



SHELBY COUNTY  
**EDUCATION  
FOUNDATION**

**Financial Statements**

**December 31, 2015**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Shelby County Education Foundation  
Memphis, Tennessee

We have audited the accompanying financial statements of Shelby County Education Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. According, 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 Shelby County Education Foundation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Memphis, Tennessee  
August 23, 2016

**SHELBY COUNTY EDUCATION FOUNDATION***Statement of Financial Position**December 31, 2015***ASSETS**

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Cash	\$ 58,733
Grant receivable	1,500,000
<b>Total assets</b>	<b>\$ 1,558,733</b>

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**LIABILITIES AND NET ASSETS**

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Liabilities	
Accounts payable and accrued expenses	\$ 11,348
<b>Total liabilities</b>	<b>11,348</b>
Net assets	
Unrestricted	47,385
Temporarily restricted	1,500,000
<b>Total net assets</b>	<b>1,547,385</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,558,733</b>

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## SHELBY COUNTY EDUCATION FOUNDATION

### Statement of Activities

For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and support</b>				
Contributions	\$ 2,177,200	\$ 1,500,000	\$ -	\$ 3,677,200
Fundraising	26,626	-	-	26,626
Interest	156	-	-	156
Net assets released from restrictions	1,500,000	(1,500,000)	-	-
<b>Total revenue and support</b>	<b>3,703,982</b>	<b>-</b>	<b>-</b>	<b>3,703,982</b>
<b>Expenses</b>				
Program services	3,700,057	-	-	3,700,057
Management and general	44,957	-	-	44,957
Fundraising	53,990	-	-	53,990
<b>Total expenses</b>	<b>3,799,004</b>	<b>-</b>	<b>-</b>	<b>3,799,004</b>
<b>Change in net assets</b>	<b>(95,022)</b>	<b>-</b>	<b>-</b>	<b>(95,022)</b>
Net assets, beginning of year	63,174	54,233	25,000	142,407
Prior period adjustment	79,233	1,445,767	(25,000)	1,500,000
<b>Net assets, beginning of year, as restated</b>	<b>142,407</b>	<b>1,500,000</b>	<b>-</b>	<b>1,642,407</b>
<b>Net assets, end of year</b>	<b>\$ 47,385</b>	<b>\$ 1,500,000</b>	<b>\$ -</b>	<b>\$ 1,547,385</b>

# SHELBY COUNTY EDUCATION FOUNDATION

## Statement of Functional Expenses

For the Year Ended December 31, 2015

	Program Services	Management and General	Fundraising	Total
<b>Compensation and Related Expenses</b>				
Compensation	\$ 38,036	\$ 21,131	\$ 25,358	\$ 84,525
Payroll taxes	3,720	2,067	2,480	8,267
<b>Total compensation and related expenses</b>	<b>41,756</b>	<b>23,198</b>	<b>27,838</b>	<b>92,792</b>
<b>Other Expenses</b>				
Advertising and promotion	-	-	117	117
Education grants and scholarships	3,002,901	-	-	3,002,901
Insurance	-	1,460	1,459	2,919
Miscellaneous	-	618	-	618
Office expense	-	1,930	-	1,930
Office rent	5,400	3,000	3,600	12,000
Professional fees	650,000	13,700	-	663,700
Race for Education	-	-	20,976	20,976
Supplies	-	1,051	-	1,051
<b>Totals</b>	<b>\$ 3,700,057</b>	<b>\$ 44,957</b>	<b>\$ 53,990</b>	<b>\$ 3,799,004</b>

**SHELBY COUNTY EDUCATION FOUNDATION****Statement of Cash Flows****For the Year Ended December 31, 2015**

Cash flows from operating activities	
Change in net assets	\$ (95,022)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Change in operating assets and liabilities	
Accounts payable and accrued expenses	3,362
Net cash used for operating activities	(91,660)
Net change in cash	(91,660)
Cash, beginning of year	150,393
Cash, end of year	\$ 58,733

**Note 1- Organization***Activity and organization*

Shelby County Education Foundation (the "Foundation") is a not-for-profit corporation organized under the laws of the State of Tennessee. The Foundation's purpose is to partner with community leaders and businesses to provide additional resources for the Shelby County School System. Through this partnership the Foundation supports the communities that the school system services. The Foundation is governed by a Board of Directors that handles the activities and events of the Foundation.

