

**TENNESSEE STATE COLLABORATIVE
ON REFORMING EDUCATION**

FINANCIAL STATEMENTS

December 31, 2016 and 2015

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Tennessee State Collaborative on Reforming Education
Nashville, 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, 2016 and 2015, 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, 2016 and 2015, 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.

Frost, Du & How, PLLC

Nashville, Tennessee
May 4, 2017

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 10,198,085	\$ 9,658,468
Contributions receivable, net	4,109,168	6,362,660
Property and equipment, net of accumulated depreciation of \$49,052 and \$19,176, respectively	<u>107,076</u>	<u>12,349</u>
Total assets	<u><u>\$ 14,414,329</u></u>	<u><u>\$ 16,033,477</u></u>
Liabilities and Net Assets		
Accounts payable	\$ 198,759	\$ 100,128
Funds held under agency agreements	<u>3,848,073</u>	<u>4,613,812</u>
Total liabilities	<u>4,046,832</u>	<u>4,713,940</u>
Net assets:		
Unrestricted	6,219,629	4,956,877
Temporarily restricted	<u>4,147,868</u>	<u>6,362,660</u>
Total net assets	<u>10,367,497</u>	<u>11,319,537</u>
Total liabilities and net assets	<u><u>\$ 14,414,329</u></u>	<u><u>\$ 16,033,477</u></u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains, and other support:			
Grants and contributions	\$ 1,751,062	\$ 2,587,500	\$ 4,338,562
Other income	335,673	-	335,673
Investment income	14,680	-	14,680
Net assets released from restrictions	<u>4,802,292</u>	<u>(4,802,292)</u>	<u>-</u>
Total revenue, gains and other support	<u>6,903,707</u>	<u>(2,214,792)</u>	<u>4,688,915</u>
Expenses:			
Program	5,309,886	-	5,309,886
Management and general	331,069	-	331,069
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>5,640,955</u>	<u>-</u>	<u>5,640,955</u>
Change in net assets	1,262,752	(2,214,792)	(952,040)
Net assets, beginning of year	<u>4,956,877</u>	<u>6,362,660</u>	<u>11,319,537</u>
Net assets, end of year	<u><u>\$ 6,219,629</u></u>	<u><u>\$ 4,147,868</u></u>	<u><u>\$ 10,367,497</u></u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains, and other support:			
Grants and contributions	\$ 1,313,750	\$ 9,541,004	\$ 10,854,754
Other income	267,172	-	267,172
Investment income	4,033	-	4,033
Net assets released from restrictions	<u>4,464,773</u>	<u>(4,464,773)</u>	<u>-</u>
Total revenue, gains and other support	<u>6,049,728</u>	<u>5,076,231</u>	<u>11,125,959</u>
Expenses:			
Program	3,259,510	-	3,259,510
Management and general	134,471	-	134,471
Fundraising	<u>31,755</u>	<u>-</u>	<u>31,755</u>
Total expenses	<u>3,425,736</u>	<u>-</u>	<u>3,425,736</u>
Change in net assets	2,623,992	5,076,231	7,700,223
Net assets, beginning of year	<u>2,332,885</u>	<u>1,286,429</u>	<u>3,619,314</u>
Net assets, end of year	<u><u>\$ 4,956,877</u></u>	<u><u>\$ 6,362,660</u></u>	<u><u>\$ 11,319,537</u></u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	Program Services					Supporting Services			
	Educator Networks	Advocacy	Research, Policy, and Best Practices	Technical Assistance	Total	Management and General	Fundraising	Total	Total
Salary and related expenses	\$ 452,521	\$ 651,370	\$ 353,050	\$ 344,855	\$ 1,801,796	\$ 162,274	\$ -	\$ 162,274	\$ 1,964,070
Contractual services	1,316,221	240,910	166,930	14,243	1,738,304	-	-	-	1,738,304
Conferences and meetings	271,899	67,842	194,211	35,273	569,225	322	-	322	569,547
Communications and media	28,095	316,751	47,835	-	392,681	-	-	-	392,681
Awards	280,526	-	250	-	280,776	-	-	-	280,776
Travel	147,991	29,333	6,169	6,328	189,821	-	-	-	189,821
Video online and digital strategy	-	106,208	-	-	106,208	-	-	-	106,208
Accounting and legal	19,732	28,403	15,395	15,038	78,568	7,076	-	7,076	85,644
Supplies	17,467	16,445	34,183	2,707	70,802	-	-	-	70,802
Other	-	2,000	17,004	15,590	34,594	23,206	-	23,206	57,800
Office expenses	-	-	-	-	-	52,705	-	52,705	52,705
Rent	-	-	-	-	-	51,885	-	51,885	51,885
Depreciation	-	-	-	-	-	29,875	-	29,875	29,875
Subscriptions	-	26,707	-	-	26,707	-	-	-	26,707
Steering committee	-	-	-	12,390	12,390	-	-	-	12,390
Equipment	1,783	2,566	1,391	1,359	7,099	639	-	639	7,738
Insurance	-	-	-	-	-	2,267	-	2,267	2,267
Lobbying	-	915	-	-	915	820	-	820	1,735
Total	<u>\$ 2,536,235</u>	<u>\$ 1,489,450</u>	<u>\$ 836,418</u>	<u>\$ 447,783</u>	<u>\$ 5,309,886</u>	<u>\$ 331,069</u>	<u>\$ -</u>	<u>\$ 331,069</u>	<u>\$ 5,640,955</u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015

