

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.

FINANCIAL STATEMENTS

December 31, 2011

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Tennessee Charter School Incubator, Inc.
Nashville, Tennessee

We have audited the accompanying statement of financial position of Tennessee Charter School Incubator, Inc. (a nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the period operations commenced to December 31, 2011. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Charter School Incubator, Inc., as of December 31, 2011, and the changes in its net assets and its cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

Fraser, Dean & Howard, PLLC

July 9, 2012

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2011

Assets

Cash and cash equivalents	\$ 775,023
Contributions receivable, net	3,016,949
Grants receivable	187,500
Furniture and equipment, net of accumulated depreciation of \$1,508	6,031
Restricted cash	<u>502,622</u>
 Total assets	 <u><u>\$ 4,488,125</u></u>

Liabilities and Net Assets

Accounts payable	\$ 86,379
Note payable	<u>469,076</u>
 Total liabilities	 <u>555,455</u>
 Net assets:	
Unrestricted	915,721
Temporarily restricted	<u>3,016,949</u>
 Total net assets	 <u>3,932,670</u>
 Total liabilities and net assets	 <u><u>\$ 4,488,125</u></u>

See accompanying notes.

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
STATEMENT OF ACTIVITIES
For the period operations commenced to December 31, 2011

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support:			
Contributions	\$ 1,957,686	\$ 3,641,949	\$ 5,599,635
Government grants	438,343	-	438,343
Rental income	52,176	-	52,176
Interest income	5,438	-	5,438
Net assets released from restrictions	625,000	(625,000)	-
	<u>3,078,643</u>	<u>3,016,949</u>	<u>6,095,592</u>
Total revenue, gains and other support			
Expenses:			
Launch	1,436,124	-	1,436,124
Support	640,667	-	640,667
Management and general	86,131	-	86,131
	<u>2,162,922</u>	<u>-</u>	<u>2,162,922</u>
Total expenses			
Change in net assets	915,721	3,016,949	3,932,670
Net assets, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 915,721</u>	<u>\$ 3,016,949</u>	<u>\$ 3,932,670</u>

See accompanying notes.

TENNESSE CHARTER SCHOOL INCUBATOR, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the period operations commenced to December 31, 2011

	Launch	Support	Management and General	Total
School leader fellowships	\$ 625,000	\$ -	\$ -	\$ 625,000
Leasehold improvements	484,616	-	-	484,616
Salary and related expenses	180,541	120,361	26,748	327,650
Talent recruitment	23,071	130,735	-	153,806
Achievement network	-	150,000	-	150,000
School review	-	96,600	-	96,600
Public relations and communication	20,494	20,494	10,247	51,235
Other program expenses	43,012	-	-	43,012
Board member training	-	39,500	-	39,500
Occupancy	15,585	15,585	7,792	38,962
Travel	13,208	13,208	6,604	33,020
Miscellaneous	11,620	11,620	5,862	29,102
Professional development workshop	-	23,587	-	23,587
Supplies	7,209	7,209	3,604	18,022
Insurance	6,374	6,374	3,187	15,935
Telephone	5,394	5,394	2,697	13,485
Interest	-	-	9,329	9,329
Accounting	-	-	8,553	8,553
Depreciation	-	-	1,508	1,508
Total	<u>\$ 1,436,124</u>	<u>\$ 640,667</u>	<u>\$ 86,131</u>	<u>\$ 2,162,922</u>

See accompanying notes.

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
STATEMENT OF CASH FLOWS
For the period operations commenced to December 31, 2011

Cash flows from operating activities:	
Change in net assets	\$ 3,932,670
Adjustments to reconcile change in net assets	
to net cash provided by operating activities:	
Depreciation	1,508
Changes in operating assets and liabilities:	
Contributions receivable	(3,016,949)
Grants receivable	(187,500)
Accounts payable	<u>86,379</u>
Net cash provided by operating activities	<u>816,108</u>
Cash flows from investing activities:	
Purchase of furniture and equipment	<u>(7,539)</u>
Net cash used in investing activities	<u>(7,539)</u>
Cash flows from financing activities:	
Proceeds from issuance of note payable	500,000
Payments on note payable	<u>(30,924)</u>
Net cash provided by financing activities	<u>469,076</u>
Net increase in cash and cash equivalents	1,277,645
Cash and cash equivalents - beginning of year	<u>-</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,277,645</u></u>

See accompanying notes.

