# NASHVILLE PUBLIC EDUCATION FOUNDATION

## FINANCIAL STATEMENTS
## AND
## INDEPENDENT AUDITOR'S REPORT

## JUNE 30, 2017 AND 2016

NASHVILLE PUBLIC EDUCATION FOUNDATION

FINANCIAL STATEMENTS
AND
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JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nashville Public Education Foundation
Nashville, Tennessee

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Nashville Public Education Foundation (the "Foundation"), a Tennessee not-for-profit corporation, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statement 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 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.


KraftCPAs PLLC • Certified Public Accountants and Consultants
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OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville Public Education Foundation as of June 30, 2017 and 2016, 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.

KraftCPAs PLLC

Nashville, Tennessee
November 13, 2017

NASHVILLE PUBLIC EDUCATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 1,881,194 | $ 2,281,912 |
| Contributions receivable | 1,184,923 | - |
| Other current assets | 10,364 | 13,687 |
| Investments | 2,682 | - |
| Property and equipment, net | 34,296 | 25,757 |
| Endowment assets: | | |
| Cash | 14,860 | 14,847 |
| Investments | 152,351 | 148,269 |
| TOTAL ASSETS | $ 3,280,670 | $ 2,484,472 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 20,966 | $ 28,538 |
| Salaries, benefits, and payroll taxes payable | 100,991 | 76,626 |
| Contributions payable | 123,431 | 528,845 |
| TOTAL LIABILITIES | 245,388 | 634,009 |
| NET ASSETS | | |
| Unrestricted | 675,797 | 445,912 |
| Temporarily restricted | 2,239,232 | 1,284,298 |
| Permanently restricted | 120,253 | 120,253 |
| TOTAL NET ASSETS | 3,035,282 | 1,850,463 |
| TOTAL LIABILITIES AND NET ASSETS | $ 3,280,670 | $ 2,484,472 |

See accompanying notes to financial statements.

NASHVILLE PUBLIC EDUCATION FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| SUPPORT AND REVENUE | | | | |
| Contributions | $ 561,142 | $ 2,468,998 | $ - | $ 3,030,140 |
| Hall of Fame special event | 186,125 | 110,500 | - | 296,625 |
| Less: direct cost of event | (72,571) | - | - | (72,571) |
| Investment income | 927 | 6,333 | - | 7,260 |
| Net realized and unrealized gains (losses) on investments | 631 | 4,362 | - | 4,993 |
| Net assets released from restrictions | 1,635,259 | (1,635,259) | - | - |
| TOTAL REVENUES AND SUPPORT | 2,311,513 | 954,934 | - | 3,266,447 |
| EXPENSES | | | | |
| Program services | 1,766,383 | - | - | 1,766,383 |
| Supporting services: | | | | |
| Management and general | 135,867 | - | - | 135,867 |
| Fundraising | 179,378 | - | - | 179,378 |
| Total supporting services | 315,245 | - | - | 315,245 |
| TOTAL EXPENSES | 2,081,628 | - | - | 2,081,628 |
| CHANGE IN NET ASSETS | 229,885 | 954,934 | - | 1,184,819 |
| NET ASSETS - BEGINNING OF YEAR | 445,912 | 1,284,298 | 120,253 | 1,850,463 |
| NET ASSETS - END OF YEAR | $ 675,797 | $ 2,239,232 | $ 120,253 | $ 3,035,282 |

See accompanying notes to financial statements.

| 2016 | | | |
|---|---|---|---|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| | | | |
| $ 219,381 | $ 2,075,273 | $ - | $ 2,294,654 |
| - | 88,750 | - | 88,750 |
| - | - | - | - |
| 804 | 5,880 | - | 6,684 |
| | | | |
| - | (3,167) | - | (3,167) |
| 2,148,800 | (2,148,800) | - | - |
| 2,368,985 | 17,936 | - | 2,386,921 |
| | | | |
| 2,589,702 | - | - | 2,589,702 |
| | | | |
| 128,695 | - | - | 128,695 |
| 171,727 | - | - | 171,727 |
| 300,422 | - | - | 300,422 |
| 2,890,124 | - | - | 2,890,124 |
| (521,139) | 17,936 | - | (503,203) |
| 967,051 | 1,266,362 | 120,253 | 2,353,666 |
| $ 445,912 | $ 1,284,298 | $ 120,253 | $ 1,850,463 |

