# BEACON CENTER OF TENNESSEE

## FINANCIAL STATEMENTS

## DECEMBER 31, 2013

(With Independent Auditor's Report Thereon)

**BEACON CENTER OF TENNESSEE**
**FINANCIAL STATEMENTS**
**DECEMBER 31, 2013**
**WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2012**

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PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Beacon Center of Tennessee

We have audited the accompanying financial statements of Beacon Center of Tennessee (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, and the related statements of activities 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 of 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 Beacon Center of Tennessee as of December 31, 2013, 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.

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**Report on Summarized Comparative Information**

We have previously audited the Beacon Center of Tennessee's 2012 financial statements, and our reported dated March 9, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Patterson Hardee & Ballentine

April 1, 2014

## BEACON CENTER OF TENNESSEE
## STATEMENT OF FINANCIAL POSITION
## DECEMBER 31, 2013
## WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2012

### ASSETS

| | 2013 | 2012 |
|---|---|---|
| Current Assets: | | |
| Cash | $ 236,114 | $ 149,070 |
| Prepaid insurance | 1,245 | 1,379 |
| Total current assets | 237,359 | 150,449 |
| Property and equipment, net | 8,519 | 8,533 |
| Other asset - deposit | 750 | 750 |
| Asset Whose Use is Limited: | | |
| Cash | 173,042 | 152,468 |
| Grant receivable | 39,000 | - |
| | 212,042 | 152,468 |
| | $ 458,670 | $ 312,200 |

### LIABILITIES AND NET ASSETS

| | 2013 | 2012 |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ 5,668 | $ 5,611 |
| Accrued payroll | 6,149 | 3,699 |
| Total current liabilities | 11,817 | 9,310 |
| Net Assets: | | |
| Unrestricted | 234,811 | 150,422 |
| Total unrestricted net assets | 234,811 | 150,422 |
| Temporarily restricted | 212,042 | 152,468 |
| Total restricted net assets | 212,042 | 152,468 |
| Total net assets | 446,853 | 302,890 |
| | $ 458,670 | $ 312,200 |

See accompanying notes to financial statements.

## BEACON CENTER OF TENNESSEE
## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED DECEMBER 31, 2013
## WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2013 | Total 2012 |
|---|---|---|---|---|---|
| Public Support and Revenue: | | | | | |
| Public support: | | | | | |
| Corporate contributions | $ 14,672 | $ - | $ - | $ 14,672 | $ 9,750 |
| Individual contributions | 276,253 | - | - | 276,253 | 179,648 |
| Foundation contributions | 51,250 | 881,000 | - | 932,250 | 288,996 |
| In-kind revenue | 9,365 | - | - | 9,365 | - |
| Released from restriction | 821,426 | (821,426) | - | - | - |
| Total public support | 1,172,966 | 59,574 | - | 1,232,540 | 478,394 |
| Revenue: | | | | | |
| Loss on sale of donated investment | (391) | - | - | (391) | - |
| Other income | - | - | - | - | 2,333 |
| Interest income | 857 | - | - | 857 | 1,263 |
| Total revenue | 466 | - | - | 466 | 3,596 |
| Total public support and revenue | 1,173,432 | 59,574 | - | 1,233,006 | 481,990 |
| Expenses: | | | | | |
| Program services | 912,234 | - | - | 912,234 | 295,511 |
| Management and general | 58,445 | - | - | 58,445 | 51,361 |
| Fundraising | | | | | |
| Direct mailing fundraising (Note 7) | 48,868 | - | - | 48,868 | 67,348 |
| Other fundraising | 69,496 | - | - | 69,496 | 44,091 |
| Total fundraising | 118,364 | - | - | 118,364 | 111,439 |
| Total expenses | 1,089,043 | - | - | 1,089,043 | 458,311 |
| Increase in net assets | 84,389 | 59,574 | - | 143,963 | 23,679 |
| Net assets - beginning of year | 150,422 | 152,468 | - | 302,890 | 279,211 |
| Net assets - end of year | $ 234,811 | $ 212,042 | $ - | $ 446,853 | $ 302,890 |

See accompanying notes to financial statements.

BEACON CENTER OF TENNESSEE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012

| | 2013 | 2012 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Increase in net assets | $ 143,963 | $ 23,679 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 3,572 | 6,826 |
| Changes in: | | |
| Prepaid insurance | 134 | (614) |
| Asset whose use is limited | (59,574) | (73,396) |
| Accounts payable | 2,507 | (2,305) |
| Total adjustments | (53,361) | (69,489) |
| Net cash provided by (used in) operating activities | 90,602 | (45,810) |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (3,558) | (6,678) |
| Net cash used in investing activities | (3,558) | (6,678) |
| Net increase (decrease) in cash | 87,044 | (52,488) |
| Cash - beginning of year | 149,070 | 201,558 |
| Cash - end of year | $ 236,114 | $ 149,070 |

See accompanying notes to financial statements.

## BEACON CENTER OF TENNESSEE
## NOTES TO FINANCIAL STATEMENTS
## DECEMBER 31, 2013
## WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2012

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The terms ""we", "us", "our" or "Beacon Center"" are used throughout these notes to the financial statements to identify Beacon Center of Tennessee, a non-profit organization.

Sometimes Tennesseans find themselves in bad situations through no fault of their own. Roger Blackwood faced the threat of being taxed three times for his family farm. Marshall Shanks was zoned to attend a bad school. And Bohnne Jones' career was put in jeopardy due to proposed regulations on interior designers.

That's where we come in. By pushing for sound public policy at the state and local level—such as showcasing the benefits of repealing the death tax, empowering parents through school choice, and stopping job killing regulations dead in their tracks—Beacon Center is truly changing the lives of Tennesseans who have stories just like Roger, Marshall, and Bhonne.

