Project GRAD Houston

Financial Statements

For the Fiscal Year Ended June 30, 2017

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Briggs & Veselka Co.
A PROFESSIONAL CORPORATION
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Project GRAD Houston
Houston, Texas

We have audited the accompanying financial statements of Project GRAD Houston (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the fiscal year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Organization'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 Organization'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.

To the Board of Directors of
Project GRAD Houston
Re: Independent Auditors' Report

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project GRAD Houston as of June 30, 2017, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Briggs & Veselka Co.

Briggs & Veselka Co.
Houston, Texas

December 11, 2017

PROJECT GRAD HOUSTON
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS	
Current assets	
Cash and cash equivalents	$ 247,914
Pledges receivable, net of discount	1,703,395
Accounts receivable	45,701
Prepaid expenses and other assets	8,514
TOTAL ASSETS	$ 2,005,524
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued liabilities	$ 86,895
Note payable	800,000
Total liabilities	886,895
Net assets (deficit)	
Unrestricted	(717,756)
Temporarily restricted	1,836,385
Total net assets	1,118,629
TOTAL LIABILITIES AND NET ASSETS	$ 2,005,524

The accompanying notes are an integral part of these financial statements.

PROJECT GRAD HOUSTON
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total Net Assets
Public support and revenues			
Contributions	$ 663,495	$ 2,649,593	$ 3,313,088
Contracts and agreements	171,500	-	171,500
Government grants	141,966	-	141,966
Other income	744	-	744
Total public support and revenues	977,705	2,649,593	3,627,298
Net assets released from restrictions	2,505,446	(2,505,446)	-
Total public support and revenues and releases from temporary restrictions	3,483,151	144,147	3,627,298
Expenses			
Program delivery	1,405,673	-	1,405,673
Scholarship awards	829,919	-	829,919
Fundraising costs	243,292	-	243,292
Administrative costs	572,303	-	572,303
Total expenses	3,051,187	-	3,051,187
Change in net assets	431,964	144,147	576,111
Net assets (deficit), beginning of year	(1,149,720)	1,692,238	542,518
NET ASSETS (DEFICIT), END OF YEAR	$ (717,756)	$ 1,836,385	$ 1,118,629

The accompanying notes are an integral part of these financial statements.

PROJECT GRAD HOUSTON
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities	
Change in net assets	$ 576,111
Adjustments to reconcile change in net assets to net cash from operating activities:	
Change in operating assets and liabilities:	
Pledges receivable	(402,728)
Accounts receivable	94,984
Prepaid expenses and other assets	(468)
Accounts payable and accrued liabilities	(26,227)
Net cash from operating activities	241,672
Cash flows from financing activities	
Principal payments on note payable	(139,000)
Net cash from financing activities	(139,000)
Net change in cash and cash equivalents	102,672
Cash and cash equivalents, beginning of period	145,242
Cash and cash equivalents, end of period	$ 247,914
Supplemental disclosure of cash flow information:	
Interest paid	$ 19,083

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Project GRAD Houston (the “Organization”) is a nonprofit, 501(c)(3), tax-exempt corporation. The Organization was incorporated on August 25, 1994. The Organization’s mission is to improve lives in low-income communities by helping individuals develop and achieve their educational aspirations.

The Organization provides proven cost-effective programming to address the needs of students and families so that students graduate from high school and then access and succeed in college (community college or university).

The Organization provides cost-effective programming to address the gap in educational attainment for individuals from economically disadvantaged communities, operating from community-based locations where college access and career planning services are available to anyone of any age. By leveraging partnerships with community-based organizations, public and charter schools, and institutions of higher education, the Organization created collaborations designed to respond to the growing demand for services with greater efficiency, serving entire communities of students and families regardless of their school of enrollment.

The Organization receives contributions from various foundations, corporations, and individual donors. Funding is also received for services provided within certain high schools and colleges, as well as federal and state grants.

Basis of Accounting – The financial statements have been prepared in accordance with Not-for-Profit Organizations accounting guidance, and using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, these financial statements are prepared on the accrual basis of accounting and present the financial position, results of activities and cash flows for the Organization.

Net Assets – The Organization’s funding sources include donors who have placed specific restrictions on the use of donated assets. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations including unrestricted resources obtained in connection with the Organization’s educational projects and programs.

- **Temporarily Restricted Net Assets** – Net assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event.

- **Permanently Restricted Net Assets** – Net assets with donor-imposed restrictions that require them to be maintained in perpetuity, with only the income used for the Organization’s activities. The Organization had no permanently restricted net assets at June 30, 2017 or during the fiscal year then ended

Cash and Cash Equivalents – The Organization considers cash on hand, cash in banks and other liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Pledges and Accounts Receivable – Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Significant unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue.

