

Houston A+ Challenge

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2009 and 2008

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, 2009 and 2008 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, 2009 and 2008 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

January 13, 2010

Houston A+ Challenge

Statements of Financial Position as of June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$ 11,542,048	\$ 13,241,679
Pledges receivable, net (<i>Note 4</i>)	2,099,535	5,500,869
Accounts receivable and other assets	<u>685,266</u>	<u>620,560</u>
TOTAL ASSETS	<u>\$ 14,326,849</u>	<u>\$ 19,363,108</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 319,806	\$ 441,094
Grants payable to schools	<u>11,900</u>	<u>2,087,301</u>
Total liabilities	<u>331,706</u>	<u>2,528,395</u>
Net assets:		
Unrestricted	8,026,626	8,076,581
Temporarily restricted (<i>Note 5</i>)	<u>5,968,517</u>	<u>8,758,132</u>
Total net assets	<u>13,995,143</u>	<u>16,834,713</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,326,849</u>	<u>\$ 19,363,108</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 6</i>)	\$ 57,925	\$ 1,112,138	\$ 1,170,063
Interest income	182,133		182,133
Training fees	<u>19,250</u>	<u> </u>	<u>19,250</u>
Total revenue	259,308	1,112,138	1,371,446
Net assets released from restrictions:			
Expenditure for program purposes	3,880,253	(3,880,253)	
Expiration of time restrictions	<u>21,500</u>	<u>(21,500)</u>	<u> </u>
Total	<u>4,161,061</u>	<u>(2,789,615)</u>	<u>1,371,446</u>
EXPENSES:			
Program expenses:			
Leadership Development	2,195,322		2,195,322
Partnerships and Innovations	1,469,338		1,469,338
Communications	<u>179,482</u>	<u> </u>	<u>179,482</u>
Total program expenses	3,844,142		3,844,142
Management and general	305,948		305,948
Fundraising	<u>60,926</u>	<u> </u>	<u>60,926</u>
Total expenses	<u>4,211,016</u>	<u> </u>	<u>4,211,016</u>
CHANGES IN NET ASSETS	(49,955)	(2,789,615)	(2,839,570)
Net assets, beginning of year	<u>8,076,581</u>	<u>8,758,132</u>	<u>16,834,713</u>
Net assets, end of year	<u>\$ 8,026,626</u>	<u>\$ 5,968,517</u>	<u>\$ 13,995,143</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>Note 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:			
Expenditure for program purposes	1,541,568	(1,541,568)	
Expiration of time restrictions	<u>2,202,385</u>	<u>(2,202,385)</u>	<u></u>
Total	<u>4,476,557</u>	<u>5,679,306</u>	<u>10,155,863</u>
EXPENSES:			
Program expenses:			
Leadership Development	1,364,383		1,364,383
Partnerships and Innovations	3,977,577		3,977,577
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

Statements of Functional Expenses for the years ended June 30, 2009 and 2008

<u>2009 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2009 TOTAL</u>
Salaries and related expenses	\$ 1,373,966	\$ 220,078	\$ 42,171	\$ 1,636,215
Direct support to schools	890,766			890,766
Conference meetings	792,176			792,176
Professional fees	277,047	33,944	8,000	318,991
Occupancy and technology	250,610	37,598	6,755	294,963
Office supplies, printing, and postage	105,912	10,860	4,000	120,772
Direct support to others	92,015			92,015
Travel	38,150	3,468		41,618
Evaluation project	<u>23,500</u>			<u>23,500</u>
Total expenses	<u>\$ 3,844,142</u>	<u>\$ 305,948</u>	<u>\$ 60,926</u>	<u>\$ 4,211,016</u>