Some may call Beacon Center a think tank. But we do more than closely study important issues. We come up with solutions and show policymakers and the Tennesseans they represent why our solutions work. In addition to our top-notch research, we also hold educational events, publish infographics, podcasts, and videos, and tell the stories of Tennesseans who are impacted by government policies. So far we have successfully pushed for bold reforms in education, healthcare, economic regulations, and tax reform, among many others.

At Beacon Center of Tennessee, our mission is to change lives through public policy by advancing the principles of free markets, individual liberty, and limited government. By giving Tennesseans more control over their own lives—whether it's making our own healthcare decisions, choosing where to send our kids to school, or keeping more of our hard-earned money—we can make Tennessee the freest, most prosperous state in the nation.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations, which may or will be met, either by our actions and/or by the passage of time. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations which require the assets to be permanently maintained. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes. We had no permanently restricted net assets as of December 31, 2013 and 2012.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications of prior year summarized amounts have been made to conform to the current year presentation.

Revenue

We receive contributions from the general public and grants from private organizations to fund our operations. We recognize this revenue as it is received or promised to the organization in accordance with generally accepted accounting principles for non-profit organizations. See NOTE 4 for our discussion of restricted revenue.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2013, and 2012, we had no cash equivalents.

Grant Receivable

We recognize grant revenue when the grant is awarded. At December 31, 2013, and 2012, no allowance was considered necessary for uncollectible grant receivables based upon our analysis of past collection experience with grantors.

Prepaid Expenses

Prepaid expenses consist of insurance premiums and non-refundable deposits paid by us in advance.

Investments

We use a framework for measuring fair value and disclosing fair values. We define fair value at the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. We use this framework for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Each asset and liability carried at fair value is classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs not corroborated by market data.

In 2013, all of our investments were based on level 1 inputs at the active market prices.

In 2013 we received donated stock of $13,700 which was recorded at its fair value at the date of donation. The stock was subsequently sold in 2013.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost, or if contributed, at fair market value at the date of the gift. Assets with a cost in excess of $500 are capitalized. Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to six years. Maintenance and repairs are charged to expense as incurred, and betterments are capitalized.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. At December 31, 2013 and 2012, no assets were considered to be impaired.

Donated Services and Goods

Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by us if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

Unreimbursed expenses of board members incurred while serving or traveling for our service and benefit are reported as in-kind revenue and expense in accordance with the criteria of generally accepted accounting principles. Total in-kind revenue for the year ended December 31, 2013 and 2012, was $9,365 and $0, respectively.

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising is expensed as incurred.

Income Taxes

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes. We are not subject to examination by U.S. federal or state taxing authorities for years before 2010.

Concentrations of Credit Risk

At December 31, 2013, we owed 100% of our total payables to two vendors. At December 31, 2012, we owed 100% of our total payables to one vendor.

Cash Concentrations

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe that it is exposed to any significant credit risk on our cash.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions affecting certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The carrying values of current assets, current liabilities, and restricted cash approximate fair values due to the short maturities of these instruments.

NOTE 2 - Property and Equipment

The following is a summary of property and equipment at December 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Computers | $ 26,657 | $ 23,099 |
| Furniture and fixtures | 18,719 | 18,719 |
| Leasehold improvements | 3,511 | 3,511 |
| | 48,887 | 45,329 |
| Less: accumulated depreciation | (40,368) | (36,796) |
| | $ 8,519 | $ 8,533 |

NOTE 3 - Accounts Payable

The following is a summary of accounts payable at December 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Accounts payable | $ 4,758 | $ 4,031 |
| Employee benefits payable | 910 | 1,580 |
| | $ 5,668 | $ 5,611 |

## NOTE 4 - Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets at December 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| School choice grants | $ 197,078 | $ 81,853 |
| Investigative reporter grant | - | 50,553 |
| Direct mailing grant - See Note 7 | 1,194 | 20,062 |
| Fundraising development audit grant | 4,770 | - |
| Healthcare storytelling grant | 9,000 | - |
| | $ 212,042 | $ 152,468 |

## NOTE 5 - Minimum Lease Obligation

We lease office space under a lease classified as an operating lease. Total rental expense for the year ended December 31, 2013 and 2012 was $34,652 and $27,572, respectively.

In 2014, our office landlord broke our lease agreement, and we entered into a new lease agreement maturing in 2016. Our new office space lease is classified as an operating lease. The new lease agreement is included in the schedule of future maturities shown below.

Future minimum lease payments are as follows:

| For the year ended December 31, | |
|---|---|
| 2014 | $ 58,884 |
| 2015 | 60,651 |
| 2016 | 62,473 |
| | $ 182,008 |

## NOTE 6 - Employee Benefit Plan

We have a voluntary simple IRA retirement plan for employees. We match up to a maximum of three percent of each employee's base salary. New employees must wait 90 days before enrolling in the plan. Our employee benefit plan expense in 2013 and 2012 was $5,923 and $3,997, respectively.

## NOTE 7 - Direct Mailing Grant

In 2013 and 2012, we received a direct mailing grant. The funds associated with this grant are required to be used for prospecting potential donors via direct mailings. Compliance with this grant required us to spend more funds on fundraising expenses than we would if we had not received the grant. The direct mailing grant expenses are shown separately on the Statement of Activities.

NOTE 8 - Subsequent Events

We have evaluated our December 31, 2013, financial statements for subsequent events through April 1, 2014, the date that the financial statements were available to be issued. Other than the following matter, we are not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.

In January 2014 our office landlord broke our lease agreement and we subsequently entered into a new lease agreement. The new lease agreement is included in the disclosed schedule of future maturities in NOTE 5.