# TENNESSEE CHARTER SCHOOL CENTER

## FINANCIAL STATEMENTS

***As of and for the Years Ended December 31, 2018 and 2017***

***And Report of Independent Auditor***

Cherry Bekaert LLP
CPAs & Advisors

**TENNESSEE CHARTER SCHOOL CENTER**
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Cherry Bekaert LLP
CPAs & Advisors

# Report of Independent Auditor

To the Board of Directors
Tennessee Charter School Center
Nashville, Tennessee

We have audited the accompanying financial statements of Tennessee Charter School Center (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Tennessee Charter School Center as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Changes in Financial Statement Presentation**

As discussed in Note 1, Tennessee Charter School Center adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Nashville, Tennessee
April 12, 2019

**TENNESSEE CHARTER SCHOOL CENTER**
STATEMENTS OF FINANCIAL POSITION

*DECEMBER 31, 2018 AND 2017*

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 1,094,218 | $ 1,345,887 |
| Contributions receivable | 331,696 | 25,000 |
| Other assets | 17,314 | - |
| Furniture and equipment, net of accumulated depreciation of $21,724 and $22,587, respectively | 142 | 1,005 |
| **Total Assets** | $ 1,443,370 | $ 1,371,892 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts payable | $ 1,872 | $ 18,976 |
| **Total Liabilities** | 1,872 | 18,976 |
| Net Assets: | | |
| Without Donor Restrictions | 1,058,288 | 940,179 |
| With Donor Restrictions | 383,210 | 412,737 |
| **Total Net Assets** | 1,441,498 | 1,352,916 |
| **Total Liabilities and Net Assets** | $ 1,443,370 | $ 1,371,892 |

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

**TENNESSEE CHARTER SCHOOL CENTER**
STATEMENT OF ACTIVITIES

*YEAR ENDED DECEMBER 31, 2018*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue, Gains, and Other Support: | | | |
| Contributions | $ 85,000 | $ 1,360,000 | $ 1,445,000 |
| Rental income | 125,464 | - | 125,464 |
| Program income | 38,036 | - | 38,036 |
| Interest income | 5,575 | - | 5,575 |
| Net assets released from restrictions | 1,389,527 | (1,389,527) | - |
| Total Revenue, Gains, and Other Support | 1,643,602 | (29,527) | 1,614,075 |
| Expenses: | | | |
| Launch | 264,173 | - | 264,173 |
| Support | 1,162,945 | - | 1,162,945 |
| Management and general | 98,375 | - | 98,375 |
| Total Expenses | 1,525,493 | - | 1,525,493 |
| Change in net assets | 118,109 | (29,527) | 88,582 |
| Net assets, beginning of year | 940,179 | 412,737 | 1,352,916 |
| Net assets, end of year | $ 1,058,288 | $ 383,210 | $ 1,441,498 |

**TENNESSEE CHARTER SCHOOL CENTER**

STATEMENT OF ACTIVITIES

*YEAR ENDED DECEMBER 31, 2017*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue, Gains, and Other Support: | | | |
| Contributions | $ 250,000 | $ 110,000 | $ 360,000 |
| Rental income | 111,976 | - | 111,976 |
| Program income | 40,908 | - | 40,908 |
| Interest income | 5,581 | - | 5,581 |
| Net assets released from restrictions | 1,448,118 | (1,448,118) | - |
| Total Revenue, Gains, and Other Support | 1,856,583 | (1,338,118) | 518,465 |
| Expenses: | | | |
| Launch | 427,803 | - | 427,803 |
| Support | 1,306,325 | - | 1,306,325 |
| Management and general | 85,028 | - | 85,028 |
| Total Expenses | 1,819,156 | - | 1,819,156 |
| Change in net assets | 37,427 | (1,338,118) | (1,300,691) |
| Net assets, beginning of year | 902,752 | 1,750,855 | 2,653,607 |
| Net assets, end of year | $ 940,179 | $ 412,737 | $ 1,352,916 |

**TENNESSEE CHARTER SCHOOL CENTER**
STATEMENT OF FUNCTIONAL EXPENSES

*YEAR ENDED DECEMBER 31, 2018*

| | Launch | Support | Management and General | Total |
|---|---|---|---|---|
| Salary and related expenses | $ 175,923 | $ 648,168 | $ 78,163 | $ 902,254 |
| School and leadership development | - | 178,112 | - | 178,112 |
| Advocacy and government relations | - | 142,039 | - | 142,039 |
| Occupancy | 21,791 | 82,617 | 9,963 | 114,371 |
| Facility rent | 44,035 | - | - | 44,035 |
| Accounting and legal | 7,543 | 28,596 | 3,448 | 39,587 |
| Travel | 7,540 | 28,586 | 3,447 | 39,574 |
| Facilities technical assistance | - | 26,995 | - | 26,995 |
| Insurance | 2,870 | 10,882 | 1,312 | 15,064 |
| Supplies | 1,611 | 6,107 | 736 | 8,454 |
| Technology | 1,133 | 4,294 | 518 | 5,945 |
| Business expenses | 669 | 2,536 | 306 | 3,510 |
| Telephone | 441 | 1,670 | 200 | 2,311 |
| Miscellaneous | 311 | 1,179 | 141 | 1,631 |
| Depreciation | 165 | 623 | 75 | 863 |
| Professional development | 142 | 540 | 65 | 747 |
| | $ 264,173 | $ 1,162,945 | $ 98,375 | $ 1,525,493 |