Conditional promises to give are not included as support until such time as the conditions are substantially met. An allowance for doubtful accounts is established and accounts are written off as needed based upon factors surrounding the credit risk of specific contributors. Management believes that all contributions, pledges and other receivables are collectible; therefore, no allowance for doubtful accounts has been recorded at June 30, 2017.

Property and Equipment – Property and equipment are stated at cost at the date of purchase or fair market value at the date of donation. Depreciation and amortization are recorded using the straight-line method over an estimated useful life of five years. At June 30, 2017, property and equipment consisting of furniture, fixtures and software amounted to $26,411, and were fully depreciated, with a net book value of $-0-. The costs of ordinary maintenance and repairs are charged to expense as incurred.

Revenue Recognition – For services that the Organization provides on a contract basis, revenue is recognized on the contracts as the qualifying expenses are incurred or services are provided. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Materials and Services – Donated materials are recorded as contributions at fair value when an unconditional commitment is received from the donor. The related expense is recorded as the item is used. Donated services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The co-founders of the Organization and other members of the Board have donated substantial amounts of time toward fundraising and various other services supporting the ongoing operation of the Organization. The value of these donated services has not been reflected in the financial statements.

Income Taxes – The Organization is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Accordingly, no provision for income taxes has been made. However, should the Organization engage in activities unrelated to the purpose for which it was created, taxable income could result.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Accounting for Income Taxes*, prescribes accounting for and disclosure of uncertainty in tax positions. This interpretation defines the criteria that must be met for the benefits of a tax position to be recognized in the financial statements and the measurement of tax benefits recognized.

For the fiscal year ended June 30, 2017, the Organization did not record any liabilities for uncertain tax positions, and did not recognize any interest or penalty expense related to uncertain tax positions or income taxes. The Organization does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

Use of Estimates – Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations – The Organization maintains its cash balances in financial institutions, which at times exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). Management periodically assesses the financial condition of the financial institutions and believes that any possible credit risk is minimal.

Pledges receivable from three donors represented approximately 88% of total pledges at June 30, 2017. Two of these contributions represented approximately 41% of contributions for the fiscal year ended June 30, 2017

Functional Allocation of Expense – The costs of providing various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Recent Accounting Pronouncements – In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers (Topic 606),* establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This update provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018, for nonpublic entities. The Organization is currently assessing the impact this new accounting standard and its subsequent amendments will have on its financial statements and related disclosures.

On February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. For nonpublic entities, the new standard is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Organization is evaluating the effect this new accounting standard will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update provides guidance on how to record eight specific cash flow issues, and how the predominant principle should be applied when cash receipts and cash payments have more than one class of cash flows. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods beginning after December 15, 2019, with early adoption permitted. Adoption will be applied retrospectively to all periods presented. The Organization is evaluating the effect this new accounting standard will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes; investment return; expenses; liquidity and availability of resources; and presentation of operating cash flows. Effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization is evaluating the effect this new accounting standard will have on its financial statements and related disclosures.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable totaled $1,703,395 at June 30, 2017 and are due as follows:

Amounts Due in	Amount
Less than one year	$ 1,038,250
One to four years	691,250
Total pledges receivable	1,729,500
Less: discount to net present value	(26,105)
Total pledges receivable, net of discount	$ 1,703,395

Pledges receivable in more than one year are discounted to their present value at the time the pledge is made using the then current risk free interest rate of 1.5%.

As of June 30, 2017, approximately $10,800 of total pledges receivable represents amounts pledged from members of the Board of Directors (*see Note 10*).

NOTE 3 – DEBT

The Organization has a term loan with a bank for $951,000, of which $800,000 was outstanding at June 30, 2017. Interest payments are due monthly at a rate per year equal to the London Interbank Offered Rate daily floating rate plus 1.8% (3.02% at June 30, 2017). The term loan is guaranteed by a co-founder of the Organization and the co-founders' revocable trust (Trust). In addition, it is secured by a security interest, mortgage or deed of trust on securities or other investment property owned and guaranteed by the Trust. Principal, interest, and other charges outstanding on the loan are due no later than January 4, 2018. As of the date the financial statements were available to be issued, the outstanding balance on the note payable was $723,000. The Organization is in discussion with the bank to renew the loan for another year under similar terms.

Total interest expense related to the term loan at June 30, 2017 was $19,607, which is included in administrative costs in the statement of activities.

During 2017, the Organization received a $1,000,000 promise to give from a corporation under participation in its charitable award program earned by a co-founder. Payments under the promise to give are to be made in five equal, annual installments with the first payment being received by the Organization during the fiscal year ended June 30, 2017. The funds received under the promise to give are to be first applied to any indebtedness and the remainder is available to support the Organization (*see Note 10*).

