

Houston A+ Challenge

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2015 and 2014

Houston A+ Challenge

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of June 30, 2015 and 2014	2
Statement of Activities for the year ended June 30, 2015	3
Statement of Activities for the year ended June 30, 2014	4
Statements of Functional Expenses for the years ended June 30, 2015 and 2014	5
Statements of Cash Flows for the years ended June 30, 2015 and 2014	6
Notes to Financial Statements for the years ended June 30, 2015 and 2014	7

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, 2015 and 2014 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, 2015 and 2014 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.



November 5, 2015

Houston A+ Challenge

Statements of Financial Position as of June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 2,651,429	\$ 4,164,765
Pledges receivable	173,943	3,000
Prepaid expenses	22,394	33,473
Accounts receivable and other assets	<u>156,052</u>	<u>84,166</u>
TOTAL ASSETS	<u>\$ 3,003,818</u>	<u>\$ 4,285,404</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 132,906</u>	<u>\$ 228,684</u>
Net assets:		
Unrestricted	1,818,902	2,962,934
Temporarily restricted (<i>Note 3</i>)	<u>1,052,010</u>	<u>1,093,786</u>
Total net assets	<u>2,870,912</u>	<u>4,056,720</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,003,818</u>	<u>\$ 4,285,404</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 4</i>)	\$ 91,195	\$ 1,354,457	\$ 1,445,652
Program service fees	816,179		816,179
Rental income	25,764		25,764
Interest income	<u>291</u>	<u></u>	<u>291</u>
Total revenue	933,429	1,354,457	2,287,886
Net assets released from restrictions:			
Expenditure for program purposes	625,233	(625,233)	
Expiration of time restrictions	<u>771,000</u>	<u>(771,000)</u>	<u></u>
Total	<u>2,329,662</u>	<u>(41,776)</u>	<u>2,287,886</u>
EXPENSES:			
Program expenses:			
Strengthen	1,399,969		1,399,969
Innovate	1,182,989		1,182,989
Convene	399,099		399,099
Grants to schools	<u>51,759</u>	<u></u>	<u>51,759</u>
Total program expenses	3,033,816		3,033,816
Management and general	297,836		297,836
Fundraising	116,213		116,213
Occupancy costs related to rental income	<u>25,829</u>	<u></u>	<u>25,829</u>
Total expenses	<u>3,473,694</u>	<u></u>	<u>3,473,694</u>
CHANGES IN NET ASSETS	(1,144,032)	(41,776)	(1,185,808)
Net assets, beginning of year	<u>2,962,934</u>	<u>1,093,786</u>	<u>4,056,720</u>
Net assets, end of year	<u>\$ 1,818,902</u>	<u>\$ 1,052,010</u>	<u>\$ 2,870,912</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 4</i>)	\$ 27,337	\$ 1,802,474	\$ 1,829,811
Special event	130,250		130,250
Direct donor benefit costs	(30,950)		(30,950)
Program service fees	317,579		317,579
Rental income	25,764		25,764
Interest income	475		475
	<hr/>	<hr/>	<hr/>
Total revenue	470,455	1,802,474	2,272,929
Net assets released from restrictions:			
Expenditure for program purposes	2,151,471	(2,151,471)	
Expiration of time restrictions	40,000	(40,000)	
	<hr/>	<hr/>	<hr/>
Total	2,661,926	(388,997)	2,272,929
EXPENSES:			
Program expenses:			
Strengthen	1,635,460		1,635,460
Innovate	1,243,085		1,243,085
Convene	422,448		422,448
Grants to schools	50,968		50,968
	<hr/>		<hr/>
Total program expenses	3,351,961		3,351,961
Management and general	323,848		323,848
Fundraising	213,036		213,036
Occupancy costs related to rental income	25,764		25,764
	<hr/>		<hr/>
Total expenses	3,914,609		3,914,609
CHANGES IN NET ASSETS	(1,252,683)	(388,997)	(1,641,680)
Net assets, beginning of year	4,215,617	1,482,783	5,698,400
Net assets, end of year	<u>\$ 2,962,934</u>	<u>\$ 1,093,786</u>	<u>\$ 4,056,720</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Functional Expenses for the years ended June 30, 2015 and 2014

<u>2015 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2015 TOTAL</u>
Salaries and related expenses	\$ 1,410,859	\$ 190,267	\$ 91,774	\$ 1,692,900
Contract services	745,749			745,749
Occupancy and technology	293,549	22,716	8,253	324,518
Professional fees	198,998	77,598	11,854	288,450
Conference meetings	248,112			248,112
Grants	65,274			65,274
Supplies, printing, and postage	40,673	7,228	4,124	52,025
Travel	<u>30,602</u>	<u>27</u>	<u>208</u>	<u>30,837</u>
Total	<u>\$ 3,033,816</u>	<u>\$ 297,836</u>	<u>\$ 116,213</u>	3,447,865
Occupancy costs related to rental income				<u>25,829</u>
Total expenses				<u>\$ 3,473,694</u>

