

HSPVA Friends

Financial Statements
and Independent Accountants' Review Report
for the years ended July 31, 2018 and 2017

HSPVA Friends

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Independent Accountants' Review Report

To the Board of Directors of
HSPVA Friends:

We have reviewed the accompanying financial statements of HSPVA Friends, which comprise the statements of financial position as of July 31, 2018 and 2017, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility – Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion – Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

March 22, 2019

HSPVA Friends

Statements of Financial Position as of July 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 797,160	\$ 583,692
Pledges receivable (Note 3)	256,312	2,611,460
Prepaid expenses	12,695	12,500
Cash restricted for downtown campus (Note 2)	7,531,595	5,251,850
Investments (Note 4)	<u>1,080,898</u>	<u>1,010,174</u>
TOTAL ASSETS	<u>\$ 9,678,660</u>	<u>\$ 9,469,676</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,234	\$ 2,371
Grant payable to HISD	<u>1,500,000</u>	<u>1,500,000</u>
Total liabilities	<u>1,509,234</u>	<u>1,502,371</u>
Net assets:		
Unrestricted	1,123,801	1,007,928
Temporarily restricted (Note 5)	6,202,970	6,137,923
Permanently restricted for scholarships (Note 6)	<u>842,655</u>	<u>821,454</u>
Total net assets	<u>8,169,426</u>	<u>7,967,305</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,678,660</u>	<u>\$ 9,469,676</u>

See accompanying notes to financial statements and independent accountants' review report.

HSPVA Friends

Statement of Activities for the year ended July 31, 2018

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 556,002	\$ 185,337	\$ 21,201	\$ 762,540
Program fees	387,398			387,398
Special events	130,152	132,494		262,646
Direct donor benefit costs	(32,971)	(27,728)		(60,699)
Investment return, net (<i>Note 4</i>)	<u>40,443</u>	<u>60,207</u>		<u>100,650</u>
Total revenue	1,081,024	350,310	21,201	1,452,535
Net assets released from restrictions:				
Program expenditures	<u>285,263</u>	<u>(285,263)</u>		
Total	<u>1,366,287</u>	<u>65,047</u>	<u>21,201</u>	<u>1,452,535</u>
EXPENSES:				
Program	1,074,521			1,074,521
Management and general	80,091			80,091
Fundraising	<u>95,802</u>			<u>95,802</u>
Total expenses	<u>1,250,414</u>			<u>1,250,414</u>
CHANGES IN NET ASSETS	115,873	65,047	21,201	202,121
Net assets, beginning of year	<u>1,007,928</u>	<u>6,137,923</u>	<u>821,454</u>	<u>7,967,305</u>
Net assets, end of year	<u>\$ 1,123,801</u>	<u>\$ 6,202,970</u>	<u>\$ 842,655</u>	<u>\$ 8,169,426</u>

See accompanying notes to financial statements and independent accountants' review report.

HSPVA Friends

Statement of Activities for the year ended July 31, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions (<i>Note 3</i>)	\$ 776,040	\$ 7,617,123	\$ 24,380	\$ 8,417,543
Program fees	236,802			236,802
Special events	168,278	139,383		307,661
Direct donor benefit costs	(22,565)	(22,080)		(44,645)
Investment return, net (<i>Note 4</i>)	<u>28,746</u>	<u>65,068</u>		<u>93,814</u>
Total revenue	1,187,301	7,799,494	24,380	9,011,175
Net assets released from restrictions:				
Program expenditures	<u>1,861,299</u>	<u>(1,861,299)</u>		
Total	<u>3,048,600</u>	<u>5,938,195</u>	<u>24,380</u>	<u>9,011,175</u>
EXPENSES:				
Program	2,197,580			2,197,580
Management and general	80,147			80,147
Fundraising	<u>182,637</u>			<u>182,637</u>
Total expenses	<u>2,460,364</u>			<u>2,460,364</u>
CHANGES IN NET ASSETS	588,236	5,938,195	24,380	6,550,811
Net assets, beginning of year	<u>419,692</u>	<u>199,728</u>	<u>797,074</u>	<u>1,416,494</u>
Net assets, end of year	<u>\$ 1,007,928</u>	<u>\$ 6,137,923</u>	<u>\$ 821,454</u>	<u>\$ 7,967,305</u>

See accompanying notes to financial statements and independent accountants' review report.

