

HSPVA Friends

Financial Statements
and Independent Auditors' Report
for the year ended July 31, 2019

HSPVA Friends

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Independent Auditors' Report

To the Board of Directors of
HSPVA Friends:

We have audited the accompanying financial statements of HSPVA Friends, which comprise the statement of financial position as of July 31, 2019 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

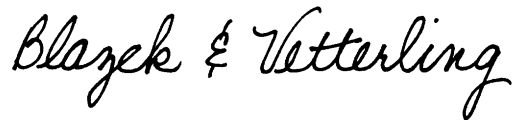
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HSPVA Friends as of July 31, 2019 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Financial Statements for the Year ended July 31, 2018

The financial statements for the year ended July 31, 2018 were reviewed by us, and our report thereon dated March 22, 2019, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, HSPVA Friends adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended July 31, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended July 31, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Blazek & Vetterling". The script is cursive and fluid, with the ampersand clearly visible.

November 15, 2019

HSPVA Friends

Statements of Financial Position as of July 31, 2019 and 2018

	AUDITED <u>2019</u>	REVIEWED <u>2018</u>
ASSETS		
Cash	\$ 1,064,123	\$ 797,160
Contributions receivable	86,782	256,312
Prepaid expenses	21,700	12,695
Cash restricted or designated for downtown campus (<i>Note 4</i>)	2,314,192	7,531,595
Investments (<i>Note 5</i>)	<u>1,097,780</u>	<u>1,080,898</u>
TOTAL ASSETS	<u>\$ 4,584,577</u>	<u>\$ 9,678,660</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,630	\$ 9,234
Grant payable to HISD	<u> </u>	<u>1,500,000</u>
Total liabilities	<u>4,630</u>	<u>1,509,234</u>
Net assets:		
Without donor restrictions	1,276,285	1,123,801
With donor restrictions (<i>Notes 6 and 7</i>)	<u>3,303,662</u>	<u>7,045,625</u>
Total net assets	<u>4,579,947</u>	<u>8,169,426</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,584,577</u>	<u>\$ 9,678,660</u>

See accompanying notes to financial statements.

HSPVA Friends

Statement of Activities for the year ended July 31, 2019 (Audited)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 350,224	\$ 240,391	\$ 590,615
Program fees	267,835		267,835
Special events	247,906	122,934	370,840
Direct donor benefit costs	(69,416)	(21,599)	(91,015)
Net investment return	<u>95,491</u>	<u>32,180</u>	<u>127,671</u>
Total revenue	892,040	373,906	1,265,946
Net assets released from restrictions:			
Program expenditures	<u>4,115,869</u>	<u>(4,115,869)</u>	
Total	<u>5,007,909</u>	<u>(3,741,963)</u>	<u>1,265,946</u>
EXPENSES:			
Program	4,653,286		4,653,286
Management and general	124,532		124,532
Fundraising	<u>77,607</u>		<u>77,607</u>
Total expenses	<u>4,855,425</u>		<u>4,855,425</u>
CHANGES IN NET ASSETS	152,484	(3,741,963)	(3,589,479)
Net assets, beginning of year	<u>1,123,801</u>	<u>7,045,625</u>	<u>8,169,426</u>
Net assets, end of year	<u>\$ 1,276,285</u>	<u>\$ 3,303,662</u>	<u>\$ 4,579,947</u>

See accompanying notes to financial statements.

HSPVA Friends

Statement of Activities for the year ended July 31, 2018 (Reviewed)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 556,002	\$ 206,538	\$ 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)
Net investment return	<u>40,443</u>	<u>60,207</u>	<u>100,650</u>
Total revenue	1,081,024	371,511	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>86,248</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	86,248	202,121
Net assets, beginning of year (<i>Note 2</i>)	<u>1,007,928</u>	<u>6,959,377</u>	<u>7,967,305</u>
Net assets, end of year	<u>\$ 1,123,801</u>	<u>\$ 7,045,625</u>	<u>\$ 8,169,426</u>

See accompanying notes to financial statements.