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tennessee Charter School Incubator, Inc. is a non-profit corporation that originally began as the Center for Charter School Excellence in Tennessee, Inc. During 2011, the Organization changed its legal name to Tennessee Charter School Incubator, Inc. (“TCSI”). TCSI was created with the purpose of closing the education achievement gap in Tennessee by supporting the creation of high-quality public charter schools in Memphis and Nashville. Operations commenced effective May 1, 2011 with a contribution from the Education First Fund at the Community Foundation of Middle Tennessee in the amount of \$1,627,933.

Financial Statement Presentation

The financial statements of TCSI 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 TCSI 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 TCSI. TCSI did not have any permanently restricted net assets at December 31, 2011.

Cash and Cash Equivalents

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

Contributions Receivable

TCSI accounts for potential losses in contributions receivable utilizing the allowance method. Management believes that contributions receivable are fully collectible at December 31, 2011. As a result, no allowance for uncollectible accounts has been provided.

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Receivable

Grants receivable consist of reimbursements from the Charter School Growth Fund, for which TCSI acts as an agent for a grant from the Tennessee Department of Education. Management believes the grants receivable are fully collectible at December 31, 2011. As a result, no allowance for uncollectible amounts has been provided.

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 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 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:

Launch – Expenses related to the creation of new charter schools in Nashville and Memphis supporting directly through TCSI 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 TCSI overhead expenses.

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

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program and Supporting Services (Continued)

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 TCSI'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

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

TCSI follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) 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 fifty percent likely of being realized upon ultimate settlement. TCSI has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include the year ended December 31, 2011. TCSI had not uncertain tax positions at December 31, 2011.

Subsequent Events

TCSI evaluated subsequent events through July 9, 2012, 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.

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

NOTE 2 – CONCENTRATIONS

TCSI 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, 2011:

Amount receivable within one year	\$ 1,250,000
Amount receivable in 1 to 5 years	<u>1,875,000</u>
	3,125,000
Less discounts on contributions receivable	<u>(108,051)</u>
	<u>\$ 3,016,949</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 of 2.43%.

NOTE 4 – NOTE PAYABLE

Note payable to bank, bearing interest at the Wall Street prime rate (4.5% at December 31, 2011), collateralized by cash accounts held by TCSI, matures June 2017. Proceeds from the note payable are being used to update a facility leased to Liberty Collegiate Academy.

\$ 469,076

A summary of future minimum principal maturities as of December 31, 2011 is as follows:

<u>Year ending</u> <u>December 31,</u>	
2012	\$ 76,742
2013	80,376
2014	84,121
2015	88,041
2016	92,126
Thereafter	<u>47,670</u>
Total principal maturities	<u>\$ 469,076</u>

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

TCSI 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 from the period operations commenced to December 31, 2011:

<u>Purpose</u>	<u>Balance at January 1, 2011</u>	<u>Contributions received from January 1, 2011 to December 31, 2011</u>	<u>Expended and/or released by specific purpose being fulfilled</u>	<u>Balance at December 31, 2011</u>
Contributions receivable	\$ -	\$ 3,641,949	\$ 625,000	\$ 3,016,949
	<u>\$ -</u>	<u>\$ 3,641,949</u>	<u>\$ 625,000</u>	<u>\$ 3,016,949</u>

NOTE 6 – OPERATING LEASES

TCSI leases its office space and various equipment under various lease agreements. Rental expense for all operating leases was \$38,962 from the period operations commenced to December 31, 2011. Future minimum lease payments required under all noncancelable operating lease agreements at December 31, 2011 are as follows:

<u>Year ending December 31,</u>	
2012	\$ 73,552
2013	75,105
2014	58,216
2015	20,058
2016	11,080
Thereafter	<u>-</u>
	<u>\$ 238,011</u>

TENNESSEE CHARTER SCHOOL INCUBATOR, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

NOTE 6 – OPERATING LEASES (Continued)

TCSI sub-leases a building to a charter school. TCSI received rental income of \$52,176 for the period operations commenced to December 31, 2011. Future minimum rentals are as follows:

<u>Year ending</u> <u>December 31,</u>	
2012	\$ 134,750
2013	<u>77,875</u>
	<u>\$ 212,625</u>

NOTE 7 - COMMITMENTS

TCSI has entered into an agreement with the Charter School Growth Fund Tennessee, LLC (the “Fund”) to collaborate in raising and deploying philanthropic funds to support existing charter schools and to create new charter schools and management organizations in the State of Tennessee. Under the terms of the agreement, TCSI and the Fund will share all philanthropic funds raised equally, unless otherwise stated by the donor. This agreement expires on December 31, 2015.

During November 2011, TCSI made a conditional grant for \$450,000, which is payable over three years. As conditions must be met for the grant to be paid, a liability has not been recorded in the December 31, 2011 statement of financial position.