TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION

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 STATE COLLABORATIVE ON REFORMING EDUCATION
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Report of Independent Auditor

To the Board of Directors
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, 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 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, 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 State Collaborative on Reforming Education 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
May 20, 2019

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 10,221,665	$ 12,145,546
Contributions receivable, net	2,926,668	4,260,103
Investments	297,856	-
Property and equipment, net of accumulated depreciation of $127,603 and $92,883, respectively	76,319	63,245
Total Assets	$ 13,522,508	$ 16,468,894
LIABILITIES AND NET ASSETS		
Accounts payable	$ 1,108,666	$ 565,922
Funds held under agency agreements	900,910	3,007,832
Total Liabilities	2,009,576	3,573,754
Net Assets:		
Without donor restrictions	7,794,359	6,470,051
With donor restrictions	3,718,573	6,425,089
Total Net Assets	11,512,932	12,895,140
Total Liabilities and Net Assets	$ 13,522,508	$ 16,468,894

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support:			
Grants and contributions	$ 886,237	$ 4,615,000	$ 5,501,237
Other income	104,818		104,818
Investment income	72,163		72,163
Net assets released from restrictions	7,321,516	(7,321,516)	-
Total Revenue, Gains, and Other Support	8,384,734	(2,706,516)	5,678,218
Expenses:			
Program	6,606,055	-	6,606,055
Management and general	454,371	-	454,371
Total Expenses	7,060,426	-	7,060,426
Change in net assets	1,324,308	(2,706,516)	(1,382,208)
Net assets, beginning of year	6,470,051	6,425,089	12,895,140
Net assets, end of year	$ 7,794,359	$ 3,718,573	$ 11,512,932

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support:			
Grants and contributions	$ 1,181,000	$ 8,610,697	$ 9,791,697
Other income	268,612	-	268,612
Investment income	15,254	-	15,254
Net assets released from restrictions	6,390,960	(6,390,960)	-
Total Revenue, Gains, and Other Support	7,855,826	2,219,737	10,075,563
Expenses:			
Program	7,158,662	-	7,158,662
Management and general	389,258	-	389,258
Total Expenses	7,547,920	-	7,547,920
Change in net assets	307,906	2,219,737	2,527,643
Net assets, beginning of year	6,162,145	4,205,352	10,367,497
Net assets, end of year	$ 6,470,051	$ 6,425,089	$ 12,895,140

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

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services					Supporting Services	
	Educator Networks	Advocacy	Research, Policy, and Best Practices	Technical Assistance	Total	Management and General	Total
Consultants	$ 1,174,950	$ 561,557	$ 195,219	$ 262,398	$ 2,194,124	$ 15,430	$ 2,209,554
Salary and related expenses	568,919	697,272	469,792	442,205	2,178,188	169,240	2,347,428
Subgrants	324,805	-	-	1,001,250	1,326,055	-	1,326,055
Travel and meetings	316,090	232,097	19,861	88,914	656,962	-	656,962
Accounting and legal	21,136	25,904	17,453	16,428	80,921	6,287	87,208
Office expenses	-	-	-	-	-	60,453	60,453
Rent	-	-	-	-	-	60,280	60,280
Supplies	4,451	31,606	9,999	3,077	49,133	5,955	55,088
Team development	12,973	15,900	10,713	10,084	49,670	3,859	53,529
Website redesign	-	-	-	-	-	48,478	48,478
Technology	-	-	-	-	-	38,549	38,549
Depreciation	-	-	-	-	-	34,720	34,720
Lobbying	-	33,166	-	-	33,166	-	33,166
Communications and media	5,184	20,744	3,479	-	29,407	-	29,407
Board meetings	2,149	2,634	1,671	1,775	8,229	639	8,868
Insurance	-	-	-	-	-	7,608	7,608
Other	-	-	-	200	200	2,873	3,073
	$ 2,430,657	$ 1,620,880	$ 728,187	$ 1,826,331	$ 6,606,055	$ 454,371	$ 7,060,426

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services					Supporting Services	
	Educator Networks	**Advocacy**	**Research, Policy, and Best Practices**	**Technical Assistance**	**Total**	**Management and General**	**Total**
Consultants	$ 1,611,427	$ 665,951	$ 6,700	$ 18,100	$ 2,302,178	$ 49,620	$ 2,351,798
Salary and related expenses	520,604	756,156	370,907	374,481	2,022,148	158,382	2,180,530
Subgrants	345,785	-	-	895,625	1,241,410	-	1,241,410
Communications and media	12,365	581,358	23,062	-	616,785	-	616,785
Travel and meetings	354,069	159,464	66,042	27,220	606,795	-	606,795
Supplies	5,263	207,399	40,703	701	254,066	6,691	260,757
Accounting and legal	21,551	31,302	15,354	15,502	83,709	6,556	90,265
Office expenses	-	-	-	-	-	50,519	50,519
Rent	-	-	-	-	-	50,035	50,035
Depreciation	-	-	-	-	-	43,831	43,831
Team development	7,240	10,516	5,158	5,207	28,121	2,202	30,323
Other	-	-	-	-	-	8,145	8,145
Insurance	-	-	-	-	-	6,123	6,123
Lobbying	-	-	-	-	-	6,884	6,884
Board meetings	888	1,290	633	639	3,450	270	3,720
	$ 2,879,192	$ 2,413,436	$ 528,559	$ 1,337,475	$ 7,158,662	$ 389,258	$ 7,547,920

