

Houston A+ Challenge

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2014 and 2013

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, 2014 and 2013 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.

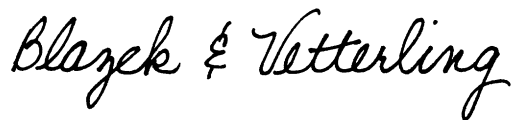
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2014 and 2013 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.



March 3, 2015

Houston A+ Challenge

Statements of Financial Position as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 4,164,765	\$ 5,824,227
Pledges receivable	3,000	
Prepaid expenses	33,473	9,903
Accounts receivable and other assets	<u>84,166</u>	<u>102,177</u>
TOTAL ASSETS	<u>\$ 4,285,404</u>	<u>\$ 5,936,307</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 228,684</u>	<u>\$ 237,907</u>
Net assets:		
Unrestricted	2,962,934	4,215,617
Temporarily restricted (<i>Note 3</i>)	<u>1,093,786</u>	<u>1,482,783</u>
Total net assets	<u>4,056,720</u>	<u>5,698,400</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,285,404</u>	<u>\$ 5,936,307</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2014

	<u>UNRESTRICTED</u>	TEMPORARILY <u>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:			
Challenge Network	1,698,899		1,698,899
A+ Unlimited Potential	684,837		684,837
Partnerships and Innovations	448,276		448,276
Communications	415,131		415,131
Leadership Development	104,818		104,818
	<hr/>		<hr/>
Total program expenses	3,351,961		3,351,961
Management and general	323,848		323,848
Occupancy costs related to rental income	25,764		25,764
Fundraising	213,036		213,036
	<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
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Net assets, end of year	\$ 2,962,934	\$ 1,093,786	\$ 4,056,720

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>
Total revenue			
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
A+ Unlimited Potential	159,570		159,570
Partnerships and Innovations	614,192		614,192
Communications	426,347		426,347
Leadership Development	141,317		141,317
	<u>2,861,059</u>		<u>2,861,059</u>
Total program expenses			
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>
Total expenses			
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

Statements of Functional Expenses for the years ended June 30, 2014 and 2013

<u>2014 EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2014 TOTAL</u>
Salaries and related expenses	\$ 2,459,118	\$ 178,674	\$ 152,100	\$ 2,789,892
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
Direct support to schools	116,336			116,336
Office supplies, printing, and postage	77,909	15,204	14,510	107,623
Travel	58,072	1,763	81	59,916
Direct support to others	<u>13,175</u>			<u>13,175</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>

<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
Conference meetings	218,627		14,386	233,013
Direct support to schools	236,888			236,888
Office supplies, printing, and postage	85,892	4,751	17,086	107,729
Travel	40,887	5	382	41,274
Direct support to others	20,050			20,050
Evaluation project	<u>39,995</u>			<u>39,995</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>

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Cash Flows for the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for:		
Contributions and special event	\$ 1,957,061	\$ 2,309,825
Program service fees	336,349	44,600
Rental income	19,776	15,379
Interest income	475	2,618
Refunds of grants awarded to schools		7,172
Cash paid for:		
Salaries and related expenditures	(2,756,718)	(2,215,833)
Suppliers and other vendors	(1,086,230)	(957,232)
Grants to schools	(117,000)	(236,888)
Grants to others	<u>(13,175)</u>	<u>(20,050)</u>
Net cash used by operating activities	<u>(1,659,462)</u>	<u>(1,050,409)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,659,462)	(1,050,409)
Cash and cash equivalents, beginning of year	<u>5,824,227</u>	<u>6,874,636</u>
Cash and cash equivalents, end of year	<u>\$ 4,164,765</u>	<u>\$ 5,824,227</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,641,680)	\$ (1,337,947)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	(3,000)	365,370
Prepaid expenses	(23,570)	9,039
Accounts receivable and other assets	18,011	(89,475)
Accounts payable and accrued expenses	<u>(9,223)</u>	<u>2,604</u>
Net cash used by operating activities	<u>\$ (1,659,462)</u>	<u>\$ (1,050,409)</u>

See accompanying notes to financial statements.

Houston A+ Challenge

Notes to Financial Statements for the years ended June 30, 2014 and 2013

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 schooling 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.
- *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.
- *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.
- *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, 2011.

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 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>2014</u>	<u>2013</u>
Money market mutual funds	\$ 3,339,403	\$ 4,738,928
Demand deposits	<u>825,362</u>	<u>1,085,299</u>
Total cash and cash equivalents	<u>\$ 4,164,765</u>	<u>\$ 5,824,227</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>2014</u>	<u>2013</u>
Future operations	\$ 768,000	\$ 40,000
College readiness/College access	258,140	244,775
Leadership Development	66,796	183,008
Challenge Network	<u>850</u>	<u>1,015,000</u>
Total temporarily restricted net assets	<u>\$ 1,093,786</u>	<u>\$ 1,482,783</u>

NOTE 4 – CONTRIBUTION REVENUE

In 2014 and 2013, four donors provided 93% and 92% of contribution revenue, respectively.

NOTE 5 – PENSION PLANS

HAC 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 (PEO) 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. In August 2013, the Executive Director and another staff member retired from Region 4 and became employed through the PEO.

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, \$21,509 in 2014 and \$33,613 in 2013 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 \$138,351 in 2014 and \$115,824 in 2013.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

HAC leases office space and office equipment under noncancelable operating lease agreements. Lease expense totaled approximately \$185,000 each year for the years ended June 30, 2014 and 2013. The following is a schedule of future minimum lease payments as of June 30, 2014:

2015	\$ 184,973
2016	189,368
2017	183,744
2018	<u>168,432</u>
Total minimum lease payments	<u>\$ 726,517</u>

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

2015	\$ 34,693
2016	35,628
2017	35,628
2018	<u>32,659</u>
Total minimum sublease income	<u>\$ 138,608</u>

Sublease rental revenue recorded in the year ended June 30, 2014 totaled \$25,764, of which \$5,988 was paid through in-kind services.

NOTE 7 – RELATED PARTY TRANSACTIONS

In 2014, HAC retained the services of a law firm with a principal who is a board member of HAC. Legal fees paid to this law firm totaled \$38,773 for the year ended June 30, 2014.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 3, 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.