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

# TENNESSEE CHARTER SCHOOL CENTER
STATEMENT OF FUNCTIONAL EXPENSES

*YEAR ENDED DECEMBER 31, 2017*

| | Launch | Support | Management and General | Total |
|---|---|---|---|---|
| Salary and related expenses | $ 301,650 | $ 617,872 | $ 66,797 | $ 986,319 |
| School and leadership development | - | 373,513 | - | 373,513 |
| Advocacy and government relations | - | 151,661 | - | 151,661 |
| Occupancy | 36,464 | 72,928 | 8,234 | 117,626 |
| Travel | 17,375 | 34,751 | 3,923 | 56,049 |
| Facility rent | 45,420 | - | - | 45,420 |
| Accounting and legal | 10,556 | 21,112 | 2,384 | 34,052 |
| Insurance | 4,252 | 8,505 | 960 | 13,717 |
| Professional development | 3,104 | 6,208 | 701 | 10,013 |
| Supplies | 2,486 | 4,972 | 562 | 8,020 |
| Technology | 1,988 | 3,975 | 449 | 6,412 |
| Business expenses | 1,608 | 3,216 | 363 | 5,187 |
| Telephone | 978 | 1,955 | 221 | 3,154 |
| Public relations and communication | 639 | 1,279 | 144 | 2,062 |
| Miscellaneous | 580 | 1,160 | 131 | 1,871 |
| Depreciation | 495 | 990 | 112 | 1,597 |
| Facilities technical assistance | - | 1,812 | - | 1,812 |
| Interest | 208 | 416 | 47 | 671 |
| Total | $ 427,803 | $ 1,306,325 | $ 85,028 | $ 1,819,156 |

**TENNESSEE CHARTER SCHOOL CENTER**
STATEMENTS OF CASH FLOWS

*YEARS ENDED DECEMBER 31, 2018 AND 2017*

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 88,582 | $ (1,300,691) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 863 | 1,597 |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | (306,696) | 934,000 |
| Prepaid expenses | (17,314) | - |
| Accounts payable | (17,104) | 7,499 |
| Net cash used in operating activities | (251,669) | (357,595) |
| **Cash flows from financing activities:** | | |
| Payments on note payable | - | (47,669) |
| Net cash used in financing activities | - | (47,669) |
| Net decrease in cash and cash equivalents | (251,669) | (405,264) |
| Cash and cash equivalents, beginning of year | 1,345,887 | 1,751,151 |
| Cash and cash equivalents, end of year | $ 1,094,218 | $ 1,345,887 |
| **Supplemental information:** | | |
| Cash paid for interest | $ - | $ 671 |

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

## Note 1—Nature of operations and summary of significant accounting policies

Tennessee Charter School Center, Inc. (the "Center") is a non-profit corporation created with the purpose of closing the education achievement gap in Tennessee by supporting the creation of high-quality public charter schools in Tennessee. The Center's mission is to simultaneously create and advocate on behalf of high quality charter schools and the students and families they serve. The Center's vision is for all students in Tennessee to have access to a high quality public education.

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

> *Net Assets without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. These net assets may be used at the discretion of Center's management and the board of directors.
>
> *Net Assets with Donor Restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions represent contributions receivable and amounts available for programs. None of the Center's net assets with donor restrictions are required to be held in perpetuity by the donors at December 31, 2018 and 2017.

*Cash and Cash Equivalents* – The Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

*Contributions Receivable* – The Center accounts for potential losses in contributions receivable utilizing the allowance method. Management believes that contributions receivable are fully collectible at December 31, 2018. As a result, no allowance for uncollectible accounts has been provided. All contributions receivable are due within four years.

*Furniture and Equipment* – Furniture and equipment are stated at acquisition cost, or estimated fair value if donated, less accumulated depreciation, which is computed using the straight-line method over an estimated useful life of five years.

*Contributions* – Contributions received are recorded as with donor restrictions or without donor restrictions depending on the existence or nature of any donor restrictions.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at the time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

## Note 1—Nature of operations and summary of significant accounting policies (continued)

*Program and Supporting Services* – The following program and supporting services are included in the accompanying financial statements:

*Launch* – Expenses related to the creation of new charter schools in Tennessee supported directly through the Center including fellow training costs, teacher and student recruitment, board training, professional development, school reviews, charter application development, marketing/public relations for new schools, startup and operational supplies and materials, and the Center overhead expenses.

*Support* – Expenses related to services offered by the Center to existing charter schools in Tennessee including teacher and student recruitment, board training, professional development, school reviews, and the Center overhead expenses related to delivering school support services.

*Management and General* – Includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or activity, including costs associated with providing coordination and articulation of the Center's program strategy, business management, general recordkeeping, budgeting, and related purposes.