<u>2014 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2014 TOTAL</u>
Salaries and related expenses	\$ 1,612,414	\$ 178,674	\$ 152,100	\$ 1,943,188
Contract services	846,704			846,704
Occupancy and technology	253,844	21,766	20,974	296,584
Professional fees	165,387	106,441	19,000	290,828
Conference meetings	208,120		6,371	214,491
Grants	129,511			129,511
Supplies, printing, and postage	77,909	15,204	14,510	107,623
Travel	<u>58,072</u>	<u>1,763</u>	<u>81</u>	<u>59,916</u>
Total	<u>\$ 3,351,961</u>	<u>\$ 323,848</u>	<u>\$ 213,036</u>	3,888,845
Occupancy costs related to rental income				<u>25,764</u>
Total expenses				<u>\$ 3,914,609</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Cash Flows for the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for:		
Contributions and special event	\$ 1,274,709	\$ 1,957,061
Program service fees	749,399	336,349
Rental income	18,128	19,776
Interest income	291	475
Refunds of grants awarded to schools	664	
Cash paid for:		
Salaries and related expenditures	(1,707,410)	(1,943,188)
Suppliers and other vendors	(1,783,075)	(1,899,760)
Grants to schools	(50,000)	(117,000)
Grants to others	<u>(16,042)</u>	<u>(13,175)</u>
Net cash used by operating activities	<u>(1,513,336)</u>	<u>(1,659,462)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,513,336)	(1,659,462)
Cash and cash equivalents, beginning of year	<u>4,164,765</u>	<u>5,824,227</u>
Cash and cash equivalents, end of year	<u>\$ 2,651,429</u>	<u>\$ 4,164,765</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,185,808)	\$ (1,641,680)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	(170,943)	(3,000)
Prepaid expenses	11,079	(23,570)
Accounts receivable and other assets	(71,886)	18,011
Accounts payable and accrued expenses	<u>(95,778)</u>	<u>(9,223)</u>
Net cash used by operating activities	<u>\$ (1,513,336)</u>	<u>\$ (1,659,462)</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Notes to Financial Statements for the years ended June 30, 2015 and 2014

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.

Houston A+ provides programs in the following areas:

- *Strengthen:* Houston A+ strengthens the public schools that serve 9 out of 10 students in the Houston region by working directly with teachers and leaders, through coaching, workshops, and more, to strengthen their practice. Houston A+'s consultants and coaches disseminate the knowledge gained by the organization through nearly 20 years of practice in the city's schools.
- *Innovate:* Houston A+ tests ideas and pilots innovative models that have the potential to revolutionize learning. In addition to providing support for the development and replication of innovative and promising practices in education, Houston A+ operates *A+ Unlimited Potential*, 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.
- *Convene:* Houston A+ connects education stakeholders and thought leaders and spreads ideas through events, a speaker series, and publications and a website. Houston A+ fosters critical conversations about public education's needs, goals, trends and achievements to help solve the most pressing issues we face in educating Houston's students.

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). Houston A+ files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. Houston A+ believes it is no longer subject to examinations of returns for tax years ended before June 30, 2012.

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 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.

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>2015</u>	<u>2014</u>
Money market mutual funds	\$ 1,639,694	\$ 3,339,403
Demand deposits	<u>1,011,735</u>	<u>825,362</u>
Total cash and cash equivalents	<u>\$ 2,651,429</u>	<u>\$ 4,164,765</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>2015</u>	<u>2014</u>
Future operations	\$ 875,000	\$ 768,000
Community Engagement	68,225	
GREAT Personalized Learning	62,500	
College readiness/College access	30,435	258,140
Leadership Development	15,000	66,796
Challenge Network	<u>850</u>	<u>850</u>
Total temporarily restricted net assets	<u>\$ 1,052,010</u>	<u>\$ 1,093,786</u>

NOTE 4 – CONTRIBUTION REVENUE

In 2015 and 2014, four donors provided 84% and 93% of contribution revenue, respectively.

NOTE 5 – PENSION PLANS

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 (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 \$133,707 in 2015 and \$138,351 in 2014.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Houston A+ leases office space, school space, and office equipment under noncancelable operating lease agreements. Lease expense totaled approximately \$225,000 for the year ended June 30, 2015 and \$190,000 for the year ended June 30, 2014. The following is a schedule of future minimum lease payments as of June 30, 2015:

2016	\$ 196,143
2017	183,744
2018	<u>168,432</u>
Total minimum lease payments	<u>\$ 548,319</u>

Houston A+ holds two sublease agreements with other education-related non-profit organizations to share the Houston A+ space. The subleases are coterminous with the original lease, with the following future sublease rentals:

2016	\$ 27,996
2017	27,996
2018	<u>25,663</u>
Total minimum sublease income	<u>\$ 81,655</u>

Sublease rental revenue recorded for the years ended June 30, 2015 and 2014 totaled \$25,764, of which \$5,989 was paid through in-kind services.

NOTE 7 – 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 \$25,822 for the year ended June 30, 2015 and \$38,773 for the year ended June 30, 2014.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 5, 2015, 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.