HSPVA Friends

Statements of Functional Expenses for the years ended July 31, 2019 (Audited) and 2018 (Reviewed)

<u>EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2019 TOTAL</u>
Salaries and benefits	\$ 101,387	\$ 27,370	\$ 55,157	\$ 183,914
Grants for downtown campus	3,943,146			3,943,146
Artist fees	157,239			157,239
Supplies	137,293	5,341	2,166	144,800
Professional fees	103,551	24,791		128,342
Printing and publications	48,500	7,322	14,152	69,974
Travel	62,960			62,960
Scholarship expense	47,589			47,589
Bank and credit card fees		23,759		23,759
Rent and utilities		23,699		23,699
Catering	16,903			16,903
Dues and subscriptions		10,601		10,601
Technology and equipment	7,716			7,716
Other	<u>27,002</u>	<u>1,649</u>	<u>6,132</u>	<u>34,783</u>
Total expenses	<u>\$ 4,653,286</u>	<u>\$ 124,532</u>	<u>\$ 77,607</u>	<u>\$ 4,855,425</u>

<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
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
Printing and publications	62,357	1,358	11,256	74,971
Travel	198,307			198,307
Scholarship expense	69,026			69,026
Bank and credit card fees	9,336		9,340	18,676
Rent and utilities		24,216		24,216
Catering	11,112			11,112
Dues and subscriptions		5,174		5,174
Technology and equipment	15,216			15,216
Other	<u>38,078</u>		<u>11,690</u>	<u>49,768</u>
Total expenses	<u>\$ 1,074,521</u>	<u>\$ 80,091</u>	<u>\$ 95,802</u>	<u>\$ 1,250,414</u>

See accompanying notes to financial statements.

HSPVA Friends

Statements of Cash Flows for the years ended July 31, 2019 and 2018

	AUDITED <u>2019</u>	REVIEWED <u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (3,589,479)	\$ 202,121
Adjustments to reconcile changes in net assets to net cash		
Provided (used) by operating activities:		
Net realized and unrealized gain on investments	(3,093)	(38,897)
Changes in operating assets and liabilities:		
Contributions receivable	169,530	105,148
Prepaid expenses	(9,005)	(195)
Accounts payable and accrued expenses	<u>(1,504,604)</u>	<u>6,863</u>
Net cash provided (used) by operating activities	<u>(4,936,651)</u>	<u>275,040</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	617,957	175,727
Purchases of investments	(638,623)	(203,643)
Net change in money market mutual funds held as investments	<u>6,877</u>	<u>(3,911)</u>
Net cash used by investing activities	<u>(13,789)</u>	<u>(31,827)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for downtown campus		<u>2,250,000</u>
NET CHANGE IN CASH	(4,950,440)	2,493,213
Cash, beginning of year	<u>8,328,755</u>	<u>5,835,542</u>
Cash, end of year	<u>\$ 3,378,315</u>	<u>\$ 8,328,755</u>

Reconciliation of cash reported in the statements of financial position with cash reported in the statements of cash flows:

Cash	\$ 1,064,123	\$ 797,160
Cash restricted for downtown campus	<u>2,314,192</u>	<u>7,531,595</u>
Total cash	<u>\$ 3,378,315</u>	<u>\$ 8,328,755</u>

See accompanying notes to financial statements.

HSPVA Friends

Notes to Financial Statements for the years ended July 31, 2019 (Audited) and 2018 (Reviewed)

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.

Contributions receivable that are due within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are reported at the present value of the expected future cash flows. All contributions receivable are expected to be collected within one year.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Conditional contributions are recognized in the same manner when the conditions are substantially met.

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

Special events revenue is recognized when the event occurs. Amounts received in advance are reported in the statement of financial position as deferred revenue. Direct donor benefits represent the costs of goods and services provided to attendees of special events.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the

organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one program or supporting activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended.

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 June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. HSPVA Friends is required to apply the amendments in its July 31, 2019 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management does not expect adoption of this ASU to have a significant impact on the financial statements.