TENNESSEE STATE COLLABORATIVE ON REFORMING EDUCATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (1,382,208)	$ 2,527,643
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	34,720	43,831
Changes in operating assets and liabilities:		
Contributions receivable	1,333,435	(150,935)
Accounts payable	542,744	367,163
Funds held under agency agreements	(2,106,922)	(840,241)
Net cash (used in) provided by operating activities	(1,578,231)	1,947,461
Cash flows from investing activities:		
Purchase of property and equipment	(47,794)	-
Purchase of investments	(297,856)	-
Net cash used in investing activities	(345,650)	-
Net (decrease) increase in cash and cash equivalents	(1,923,881)	1,947,461
Cash and cash equivalents, beginning of year	12,145,546	10,198,085
Cash and cash equivalents, end of year	$ 10,221,665	$ 12,145,546

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

Note 1—Nature of operations and 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 public 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 ("U.S. GAAP"). 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 SCORE. These net assets may be used at the discretion of SCORE'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 SCORE 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 SCORE'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 – 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, 2018 and 2017. As a result, no allowance for uncollectible accounts has been provided.

Investments – Investments are stated at fair market value. Unrealized gains and losses, as well as appreciation or depreciation in market value, are reflected in the accompanying financial statements.

Fair Value Measurement – SCORE has established a process for determining fair values. Fair values are based upon quoted market prices, where available. If listed prices or quotes are not available, fair values are based upon market-based or independently-sourced market data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while SCORE believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair values at the reporting date. U.S. GAAP has a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of fair value hierarchy are described below:

> Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

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

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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.

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 net assets without donor restrictions. 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.

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.

Note 1—Nature of operations and 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. Expenses that were allocated consist primarily of salary and related expenses which have been allocated based on time and effort.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP 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.

Change in Accounting Principle – In August 2016, the Financial Accounting Standards Board ("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 SCORE for the year ending December 31, 2019. SCORE is currently evaluating the effect of the implementation of this new standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Accounting Standards Codification ("ASC") 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for SCORE for the year ending December 31, 2020. A modified retrospective transition approach is required for leases for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with practical expedients available. SCORE is currently in the process of evaluating the impact of adoption of this ASU on the financial statements. See Note 7 for disclosure regarding SCORE's current operating leases.

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. SCORE is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

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

Subsequent Events – SCORE evaluated subsequent events through May 20, 2019, when these financial statements were available to be issued.

Note 2—Liquidity and availability

SCORE 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, SCORE considers all expenditures related to its ongoing activities of supporting public education in Tennessee, as well as the conduct of services undertaken to support those activities to be general expenditures. As a part of SCORE's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. 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.

Cash and cash equivalents, less funds held under fiscal agency agreements	$ 8,519,288
Current portion of pledges receivable	1,770,000
Financial assets available to meet cash needs for general expenditure within one year	$ 10,289,288

Note 3—Investments

Investments are stated at fair value determined based on active markets and consist of the following at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 297,856	$ -	$ -	$ 297,856
	$ 297,856	$ -	$ -	$ 297,856

Note 4—Concentrations

SCORE 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.

SCORE received approximately 75% and 86% of its contributions from two donors for the years ended December 31, 2018 and 2017, respectively. A significant reduction in the level of this support, if this were to occur, could have a negative impact on SCORE's programs and activities.

Note 5—Contributions receivable

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

	2018	2017
Amount receivable within one year	$ 1,770,000	$ 3,873,435
Amount receivable in one to five years	1,170,000	400,000
	2,940,000	4,273,435
Less discounts on contributions receivable	(13,332)	(13,332)
	$ 2,926,668	$ 4,260,103

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 approximately 3%.

Note 6—Funds held under agency agreements

SCORE is acting as a fiscal sponsor 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 7—Commitments

SCORE leases office space under a three-year, noncancellable agreement which expires December 31, 2019. Rental expense under this lease agreement was $60,280 and $50,035 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments required under this lease agreement at December 31, 2018 are as follows:

Year Ending December 31,	
2019	$ 61,384
	$ 61,384

Note 8—Net assets with donor restrictions

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

Purpose	Beginning, January 1, 2018	Contributions Received from January 1, 2018 to December 31, 2018	Expended and/or Released by Specific Purpose Being Fulfilled	Ending, December 31, 2018
Contributions receivable	$ 4,260,103	$ 4,110,000	$ 5,443,435	$ 2,926,668
LIFT	2,126,890	-	1,505,152	621,738
Strategic Initiative	5,304	400,000	320,137	85,167
Programmatic Support	-	75,000	-	75,000
SCORE Prize	-	10,000	-	10,000
Data analysis	20,000	20,000	40,000	-
Leadership	10,400	-	10,400	-
Innovate to achieve	2,392	-	2,392	-
	$ 6,425,089	$ 4,615,000	$ 7,321,516	$ 3,718,573

Purpose	Beginning, January 1, 2017	Contributions Received from January 1, 2017 to December 31, 2017	Expended and/or Released by Specific Purpose Being Fulfilled	Ending December 31, 2017
Contributions receivable	$ 2,509,168	$ 6,802,000	$ 5,051,065	$ 4,260,103
LIFT	1,657,484	1,499,697	1,030,291	2,126,890
Data analysis	-	20,000	-	20,000
Leadership	-	25,000	14,600	10,400
Strategic Initiative	-	200,000	194,696	5,304
Innovate to achieve	10,707	54,000	62,315	2,392
Expect more, achieve more, coalition	27,993	-	27,993	-
Nashville focus groups	-	10,000	10,000	-
	$ 4,205,352	$ 8,610,697	$ 6,390,960	$ 6,425,089

Note 9—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, 2018 and 2017 totaled $51,850 and $50,184, respectively, and is included in salary and related expenses in the accompanying statements of functional expenses.