NASHVILLE PUBLIC EDUCATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | | | | 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Supporting Services | | | | | Supporting Services | | | |
| | Program Services | Management and General | Fundraising | Total Supporting Services | Total | Program Services | Management and General | Fundraising | Total Supporting Services | Total |
| Partner program support | $1,079,780 | $ - | $ - | $ - | $1,079,780 | $1,847,586 | $ - | $ - | $ - | $1,847,586 |
| Salaries, wages, and employee benefits | 358,618 | 106,465 | 95,258 | 201,723 | 560,341 | 322,974 | 95,883 | 85,790 | 181,673 | 504,647 |
| Research and special project support | 133,177 | - | - | - | 133,177 | 235,719 | - | - | - | 235,719 |
| Public relations | 97,443 | - | 32,481 | 32,481 | 129,924 | 83,443 | - | 27,814 | 27,814 | 111,257 |
| Printing and publications | 14,187 | 4,256 | 9,931 | 14,187 | 28,374 | 15,458 | 4,637 | 10,821 | 15,458 | 30,916 |
| Professional fees | 15,216 | 15,215 | 20,288 | 35,503 | 50,719 | 18,262 | 18,262 | 24,349 | 42,611 | 60,873 |
| Office occupancy | 24,024 | 4,004 | 12,012 | 16,016 | 40,040 | 20,782 | 3,464 | 10,391 | 13,855 | 34,637 |
| Supplies | 2,500 | 417 | 1,250 | 1,667 | 4,167 | 2,442 | 407 | 1,221 | 1,628 | 4,070 |
| Telephone, postage, and shipping | 1,791 | 298 | 896 | 1,194 | 2,985 | 3,652 | 609 | 1,826 | 2,435 | 6,087 |
| Travel, meetings, and special events | 25,121 | 2,791 | - | 2,791 | 27,912 | 20,354 | 2,262 | - | 2,262 | 22,616 |
| Depreciation | 3,876 | 646 | 1,938 | 2,584 | 6,460 | 3,586 | 597 | 1,793 | 2,390 | 5,976 |
| Software maintenance expense | 6,095 | 1,016 | 3,047 | 4,063 | 10,158 | 12,098 | 2,016 | 6,049 | 8,065 | 20,163 |
| Other miscellaneous expenses | 4,555 | 759 | 2,277 | 3,036 | 7,591 | 3,346 | 558 | 1,673 | 2,231 | 5,577 |
| TOTAL EXPENSES | $1,766,383 | $ 135,867 | $ 179,378 | $ 315,245 | $2,081,628 | $2,589,702 | $ 128,695 | $ 171,727 | $ 300,422 | $2,890,124 |

See accompanying notes to financial statements.

NASHVILLE PUBLIC EDUCATION FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Change in net assets | $ 1,184,819 | $ (503,203) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 6,460 | 5,976 |
| Net realized and unrealized (gains) losses on investments | (4,993) | 3,167 |
| Loss on disposal of property and equipment | - | 1,368 |
| Non-cash contributions of investments | (2,051) | - |
| (Increase) decrease in: | | |
| Contributions receivable | (1,184,923) | 4,460 |
| Other current assets | 3,323 | 67 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | (7,572) | (7,500) |
| Salaries, benefits, and payroll taxes payable | 24,365 | (6,115) |
| Contributions payable | (405,414) | 413,075 |
| Conditional grant funds payable | - | (13,150) |
| TOTAL ADJUSTMENTS | (1,570,805) | 401,348 |
| NET CASH USED IN OPERATING ACTIVITIES | (385,986) | (101,855) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (14,999) | (1,149) |
| Proceeds from sale of investments | 6,614 | 6,472 |
| Purchases of investments | (6,334) | (5,874) |
| NET CASH USED IN INVESTING ACTIVITIES | (14,719) | (551) |
| DECREASE IN CASH | (400,705) | (102,406) |
| CASH - BEGINNING OF YEAR | 2,296,759 | 2,399,165 |
| CASH - END OF YEAR | $ 1,896,054 | $ 2,296,759 |

See accompanying notes to financial statements.

## NOTE 1 - GENERAL

On July 11, 2002, Nashville Public Education Foundation (the "Foundation") was chartered as a public benefit corporation under the Tennessee Nonprofit Corporation Act. From its inception through June 9, 2011, the Foundation operated under the name "Nashville Alliance for Public Education, Inc."

The Foundation was formed by a group of corporate and civic leaders for the purpose of improving public education in Nashville, Tennessee. The Foundation works to ensure every child in Nashville has access to a great public education that prepares them fully for college, work, and life. The Foundation achieves this through raising and managing funds, making strategic investments, and bringing the community together behind needle-moving efforts to accelerate progress.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying financial statements present the financial position and change in net assets of the Foundation on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions.

The Foundation reports gifts of equipment, materials, or facilities (in-kind contributions) at their fair value in the period received as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, were performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

In addition to donated services, the Foundation acknowledges that many individuals routinely volunteer their time and efforts to perform a variety of beneficial tasks that greatly promote the Foundation’s programs and services. No amounts have been reflected in the financial statements for these donated services since the volunteer’s time does not meet the criteria for recognition under GAAP.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. All contributions receivable as of June 30, 2017 were due within one year. There were no contributions receivable as of June 30, 2016. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management’s estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. In management’s opinion, no allowance for uncollectible contributions was necessary as of June 30, 2017.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property and Equipment

Property and equipment are recorded at cost. Donated assets are capitalized at fair market value in the period received. Depreciation expense is calculated using the straight-line method over the estimated service lives of the assets, principally the initial lease term for leasehold improvements and 3 to 7 years for furniture and equipment.

