

# **Houston A+ Challenge**

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2011 and 2010

**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, 2011 and 2010 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, 2011 and 2010 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, 2012

## Houston A+ Challenge

Statements of Financial Position as of June 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents ( <i>Note 2</i> )	\$ 8,393,403	\$ 10,527,674
Pledges receivable		448,000
Accounts receivable and other assets	<u>76,319</u>	<u>115,086</u>
TOTAL ASSETS	<u>\$ 8,469,722</u>	<u>\$ 11,090,760</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 270,917	\$ 107,196
Refund due to grantors		<u>457,408</u>
Total liabilities	<u>270,917</u>	<u>564,604</u>
Net assets:		
Unrestricted	6,398,295	7,357,745
Temporarily restricted ( <i>Note 3</i> )	<u>1,800,510</u>	<u>3,168,411</u>
Total net assets	<u>8,198,805</u>	<u>10,526,156</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,469,722</u>	<u>\$ 11,090,760</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

Statement of Activities for the year ended June 30, 2011

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions ( <i>Note 4</i> )	\$ 34,267	\$ 1,280,360	\$ 1,314,627
Special event	183,345		183,345
Direct donor benefit costs	(32,543)		(32,543)
Program service fees	6,860		6,860
Interest income	<u>5,510</u>		<u>5,510</u>
Total revenue	197,439	1,280,360	1,477,799
Net assets released from restrictions:			
Expenditure for program purposes	2,647,261	(2,647,261)	
Expiration of time restrictions	<u>1,000</u>	<u>(1,000)</u>	
Total	<u>2,845,700</u>	<u>(1,367,901)</u>	<u>1,477,799</u>
EXPENSES:			
Program expenses:			
Challenge Network	1,508,940		1,508,940
Partnerships and Innovations	746,736		746,736
Leadership Development	560,573		560,573
Communications	<u>419,528</u>		<u>419,528</u>
Total program expenses	3,235,777		3,235,777
Management and general	285,544		285,544
Fundraising	<u>283,829</u>		<u>283,829</u>
Total expenses	<u>3,805,150</u>		<u>3,805,150</u>
CHANGES IN NET ASSETS	(959,450)	(1,367,901)	(2,327,351)
Net assets, beginning of year	<u>7,357,745</u>	<u>3,168,411</u>	<u>10,526,156</u>
Net assets, end of year	<u>\$ 6,398,295</u>	<u>\$ 1,800,510</u>	<u>\$ 8,198,805</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

Statement of Activities for the year ended June 30, 2010

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	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions ( <i>Note 4</i> )	\$ 21,450	\$ 193,008	\$ 214,458
Special event	194,575		194,575
Direct donor benefit costs	(39,180)		(39,180)
Program service fees	159,837		159,837
Interest income	<u>7,513</u>		<u>7,513</u>
Total revenue	344,195	193,008	537,203
Net assets released from restrictions:			
Expenditure for program purposes	2,990,614	(2,990,614)	
Expiration of time restrictions	<u>2,500</u>	<u>(2,500)</u>	
Total	<u>3,337,309</u>	<u>(2,800,106)</u>	<u>537,203</u>
EXPENSES:			
Program expenses:			
Partnerships and Innovations	1,294,742		1,294,742
Leadership Development	2,070,243		2,070,243
Communications	<u>139,676</u>		<u>139,676</u>
Total program expenses	3,504,661		3,504,661
Management and general	291,573		291,573
Fundraising	<u>209,956</u>		<u>209,956</u>
Total expenses	<u>4,006,190</u>		<u>4,006,190</u>
CHANGES IN NET ASSETS	(668,881)	(2,800,106)	(3,468,987)
Net assets, beginning of year	<u>8,026,626</u>	<u>5,968,517</u>	<u>13,995,143</u>
Net assets, end of year	<u>\$ 7,357,745</u>	<u>\$ 3,168,411</u>	<u>\$ 10,526,156</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

### Statements of Functional Expenses for the years ended June 30, 2011 and 2010

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<u>2011 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2011 TOTAL</u>
Salaries and related expenses	\$ 1,625,055	\$ 205,464	\$ 188,088	\$ 2,018,607
Direct support to schools	723,598			723,598
Professional fees	254,574	39,636	29,700	323,910
Occupancy and technology	236,619	27,101	29,581	293,301
Conference meetings	224,337	79	10,777	235,193
Office supplies, printing, and postage	77,735	9,289	24,881	111,905
Travel	39,069	3,975	802	43,846
Evaluation project	19,300			19,300
Direct support to others	<u>35,490</u>			<u>35,490</u>
Total expenses	<u>\$ 3,235,777</u>	<u>\$ 285,544</u>	<u>\$ 283,829</u>	<u>\$ 3,805,150</u>

