Houston A+ Challenge

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2010 and 2009

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009 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, 2010 and 2009 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 18, 2011

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

Houston A+ Challenge

Statements of Financial Position as of June 30, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents *(Note 2)*	$ 10,527,674	$ 11,542,048
Pledges receivable, net *(Note 3)*	448,000	2,099,535
Accounts receivable and other assets	115,086	685,266
TOTAL ASSETS	$ 11,090,760	$ 14,326,849
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 107,196	$ 319,806
Refund due to grantors	457,408	
Grants payable to schools		11,900
Total liabilities	564,604	331,706
Net assets:		
Unrestricted	7,357,745	8,026,626
Temporarily restricted *(Note 4)*	3,168,411	5,968,517
Total net assets	10,526,156	13,995,143
TOTAL LIABILITIES AND NET ASSETS	$ 11,090,760	$ 14,326,849

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2010

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions *(Note 5)*	$ 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	7,513		7,513
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	2,500	(2,500)	
Total	3,337,309	(2,800,106)	537,203
EXPENSES:			
Program expenses:			
Leadership Development	2,070,243		2,070,243
Partnerships and Innovations	1,294,742		1,294,742
Communications	139,676		139,676
Total program expenses	3,504,661		3,504,661
Management and general	291,573		291,573
Fundraising	209,956		209,956
Total expenses	4,006,190		4,006,190
CHANGES IN NET ASSETS	(668,881)	(2,800,106)	(3,468,987)
Net assets, beginning of year	8,026,626	5,968,517	13,995,143
Net assets, end of year	$ 7,357,745	$ 3,168,411	$ 10,526,156

See accompanying notes to financial statements.

Houston A+ Challenge

Statement of Activities for the year ended June 30, 2009

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions *(Note 5)*	$ 57,925	$ 1,112,138	$ 1,170,063
Program service fees	19,250		19,250
Interest income	182,133		182,133
Total revenue	259,308	1,112,138	1,371,446
Net assets released from restrictions:			
Expenditure for program purposes	3,880,253	(3,880,253)	
Expiration of time restrictions	21,500	(21,500)	
Total	4,161,061	(2,789,615)	1,371,446
EXPENSES:			
Program expenses:			
Leadership Development	2,195,322		2,195,322
Partnerships and Innovations	1,469,338		1,469,338
Communications	179,482		179,482
Total program expenses	3,844,142		3,844,142
Management and general	305,948		305,948
Fundraising	60,926		60,926
Total expenses	4,211,016		4,211,016
CHANGES IN NET ASSETS	(49,955)	(2,789,615)	(2,839,570)
Net assets, beginning of year	8,076,581	8,758,132	16,834,713
Net assets, end of year	$ 8,026,626	$ 5,968,517	$ 13,995,143

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Functional Expenses for the years ended June 30, 2010 and 2009

2010 EXPENSES	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	2010 TOTAL
Salaries and related expenses	$ 1,510,097	$ 225,425	$ 89,376	$ 1,824,898
Direct support to schools	895,682			895,682
Conference meetings	522,840		7,104	529,944
Professional fees	256,045	18,518	82,250	356,813
Occupancy and technology	246,511	30,569	18,414	295,494
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	9,490			9,490
Total expenses	$ 3,504,661	$ 291,573	$ 209,956	$ 4,006,190

2009 EXPENSES	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	2009 TOTAL
Salaries and related expenses	$ 1,373,966	$ 220,078	$ 42,171	$ 1,636,215
Direct support to schools	890,766			890,766
Conference meetings	792,176			792,176
Professional fees	277,047	33,944	8,000	318,991
Occupancy and technology	250,610	37,598	6,755	294,963
Office supplies, printing, and postage	105,912	10,860	4,000	120,772
Travel	38,150	3,468		41,618
Evaluation project	23,500			23,500
Direct support to others	92,015			92,015
Total expenses	$ 3,844,142	$ 305,948	$ 60,926	$ 4,211,016

See accompanying notes to financial statements.

Houston A+ Challenge

Statements of Cash Flows for the years ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for:		
Contributions	$ 2,510,568	$ 4,615,877
Refunds of grants awarded to schools	695,406	601,068
Interest income	7,513	182,133
Program services	159,837	19,250
Cash paid for:		
Grants to schools	(964,176)	(3,321,066)
Grants for professional development	(49,590)	(294,589)
Grants to others	(9,490)	(92,015)
Salaries and related expenditures	(1,834,140)	(1,642,702)
Suppliers and other vendors	(1,530,302)	(1,767,587)
Net cash used by operating activities	(1,014,374)	(1,699,631)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,014,374)	(1,699,631)
Cash and cash equivalents, beginning of year	11,542,048	13,241,679
Cash and cash equivalents, end of year	$ 10,527,674	$ 11,542,048
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Changes in net assets	$ (3,468,987)	$ (2,839,570)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	1,651,535	3,401,334
Accounts receivable and other assets	570,180	(64,706)
Accounts payable and accrued expenses	(212,610)	(121,288)
Refund due to grantors	457,408	
Grants payable to schools	(11,900)	(2,075,401)
Net cash used by operating activities	$ (1,014,374)	$ (1,699,631)

See accompanying notes to financial statements.

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:

- *Leadership Development* programs train educators and build networks focused on instructional leadership.
- *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. The A+ Challenge Network is a new innovation launching in summer 2010 which will put performance coaches on middle school campuses in five districts to work directly with teachers and targeted students to raise achievement levels.
- *Communications* disseminates the lessons learned to the broader public as an important part of building capacity and creating sustainable reform.

Cash equivalents include highly liquid investments with original maturities of three months or less.

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).

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:

	2010	2009
Money market mutual funds	$ 1,451,510	$ 11,392,048
Demand deposits	9,076,164	150,000
Total cash and cash equivalents	$ 10,527,674	$ 11,542,048

Bank deposits exceed the federally insured limit per depositor per institution.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2010	2009
Pledges receivable	$ 448,000	$ 2,117,528
Discount to net present value at 3.8% to 5.8%		(17,993)
Pledges receivable, net	$ 448,000	$ 2,099,535

At June 30, 2010, pledges from three donors comprise 98% of the pledges receivable balance. All pledges are expected to be collected in the next year.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2010	2009
Leadership Development	$ 1,231,237	$ 4,963,557
Challenge Network	1,200,000	
School initiatives	671,174	994,160
Other	66,000	10,800
Total temporarily restricted net assets	$ 3,168,411	$ 5,968,517

NOTE 5 – CONTRIBUTION REVENUE

In 2010 and 2009 five donors provided 99% and 97% of contribution revenue, respectively.

NOTE 6 – PENSION PLAN

HAC maintains a defined contribution plan for all of its employees. The plan provides for discretionary employer contributions based on a percentage of salary. Employer contributions to the plan were $114,819 in 2010 and $102,605 in 2009.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

HAC leases office space and office equipment under noncancelable operating lease agreements. Lease expense for the years ended June 30, 2010 and 2009 totaled approximately $202,000 and $183,000, respectively. The following is a schedule of future minimum lease payments as of June 30, 2010:

2011	$ 187,534
2012	86,503
2013	2,636
2014	393
Total minimum lease payments	$ 277,066

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 18, 2011, 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.