HSPVA Friends

Statements of Functional Expenses for the years ended July 31, 2018 and 2017

<u>EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2018 TOTAL</u>
Salaries and benefits	\$ 107,554	\$ 24,395	\$ 52,804	\$ 184,753
Grants for downtown campus	247,232			247,232
Travel	198,307			198,307
Artist fees	144,975			144,975
Supplies	104,674	4,918	5,712	115,304
Professional fees	66,654	20,030	5,000	91,684
Publicity, newsletters, and printing	62,357	1,358	11,256	74,971
Scholarship expense	69,026			69,026
Occupancy		24,216		24,216
Technology and equipment	15,216			15,216
Other	<u>58,526</u>	<u>5,174</u>	<u>21,030</u>	<u>84,730</u>
Total expenses	<u>\$ 1,074,521</u>	<u>\$ 80,091</u>	<u>\$ 95,802</u>	<u>\$ 1,250,414</u>

<u>EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2017 TOTAL</u>
Salaries and benefits	\$ 47,892	\$ 24,779	\$ 68,481	\$ 141,152
Grants for downtown campus	1,576,900			1,576,900
Travel	107,907			107,907
Artist fees	157,846			157,846
Supplies	82,353	3,045	6,173	91,571
Professional fees	98,831	18,390	7,385	124,606
Publicity, newsletters, and printing	31,501	3,271	16,509	51,281
Scholarship expense	46,261			46,261
Occupancy		23,945		23,945
Technology and equipment	23,190			23,190
Other	<u>24,899</u>	<u>6,717</u>	<u>13,689</u>	<u>45,305</u>
Total operating expenses	2,197,580	80,147	112,237	2,389,964
Capital campaign consultant			<u>70,400</u>	<u>70,400</u>
Total expenses	<u>\$ 2,197,580</u>	<u>\$ 80,147</u>	<u>\$ 182,637</u>	<u>\$ 2,460,364</u>

See accompanying notes to financial statements and independent accountants' review report.

HSPVA Friends

Statements of Cash Flows for the years ended July 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 202,121	\$ 6,550,811
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for downtown campus		(7,500,000)
Net realized and unrealized gain on investments	(38,897)	(68,448)
Changes in operating assets and liabilities:		
Pledges receivable	105,148	(361,460)
Prepaid expenses	(195)	(12,500)
Accounts payable and accrued expenses	<u>6,863</u>	<u>1,500,679</u>
Net cash provided by operating activities	<u>275,040</u>	<u>109,082</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	175,727	390,804
Purchases of investments	(203,643)	(416,456)
Net change in money market mutual funds held as investments	<u>(3,911)</u>	<u>(10,410)</u>
Net cash used by investing activities	<u>(31,827)</u>	<u>(36,062)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for downtown campus	<u>2,250,000</u>	<u>5,250,000</u>
NET CHANGE IN CASH	2,493,213	5,323,020
Cash, beginning of year	<u>5,835,542</u>	<u>512,522</u>
Cash, end of year	<u>\$ 8,328,755</u>	<u>\$ 5,835,542</u>
<i>Reconciliation of cash reported in the statements of financial position with cash reported in the statements of cash flows:</i>		
Cash	\$ 797,160	\$ 583,692
Cash restricted for downtown campus	<u>7,531,595</u>	<u>5,251,850</u>
Total	<u>\$ 8,328,755</u>	<u>\$ 5,835,542</u>

See accompanying notes to financial statements and independent accountants' review report.

HSPVA Friends

Notes to Financial Statements for the years ended July 31, 2018 and 2017

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – HSPVA Friends was incorporated in 1980 and is a supporting organization for The Houston Independent School District's Kinder High School for the Performing and Visual Arts (Kinder HSPVA). HSPVA Friends' mission is to cultivate support for Kinder HSPVA in order to enhance educational, professional, and artistic opportunities for current and future students.

Federal income tax status – HSPVA Friends 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).

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. Pledges receivable that are expected to be collected in future years are reported at the present value of the expected future cash flows.

Investments are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with donor-imposed restrictions.

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.
- *Permanently restricted net assets* include contributions restricted by the donor in perpetuity.

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.

Program fees are recognized when services are provided and are primarily generated by performance tickets and student workshops.

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.

Recent financial accounting pronouncements – In fiscal year 2018, HSPVA Friends adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires the statement of cash flows to explain the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to adoption, restricted cash and cash equivalents were excluded from beginning and ending cash and cash equivalents in the statement of cash flows. The statement of cash flows for the year ended July 31, 2017 was restated to reflect the retrospective adoption. This change had no impact on net assets or changes in net assets.