<u>2010 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2010 TOTAL</u>
Salaries and related expenses	\$ 1,510,097	\$ 225,425	\$ 89,376	\$ 1,824,898
Direct support to schools	895,682			895,682
Professional fees	256,045	18,518	82,250	356,813
Occupancy and technology	246,511	30,569	18,414	295,494
Conference meetings	522,840		7,104	529,944
Office supplies, printing, and postage	41,118	7,190	12,785	61,093
Travel	15,793	1,163	27	16,983
Evaluation project	7,085	8,708		15,793
Direct support to others	<u>9,490</u>			<u>9,490</u>
Total expenses	<u>\$ 3,504,661</u>	<u>\$ 291,573</u>	<u>\$ 209,956</u>	<u>\$ 4,006,190</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

Statements of Cash Flows for the years ended June 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received for:		
Contributions	\$ 1,945,972	\$ 2,510,568
Refunds of grants awarded to schools	57,024	695,406
Interest income	5,510	7,513
Program services	6,860	159,837
Cash paid for:		
Grants to schools	(768,874)	(964,176)
Grants for professional development	(3,896)	(49,590)
Grants to others	(35,490)	(9,490)
Salaries and related expenditures	(1,921,136)	(1,834,140)
Suppliers and other vendors	<u>(1,420,241)</u>	<u>(1,530,302)</u>
Net cash used by operating activities	<u>(2,134,271)</u>	<u>(1,014,374)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,134,271)</b>	<b>(1,014,374)</b>
Cash and cash equivalents, beginning of year	<u>10,527,674</u>	<u>11,542,048</u>
Cash and cash equivalents, end of year	<u>\$ 8,393,403</u>	<u>\$ 10,527,674</u>
<b>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (2,327,351)	\$ (3,468,987)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	448,000	1,651,535
Accounts receivable and other assets	38,767	570,180
Accounts payable and accrued expenses	163,721	(212,610)
Refund due to grantors	(457,408)	457,408
Grants payable to schools	<u>(11,900)</u>	<u>(11,900)</u>
Net cash used by operating activities	<u>\$ (2,134,271)</u>	<u>\$ (1,014,374)</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

Notes to Financial Statements for the years ended June 30, 2011 and 2010

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston A+ Challenge (HAC) is a Texas nonprofit corporation created in 1996 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:

- *Challenge Network* is a new innovation launched in summer 2010 which puts performance coaches on middle school campuses in five districts to work directly with teachers and targeted students to raise achievement levels.
- *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.
- *Leadership Development* programs train educators and build networks focused on instructional leadership.
- *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.

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.

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 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.

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.

## **NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<u>2011</u>	<u>2010</u>
Money market mutual funds	\$ 7,381,680	\$ 9,076,164
Demand deposits	<u>1,011,723</u>	<u>1,451,510</u>
Total cash and cash equivalents	<u>\$ 8,393,403</u>	<u>\$ 10,527,674</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>2011</u>	<u>2010</u>
Challenge Network	\$ 1,011,171	\$ 1,200,000
Leadership Development	617,712	1,231,237
School initiatives	166,627	671,174
Other	<u>5,000</u>	<u>66,000</u>
Total temporarily restricted net assets	<u>\$ 1,800,510</u>	<u>\$ 3,168,411</u>

#### **NOTE 4 – CONTRIBUTION REVENUE**

In 2011 and 2010, four donors provided 97% and 75% of contribution revenue, respectively.

#### **NOTE 5 – PENSION PLAN**

In 2011, HAC contracted with the Region 4 Education Service Center to be the direct employer of seven education professionals including the executive director, and a professional employer organization to be the direct employer of the remaining staff members. HAC reimburses each organization all direct costs and a service fee. These payments are reported as salary and benefit expenses in the financial statements as if HAC were the direct employer.

The employees of Region 4 participate in the Teacher Retirement System and a direct contribution plan through the state of Texas. Of the amount reimbursed to Region 4, \$21,471 was recorded as costs of retirement benefits.

The remaining employees are covered by the HAC defined contribution plan which provides for discretionary employer contributions based on a percentage of salary. Employer contributions to the plan were \$94,969 in 2011 and \$114,819 in 2010.

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

HAC leases office space and office equipment under noncancelable operating lease agreements. Lease expense for the years ended June 30, 2011 and 2010 totaled approximately \$189,000 each year. The following is a schedule of future minimum lease payments as of June 30, 2011:

2012	\$ 187,783
2013	161,420
2014	<u>393</u>
Total minimum lease payments	<u>\$ 349,596</u>

#### **NOTE 7 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 13, 2012, 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.