavirus Aid, Relief, and Economic Security Act that, among other economic stimulus measures, established the Paycheck Protection Program (PPP). The Paycheck Protection Program was initiated by the Small Business Administration (SBA), to provide small business loans and grants for financial aid and relief during COVID-19.

On May 4, 2020, the SBA granted the Foundation a PPP loan that was obtained through ServisFirst Bank, in the amount of \$ 162,500. The PPP loan was fully forgiven, in its entirety, on January 7, 2021, and as such, is reflected as "COVID relief income" on the statement of activities for the December 31, 2020 year ended.

On December 31, 2020 the Foundation also received an additional \$ 20,000 grant from the State of Alabama known as the Revive Plus COVID-19 Relief Grant. This grant was an additional economic stimulus measure that provided financial aid and relief for small businesses during COVID-19, with no funding repayment requirements. As such, the Revive Plus, COVID-19 grant of \$ 20,000 is also reflected in the "COVID relief income" on the statement of activities for the December 31, 2020 year ended.

NOTE 11 - SUBSEQUENT EVENTS

On July 31, 2021 the Foundation was granted an additional PPP Loan, (PPP Loan – 2nd Draw) in the amount of \$ 143,139. As of October 29, 2021 the PPP Loan – 2nd Draw had not yet been forgiven, but is anticipated to be forgiven in its entirety.

SUPPLEMENTAL INFORMATION

MONTGOMERY EDUCATION FOUNDATION
MONTGOMERY, ALABAMA

SUPPLEMENTAL STATEMENT OF ACTIVITIES
FOR THE STARBASE PROGRAM FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020

RECEIPTS

| | |
|-----------------------|--------------------------|
| Grant Income | \$ <u>677,500</u> |
| Total Receipts | \$ <u>677,500</u> |

DISBURSEMENTS

| | |
|-----------------------------------|--------------------------|
| Program expense: | |
| General liability insurance | \$ 5,593 |
| D&O insurance | 1,198 |
| Worker's Comp insurance | 2,168 |
| IT expense | 9,611 |
| Legal and professional | 4,250 |
| Management fees | 48,448 |
| Professional development | 1,287 |
| School year salaries | 432,071 |
| Stipends | 2,400 |
| School year payroll taxes | 32,971 |
| Stationary and supplies/equipment | 113,226 |
| Travel | <u>264</u> |
| Total Disbursements | \$ <u>653,487</u> |

CHANGE IN NET ASSETS **\$ 24,013**

See independent auditors' report.
See notes to financial statements.