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. HSPVA Friends 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 – CASH RESTRICTED FOR DOWNTOWN CAMPUS

As governed by the tri-party agreement dated October 13, 2016, HSPVA Friends is stewarding a grant of \$7,500,000 from the Kinder Foundation that is restricted for capital needs at the Houston Independent School District's downtown campus of Kinder HSPVA.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are comprised of the following:

	<u>2018</u>	<u>2017</u>
Pledges receivable	\$ 256,312	\$ 2,648,172
Discount to present value at 1.51%		<u>(36,712)</u>
Pledges receivable, net	<u>\$ 256,312</u>	<u>\$ 2,611,460</u>

Pledges receivable at July 31, 2018 are expected to be collected as follows:

Receivable in less than one year	\$ 229,478
Receivable in one to five years	<u>26,834</u>
Total pledges receivable	<u>\$ 256,312</u>

Pledges from one donor totaled approximately \$150,000 or 59% and \$2,250,000 or 85% of gross pledges, respectively, at July 31, 2018 and 2017. During the year ended July 31, 2017, \$7,500,000 or 92% of contributions were from one donor.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at July 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds:				
Domestic large-cap	\$ 254,369			\$ 254,369
Foreign large-cap	173,227			173,227
Foreign small-cap	108,505			108,505
Domestic small/mid-cap	29,217			29,217
Bond mutual funds:				
Intermediate term	309,033			309,033
High yield	107,780			107,780
Exchange-traded funds:				
Commodities	54,364			54,364
Inflation protected bond	10,648			10,648
Money market mutual funds	17,652			17,652
Global real estate mutual fund	<u>16,103</u>			<u>16,103</u>
Total assets measured at fair value	<u>\$ 1,080,898</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,080,898</u>

Assets measured at fair value at July 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds:				
Domestic large-cap	\$ 245,948			\$ 245,948
Foreign large-cap	188,633			188,633
Foreign small-cap	107,441			107,441
Domestic small/mid-cap	27,662			27,662
Bond mutual funds:				
Intermediate term	232,607			232,607
High yield	81,602			81,602
Exchange-traded funds:				
Commodities	51,607			51,607
Inflation protected bond	40,467			40,467
Money market mutual funds	13,741			13,741
Global real estate mutual fund	<u>20,466</u>			<u>20,466</u>
Total assets measured at fair value	<u>\$ 1,010,174</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,010,174</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the published net asset value of shares held at year end.
- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HSPVA Friends believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investment return includes earnings on cash and consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 61,753	\$ 25,366
Net realized and unrealized gain	<u>38,897</u>	<u>68,448</u>
Investment return, net	<u>\$ 100,650</u>	<u>\$ 93,814</u>

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Downtown campus	\$ 5,923,100	\$ 5,923,100
Accumulated earnings on endowments for scholarships	143,572	103,058
Scholarships	62,261	58,656
Visual arts	38,487	22,649
Music	23,787	28,100
Creative Writing	11,763	
Dance		<u>2,360</u>
Total temporarily restricted net assets	<u>\$ 6,202,970</u>	<u>\$ 6,137,923</u>

NOTE 6 – ENDOWMENT FUNDS

HSPVA Friends has donor-restricted endowment funds that are maintained in accordance with explicit donor stipulations.

Changes in net assets of the endowment funds are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, July 31, 2016	\$ (19,102)	\$ 56,720	\$ 797,074	\$ 834,692
Contributions			24,380	24,380
Investment return:				
Interest and dividends	4,776	16,267		21,043
Net realized and unrealized gain	<u>14,326</u>	<u>48,801</u>		<u>63,127</u>
Total investment return	<u>19,102</u>	<u>65,068</u>		<u>84,170</u>
Appropriated for expenditure		<u>(18,730)</u>		<u>(18,730)</u>
Endowment net assets, July 31, 2017	<u>0</u>	<u>103,058</u>	<u>821,454</u>	<u>924,512</u>
Contributions			21,201	21,201
Investment return:				
Interest and dividends		26,936		26,936
Net realized and unrealized gain		<u>33,271</u>		<u>33,271</u>
Total investment return		<u>60,207</u>		<u>60,207</u>
Appropriated for expenditure		<u>(19,693)</u>		<u>(19,693)</u>
Endowment net assets, July 31, 2018	<u>\$ 0</u>	<u>\$ 143,572</u>	<u>\$ 842,655</u>	<u>\$ 986,227</u>

The Board of Directors of HSPVA Friends has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HSPVA Friends classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment funds that are not classified as permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by HSPVA Friends in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, HSPVA Friends considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds
- The purposes of HSPVA Friends and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of HSPVA Friends
- The investment policies of HSPVA Friends

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires HSPVA Friends to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and continued appropriations for certain programs that are deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

HSPVA Friends has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, HSPVA Friends relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and investment return (interest and dividends). HSPVA Friends targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

Scholarship committees approve scholarship awards for students at Kinder HSPVA annually.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 22, 2019, 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.