**Note 2- Summary of significant accounting policies***Basis of accounting and presentation*

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned and expenses and losses when incurred. Under generally accepted accounting principles, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets 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 or may otherwise be limited by contractual agreements with outside parties.

*Temporarily Restricted Net Assets:* Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

*Permanently Restricted Net Assets:* Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The Foundation has no permanently restricted net assets at December 31, 2015.

*Contributions and grants*

Contributions and grants are reported as increases in unrestricted net assets unless they are restricted by donor-imposed stipulations. Satisfaction of donor imposed stipulations that simultaneously increase unrestricted net assets and decrease temporarily restricted assets are reported as reclassifications. Temporarily restricted revenue received and expended during the same fiscal year is recorded as unrestricted revenue in the statement of activities.

*Donated goods and services*

Donated goods are reflected as contributions and are recorded at their estimated fair market value at the date of receipt. The Foundation occupies certain office space that is the property of Shelby County Schools. The estimated fair rental value of the office space is \$12,000 plus internet services of \$1,200 is reported as support and expense in the period in which it is used. The total value of donated goods and services reflected in the statement of activities for the year ending December 31, 2015, is \$13,200.

*Grants receivable*

The Foundation has entered into a grant agreement with Shelby County to receive quarterly installments from July 1, 2015 to June 30, 2016, totaling \$3,000,000 for the 2015-2016 school year. This grant is solely for the purpose of funding additional high quality Pre-K instruction for those school districts in Shelby County with Pre-K programs established and funded for the school years listed above pursuant to the Voluntary Pre-K for Tennessee Act of 2005.

At December 31, 2015, the Foundation had a grant receivable from Shelby County in the amount of \$1,500,000.

*Advertising costs*

The Foundation expenses advertising costs as incurred. Advertising expense totaled \$117 for the year ended December 31, 2015.

*Income taxes*

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the financial statements. The Foundation is generally no longer subject to Federal and State audit for tax years prior to the year ended December 31, 2012.

*Functional expense allocation*

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management.

*Use of estimates in the preparation of financial statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Events occurring after reporting date*

Management has evaluated events and transactions that have occurred through August 23, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. No subsequent events have been recognized or disclosed.

**Note 3 – Unrestricted net assets**

Unrestricted net assets at December 31, 2015, consist of the following:

		\$	
Undesignated			11,053
Board designated:			
Art scholarships			25,000
Other			11,332
Total board designated net assets			36,332
Total unrestricted net assets			\$ 47,385

**Note 4 – Temporarily restricted net assets**

At December 31, 2015, net assets of \$1,500,000 are restricted for Pre-K instruction for the 2015-2016 school year.

**Note 5 – Concentrations of credit risks***Cash*

The Foundation has concentrated its credit risk for cash by maintaining bank deposits which may periodically exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The Foundation has not experienced any losses of such funds, and management believes the Foundation is not exposed to significant credit risk to cash.

*Concentration of revenue and expenditure sources*

Approximately 81% of total revenues and support was derived from one organization for the year ended December 31, 2015. Approximately 68% of total expenditures was awarded to two organization for the year ended December 31, 2015.

**Note 6 – Prior period adjustments**

During the year ended December 31, 2015, it was discovered that the temporarily restricted net assets of \$54,233 at December 31, 2014, were never restricted by donors. The net assets were board designated for various programs and have been reclassified to unrestricted net assets.

During the year ended December 31, 2015, it was also discovered that the permanently restricted net asset of \$25,000 given to the Foundation through the Community Foundation several years ago was never actually restricted in any way. The Community Foundation has no paper trail from the original donor of the asset; the donor has long been deceased and there is no apparent family to contact. As agreed upon by the board of directors of the Foundation, the corpus of \$25,000 has been reclassified to unrestricted net assets with a board designation of art scholarships to be given annually.

During the year ended December 31, 2015, it was also discovered that the Foundation had not recorded a grant receivable from Shelby County at December 31, 2014, and the related temporarily restricted net assets to fund Pre-K instruction for the 2014-2015 school year. A prior period adjustment was recorded in the amount of \$1,500,000 by recording a grant receivable as well as increasing temporarily restricted net assets as of December 31, 2014.