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

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Cash Flows for the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for:		
Contributions	\$ 4,615,877	\$ 6,643,678
Refunds of grants awarded to schools	601,068	524,266
Interest income	182,133	555,260
Training fees	19,250	105,790
Cash paid for:		
Grants to schools	(3,321,066)	(4,592,336)
Grants for professional development	(294,589)	(332,062)
Grants to others	(92,015)	(64,923)
Salaries and related expenditures	(1,642,702)	(1,219,398)
Suppliers and other vendors	<u>(1,767,587)</u>	<u>(1,570,573)</u>
Net cash provided (used) by operating activities	<u>(1,699,631)</u>	<u>49,702</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,699,631)	49,702
Cash and cash equivalents, beginning of year	<u>13,241,679</u>	<u>13,191,977</u>
Cash and cash equivalents, end of year	<u>\$ 11,542,048</u>	<u>\$ 13,241,679</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Changes in net assets	\$ (2,839,570)	\$ 4,265,337
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	3,401,334	(2,810,135)
Accounts receivable and other assets	(64,706)	36,044
Accounts payable and accrued expenses	(121,288)	214,764
Grants payable to schools	<u>(2,075,401)</u>	<u>(1,656,308)</u>
Net cash provided (used) by operating activities	<u>\$ (1,699,631)</u>	<u>\$ 49,702</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Notes to Financial Statements for the years ended June 30, 2009 and 2008

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:

- *Leadership Development* programs train educators and build networks focused on instructional leadership.
- *Partnerships and Innovations* provides network support and funding for the development and replication of innovative and promising practices in math, literacy, fine arts integration, and the transformation of policies and practices so that more students graduate prepared for success in college, career and civic life.
- *Communications* disseminates the lessons learned to the broader public as an important part of building capacity and creating sustainable reform.

Federal income 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).

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 gift. HAC capitalizes additions with a cost of more than \$2,500. Depreciation is provided using the straight-line method over the estimated useful lives of 3 to 5 years.

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 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 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, 2009, all grants are payable within one year.

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 presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2009</u>	<u>2008</u>
Money market mutual funds	\$ 11,542,048	\$ 13,091,679
Demand deposits	<u> </u>	<u>150,000</u>
Total cash and cash equivalents	<u>\$ 11,542,048</u>	<u>\$ 13,241,679</u>

At times, bank deposits exceed the federally insured limit per depositor per institution.

NOTE 3 – FAIR VALUE MEASUREMENTS

Effective July 1, 2008, HAC adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157), which provides a framework for measuring fair value of certain assets and liabilities and expands disclosures about fair value measurements. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a

liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

- *Level 1* – Quoted prices in active markets for identical assets or liabilities as of the reporting date.
- *Level 2* – Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.
- *Level 3* – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed techniques that result in management’s best estimate of fair value.

Assets measured at fair value on a recurring basis at June 30, 2009 and the valuation methods used to determine fair values are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Money market mutual funds	<u>\$11,542,048</u>	_____	_____	<u>\$11,542,048</u>
Total	<u>\$11,542,048</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$11,542,048</u>

Money market mutual funds are valued at the reported daily net asset value. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HAC believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2009</u>	<u>2008</u>
Pledges receivable	\$ 2,117,528	\$ 5,665,358
Discount to net present value at 3.8% to 5.8%	<u>(17,993)</u>	<u>(164,489)</u>
Pledges receivable, net	<u>\$ 2,099,535</u>	<u>\$ 5,500,869</u>

Pledges receivable as of June 30, 2009 are expected to be collected as follows:

2010	\$ 1,865,528
2011	<u>252,000</u>
Total pledges receivable	<u>\$ 2,117,528</u>

At June 30, 2009, pledges from a foundation and another not-for-profit entity represent 95% of the total pledges receivable balance.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Leadership Development	\$ 4,963,557	\$ 7,375,469
School initiatives	994,160	1,357,663
Other	<u>10,800</u>	<u>25,000</u>
Total temporarily restricted net assets	<u>\$ 5,968,517</u>	<u>\$ 8,758,132</u>

NOTE 6 – CONTRIBUTION REVENUE

In 2009, three foundations and two corporations provided 97% of contribution revenue. In 2008, three foundations provided 90% of contribution revenue.

NOTE 7 – PENSION PLAN

HAC maintains a defined contribution 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 \$102,605 in 2009 and \$85,055 in 2008.

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, 2009 and 2008 totaled approximately \$183,000 and \$107,000, respectively. The current lease for office space ends in May 2011. The following is a schedule of future minimum lease payments as of June 30, 2009:

2010	\$ 187,308
2011	172,875
2012	14,112
2013	2,615
2014	<u>393</u>
Total minimum lease payments	<u>\$ 377,303</u>

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 13, 2010, 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 an impact on reported net assets or changes in net assets.