

# **Houston A+ Challenge**

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2016 and 2015

# Houston A+ Challenge

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# Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

To the Board of Trustees of  
Houston A+ Challenge:

We have audited the accompanying financial statements of Houston A+ Challenge, which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

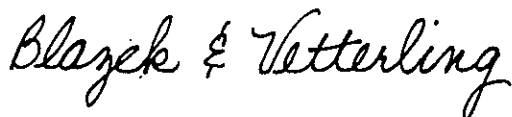
**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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.

**Auditors' 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 our audits 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 auditors' 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 Houston A+ Challenge as of June 30, 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.



March 6, 2017

## Houston A+ Challenge

Statements of Financial Position as of June 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents <i>(Note 2)</i>	\$ 2,105,081	\$ 2,651,429
Pledges receivable		173,943
Prepaid expenses	18,786	22,394
Accounts receivable and other assets	<u>337,600</u>	<u>156,052</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,461,467</u></b>	<b><u>\$ 3,003,818</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 130,825</u>	<u>\$ 132,906</u>
Net assets:		
Unrestricted	1,577,642	1,818,902
Temporarily restricted <i>(Note 3)</i>	<u>753,000</u>	<u>1,052,010</u>
Total net assets	<u>2,330,642</u>	<u>2,870,912</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,461,467</u></b>	<b><u>\$ 3,003,818</u></b>

See accompanying notes to financial statements.

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## Houston A+ Challenge

Statement of Activities for the year ended June 30, 2016

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Note 4)</i>	\$ 48,310	\$ 1,011,684	\$ 1,059,994
Program service fees	1,117,991		1,117,991
Interest income	<u>2,392</u>		<u>2,392</u>
Total revenue	1,168,693	1,011,684	2,180,377
Net assets released from restrictions:			
Expenditure for program purposes	435,694	(435,694)	
Expiration of time restrictions	<u>875,000</u>	<u>(875,000)</u>	
Total	<u>2,479,387</u>	<u>(299,010)</u>	<u>2,180,377</u>
EXPENSES:			
Program services:			
Strengthen	1,298,637		1,298,637
Innovate	630,806		630,806
Connect	<u>282,982</u>		<u>282,982</u>
Total program services	2,212,425		2,212,425
Management and general	279,414		279,414
Fundraising	<u>228,808</u>		<u>228,808</u>
Total expenses	<u>2,720,647</u>		<u>2,720,647</u>
CHANGES IN NET ASSETS	(241,260)	(299,010)	(540,270)
Net assets, beginning of year	<u>1,818,902</u>	<u>1,052,010</u>	<u>2,870,912</u>
Net assets, end of year	<u>\$ 1,577,642</u>	<u>\$ 753,000</u>	<u>\$ 2,330,642</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

Statement of Activities for the year ended June 30, 2015

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Note 4)</i>	\$ 91,195	\$ 1,354,457	\$ 1,445,652
Program service fees	816,179		816,179
Rental income	25,764		25,764
Interest income	<u>291</u>		<u>291</u>
Total revenue	933,429	1,354,457	2,287,886
Net assets released from restrictions:			
Expenditure for program purposes	625,233	(625,233)	
Expiration of time restrictions	<u>771,000</u>	<u>(771,000)</u>	
Total	<u>2,329,662</u>	<u>(41,776)</u>	<u>2,287,886</u>
EXPENSES:			
Program services:			
Strengthen	1,399,969		1,399,969
Innovate	1,234,748		1,234,748
Connect	<u>399,099</u>		<u>399,099</u>
Total program services	3,033,816		3,033,816
Management and general	297,836		297,836
Fundraising	116,213		116,213
Occupancy costs related to rental income	<u>25,829</u>		<u>25,829</u>
Total expenses	<u>3,473,694</u>		<u>3,473,694</u>
CHANGES IN NET ASSETS	(1,144,032)	(41,776)	(1,185,808)
Net assets, beginning of year	<u>2,962,934</u>	<u>1,093,786</u>	<u>4,056,720</u>
Net assets, end of year	<u>\$ 1,818,902</u>	<u>\$ 1,052,010</u>	<u>\$ 2,870,912</u>

