

# **Houston A+ Challenge**

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2017 and 2016

# 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, 2017 and 2016 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, 2017 and 2016 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.

**Change in Accounting Principle** – As described in Note 2, Houston A+ Challenge adopted Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, and restated its financial statements for June 30, 2016 to retrospectively apply the ASU. Our opinion is not modified with respect to this matter.

*Blazek & Vetterling*

January 10, 2018

## Houston A+ Challenge

Statements of Financial Position as of June 30, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents ( <i>Note 4</i> )	\$ 2,687,868	\$ 2,105,081
Prepaid expenses	21,411	18,786
Accounts receivable	<u>105,433</u>	<u>337,600</u>
TOTAL ASSETS	<u>\$ 2,814,712</u>	<u>\$ 2,461,467</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 129,066</u>	<u>\$ 130,825</u>
Net assets:		
Without donor restrictions	1,870,234	1,577,642
With donor restrictions ( <i>Note 5</i> )	<u>815,412</u>	<u>753,000</u>
Total net assets	<u>2,685,646</u>	<u>2,330,642</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,814,712</u>	<u>\$ 2,461,467</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

Statement of Activities for the year ended June 30, 2017

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions ( <i>Note 6</i> )	\$ 46,857	\$ 1,171,660	\$ 1,218,517
Program service fees	996,530		996,530
Interest income	<u>7,183</u>	<u></u>	<u>7,183</u>
Total revenue	1,050,570	1,171,660	2,222,230
Net assets released from restrictions:			
Satisfaction of program expenditures	356,248	(356,248)	
Expiration of time restrictions	<u>753,000</u>	<u>(753,000)</u>	<u></u>
Total	<u>2,159,818</u>	<u>62,412</u>	<u>2,222,230</u>
EXPENSES:			
Program services:			
Strengthen	1,053,330		1,053,330
Connect	210,701		210,701
Innovate	<u>182,177</u>	<u></u>	<u>182,177</u>
Total program services	1,446,208		1,446,208
Management and general	241,632		241,632
Fundraising	<u>179,386</u>	<u></u>	<u>179,386</u>
Total expenses	<u>1,867,226</u>	<u></u>	<u>1,867,226</u>
CHANGES IN NET ASSETS	292,592	62,412	355,004
Net assets, beginning of year	<u>1,577,642</u>	<u>753,000</u>	<u>2,330,642</u>
Net assets, end of year	<u>\$ 1,870,234</u>	<u>\$ 815,412</u>	<u>\$ 2,685,646</u>

*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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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions ( <i>Note 6</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>                    </u>	<u>2,392</u>
Total revenue	1,168,693	1,011,684	2,180,377
Net assets released from restrictions:			
Satisfaction of program expenditures	435,694	(435,694)	
Expiration of time restrictions	<u>875,000</u>	<u>(875,000)</u>	<u>                    </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
Connect	282,982		282,982
Innovate	<u>630,806</u>		<u>630,806</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

### Statements of Functional Expenses for the years ended June 30, 2017 and 2016

<u>2017 EXPENSES</u>	<u>STRENGTHEN</u>	<u>CONNECT</u>	<u>INNOVATE</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2017 TOTAL</u>
Salaries and related expenses	\$ 473,514	\$ 97,214	\$ 134,445	\$ 705,173	\$ 128,365	\$ 162,423	\$ 995,961
Contract services	504,979	6,175		511,154			511,154
Professional fees	18,901	2,500	13,700	35,101	93,435		128,536
Occupancy and technology	48,447	10,260	12,419	71,126	18,949	16,024	106,099
Event and meeting facility costs and speaker fees	1,205	78,802	2,276	82,283	241	256	82,780
Grants		3,188	15,000	18,188			18,188
Supplies, printing and postage	2,974	7,651	3,390	14,015	602	640	15,257
Travel and professional development	3,310	4,911	947	9,168	40	43	9,251
Total expenses	<u>\$ 1,053,330</u>	<u>\$ 210,701</u>	<u>\$ 182,177</u>	<u>\$ 1,446,208</u>	<u>\$ 241,632</u>	<u>\$ 179,386</u>	<u>\$ 1,867,226</u>
<u>2016 EXPENSES</u>	<u>STRENGTHEN</u>	<u>CONNECT</u>	<u>INNOVATE</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2016 TOTAL</u>
Salaries and related expenses	\$ 567,327	\$ 100,745	\$ 430,175	\$ 1,098,247	\$ 146,396	\$ 182,300	\$ 1,426,943
Contract services	636,213	14,100	600	650,913			650,913
Professional fees			4,000	4,000	111,769	24,416	140,185
Occupancy and technology	72,736	11,801	86,102	170,639	18,414	19,304	208,357
Event and meeting facility costs and speaker fees	6,204	147,136	42,660	196,000	1,682	1,727	199,409
Grants		2,287	25,544	27,831			27,831
Supplies, printing and postage	15,256	1,210	12,434	28,900	1,014	1,061	30,975
Travel and professional development	901	5,703	29,291	35,895	139		36,034
Total expenses	<u>\$ 1,298,637</u>	<u>\$ 282,982</u>	<u>\$ 630,806</u>	<u>\$ 2,212,425</u>	<u>\$ 279,414</u>	<u>\$ 228,808</u>	<u>\$ 2,720,647</u>

