

Project GRAD Houston

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 and 2017

Project GRAD Houston

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Independent Auditors' Report

To the Board of Directors of
Project GRAD Houston:

We have audited the accompanying financial statements of Project GRAD Houston, which comprise the statements of financial position as of June 30, 2018 and the related statements of activities, of functional expenses, and of cash flows for the 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 our 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 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 Project GRAD Houston as of June 30, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Independent Auditors' Report – The financial statements of Project GRAD Houston as of June 30, 2017 and for the year then ended were audited by other auditors whose report dated December 11, 2017 expressed an unmodified opinion on those statements.

Blazek & Vetterling

October 24, 2018

Project GRAD Houston

Statements of Financial Position as of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 773,724	\$ 247,914
Accounts receivable	42,714	45,701
Prepaid and other assets	11,290	8,514
Pledges receivable, net (<i>Note 3</i>)	<u>1,958,274</u>	<u>1,703,395</u>
TOTAL ASSETS	<u>\$ 2,786,002</u>	<u>\$ 2,005,524</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 185,452	\$ 86,895
Note payable (<i>Note 4</i>)	<u>723,000</u>	<u>800,000</u>
Total liabilities	<u>908,452</u>	<u>886,895</u>
Net assets:		
Unrestricted	340,069	(717,756)
Temporarily restricted (<i>Note 5</i>)	<u>1,537,481</u>	<u>1,836,385</u>
Total net assets	<u>1,877,550</u>	<u>1,118,629</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,786,002</u>	<u>\$ 2,005,524</u>

See accompanying notes to financial statements.

Project GRAD Houston

Statement of Activities for year ended June 30, 2018

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 3</i>)	\$ 522,382	\$ 2,139,069	\$ 2,661,451
Grants and contracts	589,301		589,301
Loss on valuation of pledges receivable		(77,000)	(77,000)
Other income	<u>10,447</u>		<u>10,447</u>
Total revenue	1,122,130	2,062,069	3,184,199
Net assets released from restrictions:			
Program expenditures	1,176,874	(1,176,874)	
Expiration of time restrictions	<u>1,184,099</u>	<u>(1,184,099)</u>	
Total	<u>3,483,103</u>	<u>(298,904)</u>	<u>3,184,199</u>
EXPENSES:			
Program services	1,886,332		1,886,332
Management and general	324,966		324,966
Fundraising	<u>213,980</u>		<u>213,980</u>
Total expenses	<u>2,425,278</u>		<u>2,425,278</u>
CHANGES IN NET ASSETS	1,057,825	(298,904)	758,921
Net assets, beginning of year	<u>(717,756)</u>	<u>1,836,385</u>	<u>1,118,629</u>
Net assets, end of year	<u>\$ 340,069</u>	<u>\$ 1,537,481</u>	<u>\$ 1,877,550</u>

See accompanying notes to financial statements.

Project GRAD Houston

Statement of Activities for year ended June 30, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 3</i>)	\$ 663,495	\$ 2,649,593	\$ 3,313,088
Grants and contracts	313,466		313,466
Other income	<u>744</u>		<u>744</u>
Total revenue	977,705	2,649,593	3,627,298
Net assets released from restrictions:			
Program expenditures	1,985,446	(1,985,446)	
Expiration of time restrictions	<u>520,000</u>	<u>(520,000)</u>	
Total	<u>3,483,151</u>	<u>144,147</u>	<u>3,627,298</u>
EXPENSES:			
Program services	2,376,805		2,376,805
Management and general	394,020		394,020
Fundraising	<u>280,362</u>		<u>280,362</u>
Total expenses	<u>3,051,187</u>		<u>3,051,187</u>
CHANGES IN NET ASSETS	431,964	144,147	576,111
Net assets, beginning of year	<u>(1,149,720)</u>	<u>1,692,238</u>	<u>542,518</u>
Net assets, end of year	<u>\$ (717,756)</u>	<u>\$ 1,836,385</u>	<u>\$ 1,118,629</u>

See accompanying notes to financial statements.

