

**TENNESSEE STATE COLLABORATIVE
ON REFORMING EDUCATION**

FINANCIAL STATEMENTS

December 31, 2014 and 2013

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION

TABLE OF CONTENTS

	Page
Independent Auditor's Report	2 – 3
Financial Statements:	
Statements of Financial Position	4
Statements of Activities.....	5 – 6
Statements of Functional Expenses	7 – 8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10 – 14



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Tennessee State Collaborative on Reforming Education
Brentwood, Tennessee

We have audited the accompanying financial statements of Tennessee State Collaborative on Reforming Education (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, 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 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 Tennessee State Collaborative on Reforming Education as of December 31, 2014 and 2013, 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.

Frasier, Dean & Howard, PLLC

Frasier, Dean & Howard, PLLC

Nashville, Tennessee

April 28, 2015

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and cash equivalents	\$ 5,025,901	\$ 4,959,801
Contributions receivable, net	1,171,668	2,081,241
Furniture and equipment, net of accumulated depreciation of \$14,956 and \$10,709, respectively	<u>7,902</u>	<u>7,974</u>
Total assets	<u>\$ 6,205,471</u>	<u>\$ 7,049,016</u>
Liabilities and Net Assets		
Accounts payable	\$ 59,348	\$ 48,780
Funds held under agency agreements	<u>2,526,809</u>	<u>2,743,533</u>
Total liabilities	<u>2,586,157</u>	<u>2,792,313</u>
Net assets:		
Unrestricted	2,332,885	2,008,851
Temporarily restricted	<u>1,286,429</u>	<u>2,247,852</u>
Total net assets	<u>3,619,314</u>	<u>4,256,703</u>
Total liabilities and net assets	<u>\$ 6,205,471</u>	<u>\$ 7,049,016</u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains, and other support:			
Grants and contributions	\$ 1,061,677	\$ 490,147	\$ 1,551,824
Other income	178,833	-	178,833
Investment income	4,006	-	4,006
Net assets released from restrictions	<u>1,451,570</u>	<u>(1,451,570)</u>	<u>-</u>
Total revenue, gains and other support	<u>2,696,086</u>	<u>(961,423)</u>	<u>1,734,663</u>
Expenses:			
Advocacy	1,330,756	-	1,330,756
Technical assistance	585,479	-	585,479
SCORE Prize	294,614	-	294,614
Management and general	<u>161,203</u>	<u>-</u>	<u>161,203</u>
Total expenses	<u>2,372,052</u>	<u>-</u>	<u>2,372,052</u>
Change in net assets	324,034	(961,423)	(637,389)
Net assets, beginning of year	<u>2,008,851</u>	<u>2,247,852</u>	<u>4,256,703</u>
Net assets, end of year	<u><u>\$ 2,332,885</u></u>	<u><u>\$ 1,286,429</u></u>	<u><u>\$ 3,619,314</u></u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains, and other support:			
Grants and contributions	\$ 1,072,241	\$ 2,650,000	\$ 3,722,241
Other income	182,204	-	182,204
Investment income	4,199	-	4,199
Net assets released from restrictions	<u>1,002,148</u>	<u>(1,002,148)</u>	<u>-</u>
 Total revenue, gains and other support	 <u>2,260,792</u>	 <u>1,647,852</u>	 <u>3,908,644</u>
 Expenses:			
Advocacy	1,122,849	-	1,122,849
Technical assistance	672,185	-	672,185
SCORE Prize	305,154	-	305,154
Management and general	<u>137,588</u>	<u>-</u>	<u>137,588</u>
 Total expenses	 <u>2,237,776</u>	 <u>-</u>	 <u>2,237,776</u>
 Change in net assets	 23,016	 1,647,852	 1,670,868
 Net assets, beginning of year	 <u>1,985,835</u>	 <u>600,000</u>	 <u>2,585,835</u>
 Net assets, end of year	 <u><u>\$ 2,008,851</u></u>	 <u><u>\$ 2,247,852</u></u>	 <u><u>\$ 4,256,703</u></u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2014