### Fair Value Measurements

The Foundation classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

*Equities and mutual funds* - Valued based on quoted market prices on the last business day of the reporting period.

*Corporate bonds* - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

There have been no changes in the valuation methodologies used at June 30, 2017 or 2016.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

### Endowment Funds

The Foundation has both donor-restricted endowment funds and funds designated by the Board to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's permanently restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

*Interpretation of applicable law* - The Board of Directors has interpreted SUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the investment funds designated as an endowment that is not classified in permanently restricted net assets is classified as unrestricted as part of the Board designated endowment fund, which is consistent with the standard of prudence prescribed by UPMIFA.

*Spending policy* - Investment earnings from the endowment fund are used to support activities of the Metro Forensics League of Metro Nashville Public Schools (debate team).

*Investment return objective, risk parameters and strategies* - The Foundation generally follows a conservative investment policy with respect to its endowment assets. Investment income earned on endowment assets typically includes dividends, interest, and realized and unrealized capital gains and losses. Investment income is recognized as a component of unrestricted net assets or temporarily restricted net assets, respectively, based on the use or appropriation of the funds for qualifying program expenditures.

Investments

Investments consist of equities, bonds and mutual funds which are carried at fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses are reflected in the statements of activities.

Contributions Payable

Contributions payable are promises to give to a qualifying not-for-profit organization (principally MNPS) that are recognized as a liability by the Foundation, at fair value, on the date the obligation is deemed to be unconditional. A conditional contribution is not recorded until the contingent condition is effectively satisfied. Contributions scheduled to be paid in less than one year are recorded at net settlement value. Contributions scheduled for payment in excess of one year are recorded at estimated present value in a manner similar to the valuation of unconditional promises to be received.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided. The Foundation files a U.S. federal Form 990 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Foundation's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Program and Supporting Services

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

*Program Services*

The Foundation's program services include efforts to create and support a bold city-wide vision for public education that extends from "cradle to career." The Foundation's primary focus is to ensure that students graduate from MNPS with the skills to pursue and succeed in post-secondary education pursuits. Specifically, the Foundation is focused on raising college attendance and college completion rates, increasing the number of high-performing schools, investing in efforts to increase teacher talent and retention, and expanding the capacity of effective early learning programs.

In addition, the Foundation continues to support a number of initiatives in partnership with MNPS by providing assistance with infrastructure and leadership resources. These activities are referred to herein as "Partner program support" and include initiatives in music education, alternative and supplementary educational programming, and the provision of monetary grants directly to MNPS.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Supporting Services*

Management and General relates to the overall direction of the Foundation. These expenses are not identifiable with a particular program or event, or with fundraising, but are indispensable to the conduct of those activities and are essential to the Foundation. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising includes costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials.

### Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year’s presentation. Such reclassifications had no effect on the results of activities or net assets as previously reported.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Foundation is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 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 income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Foundation is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between June 30, 2017 and November 13, 2017 the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

## NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Leasehold improvements | $ 18,105 | $ 18,105 |
| Furniture and equipment | 26,946 | 11,947 |
| Website design | 7,300 | 7,300 |
| | 52,351 | 37,352 |
| Less: Accumulated depreciation | (18,055) | (11,595) |
| | $ 34,296 | $ 25,757 |

## NOTE 4 - ENDOWMENT

A summary of activity involving endowment assets during the fiscal years ended June 30, 2017 and 2016, is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment assets at June 30, 2015 | $ 25,000 | $ 17,034 | $ 120,253 | $ 162,287 |
| Appropriation for debate team | - | (1,884) | - | (1,884) |
| Investment income | - | 5,880 | - | 5,880 |
| Realized gain | - | 598 | - | 598 |
| Unrealized loss | - | (3,765) | - | (3,765) |
| Endowment assets at June 30, 2016 | 25,000 | 17,863 | 120,253 | 163,116 |
| Appropriation for debate team | - | (6,600) | - | (6,600) |
| Investment income | - | 6,333 | - | 6,333 |
| Realized gain | - | 280 | - | 280 |
| Unrealized gain | - | 4,082 | - | 4,082 |
| Endowment assets at June 30, 2017 | $ 25,000 | $ 21,958 | $ 120,253 | $ 167,211 |

## NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Equities | $ 2,682 | $ - |
| Corporate bonds | 51,344 | 51,805 |
| Mutual funds | 101,007 | 96,464 |
| Total | $ 155,033 | $ 148,269 |

