

Houston A+ Challenge

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2013 and 2012

Houston A+ Challenge

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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, 2013 and 2012 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, 2013 and 2012 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.

Blazek & Vetterling

January 16, 2014

Houston A+ Challenge

Statements of Financial Position as of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 5,824,227	\$ 6,874,636
Pledges receivable		365,370
Prepaid expenses	9,903	18,942
Accounts receivable and other assets	<u>102,177</u>	<u>12,702</u>
TOTAL ASSETS	<u>\$ 5,936,307</u>	<u>\$ 7,271,650</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 237,907</u>	<u>\$ 235,303</u>
Total liabilities	<u>237,907</u>	<u>235,303</u>
Net assets:		
Unrestricted	4,215,617	5,310,383
Temporarily restricted (<i>Note 3</i>)	<u>1,482,783</u>	<u>1,725,964</u>
Total net assets	<u>5,698,400</u>	<u>7,036,347</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,936,307</u>	<u>\$ 7,271,650</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2013

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 4</i>)	\$ 64,113	\$ 1,718,618	\$ 1,782,731
Special event	164,224		164,224
Direct donor benefit costs	(32,797)		(32,797)
Program service fees	140,200		140,200
Rental income	20,397		20,397
Interest income	2,618		2,618
	<u>358,755</u>	<u>1,718,618</u>	<u>2,077,373</u>
Net assets released from restrictions:			
Expenditure for program purposes	<u>1,961,799</u>	<u>(1,961,799)</u>	<u></u>
Total	<u>2,320,554</u>	<u>(243,181)</u>	<u>2,077,373</u>
EXPENSES:			
Program expenses:			
Challenge Network	1,519,633		1,519,633
Partnerships and Innovations	614,192		614,192
Communications	426,347		426,347
A+ Unlimited Potential	159,570		159,570
Leadership Development	141,317		141,317
	<u>2,861,059</u>		<u>2,861,059</u>
Management and general	252,667		252,667
Occupancy costs related to rental income	20,347		20,347
Fundraising	281,247		281,247
	<u>3,415,320</u>		<u>3,415,320</u>
CHANGES IN NET ASSETS	(1,094,766)	(243,181)	(1,337,947)
Net assets, beginning of year	<u>5,310,383</u>	<u>1,725,964</u>	<u>7,036,347</u>
Net assets, end of year	<u>\$ 4,215,617</u>	<u>\$ 1,482,783</u>	<u>\$ 5,698,400</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2012

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 4</i>)	\$ 16,130	\$ 2,080,983	\$ 2,097,113
Special event	183,465		183,465
Direct donor benefit costs	(37,130)		(37,130)
Program service fees	9,000		9,000
Interest income	4,630		4,630
	<hr/>	<hr/>	<hr/>
Total revenue	176,095	2,080,983	2,257,078
Net assets released from restrictions:			
Expenditure for program purposes	<u>2,155,529</u>	<u>(2,155,529)</u>	<hr/>
Total	<u>2,331,624</u>	<u>(74,546)</u>	<u>2,257,078</u>
EXPENSES:			
Program expenses:			
Challenge Network	1,881,527		1,881,527
Partnerships and Innovations	339,227		339,227
Communications	375,541		375,541
Leadership Development	264,269		264,269
	<hr/>		<hr/>
Total program expenses	2,860,564		2,860,564
Management and general	257,621		257,621
Fundraising	301,351		301,351
	<hr/>		<hr/>
Total expenses	3,419,536		3,419,536
CHANGES IN NET ASSETS	(1,087,912)	(74,546)	(1,162,458)
Net assets, beginning of year	<u>6,398,295</u>	<u>1,800,510</u>	<u>8,198,805</u>
Net assets, end of year	<u>\$ 5,310,383</u>	<u>\$ 1,725,964</u>	<u>\$ 7,036,347</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Functional Expenses for the years ended June 30, 2013 and 2012

<u>2013 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2013 TOTAL</u>
Salaries and related expenses	\$ 1,831,598	\$ 175,108	\$ 186,622	\$ 2,193,328
Occupancy and technology	210,731	21,645	30,631	263,007
Professional fees	176,391	51,158	32,140	259,689
Direct support to schools	236,888			236,888
Conference meetings	218,627		14,386	233,013
Office supplies, printing, and postage	85,892	4,751	17,086	107,729
Travel	40,887	5	382	41,274
Evaluation project	39,995			39,995
Direct support to others	<u>20,050</u>			<u>20,050</u>
Total	<u>\$ 2,861,059</u>	<u>\$ 252,667</u>	<u>\$ 281,247</u>	3,394,973
Occupancy costs related to rental income				<u>20,347</u>
Total expenses				<u>\$ 3,415,320</u>