	Advocacy	Technical Assistance	SCORE Prize	Management and General	Total
Salary and related expenses	\$ 777,632	\$ 459,337	\$ -	\$ 86,310	\$ 1,323,279
SCORE Prize selection process	-	-	112,274	-	112,274
Online Advocacy	109,623	-	-	-	109,623
Publications	89,303	-	136	-	89,439
Video online and digital strategy	86,740	894	-	-	87,634
SCORE Prize	-	-	72,232	-	72,232
Educator Fellowship	69,733	-	-	-	69,733
Awards	-	-	66,109	-	66,109
Other	3,148	50,940	1,564	6,377	62,029
Survey	55,000	-	-	-	55,000
Parent Engagement	52,614	-	-	-	52,614
Rent	19,200	19,200	-	9,600	48,000
Guidebooks	-	-	40,000	-	40,000
Office expenses	430	622	-	37,241	38,293
Expect More, Achieve More	33,158	-	-	-	33,158
Accounting and legal	12,648	12,648	-	6,324	31,620
Contract labor	6,516	9,000	-	-	15,516
Travel	5,739	9,556	-	-	15,295
Regional and statewide events	-	10,715	-	-	10,715
Equipment	-	-	-	8,713	8,713
Meeting	1,915	4,376	-	484	6,775
Depreciation	-	-	-	4,247	4,247
Lobbying	3,821	-	-	-	3,821
Policy Maker Outreach	3,536	-	-	-	3,536
State of Education	-	3,399	-	-	3,399
SCORE Institute	-	2,619	-	-	2,619
Innovative Thinkers	-	2,173	-	-	2,173
Insurance	-	-	-	1,907	1,907
Students Rise to the Challenge	-	-	1,772	-	1,772
LEAD conference	-	-	527	-	527
Total	<u>\$ 1,330,756</u>	<u>\$ 585,479</u>	<u>\$ 294,614</u>	<u>\$ 161,203</u>	<u>\$ 2,372,052</u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2013

	Advocacy	Technical Assistance	SCORE Prize	Management and General	Total
Salary and related expenses	\$ 716,894	\$ 382,450	\$ -	\$ 80,789	\$ 1,180,133
Contract labor	3,258	40,337	174,561	-	218,156
Leadership	-	130,059	-	-	130,059
Video online and digital strategy	105,208	1,046	8,477	-	114,731
Publications	68,076	-	34,603	-	102,679
Online Advocacy	76,100	-	-	-	76,100
Other	2,679	1,071	69,385	1,327	74,462
Expect More, Achieve More	54,434	-	-	-	54,434
Leading Innovation for Tennessee Education	-	49,952	-	-	49,952
Rent	19,217	19,217	-	9,609	48,043
Survey	45,000	-	-	-	45,000
Travel	8,849	13,929	17,327	-	40,105
Office expenses	1,108	22	586	29,802	31,518
Accounting and legal	11,222	11,222	-	5,611	28,055
Regional and statewide events	-	16,700	-	-	16,700
Meeting	3,776	3,627	215	3,666	11,284
Policy Maker Outreach	6,348	-	-	-	6,348
Depreciation	-	-	-	4,053	4,053
Insurance	-	-	-	2,248	2,248
Innovative Thinkers	-	1,399	-	-	1,399
State of Education	-	1,154	-	-	1,154
Lobbying	680	-	-	-	680
Equipment	-	-	-	483	483
Total	\$ 1,122,849	\$ 672,185	\$ 305,154	\$ 137,588	\$ 2,237,776

See accompanying notes.

**TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (637,389)	\$ 1,670,868
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,247	4,053
Changes in operating assets and liabilities:		
Contributions receivable	909,573	(1,531,241)
Accounts payable	10,568	(11,132)
Accrued liabilities	-	-
Funds held under agency agreements	(216,724)	98,518
Net cash provided by operating activities	<u>70,275</u>	<u>231,066</u>
Cash flows from investing activities:		
Purchase of furniture and equipment	<u>(4,175)</u>	<u>(3,790)</u>
Net cash used in investing activities	<u>(4,175)</u>	<u>(3,790)</u>
Net increase in cash and cash equivalents	66,100	227,276
Cash and cash equivalents, beginning of year	<u>4,959,801</u>	<u>4,732,525</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,025,901</u></u>	<u><u>\$ 4,959,801</u></u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tennessee State Collaborative on Reforming Education (“SCORE”) is a non-profit, nonpartisan organization founded by former U.S. Senate Majority Leader, Bill Frist. The mission of SCORE is to work with state and local governments to encourage sound policy decisions in public education, and to advance innovative reform on a statewide basis. SCORE serves as a resource for information on state-level education reform, in part through monitoring and supporting implementation of Race to the Top in Tennessee. SCORE believes in the growing sense of urgency to make meaningful improvements in public education in Tennessee and the United States of America.