Project GRAD Houston

Statement of Functional Expenses for the year ended June 30, 2018

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries, related taxes, and benefits	\$ 1,048,361	\$ 181,057	\$ 184,507	\$ 1,413,925
Scholarship awards	517,769			517,769
Professional fees and contract services	86,561	95,467	1,503	183,531
Rent	97,106	6,035	17,556	120,697
Food, meals and snacks	37,892	1,245	1,306	40,443
Supplies	26,847	1,438	1,657	29,942
Travel	26,395	1,995	456	28,846
Interest		24,911		24,911
Dues and subscriptions	20,237	1,251	1,644	23,132
Communications	13,288	3,260	755	17,303
Insurance	7,009	436	1,267	8,712
Other	<u>4,867</u>	<u>7,871</u>	<u>3,329</u>	<u>16,067</u>
Total expenses	<u>\$ 1,886,332</u>	<u>\$ 324,966</u>	<u>\$ 213,980</u>	<u>\$ 2,425,278</u>

See accompanying notes to financial statements.

Project GRAD Houston

Statement of Functional Expenses for the year ended June 30, 2017

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries, related taxes, and benefits	\$ 1,142,315	\$ 274,686	\$ 242,651	\$ 1,659,652
Scholarship awards	829,919			829,919
Professional fees and contract services	164,403	40,423	3,428	208,254
Rent	97,259	14,908	15,618	127,785
Food, meals and snacks	61,198	6,392	2,504	70,094
Supplies	20,532	4,998	5,963	31,493
Travel	25,774	4,996	1,298	32,068
Interest		21,774		21,774
Dues and subscriptions	6,929	3,948	2,264	13,141
Communications	15,823	5,437	671	21,931
Insurance	6,218	881	923	8,022
Other	<u>6,435</u>	<u>15,577</u>	<u>5,042</u>	<u>27,054</u>
Total expenses	<u>\$ 2,376,805</u>	<u>\$ 394,020</u>	<u>\$ 280,362</u>	<u>\$ 3,051,187</u>

See accompanying notes to financial statements.

Project GRAD Houston

Statements of Cash Flows for the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 758,921	\$ 576,111
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	2,987	94,984
Prepaid and other assets	(2,776)	(468)
Pledges receivable	(254,879)	(402,728)
Accounts payable and accrued expenses	<u>98,557</u>	<u>(26,227)</u>
Net cash provided by operating activities	<u>602,810</u>	<u>241,672</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of note payable	<u>(77,000)</u>	<u>(139,000)</u>
NET CHANGE IN CASH	525,810	102,672
Cash, beginning of year	<u>247,914</u>	<u>145,242</u>
Cash, end of year	<u>\$ 773,724</u>	<u>\$ 247,914</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$24,911	\$21,774

See accompanying notes to financial statements.

Project GRAD Houston

Notes to Financial Statements for the years ended June 30, 2018 and 2017

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Project GRAD Houston (Project GRAD) is a nonprofit organization incorporated in Texas in August 1994. Project GRAD’s mission is to improve lives in low-income communities by helping individuals develop and achieve their educational aspirations. Project GRAD provides proven cost-effective programming to support students and families at critical junctures of their educational path to make sure they graduate from high school, access college, and obtain a workforce certificate, associate’s degree, or bachelor’s degree. Project GRAD operates from community and school-based locations, offering free college and career planning services to anyone of any age, regardless of their school of enrollment. By leveraging partnerships with community-based organizations, public and charter schools, institutions of higher education, and public libraries, Project GRAD offers students rich college and career exploration programs and personalized counseling within welcoming café environments, giving students the desire, confidence, information, and support they need to succeed.

Federal income tax status – Project GRAD 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)(3) and §170(b)(1)(A)(vi).