In May 2014, the FASB issued 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. HSPVA Friends will adopt this ASU in fiscal year 2020 and expects the impact to be primarily limited to additional disclosures.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

HSPVA Friends adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended July 31, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended July 31, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of July 31, 2019 comprise the following:

Financial assets at July 31, 2019:

Cash	\$ 3,378,315
Contributions receivable	86,782
Investments	<u>1,097,780</u>
Total financial assets	4,562,877
Less financial assets not available for general expenditure:	
Endowment investments	1,004,572
Cash restricted or designated for downtown campus	<u>2,314,192</u>
Total financial assets available for general expenditure	<u>\$ 1,244,113</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, HSPVA Friends considers all expenditures related to its ongoing activities of support for Kinder HSPVA, as well as the conduct of services undertaken to support those activities, to be general expenditures.

NOTE 4 – 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. As of July 31, 2019, the remaining balance of the grant is \$2,126,035.

NOTE 5 – 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, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap	\$ 233,820			\$ 233,820
Foreign large-cap	189,079			189,079
Foreign small-cap	105,138			105,138
Domestic small/mid-cap	67,064			67,064
Bond mutual funds:				
Intermediate term	287,088			287,088
High yield	100,481			100,481
Exchange-traded funds:				
Commodities	55,337			55,337
Inflation protected bond	10,982			10,982
Global real estate mutual fund	38,016			38,016
Money market mutual funds	<u>10,775</u>			<u>10,775</u>
Total assets measured at fair value	<u>\$ 1,097,780</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,097,780</u>

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>
Investments:				
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
Global real estate mutual fund	16,103			16,103
Money market mutual funds	<u>17,652</u>			<u>17,652</u>
Total assets measured at fair value	<u>\$ 1,080,898</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,080,898</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.

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 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Downtown campus	\$ 2,126,035	\$ 5,923,100
Music	63,582	23,787
Scholarships	66,559	62,261
Visual arts	36,214	38,487
Creative writing		11,763
Summer musical theatre	<u>6,700</u>	<u> </u>
Total subject to expenditure for specified purpose	2,299,090	6,059,398
Endowments:		
Subject to spending policy and appropriation:		
Scholarship endowments	<u>1,004,572</u>	<u>986,227</u>
Total net assets with donor restrictions	<u>\$ 3,303,662</u>	<u>\$ 7,045,625</u>

NOTE 7 – ENDOWMENT FUNDS

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

Changes in the donor-restricted endowment fund are as follows:

	WITH DONOR RESTRICTIONS		
	ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, July 31, 2017	<u>\$ 103,058</u>	<u>\$ 821,454</u>	<u>\$ 924,512</u>
Contributions		21,201	21,201
Net investment return	60,207		60,207
Distributions	<u>(19,693)</u>	<u> </u>	<u>(19,693)</u>
Endowment net assets, July 31, 2018	<u>143,572</u>	<u>842,655</u>	<u>986,227</u>
Contributions		12,165	12,165
Net investment return	32,180		32,180
Distributions	<u>(26,000)</u>	<u> </u>	<u>(26,000)</u>
Endowment net assets, July 31, 2019	<u>\$ 149,752</u>	<u>\$ 854,820</u>	<u>\$ 1,004,572</u>

Endowment net assets consist of the following:

	<u>2019</u> WITH DONOR RESTRICTIONS	<u>2018</u> WITH DONOR RESTRICTIONS
Donor-restricted endowment funds:		
Donor-restricted amounts required to be maintained in perpetuity	\$ 854,820	\$ 842,655
Accumulated investment gains	<u>149,752</u>	<u>143,572</u>
Endowment net assets	<u>\$ 1,004,572</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 perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment funds are also classified as *net assets with donor restrictions* 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 duration and preservation of the funds and other resources of HSPVA Friends in making a determination to appropriate or accumulate donor-restricted endowment funds.

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 *net assets without donor restrictions*. 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 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 15, 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.