	Program Services					Supporting Services			
	Advocacy	Technical Assistance	SCORE Prize	Research, Policy, and Best Practices	Total	Management and General	Fundraising	Total	Total
Salary and related expenses	\$ 731,786	\$ 385,832	\$ -	\$ 265,176	\$ 1,382,794	\$ 80,959	\$ -	\$ 80,959	\$ 1,463,753
Contractual services	207,209	168,368	91,134	104,750	571,461	-	-	-	571,461
Steering committee	97,893	97,893	-	97,893	293,679	32,631	-	32,631	326,310
Events	60,649	-	87,582	-	148,231	-	22,192	22,192	170,423
Video online and digital strategy	119,498	1,556	-	-	121,054	-	-	-	121,054
Stipends	120,000	-	-	-	120,000	-	-	-	120,000
Supplies	82,517	-	1,770	-	84,287	-	-	-	84,287
Travel	38,230	9,942	16,218	2,050	66,440	-	-	-	66,440
Awards	-	-	66,126	-	66,126	-	-	-	66,126
Parent Communications and Enagement	62,306	-	-	-	62,306	-	-	-	62,306
Survey	58,000	-	-	-	58,000	-	-	-	58,000
Rent	24,037	12,673	-	8,710	45,420	2,659	-	2,659	48,079
Publications	14,318	-	-	28,862	43,180	-	-	-	43,180
Accounting and legal	16,443	8,669	-	5,958	31,070	1,819	-	1,819	32,889
Other	14,303	13,138	-	3,714	31,155	1,073	-	1,073	32,228
Office expenses	13,763	6,732	-	4,627	25,122	1,413	-	1,413	26,535
Tennessee Education - Health	-	25,000	-	-	25,000	-	-	-	25,000
Equipment	9,471	4,994	-	3,432	17,897	1,048	-	1,048	18,945
Meeting	3,664	5,656	1,885	4,302	15,507	368	-	368	15,875
Regional and statewide events	-	15,870	-	-	15,870	-	-	-	15,870
State of Education - Progress Monitor	-	-	-	12,935	12,935	-	-	-	12,935
LIFT	-	11,463	-	-	11,463	-	-	-	11,463
Catering	-	-	-	-	-	-	9,563	9,563	9,563
Policy Maker Outreach	5,527	-	-	-	5,527	-	-	-	5,527
Lobbying	-	-	-	-	-	4,344	-	4,344	4,344
Depreciation	-	-	-	-	-	4,219	-	4,219	4,219
Insurance	-	-	-	-	-	2,248	-	2,248	2,248
Online Advocacy	1,860	-	-	-	1,860	-	-	-	1,860
Unrealized loss on investment	-	-	-	-	-	1,690	-	1,690	1,690
Out of state partner support	-	1,641	-	-	1,641	-	-	-	1,641
SCORE Institute	-	1,485	-	-	1,485	-	-	-	1,485
Total	\$ 1,681,474	\$ 770,912	\$ 264,715	\$ 542,409	\$ 3,259,510	\$ 134,471	\$ 31,755	\$ 166,226	\$ 3,425,736

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (952,040)	\$ 7,700,223
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	29,875	4,219
Changes in operating assets and liabilities:		
Contributions receivable	2,253,492	(5,190,992)
Accounts payable	98,631	40,780
Funds held under agency agreements	<u>(765,739)</u>	<u>2,087,003</u>
Net cash provided by operating activities	<u>664,219</u>	<u>4,641,233</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(124,602)</u>	<u>(8,666)</u>
Net cash used in investing activities	<u>(124,602)</u>	<u>(8,666)</u>
Net increase in cash and cash equivalents	539,617	4,632,567
Cash and cash equivalents, beginning of year	<u>9,658,468</u>	<u>5,025,901</u>
Cash and cash equivalents, end of year	<u><u>\$ 10,198,085</u></u>	<u><u>\$ 9,658,468</u></u>

See accompanying notes.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tennessee State Collaborative on Reforming Education (“SCORE”) drives collaboration on policy and practice to ensure student success across Tennessee. SCORE is an independent, nonprofit, and nonpartisan advocacy and research institution, founded in 2009 by Senator Bill Frist, MD, former U.S. Senate Majority Leader. SCORE works collaboratively to support K-12 education throughout Tennessee, and measures its success by the academic growth of Tennessee’s students.