*See accompanying notes to financial statements.*

## Houston A+ Challenge

### Statements of Cash Flows for the years ended June 30, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 355,004	\$ (540,270)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable		173,943
Prepaid expenses	(2,625)	3,608
Accounts receivable	232,167	(181,548)
Accounts payable and accrued expenses	<u>(1,759)</u>	<u>(2,081)</u>
Net cash provided (used) by operating activities	<u>582,787</u>	<u>(546,348)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	582,787	(546,348)
Cash and cash equivalents, beginning of year	<u>2,105,081</u>	<u>2,651,429</u>
Cash and cash equivalents, end of year	<u>\$ 2,687,868</u>	<u>\$ 2,105,081</u>

*See accompanying notes to financial statements.*

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## Houston A+ Challenge

Notes to Financial Statements for the years ended June 30, 2017 and 2016

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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 over 20 years of practice in the city's schools and adjusts their solutions to meet the needs of each school, educator and student.
- **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 approximately 1.2 million students across the Houston region.
- **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.

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.

Financial instruments and credit risk – Deposit concentrations are managed by placing cash and money market accounts with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed the federally insured limit per depositor per institution.

Accounts receivable represent amounts that have been billed under agency contracts but not collected as of the date of the financial statements. All accounts receivable represent amounts owed by schools and school districts. Accounts receivable are stated at the amount management expects to be collected from the outstanding balance. As of June 30, 2017, management has determined, based on historical experience, that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

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:

- *Without donor restrictions* 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.
- *With donor restrictions* include contributions restricted by the donor for specific purposes or future time periods. Donor-imposed restrictions may be temporary or permanent in nature. When a purpose restriction is accomplished or a time restriction ends, net assets with restrictions are released to net assets without restrictions.

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.

Functional allocation of expenses – The cost of program or supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification of expenses by function. Certain expenses have been allocated among the programs and supporting services benefited. Expenses allocated include salaries and benefits, which are allocated on the basis of estimated time and effort, and occupancy and technology costs, which are allocated based on full-time equivalents' estimated time and effort.

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 – ADOPTION OF NEW ACCOUNTING STANDARD

In 2017, Houston A+ retrospectively adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU require that net assets be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions*. New or enhanced disclosures are 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 are required to be presented by both nature and function and investment return is 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. As a result of this adoption, changes have been made to the presentation and disclosures of the financial statements.

At June 30, 2016, net assets previously classified as “unrestricted” of \$1,577,642 are now classified as “without donor restrictions.” Net assets previously classified as “temporarily restricted” of \$753,000 are now classified as “with donor restrictions.”

## NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets at June 30, 2017:

Cash and cash equivalents	\$ 2,687,868
Accounts receivable	<u>105,433</u>
Total financial assets	2,793,301

Less financial assets unavailable for general expenditures within one year due to:

Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	<u>(50,000)</u>

Financial assets available to meet cash needs for general expenditures within one year \$ 2,743,301

As part of Houston A+’s liquidity management, a portion of cash is invested in a commercial money market account. Houston A+ has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

## NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2017</u>	<u>2016</u>
Demand deposits	\$ 1,638,599	\$ 1,062,995
Money market mutual funds	<u>1,049,269</u>	<u>1,042,086</u>
Total cash and cash equivalents	<u>\$ 2,687,868</u>	<u>\$ 2,105,081</u>

## NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Subject to passage of time:		
For periods after June 30, 2017 and 2016	\$ 652,500	\$ 753,000
Subject to expenditure for specific purpose:		
Speaker Series	150,000	
NextOp veterans program	<u>12,912</u>	<u>          </u>
Total net assets with donor restrictions	<u>\$ 815,412</u>	<u>\$ 753,000</u>

## NOTE 6 – CONTRIBUTION REVENUE

In 2017 and 2016, three donors provided 78% and 90% of contribution revenue, respectively.

## NOTE 7 – PENSION PLAN

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 \$82,388 in 2017 and \$110,207 in 2016.

## NOTE 8 – 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.

## NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 10, 2018, 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.