

Houston A+ Challenge

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2008 and 2007

Independent Auditors' Report

To the Board of Trustees of
Houston A+ Challenge:

We have audited the accompanying statements of financial position of Houston A+ Challenge as of June 30, 2008 and 2007 and the related statements of activities, of functional expenses, and of cash flows for the years then ended. These financial statements are the responsibility of Houston A+ Challenge's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

December 4, 2008

Houston A+ Challenge

Statements of Financial Position as of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents <i>(Note 2)</i>	\$ 13,241,679	\$ 13,191,977
Pledges receivable, net <i>(Note 3)</i>	5,500,869	2,690,734
Accounts receivable and other assets	<u>25,342</u>	<u>61,386</u>
TOTAL ASSETS	<u>\$ 18,767,890</u>	<u>\$15,944,097</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 441,094	\$ 226,330
Grants payable to schools	<u>1,492,083</u>	<u>3,148,391</u>
Total liabilities	<u>1,933,177</u>	<u>3,374,721</u>
Net assets:		
Unrestricted	8,076,581	9,490,550
Temporarily restricted <i>(Note 4)</i>	<u>8,758,132</u>	<u>3,078,826</u>
Total net assets	<u>16,834,713</u>	<u>12,569,376</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,767,890</u>	<u>\$ 15,944,097</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2008

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Notes 5 and 6</i>)	\$ 101,554	\$ 9,423,259	\$ 9,524,813
Interest income	555,260		555,260
Training fees	<u>75,790</u>	<u></u>	<u>75,790</u>
Total revenue	732,604	9,423,259	10,155,863
Net assets released from restrictions:			
Expiration of time restrictions	2,202,385	(2,202,385)	
Expenditure for program purposes	<u>1,541,568</u>	<u>(1,541,568)</u>	<u></u>
Total	<u>4,476,557</u>	<u>5,679,306</u>	<u>10,155,863</u>
EXPENSES:			
Quality Teaching	3,651,109		3,651,109
Leadership Development	1,181,234		1,181,234
Community Engagement	509,617		509,617
Communications	<u>146,259</u>	<u></u>	<u>146,259</u>
Total program expenses	5,488,219		5,488,219
Management and general	370,069		370,069
Fundraising	<u>32,238</u>	<u></u>	<u>32,238</u>
Total expenses	<u>5,890,526</u>	<u></u>	<u>5,890,526</u>
CHANGES IN NET ASSETS	(1,413,969)	5,679,306	4,265,337
Net assets, beginning of year	<u>9,490,550</u>	<u>3,078,826</u>	<u>12,569,376</u>
Net assets, end of year	<u>\$ 8,076,581</u>	<u>\$ 8,758,132</u>	<u>\$ 16,834,713</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2007

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 5 and 6</i>)	\$ 198,484	\$ 3,843,594	\$ 4,042,078
Interest income	554,965		554,965
Training fees	<u>78,914</u>	<u> </u>	<u>78,914</u>
Total revenue	832,363	3,843,594	4,675,957
Net assets released from restrictions:			
Expiration of time restrictions	6,050,000	(6,050,000)	
Expenditure for program purposes	<u>2,885,311</u>	<u>(2,885,311)</u>	<u> </u>
Total	<u>9,767,674</u>	<u>(5,091,717)</u>	<u>4,675,957</u>
EXPENSES:			
Quality Teaching	4,740,704		4,740,704
Leadership and Development	1,153,545		1,153,545
Community Engagement	491,215		491,215
Communications	<u>201,830</u>		<u>201,830</u>
Total program expenses	6,587,294		6,587,294
Management and general	246,758		246,758
Fundraising	<u>70,091</u>		<u>70,091</u>
Total expenses	<u>6,904,143</u>		<u>6,904,143</u>
CHANGES IN NET ASSETS	2,863,531	(5,091,717)	(2,228,186)
Net assets, beginning of year	<u>6,627,019</u>	<u>8,170,543</u>	<u>14,797,562</u>
Net assets, end of year	<u>\$ 9,490,550</u>	<u>\$ 3,078,826</u>	<u>\$ 12,569,376</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Functional Expenses for the years ended June 30, 2008 and 2007

<u>2008 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2008 TOTAL</u>
Direct support to schools	\$ 2,734,753			\$ 2,734,753
Salaries and related expenses	1,000,626	\$ 186,330	\$ 22,989	1,209,945
Conference meetings	732,803	8,322		741,125
Evaluation project	333,423	94,668		428,091
Occupancy and technology	227,372	46,899	5,042	279,313
Office supplies, printing, and postage	160,185	11,632	4,207	176,024
Professional fees	151,445	20,304		171,749
Travel	82,689	1,914		84,603
Direct support to others	<u>64,923</u>			<u>64,923</u>
Total expenses	<u>\$ 5,488,219</u>	<u>\$ 370,069</u>	<u>\$ 32,238</u>	<u>\$ 5,890,526</u>