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

Pledges receivable that are due within one year are reported at net realizable value. Amounts that are expected to be collected in future years are discounted, if material, to the present value of their estimated future cash flows.

Net asset classification – Contributions, investment return, 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 and investment return 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 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 promises to give are included in contribution revenue when the conditions are substantially met.

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.

Functional allocation of expenses – The costs of providing the program and support services are reported on a functional basis in the statements of activities. Indirect costs have been allocated between program, management and general, and fundraising based on estimates determined by management. While Project GRAD believes its allocation methods are appropriate, the use of different methods or assumptions could result in different allocated amounts.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. Project GRAD is required to adopt this ASU for fiscal year 2020 using an appropriate retrospective method. Management believes the adoption of this ASU will not have a material impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be 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 will be required to be presented by both nature and function and investment return will be 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. Project GRAD is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – RECLASSIFICATION OF 2017 EXPENSES

In 2018, management re-evaluated the allocation of executive salaries among program expense, management and general, and fundraising expenses and reclassified expenses reported in the statement of activities for the year ended June 30, 2017 from those previously reported to conform to the 2018 presentation period. Additionally, Project GRAD has elected to include a functional expense statement for both 2018 and 2017.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2018</u>	<u>2017</u>
Pledges receivable	\$ 1,974,375	\$ 1,729,500
Discount to net present value at 1.50% to 2.52%	<u>(16,101)</u>	<u>(26,105)</u>
Pledges receivable, net	<u>\$ 1,958,274</u>	<u>\$ 1,703,395</u>

Pledges receivable at June 30, 2018 are expected to be collected as follows:

2019	\$ 1,309,375
2020	640,000
2021	<u>25,000</u>
Total pledges receivable	<u>\$ 1,974,375</u>

Concentration – In 2018, approximately 65% of contributions were from four donors. In 2017, approximately 66% of contributions were from four donors. At June 30, 2018, approximately 86% of pledges receivable were due from three donors. At June 30, 2017, approximately 88% of pledges receivable were due from three donors.

NOTE 4 – NOTE PAYABLE

Project GRAD has a term loan with a bank for \$927,000, of which \$723,000 was outstanding at June 30, 2018. Interest payments are due monthly with interest at the LIBOR floating rate plus 1.8% (3.88% at June 30, 2018). The loan is guaranteed by a co-founder of Project GRAD and the co-founder's revocable trust (the 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, 2019. Interest expense totaled \$24,911 in 2018 and \$21,774 in 2017. The loan was repaid in full in July 2018 with proceeds from a pledge receivable.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
GRADuation Aspirations	\$ 997,320	
Bridge to College and Career Success Program	232,026	
Scholarship awards	147,250	\$ 124,500
Use in future periods	85,000	1,261,099
GRADcafé	75,885	75,000
Opportunity Youth Program		250,000
Cafécollege Houston		50,000
GRADcafé on the Go		45,786
College Institutes Program		<u>30,000</u>
Total temporarily restricted net assets	<u>\$ 1,537,481</u>	<u>\$ 1,836,385</u>

NOTE 6 – EMPLOYEE BENEFIT PLANS

Project GRAD 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 §401(k) of the Internal Revenue code.

Project GRAD's contribution to the plan, as determined by the Board of Directors of Project GRAD, is discretionary, but cannot exceed certain maximum defined limitations. No employer matching contribution was made in 2018 and 2017.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Project GRAD entered into a three-year services agreement with the University of Houston (UH) effective September 1, 2014, including an employment arrangement with Project GRAD's Executive Director. Under the terms of the agreement, Project GRAD will reimburse UH for defined payroll and benefit costs for the services of Project GRAD's Executive Director. Implementation began January 1, 2015 for Project GRAD'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 8 – SUBSEQUENT EVENTS

The term loan described in Note 4 was repaid in full in July 2018 with proceeds from a pledge receivable.

Management has evaluated subsequent events through October 24, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