*Allocation of Functional Expenses* – Expenses that can be directly attributed to a particular function are charged to that function. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. Expenses that were allocated consist primarily of salary and related expenses which have been allocated based on time and effort.

*Income Taxes* – The Center has qualified for tax exempt status under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

*Change in Accounting Principle* – In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

*Accounting Policies for Future Pronouncements* – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Center for the year ending December 31, 2019. The Center is currently evaluating the effect of the implementation of this new standard.

## Note 1—Nature of operations and summary of significant accounting policies (continued)

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This new accounting guidance is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets referred to as “Lessees” to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet the new ASU will require both types of leases (i.e., operating and capital) to be recognized on the balance sheet. The FASB lessee accounting model will continue to account for both types of leases. The capital lease will be accounted for in substantially the same manner as capital leases are accounted for under existing GAAP. For operating leases there will have to be the recognition of a lease liability and a lease asset for all such leases greater than one year in term. The standard will be effective for the fiscal year ending December 31, 2019. The Center is evaluating the impact that this new leasing ASU will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard will be effective for the fiscal year ending December 31, 2019. The Center is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

*Subsequent Events* – The Center evaluated subsequent events through April 12, 2019, 2019, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

## Note 2—Liquidity and availability

The Center regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Center considers all expenditures related to its ongoing activities of launching and supporting charter schools in Tennessee, as well as the conduct of services undertaken to support those activities to be general expenditures. Financial assets available for general expenditure, that is, without donor or other restrictions limited their use, within one year of the statement of financial position date, compromise the following at December 31, 2018.

| | |
|---|---|
| Financial Assets: | |
| Cash and cash equivalents | $ 1,094,218 |
| Contributions receivable | 301,696 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 1,395,914 |

## Note 3—Concentrations

The Center maintains cash and cash equivalents in excess of amounts insured by the Federal Deposit Insurance Corporation. In management's opinion, risk related to each deposit is minimal.

The Center received approximately 91% and 85% of its contributions from two and three major donors, respectively, for the years ended December 31, 2018 and 2017.

## Note 4—Net assets with donor restrictions

The Center receives specific contributions for expenses associated with the mission of the organization. These contributions are classified as net assets with donor restrictions until the restricted purpose has been fulfilled.

The following table represents a summary of the activity for the year ended December 31, 2018:

| Purpose | Balance at January 1, 2018 | Contributions Pledged from January 1, 2018 to December 31, 2018 | Expended and/or Released by Specific Purpose being fulfilled | Balance at December 31, 2018 |
|---|---|---|---|---|
| Subject to purpose restrictions: | | | | |
| Community Launch | $ 98,530 | $ - | $ 73,288 | $ 25,242 |
| Regional Convening Meetings | 247,752 | - | 221,480 | 26,272 |
| Board Leaders of Color | 41,455 | - | 41,455 | - |
| Subject to passage of time: | | | | |
| Contributions receivable | 25,000 | 1,360,000 | 1,053,304 | 331,696 |
| | $ 412,737 | $ 1,360,000 | $ 1,389,527 | $ 383,210 |

The following table represents a summary of the activity for the year ended December 31, 2017:

| Purpose | Balance at January 1, 2017 | Contributions Pledged from January 1, 2017 to December 31, 2017 | Expended and/or Released by Specific Purpose being fulfilled | Balance at December 31, 2017 |
|---|---|---|---|---|
| Subject to purpose restrictions: | | | | |
| Community Launch | $ 325,570 | $ - | $ 227,040 | $ 98,530 |
| Regional Convening Meetings | 247,786 | - | 34 | 247,752 |
| Incubation | 143,499 | - | 143,499 | - |
| Board Leaders of Color | 75,000 | 5,000 | 38,545 | 41,455 |
| Subject to passage of time: | | | | |
| Contributions receivable | 959,000 | 105,000 | 1,039,000 | 25,000 |
| | $ 1,750,855 | $ 110,000 | $ 1,448,118 | $ 412,737 |

## Note 5—Operating leases

The Center leases its office space and various equipment under operating lease agreements. Rental expense for all operating leases was $116,453 and $115,321 for the years ended December 31, 2018 and 2017, respectively. Future minimum lease payments required under all noncancelable operating lease agreements at December 31, 2018 are as follows:

| Year Ending December 31, | |
|---|---|
| 2019 | $ 60,311 |
| | $ 60,311 |

The Center has two sub-lease agreements with a charter school and an organization that supports charter schools. The Center received rental income of $125,464 and $111,976 for the years ended December 31, 2018 and 2017, respectively. Future minimum rentals are as follows:

| Year Ending December 31, | |
|---|---|
| 2019 | $ 54,000 |
| | $ 54,000 |

## Note 6—Retirement plan

The Center maintains a 401(k) plan for their employees. Employees are eligible to participate in the plan after reaching 21 years of age and completing 1,000 hours of service. The Center makes discretionary contributions to the plan equal to a uniform percentage of employee's salary deferrals. Employer expense for the years ended December 31, 2018 and 2017 amounted to $16,392 and $15,868, respectively, and is included in salary and related expenses in the statements of functional expenses.