<u>2007 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2007 TOTAL</u>
Direct support to schools	\$ 3,659,707			\$ 3,659,707
Salaries and related expenses	1,029,530	\$ 165,221	\$ 39,576	1,234,327
Conference meetings	548,802	7,988	10	556,800
Evaluation project	366,076	13,944		380,020
Occupancy and technology	214,687	34,980	8,116	257,783
Office supplies, printing, and postage	213,358	6,027	1,375	220,760
Professional fees	273,430	16,527	21,000	310,957
Travel	125,200	2,071	14	127,285
Direct support to others	<u>156,504</u>			<u>156,504</u>
Total expenses	<u>\$ 6,587,294</u>	<u>\$ 246,758</u>	<u>\$ 70,091</u>	<u>\$ 6,904,143</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Cash Flows for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for:		
Contributions	\$ 6,643,678	\$ 9,308,879
Refunds of grants awarded to schools	524,266	574,494
Interest income	555,260	554,965
Training fees	105,790	48,914
Cash paid for:		
Grants to schools	(4,592,336)	(5,197,355)
Grants to others	(64,923)	(230,504)
Salaries and related expenditures	(1,219,398)	(1,253,679)
Suppliers and other vendors	<u>(1,902,635)</u>	<u>(1,956,036)</u>
Net cash provided by operating activities	<u>49,702</u>	<u>1,849,678</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	49,702	1,849,678
Cash and cash equivalents, beginning of year	<u>13,191,977</u>	<u>11,342,299</u>
Cash and cash equivalents, end of year	<u>\$ 13,241,679</u>	<u>\$ 13,191,977</u>
Changes in net assets	\$ 4,265,337	\$ (2,228,186)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	(2,810,135)	5,337,450
Accounts receivable and other assets	36,044	(19,935)
Accounts payable and accrued expenses	214,764	(79,914)
Grants payable to schools	<u>(1,656,308)</u>	<u>(1,159,737)</u>
Net cash provided by operating activities	<u>\$ 49,702</u>	<u>\$ 1,849,678</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Notes to Financial Statements for the years ended June 30, 2008 and 2007

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston A+ Challenge (HAC) is a Texas nonprofit corporation created in 1997 as part of an initiative to improve public schools across the Houston region. Ongoing support is provided largely by gifts from private foundations and corporations.

HAC 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.

HAC provides programs in the following areas:

- *Quality Teaching* includes grants for developing innovative ideas and replicating best practices in content areas and whole school reform.
- *Leadership Development* programs train educators and build networks focused on instructional leadership.
- *Community Engagement* programs bring together parents, community members and the business sector so that all can work in collaboration to improve schools.
- *Communications* disseminates the lessons learned to the broader public as an important part of building capacity and creating sustainable reform.

Tax status – HAC is exempt from federal income taxes 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).

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.

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.

Property is stated at cost or, in the case of contributed property, at the estimated fair value at the date of the gift. HAC capitalizes additions with a cost of more than \$500. Depreciation is provided using the straight-line method over the estimated useful lives of 3 to 5 years.

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

Training fees are recognized as revenue in the period in which the service is provided. Training 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 in the financial statements when HAC makes substantially unconditional promises to give. Grants payable within one year of the date of the statement of financial position are recorded at face value. Grants payable in more than one year are recorded at a discounted amount to estimate the present value of the future cash flows. At June 30, 2008, all grants are payable within one year.

Non-cash contributions – Donated materials and services and use of facilities are recorded at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recorded as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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 revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentations.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 13,091,679	\$ 13,128,477
Demand deposits	<u>150,000</u>	<u>63,500</u>
Total cash and cash equivalents	<u>\$ 13,241,679</u>	<u>\$13,191,977</u>

At times, bank deposits exceed the federally insured limit.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2008</u>	<u>2007</u>
Pledges receivable	\$ 5,665,358	\$ 2,719,742
Discount to net present value at 3.8% to 5.8%	<u>(164,489)</u>	<u>(29,008)</u>
Pledges receivable, net	<u>\$ 5,500,869</u>	<u>\$ 2,690,734</u>

Pledges receivable as of June 30, 2008 are expected to be collected as follows:

2009	\$ 3,558,630
2010	1,854,728
2011	<u>252,000</u>
Total pledges receivable	<u>\$ 5,665,358</u>

At June 30, 2008, pledges from three foundations represent 93% of the total pledges receivable balance.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Leadership development	\$ 7,375,469	
Teacher professional development	1,357,663	\$ 907,541
Future operations	<u>25,000</u>	<u>2,171,285</u>
Total temporarily restricted net assets	<u>\$ 8,758,132</u>	<u>\$ 3,078,826</u>

NOTE 5 – CONTRIBUTION REVENUE

In 2008, three foundations provided 90% of contribution revenue. In 2007, a corporation and a foundation provided 76% of the contribution revenue.

NOTE 6 – DONATED USE OF FACILITIES

Donated use of facilities of \$71,000 in 2008 and \$70,649 in 2007 are included in revenue and expenses in the accompanying statements of activities.

NOTE 7 – PENSION PLAN

HAC maintains a defined contribution plan (the Plan) for all of its employees. The Plan provides for discretionary employer contributions based on a percentage of salary. Employer contributions to the Plan were \$85,055 in 2008 and \$94,543 in 2007.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

HAC leases office space and office equipment under noncancelable operating lease agreements. Lease expense for the years ended June 30, 2008 and 2007 totaled approximately \$107,000 and \$88,000, respectively. The current lease for office space ends in May 2010. The following is a schedule of future minimum lease payments as of June 30, 2008.

2009	\$ 184,691
2010	171,303
2011	12,540
2012	12,540
2013	<u>1,045</u>
Total minimum lease payments	<u>\$ 382,119</u>
