



TENNESSEE CHARTER SCHOOL CENTER

FINANCIAL STATEMENTS

*As of and for the Years Ended December 31, 2017
and 2016*

And Report of Independent Auditor

TENNESSEE CHARTER SCHOOL CENTER
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Report of Independent Auditor

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

We have audited the accompanying financial statements of Tennessee Charter School Center (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, 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 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, 2017, 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.

Prior Period Financial Statements

The financial statements as of December 31, 2016, were audited by other auditors whose report dated August 2, 2017 expressed an unmodified opinion on those statements.



Nashville, Tennessee
March 27, 2018

TENNESSEE CHARTER SCHOOL CENTER
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,345,887	\$ 1,751,151
Contributions receivable	25,000	959,000
Furniture and equipment, net of accumulated depreciation of \$21,724 and \$20,127, respectively	1,005	2,602
Total Assets	\$ 1,371,892	\$ 2,712,753
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 18,976	\$ 11,477
Note payable	-	47,669
Total Liabilities	18,976	59,146
Net Assets:		
Unrestricted	940,179	902,752
Temporarily restricted	412,737	1,750,855
Total Net Assets	1,352,916	2,653,607
Total Liabilities and Net Assets	\$ 1,371,892	\$ 2,712,753

TENNESSEE CHARTER SCHOOL CENTER
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	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	<u>1,856,583</u>	<u>(1,338,118)</u>	<u>518,465</u>
Expenses:			
Launch	427,803	-	427,803
Support	1,306,325	-	1,306,325
Management and general	85,028	-	85,028
Total Expenses	<u>1,819,156</u>	<u>-</u>	<u>1,819,156</u>
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	<u>\$ 940,179</u>	<u>\$ 412,737</u>	<u>\$ 1,352,916</u>

TENNESSEE CHARTER SCHOOL CENTER
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support:			
Contributions	\$ 250,000	\$ 2,912,786	\$ 3,162,786
Rental income	76,265	-	76,265
Program income	58,900	-	58,900
Interest income	6,304	-	6,304
Net assets released from restrictions	2,329,675	(2,329,675)	-
Total Revenue, Gains, and Other Support	2,721,144	583,111	3,304,255
Expenses:			
Launch	1,298,765	-	1,298,765
Support	1,095,491	-	1,095,491
Management and general	127,124	-	127,124
Total Expenses	2,521,380	-	2,521,380
Change in net assets	199,764	583,111	782,875
Net assets, beginning of year	702,988	1,167,744	1,870,732
Net assets, end of year	\$ 902,752	\$ 1,750,855	\$ 2,653,607

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	<u>\$ 427,803</u>	<u>\$ 1,306,325</u>	<u>\$ 85,028</u>	<u>\$ 1,819,156</u>

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, 2016

	Launch	Support	Management and General	Total
Salary and related expenses	\$ 458,721	\$ 594,766	\$ 69,359	\$ 1,122,846
School start-up grants	614,373	-	-	614,373
Advocacy and government relations	-	184,005	-	184,005
School and leadership development	-	166,088	-	166,088
Occupancy	50,226	65,065	7,588	122,879
Application writing	50,424	-	-	50,424
Travel	20,726	25,381	2,960	49,067
Facility rent	46,805	-	-	46,805
Accounting and legal	14,027	18,172	3,852	36,051
Public relations and communication	8,476	10,980	1,280	20,736
Miscellaneous	744	316	14,993	16,053
Supplies	6,249	8,095	944	15,288
Insurance	-	-	13,512	13,512
Research and development	13,340	-	-	13,340
Recruiting	5,204	6,742	786	12,732
Technology	4,831	6,258	730	11,819
Professional development	2,129	2,758	322	5,209
Interest	-	-	4,481	4,481
Other program expenses	-	3,640	-	3,640
Telephone	1,356	1,756	205	3,317
Depreciation	-	-	3,086	3,086
Loss on disposal	-	-	2,855	2,855
Business expenses	1,134	1,469	171	2,774
Total	\$ 1,298,765	\$ 1,095,491	\$ 127,124	\$ 2,521,380