<u>2012 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2012 TOTAL</u>
Salaries and related expenses	\$ 1,662,770	\$ 173,686	\$ 201,110	\$ 2,037,566
Occupancy and technology	227,806	21,842	39,832	289,480
Professional fees	219,387	52,464	24,250	296,101
Direct support to schools	408,916			408,916
Conference meetings	161,403		5,582	166,985
Office supplies, printing, and postage	75,150	9,629	23,704	108,483
Travel	35,642		123	35,765
Evaluation project	46,500			46,500
Direct support to others	<u>22,990</u>		<u>6,750</u>	<u>29,740</u>
Total expenses	<u>\$ 2,860,564</u>	<u>\$ 257,621</u>	<u>\$ 301,351</u>	<u>\$ 3,419,536</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Cash Flows for the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for:		
Contributions and special event	\$ 2,309,825	\$ 1,915,208
Program service fees	44,600	9,000
Rental income	15,379	
Interest income	2,618	4,630
Refunds of grants awarded to schools	7,172	54,275
Cash paid for:		
Salaries and related expenditures	(2,215,833)	(1,971,411)
Suppliers and other vendors	(957,232)	(1,083,088)
Grants to schools	(236,888)	(417,641)
Grants to others	<u>(20,050)</u>	<u>(29,740)</u>
Net cash used by operating activities	<u>(1,050,409)</u>	<u>(1,518,767)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,050,409)	(1,518,767)
Cash and cash equivalents, beginning of year	<u>6,874,636</u>	<u>8,393,403</u>
Cash and cash equivalents, end of year	<u>\$ 5,824,227</u>	<u>\$ 6,874,636</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,337,947)	\$ (1,162,458)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	365,370	(365,370)
Prepaid expenses	9,039	(902)
Accounts receivable and other assets	(89,475)	45,577
Accounts payable and accrued expenses	<u>2,604</u>	<u>(35,614)</u>
Net cash used by operating activities	<u>\$ (1,050,409)</u>	<u>\$ (1,518,767)</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Notes to Financial Statements for the years ended June 30, 2013 and 2012

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* puts performance coaches in middle school campuses in several school districts to work directly with teachers 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, 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.
- *A+ Unlimited Potential* is an open enrollment, tuition-free middle school in Houston's Museum District that harnesses the power of education technology and community resources to unleash students' full potential while exploring the promise of blended learning.
- *Leadership Development* programs prepare middle school principals and their leadership teams to lead school-wide transformations.

Federal income tax status – HAC 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). HAC files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. HAC believes it is no longer subject to examinations of returns for tax years ended before June 30, 2010.

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.

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>2013</u>	<u>2012</u>
Money market mutual funds	\$ 4,738,928	\$ 6,586,310
Demand deposits	<u>1,085,299</u>	<u>288,326</u>
Total cash and cash equivalents	<u>\$ 5,824,227</u>	<u>\$ 6,874,636</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>2013</u>	<u>2012</u>
Challenge Network	\$ 1,015,000	\$ 1,075,000
College readiness/College access	244,775	316,268
Leadership Development	183,008	334,696
Future operations	<u>40,000</u>	<u> </u>
Total temporarily restricted net assets	<u>\$ 1,482,783</u>	<u>\$ 1,725,964</u>

NOTE 4 – CONTRIBUTION REVENUE

In 2013 and 2012, four donors provided 92% and 95% of contribution revenue, respectively.

NOTE 5 – PENSION PLANS

HAC has contracted with the Region 4 Education Service Center (Region 4) to be the direct employer of seven education professionals including the executive director, and with 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 salaries and related 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, \$33,613 in 2013 and \$33,761 in 2012 were 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 \$115,824 in 2013 and \$101,266 in 2012.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

HAC leases office space and office equipment under noncancelable operating lease agreements. Lease expense totaled approximately \$185,000 and \$189,000 for the years ended June 30, 2013 and 2012. The following is a schedule of future minimum lease payments as of June 30, 2013:

2014	\$ 184,920
2015	184,973
2016	189,368
2017	183,744
2018	<u>168,432</u>
Total minimum lease payments	<u>\$ 911,437</u>

In 2012, HAC entered into three sublease agreements with other education-related non-profit organizations to share the HAC space. Two of these leases were extended in 2013 for five-year terms. The subleases are coterminous with the original lease, with the following future sublease rentals:

2014	\$ 27,192
2015	27,259
2016	27,996
2017	27,996
2018	<u>25,663</u>
Total minimum sublease income	<u>\$ 136,106</u>

Sublease rental revenue recorded in the year ended June 30, 2013 totaled \$20,397, of which \$5,018 was paid through in-kind services.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 16, 2014, 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.