*See accompanying notes to financial statements.*

## Houston A+ Challenge

Statements of Functional Expenses for the years ended June 30, 2016 and 2015

2016 EXPENSES	STRENGTHEN	INNOVATE	CONNECT	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2016 TOTAL
Salaries and related expenses	\$ 567,327	\$ 430,175	\$ 100,745	\$ 1,098,247	\$ 146,396	\$ 182,300	\$ 1,426,943
Contract services	636,213	600	14,100	650,913			650,913
Occupancy and technology	72,736	86,102	11,801	170,639	18,414	19,304	208,357
Conference meetings	6,204	42,660	147,136	196,000	1,682	1,727	199,409
Professional fees		4,000		4,000	111,769	24,416	140,185
Travel	901	29,291	5,703	35,895	139		36,034
Supplies, printing, and postage	15,256	12,434	1,210	28,900	1,014	1,061	30,975
Grants		25,544	2,287	27,831			27,831
Total expenses	\$ 1,298,637	\$ 630,806	\$ 282,982	\$ 2,212,425	\$ 279,414	\$ 228,808	\$ 2,720,647

2015 EXPENSES	STRENGTHEN	INNOVATE	CONNECT	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2015 TOTAL
Salaries and related expenses	\$ 543,990	\$ 674,509	\$ 192,360	\$ 1,410,859	\$ 190,267	\$ 91,774	\$ 1,692,900
Contract services	634,945	110,804		745,749			745,749
Occupancy and technology	136,676	121,620	35,253	293,549	22,716	8,253	324,518
Conference meetings	1,176	146,019	100,917	248,112			248,112
Professional fees	59,745	102,253	37,000	198,998	77,598	11,854	288,450
Travel	13,452	10,180	6,970	30,602	27	208	30,837
Supplies, printing, and postage	9,985	16,631	14,057	40,673	7,228	4,124	52,025
Grants		52,732	12,542	65,274			65,274
Total	\$ 1,399,969	\$ 1,234,748	\$ 399,099	\$ 3,033,816	\$ 297,836	\$ 116,213	\$ 3,447,865
Occupancy costs related to rental income							25,829
Total expenses							\$ 3,473,694

See accompanying notes to financial statements.

## Houston A+ Challenge

### Statements of Cash Flows for the years ended June 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (540,270)	\$ (1,185,808)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	173,943	(170,943)
Prepaid expenses	3,608	11,079
Accounts receivable and other assets	(181,548)	(71,886)
Accounts payable and accrued expenses	<u>(2,081)</u>	<u>(95,778)</u>
Net cash used by operating activities	<u>(546,348)</u>	<u>(1,513,336)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(546,348)</b>	<b>(1,513,336)</b>
Cash and cash equivalents, beginning of year	<u>2,651,429</u>	<u>4,164,765</u>
Cash and cash equivalents, end of year	<u>\$ 2,105,081</u>	<u>\$ 2,651,429</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

Notes to Financial Statements for the years ended June 30, 2016 and 2015

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston A+ Challenge (Houston A+) is a Texas nonprofit corporation created in 1996 as part of an initiative to improve public schooling across the Houston region. Ongoing support is provided largely by gifts from private foundations and corporations.

Houston A+'s mission is to be a catalyst for change and a model for innovation in education in the Houston area and beyond, to ensure that every student is prepared for post-secondary success. Houston A+ invests in people by providing teachers, principals and administrators with resources, support and coaching to improve classroom and district practices. Program initiatives aim to help educators create and sustain great schools based on strong relationships and rigorous instruction that is relevant to students and their post-secondary aspirations.

For nearly 20 years, Houston A+ has developed the vision, expertise, and networks required to *strengthen* our local public schools, test *innovative* educational practices and *connect* educators to the public and each other. Our menu of programs evolves annually to meet the needs of Houston's public school students, but within a framework defined by three strategies:

- ***Strengthen:*** *Advancing best practices through advising, coaching and professional development* – Houston A+ works with public schools to strengthen instruction and leadership through consulting, on-campus coaching, leadership academies, professional development workshops, and more. Rooted in research, guided by best practices and led by a team of in-house subject matter experts, we help today's schools and practitioners meet the diverse needs of Houston area students. Houston A+ consultants and coaches disseminate the knowledge gained by the organization through nearly 20 years of practice in the city's schools and adjusts their solutions to meet the needs of each school, educator and student.
- ***Innovate:*** *Launching, testing and scaling new educational models that have the power to transform crucial aspects of public education* – Houston A+ tests ideas and pilots models with the potential to revolutionize public education. One of their current pilots, A+UP, explores the unlimited potential of personalized learning. Other innovative models launched in recent years include a family and community engagement model that is changing the way parents in Pasadena ISD engage in schools in order to shape their child's educational success and Gulf Coast PASS, which connects community colleges with local school districts to increase college readiness among high school graduates, ease student transitions between high school and community college, as well as increase student success in community college developmental courses. Current projects include the development of a local educational program micro-incubator (in partnership with 4.0 schools), decreasing the barriers to college-level coursework for adults returning to school (in partnership with NextOp), and assessing the region's readiness to move toward a competency-based progression educational model.
- ***Connect:*** *Convening people around current challenges and transformative ideas* – Houston A+ convenes educators and thought leaders to learn from peers and experts through a wide array of publications and events, fostering critical conversations about public education's needs, goals, trends and achievements. Programs such as the Chevron Speaker Series, panel discussions, and networking events, as well as engagement in policy development and interpretation are among the ways Houston A+ calls together city leaders, philanthropists, researchers, policy-makers, school and district leaders, educators, and parents to discuss and solve the most pressing issues we face in educating Houston's 1,252,660 students.

Federal income tax status – Houston A+ is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash equivalents include highly liquid investments with original maturities of three months or less.

Pledges receivable due within one year are recorded at net realizable value. Amounts due in more than one year are discounted to estimate the present value of future cash flows.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Program service fees are recognized as revenue in the period in which the service is provided. Program service fees received but not recognized are recorded as deferred revenue.

Grants made to schools and other educational organizations are recognized as grants payable and program expenses when Houston A+ makes substantially unconditional promises to give.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017 but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<u>2016</u>	<u>2015</u>
Demand deposits	\$ 1,062,995	\$ 1,011,735
Money market mutual funds	<u>1,042,086</u>	<u>1,639,694</u>
Total cash and cash equivalents	<u>\$ 2,105,081</u>	<u>\$ 2,651,429</u>

Bank deposits exceed the federally insured limit per depositor per institution.

**NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Future operations	\$ 753,000	\$ 875,000
Community Engagement		68,225
GREAT Personalized Learning		62,500
College readiness/College access		30,435
Leadership Development		15,000
Challenge Network		<u>850</u>
Total temporarily restricted net assets	<u>\$ 753,000</u>	<u>\$ 1,052,010</u>

**NOTE 4 – CONTRIBUTION REVENUE**

In 2016 and 2015, three donors provided 90% and four donors provided 84% of contribution revenue, respectively.

**NOTE 5 – PENSION PLANS**

Houston A+ contracts with the Region 4 Education Service Center (Region 4) to be the direct employer of several education professionals under the supervision of Houston A+, and with a professional employer organization (the PEO) to be the direct employer of the remaining staff members. Houston A+ reimburses each organization all direct costs and a service fee. The payments to Region 4 are reported as contract services in the financial statements. The payments to the PEO are reported as salaries and related expenses in the financial statements as if Houston A+ were the direct employer.

Houston A+ employees are covered by the Houston A+ defined contribution plan, which provides for discretionary employer contributions based on a percentage of salary. Employer contributions to the plan were \$110,207 in 2016 and \$133,707 in 2015.

#### **NOTE 6 – COMMITMENTS AND CONTINGENCIES**

The A+ Unlimited Potential charter school (A+UP) obtained its charter in 2016 and began operating two schools under the charter for the 2016-2017 school year. Before that time, A+UP operated as a pilot program of Houston A+ for three years. Houston A+ intends to provide continued support to A+UP in the form of grants and fundraising services in the first five years of the charter's operations. The amount of the grants is dependent upon the amount of funds raised by Houston A+ for that purpose.

#### **NOTE 7 – RELATED PARTY TRANSACTIONS**

In 2014, Houston A+ retained the services of a law firm with a partner who is a board member of Houston A+. Legal fees paid to this law firm totaled \$23,200 for the year ended June 30, 2016 and \$25,822 for the year ended June 30, 2015.

#### **NOTE 8 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 6, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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