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

TENNESSEE CHARTER SCHOOL CENTER

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,300,691)	\$ 782,875
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,597	3,086
Loss on disposal of furniture and equipment	-	2,855
Changes in operating assets and liabilities:		
Contributions receivable	934,000	(559,000)
Prepaid expenses	-	9,614
Accounts payable	7,499	(14,949)
Net cash (used in) provided by operating activities	<u>(357,595)</u>	<u>224,481</u>
Cash flows from financing activities:		
Payments on note payable	<u>(47,669)</u>	<u>(92,127)</u>
Net cash used in financing activities	<u>(47,669)</u>	<u>(92,127)</u>
Net (decrease) increase in cash and cash equivalents	(405,264)	132,354
Cash and cash equivalents, beginning of year	<u>1,751,151</u>	<u>1,618,797</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,345,887</u></u>	<u><u>\$ 1,751,151</u></u>
Supplemental information:		
Cash paid for interest	<u><u>\$ 671</u></u>	<u><u>\$ 4,481</u></u>

TENNESSEE CHARTER SCHOOL CENTER

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 1—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:

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 the Center 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 the Center. The Center did not have any permanently restricted net assets at December 31, 2017 or 2016.

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, 2017 or 2016. As a result, no allowance for uncollectible accounts has been provided. All contributions receivable are due within one year.

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 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 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.

TENNESSEE CHARTER SCHOOL CENTER

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 1—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.

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.

The Center follows Financial Accounting Standards Board Accounting Standards Codification guidance related to uncertain tax positions. 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 50% likely of being realized upon ultimate settlement. The Center has no tax penalties or interest reported in the accompanying financial statements. The Center has no uncertain tax positions at December 31, 2017 or 2016.

Subsequent Events – The Center evaluated subsequent events through March 27, 2018, 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—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 85% and 76% of its contributions from three and four major donors, respectively, for the years ended December 31, 2017 and 2016.

TENNESSEE CHARTER SCHOOL CENTER
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 3—Note payable

	<u>2017</u>	<u>2016</u>
Note payable to bank, bearing interest at a variable rate (4.5% at December 31, 2016). The note is unsecured and matures in June 2017. Proceeds from the note payable were used to update a facility leased to a Nashville charter school. The note was paid in full during 2017.	<u>\$ -</u>	<u>\$ 47,669</u>

Note 4—Temporarily restricted net assets

The Center 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 year ended December 31, 2017:

<u>Purpose</u>	<u>Balance at January 1, 2017</u>	<u>Contributions Pledged from January 1, 2017 to December 31, 2017</u>	<u>Expended and/or Released by Specific Purpose being fulfilled</u>	<u>Balance at December 31, 2017</u>
Contributions receivable	\$ 959,000	\$ 105,000	\$ 1,039,000	\$ 25,000
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
	<u>\$ 1,750,855</u>	<u>\$ 110,000</u>	<u>\$ 1,448,118</u>	<u>\$ 412,737</u>

TENNESSEE CHARTER SCHOOL CENTER
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 4—Temporarily restricted net assets (continued)

The following represents a summary of the activity for the year ended December 31, 2016:

Purpose	Balance at January 1, 2016	Contributions Pledged from January 1, 2016 to December 31, 2016	Expended and/or Released by Specific Purpose being fulfilled	Balance at December 31, 2016
Contributions receivable	\$ 400,000	\$ 1,725,000	\$ 1,166,000	\$ 959,000
Community Launch	-	350,000	24,430	325,570
Regional Convening Meetings	-	247,786	-	247,786
Incubation	767,744	500,000	1,124,245	143,499
Board Leaders of Color	-	75,000	-	75,000
State Meetings	-	15,000	15,000	-
	<u>\$ 1,167,744</u>	<u>\$ 2,912,786</u>	<u>\$ 2,329,675</u>	<u>\$ 1,750,855</u>

Note 5—Operating leases

The Center leases its office space and various equipment under various lease agreements. Rental expense for all operating leases was \$115,321 and \$153,321 for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments required under all non-cancelable operating lease agreements at December 31, 2017, are as follows:

Years Ending December 31,

2018	\$ 73,084
	<u>\$ 73,084</u>

The Center has two sub-lease agreements with a charter school and an organization that supports charter schools. The Center received rental income of \$111,976 and \$76,265 for the years ended December 31, 2017 and 2016, respectively. Future minimum rentals are as follows:

Years Ending December 31,

2018	\$ 75,937
	<u>\$ 75,937</u>

TENNESSEE CHARTER SCHOOL CENTER
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, amounted to \$15,868 and \$16,332, respectively, and is included in salary and related expenses in the statements of functional expenses.