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, 2016 or 2015.

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, 2016 and 2015. As a result, no allowance for uncollectible accounts has been provided.

Property and Equipment

Property 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.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Educator Networks – Expenses related to fostering, convening, and supporting strong networks of education leaders, specifically teacher leaders and district leaders.

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

Research, Policy and Best Practice Sharing – Expenses related to research on key policies and the development of tools and reports focused on sharing best practices across the state to advance SCORE's strategic priorities.

Technical Assistance – Expenses related to advancing specific initiatives outlined in SCORE's strategic plan by building capacity at a state, regional, 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.

Fundraising – Includes costs of activities directed toward appeals for financial support.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATMENTS (Continued)
December 31, 2016 and 2015

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, 2013 through December 31, 2016.

Subsequent Events

SCORE evaluated subsequent events through May 4, 2017, 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 STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

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.

SCORE received approximately 25% of its contributions from one donor for the year ended December 31, 2016. SCORE received approximately 83% of its contributions from three donors for the year ended December 31, 2015.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

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

	<u>2016</u>	<u>2015</u>
Amount receivable within one year	\$ 3,372,500	\$ 5,605,992
Amount receivable in 1 to 5 years	<u>750,000</u>	<u>770,000</u>
	4,122,500	6,375,992
Less discounts on contributions receivable	<u>(13,332)</u>	<u>(13,332)</u>
	<u>\$ 4,109,168</u>	<u>\$ 6,362,660</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 3.01% to 3.07%.

NOTE 4 – FUNDS HELD UNDER AGENCY AGREEMENTS

SCORE is acting as a fiscal sponsorship 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 5 – COMMITMENTS

SCORE leases office space under an agreement that is renewed annually. Rental expense under this lease agreement was \$51,885 and \$48,079 for the years ended December 31, 2016 and 2015, respectively. Effective January 1, 2017, SCORE revised the existing lease agreement and entered into a three year noncancellable lease agreement for office space.

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 5 – COMMITMENTS (Continued)

Future minimum lease payments required under this lease agreement at December 31, 2016 are as follows:

Year ending December 31,	
2017	\$ 45,406
2018	60,180
2019	<u>61,384</u>
	<u>\$ 166,970</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

SCORE receives specific contributions for expenses associated with its mission. 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, 2016</u>	<u>Contributions received from January 1, 2016 to December 31, 2016</u>	<u>Expended and/or released by specific purpose being fulfilled</u>	<u>Balance at December 31, 2016</u>
Contributions receivable	\$ 6,362,660	\$ 2,447,500	\$ 4,700,992	\$ 4,109,168
Expect More, Achieve More				
Coalition	-	100,000	72,007	27,993
Innovate to Achieve	-	30,000	19,293	10,707
SCORE Prize	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
	<u>\$ 6,362,660</u>	<u>\$ 2,587,500</u>	<u>\$ 4,802,292</u>	<u>\$ 4,147,868</u>

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

<u>Purpose</u>	<u>Balance at January 1, 2015</u>	<u>Contributions received from January 1, 2015 to December 31, 2015</u>	<u>Expended and/or released by specific purpose being fulfilled</u>	<u>Balance at December 31, 2015</u>
Contributions receivable	\$ 1,171,668	\$ 9,511,004	\$ 4,320,012	\$ 6,362,660
SCORE Prize	-	30,000	30,000	-
Educator Fellows	<u>114,761</u>	<u>-</u>	<u>114,761</u>	<u>-</u>
	<u>\$ 1,286,429</u>	<u>\$ 9,541,004</u>	<u>\$ 4,464,773</u>	<u>\$ 6,362,660</u>

NOTE 7 – RETIREMENT PLAN

SCORE maintains an Internal Revenue Code Section 457 Retirement Plan for its Executive Chairman and CEO, as well as 403(b) Plan for certain eligible employees. Employer expense for the years ended December 31, 2016 and 2015 totaled \$49,889 and \$40,050, respectively, and is included in salary and related expenses in the accompanying statement of functional expenses.