## NOTE 6 - FAIR VALUE OF MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30:

| 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments at fair value: | | | | |
| Equities - consumer services | $ 2,682 | $ - | $ - | $ 2,682 |
| Corporate bonds | - | 51,344 | - | 51,344 |
| Mutual funds: | | | | |
| High yield bond fund | 76,236 | - | - | 76,236 |
| Short-term bond fund | 12,313 | - | - | 12,313 |
| Nontraditional bond fund | 12,458 | - | - | 12,458 |
| Total investments at fair value | $ 103,689 | $ 51,344 | $ - | $ 155,033 |

| 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments at fair value: | | | | |
| Corporate bonds | $ - | $ 51,805 | $ - | $ 51,805 |
| Mutual funds: | | | | |
| High yield bond fund | 71,919 | | | 71,919 |
| Short-term bond fund | 12,326 | | | 12,326 |
| Nontraditional bond fund | 12,219 | - | - | 12,219 |
| Total investments at fair value | $ 96,464 | $ 51,805 | $ - | $ 148,269 |

## NOTE 7 - CONTRIBUTIONS PAYABLE

Pursuant to a funding agreement between the Foundation and MNPS, MNPS directly purchases musical instruments for its music program and then provides supporting documentation to the Foundation to receive reimbursement. At June 30, 2017, the amount owed to MNPS under this agreement totaled $123,431 ($528,845 at June 30, 2016).

## NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Musical instruments and programs | $ 1,141,296 | $ 783,411 |
| SCORE | 806,396 | - |
| School for Science and Math at Vanderbilt | - | 29,238 |
| Hall of Fame event | 110,500 | 88,750 |
| Specific school designations and other purposes | 181,040 | 382,899 |
| | $ 2,239,232 | $ 1,284,298 |

## NOTE 9 - CONTRACTED SERVICES AND EMPLOYEE BENEFIT PLAN

### Contracted Services

The Foundation’s staff is employed under an agreement with Century II, a professional employer organization, and reports solely to the Foundation’s Board of Directors. The Foundation reimburses Century II for the salaries and related fringe benefits, which include Social Security and Medicare taxes, insurance and employee benefit plan costs.

### Employee Benefit Plan

The Foundation’s eligible employees may participate in a Section 401(k) defined contribution plan through Century II. The plan provides for matching contributions for each employee deferral contribution, subject to limitations. Total contributions by the Foundation to the plan amounted to $19,050 and $12,162 at June 30, 2017 and 2016, respectively.

## NOTE 10 - COMMITMENTS

### Leases

During July 2014, the Foundation entered into a three-year lease for office space. The Foundation made renovations to the office space during the first four months of its new lease. In conjunction with the lease agreement, the lessor agreed to reduce rental payments by up to $10,236 for tenant renovations. This renovation allowance is being amortized ratably as a reduction in rent expense over the lease term. Subsequent to yearend, the Foundation entered into a new lease agreement with a three-year term expiring in August 2020.

The Foundation also leases certain office equipment under non-cancelable operating leases which expire at various dates through December 2017.

Lease expense for all operating leases was $35,091 and $29,891 for the years ended June 30, 2017 and 2016, respectively

A summary of future minimum lease payments for office space and equipment, net of amounts received from lessor for tenant renovations, as of June 30, 2017 follows:

| Year ending June 30, | |
|---|---|
| 2018 | $ 34,060 |
| 2019 | 33,750 |
| 2020 | 34,398 |
| 2021 | 5,750 |
| | $ 107,958 |

### Accounting Services Outsourced to PENCIL Foundation

The Foundation outsources its routine accounting functions to PENCIL Foundation, an unrelated non-profit organization. Payments to PENCIL totaled $37,350 and $36,237 for the years ended June 30, 2017 and 2016, respectively.

## NOTE 11 - CONCENTRATIONS

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash, investments, and various contributions, contracts and related receivables. The Foundation maintains cash balances at reputable financial institutions insured by the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. The Foundation’s balances may, at times, exceed statutory limits. The Foundation has not experienced any losses in these accounts and management considers this to be a normal business risk.

## NOTE 11 - CONCENTRATIONS (CONTINUED)

Contributions received from two sources comprised approximately 60% of total contributions received for the year ended June 30, 2017 (approximately 63% of total contribution revenues were from two sources for the year ended June 30, 2016). Contributions receivable from one contributor comprised 84% of the receivable balance for the year ended June 30, 2017. There were no contributions receivable for the year ended June 30, 2016.

## NOTE 12 - RELATED PARTY TRANSACTIONS

The Foundation has certain members of its board of directors who have financial interests in entities with whom the Foundation engages in business transactions. These entities include financial institutions and a company providing consulting services to the Foundation.