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets that are subject to donor-imposed stipulations are available as follows at June 30, 2017:

Program delivery	$ 1,250,786
Scholarship awards	124,500
Time restricted	461,099
Total	$ 1,836,385

NOTE 5 – RELEASE OF DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows at June 30, 2017:

Program delivery	$ 946,624
Scholarship awards	1,038,822
Other programs	520,000
Total	$ 2,505,446

NOTE 6 – OPERATING LEASES

On April 29, 2010, the Organization entered into a noncancelable operating lease agreement for office space. On December 22, 2015, an amendment was executed to extend the term of the lease through May 31, 2018 with escalating monthly rental payments.

Estimated annual minimum commitments for payment of rent under the noncancelable operating lease, with maturity in 2018, is $97,386. Rent expense for office space, storage and equipment for the fiscal year ended June 30, 2017 was $127,786.

NOTE 7 – EMPLOYEE BENEFIT PLANS

The Organization has a qualified 401(k) plan which covers substantially all employees meeting certain eligibility requirements. Participants may contribute a portion of their compensation to the plan, up to the maximum amount permitted under Section 401(k) of the Internal Revenue Code.

The Organization's contribution to the plan, as determined by the Board of Directors, is discretionary, but cannot exceed certain maximum defined limitations. The Organization's matching contribution was $-0- for the fiscal year ended June 30, 2017.

NOTE 8 – CONTRACTS AND AGREEMENTS REVENUES

In September 2013, the Organization was awarded a three-year grant authorized by the Corporation for National and Community Service passed through to OneStar National Service Commission for carrying out AmeriCorps State Programs in the amount of $244,353 per project year.

The grants project period was from August 2013 through August 2016. Subject to certain grant requirements, the Organization was required to match the total program funding each year with which it was in compliance.

Revenue for the fiscal year ended June 30, 2017 was $31,548 under this agreement and is reported in government grants revenue in the statement of activities. The Organization chose not to renew this grant.

The Organization administers a scholarship program for qualifying students that graduated before 2017 from specific high schools and, in 2017, paid scholarships to universities and payments to student debt providers totaling $829,919. Within these specific high schools, scholarship awards for qualifying graduates of John Reagan and Sam Houston High Schools are funded by the GEAR UP Scholarship Trust (GU Trust) which was established by a GEAR UP grant in 2001-2002. Revenue from the GU Trust for the fiscal year ended June 30, 2017 was $524,887. The balance of the GU Trust at June 30, 2017 was $5,180,102.

During the fiscal year ended June 30, 2017, an additional $108,000 was paid to the Organization from the GU Trust as part of a five-year initiative totaling $889,000, approved by the U.S. Department of Education, to be used for indirect costs. This amount is reported in contracts and agreements revenue in the statement of activities.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Organization entered into a three-year services agreement with the University of Houston (UH) effective September 1, 2014, including an employment arrangement with the Organization's president. Under terms of the agreement, the Organization will reimburse UH for defined payroll and benefits costs for the services of the Organization's president. Implementation began January 1, 2015 for the Organization's monthly commitment of $15,374. Effective September 1, 2017, the contract was renewed for another year and the monthly commitment amount was increased to $15,720. The service agreement is cancelable in 30 days by either party.

NOTE 10 – RELATED PARTY TRANSACTION

During the fiscal year ended June 30, 2017, the Organization received contribution revenue of approximately $63,700 from Board members for general operating expenses and student scholarship awards. Approximately $10,800 of pledges receivable at June 30, 2017 represented pledges from members of the Board of Directors (*see Note 2*).

During September 2016, one of the founders of the Organization provided a loan of $50,000 to the Organization for operational expenses. This loan was repaid in October 2016.

During 2017, the Organization received a $1,000,000 promise to give from a corporation under participation in its charitable award program earned by a co-founder. This amount is recorded as a temporarily restricted contribution in the statement of activities. Payments under the promise to give are to be made in five equal, annual installments with the first payment being received by the Organization during the fiscal year ended June 30, 2017. Funds are to be first applied to indebtedness to bank (*see Note 3*) and the remainder is available to support general operations.

NOTE 11 – FINANCIAL CONDITION

The Organization had a net increase in cash flows of $102,672 and a deficit in unrestricted net assets of $717,756 at June 30, 2017. A co-founder continues to support the Organization by guaranteeing and securing the Organization's existing term loan and with the ability and intent to fund any cash flow requirements for a reasonable period of time. The Organization's term loan has a balance of $800,000 at June 30, 2017 that is due and payable on January 4, 2018 (*see Note 3*). Management continues to pursue new sources of funding and to explore partnerships with other organizations to increase mutual efficiencies and objectives.

NOTE 12 – SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 11, 2017, the date the financial statements were available to be issued. The Organization has determined there are no additional subsequent events requiring disclosure in the financial statements.