Financial Statement Presentation

The financial statements of SCORE 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:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that can be fulfilled by actions of SCORE pursuant to those restrictions or that expire by the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed restrictions that they be maintained permanently by SCORE. SCORE did not have any permanently restricted net assets at December 31, 2014 or 2013.

Cash and Cash Equivalents

SCORE considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Contributions Receivable

SCORE accounts for potential losses in contributions receivable utilizing the allowance method. Management believes that contributions receivable are fully collectible at December 31, 2014 and 2013. As a result, no allowance for uncollectible accounts has been provided.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furniture and Equipment

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

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support 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 that 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.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Advocacy – Expenses related to building awareness and support and sustaining the momentum among organizations and individuals for education reform in the state of Tennessee.

Technical Assistance – Expenses related to advancing specific initiatives outlined in SCORE's education reform agenda by building capacity at a state, region, or local level.

SCORE Prize – Expenses related to the recognition of schools and school districts in Tennessee that are leaders in student learning and the opportunity to share their best practices on a broader scale.

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

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

SCORE has qualified for tax exempt status under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

SCORE follows Financial Accounting Standards Board Accounting Standards Codification guidance related to uncertain tax provisions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. SCORE has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include the years ended December 31, 2011 through December 31, 2014.

Subsequent Events

SCORE evaluated subsequent events through April 28, 2015, when these financial statements were available to be issued. SCORE is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the financial statements.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 2 – CONCENTRATIONS

SCORE maintains cash and cash equivalents in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). In management’s opinion, risk related to each deposit is minimal.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are scheduled to be received as follows at December 31:

	<u>2014</u>	<u>2013</u>
Amount receivable within one year	\$ 835,000	\$ 975,000
Amount receivable in 1 to 5 years	<u>350,000</u>	<u>1,150,000</u>
	1,185,000	2,125,000
Less discounts on contributions receivable	<u>(13,332)</u>	<u>(43,759)</u>
	<u>\$ 1,171,668</u>	<u>\$ 2,081,241</u>

Contributions receivable due in more than one year are reflected at the net present value of estimated future cash flows using a discount rate ranging from 3.91% to 3.96%.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

SCORE receives specific contributions for expenses associated with the mission of the organization. These contributions are classified as temporarily restricted net assets until the restricted purpose has been fulfilled. The following represents a summary of the activity for the years ended December 31:

<u>Purpose</u>	<u>Balance at January 1, 2014</u>	<u>Contributions received from January 1, 2014 to December 31, 2014</u>	<u>Expended and/or released by specific purpose being fulfilled</u>	<u>Balance at December 31, 2014</u>
Contributions receivable	\$ 2,081,241	\$ 35,000	\$ 944,573	\$ 1,171,668
Online advocacy	166,611	-	166,611	-
SCORE Prize	-	40,000	40,000	-
Advocacy	-	188,500	188,500	-
Educator Fellows	<u>-</u>	<u>226,647</u>	<u>111,886</u>	<u>114,761</u>
	<u>\$ 2,247,852</u>	<u>\$ 490,147</u>	<u>\$ 1,451,570</u>	<u>\$ 1,286,429</u>

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

Purpose	Balance at January 1, 2013	Contributions received from January 1, 2013 to December 31, 2013	Expended and/or released by specific purpose being fulfilled	Balance at December 31, 2013
Contributions receivable	\$ 550,000	\$ 2,400,000	\$ 868,759	\$ 2,081,241
Online advocacy	-	250,000	83,389	166,611
Leading Innovation for Tennessee Education	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
	<u>\$ 600,000</u>	<u>\$ 2,650,000</u>	<u>\$ 1,002,148</u>	<u>\$ 2,247,852</u>

NOTE 5 – FUNDS HELD UNDER AGENCY AGREEMENTS

SCORE is acting as a fiscal agent for certain organizations, receiving contributions and making disbursements restricted for the purpose of the agreement. Expenditures are made after approval by the management of the corresponding organization. All funds are held in a bank account separate from funds of SCORE.

NOTE 6 – COMMITMENTS

During 2014, SCORE entered into an employment agreement with its President and CEO that provides salary and related benefits for a three-year period ending June 2017.

NOTE 7 – RETIREMENT PLAN

During 2011, SCORE implemented an Internal Revenue Code Section 457 Retirement Plan for its President and CEO. Employer expense for the years ended December 31, 2014 and 2013 totaled \$12,283 and \$27,302, respectively, and is included in salary and related expenses in the accompanying statement of functional expenses.