Nehemiah Center, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

Nehemiah Center, Inc.

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Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Nehemiah Center, Inc.:

We have audited the accompanying financial statements of Nehemiah Center, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, of cash flows, and of functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free 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 Nehemiah Center, Inc. as of June 30, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

December 29, 2017

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Nehemiah Center, Inc.

Statements of Financial Position as of June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents *(Note 2)*	$ 186,353	$ 279,111
Pledges receivable	14,158	1,741
Prepaid expenses and other assets	14,731	11,688
Cash designated for property maintenance *(Note 2)*	51,940	73,125
Cash restricted for capital acquisition *(Note 2)*	82,800	82,800
Property and equipment, net *(Note 3)*	1,796,454	1,850,085
TOTAL ASSETS	$ 2,146,436	$ 2,298,550
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 50,580	$ 77,318
Notes payable *(Note 4)*	300,089	213,476
Total liabilities	350,669	290,794
Net assets:		
Unrestricted *(Note 5)*	1,646,263	1,833,869
Temporarily restricted *(Note 6)*	149,504	173,887
Total net assets	1,795,767	2,007,756
TOTAL LIABILITIES AND NET ASSETS	$ 2,146,436	$ 2,298,550

See accompanying notes to financial statements.

Nehemiah Center, Inc.

Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions	$ 750,774	$ 211,400	$ 962,174
Special events	487,892		487,892
Direct donor benefit costs – special events	(129,913)		(129,913)
Program fees	119,896		119,896
Government grants	65,314		65,314
Total revenue	1,293,963	211,400	1,505,363
Net assets released from restrictions:			
Program expenditures	235,783	(235,783)	
Total	1,529,746	(24,383)	1,505,363
EXPENSES:			
Program services:			
Pre-kindergarten (Pre-K)	237,030		237,030
Middle school	425,453		425,453
Academic enrichment	287,058		287,058
High school	204,189		204,189
Family services	70,890		70,890
Adult literacy	55,573		55,573
Summer programs	28,677		28,677
Total program services	1,308,870		1,308,870
Supporting services:			
Management and general	129,080		129,080
Fundraising	279,402		279,402
Total supporting services	408,482		408,482
Total expenses	1,717,352		1,717,352
CHANGES IN NET ASSETS	(187,606)	(24,383)	(211,989)
Net assets, beginning of year	1,833,869	173,887	2,007,756
Net assets, end of year	$ 1,646,263	$ 149,504	$ 1,795,767

See accompanying notes to financial statements.

Nehemiah Center, Inc.

Statement of Activities for the year ended June 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions	$ 620,884	$ 307,608	$ 928,492
Special events	566,777		566,777
Direct donor benefit costs – special events	(121,314)		(121,314)
Program fees	121,834		121,834
Government grants	83,085		83,085
Total revenue	1,271,266	307,608	1,578,874
Net assets released from restrictions:			
Program expenditures	251,521	(251,521)	
Total	1,522,787	56,087	1,578,874
EXPENSES:			
Program services:			
Pre-kindergarten (Pre-K)	225,436		225,436
Middle school	446,869		446,869
Academic enrichment	275,609		275,609
High school	201,058		201,058
Family services	74,638		74,638
Adult literacy	62,954		62,954
Summer programs	40,505		40,505
Total program services	1,327,069		1,327,069
Supporting services:			
Management and general	143,170		143,170
Fundraising	260,884		260,884
Total supporting services	404,054		404,054
Total expenses	1,731,123		1,731,123
CHANGES IN NET ASSETS	(208,336)	56,087	(152,249)
Net assets, beginning of year	2,042,205	117,800	2,160,005
Net assets, end of year	$ 1,833,869	$ 173,887	$ 2,007,756

See accompanying notes to financial statements.

Nehemiah Center, Inc.

Statements of Cash Flows for the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (211,989)	$ (152,249)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	53,631	53,730
Donations received for capital acquisition		(41,150)
Changes in operating assets and liabilities:		
Pledges receivable	(12,417)	49,556
Prepaid expenses and other assets	(3,043)	20,060
Accounts payable and accrued expenses	(26,738)	(2,743)
Net cash used by operating activities	(200,556)	(72,796)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in cash designated for property maintenance	21,185	14,902
Change in cash restricted for capital acquisition		(41,150)
Net cash provided (used) by investing activities	21,185	(26,248)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advance on line of credit	100,000	
Proceeds from contributions for capital acquisition		41,150
Repayment of notes payable	(13,387)	(12,763)
Net cash provided by financing activities	86,613	28,387
NET CHANGE IN CASH AND CASH EQUIVALENTS	(92,758)	(70,657)
Cash and cash equivalents, beginning of year	279,111	349,768
Cash and cash equivalents, end of year	$ 186,353	$ 279,111

Supplemental disclosure of cash flow information:

Interest paid	$9,428	$10,051

See accompanying notes to financial statements.

Nehemiah Center, Inc.

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

	PROGRAM SERVICES								SUPPORTING SERVICES		
	PRE-K	MIDDLE SCHOOL	ACADEMIC ENRICHMENT	HIGH SCHOOL	FAMILY SERVICES	ADULT LITERACY	SUMMER PROGRAMS	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related benefits	$ 156,680	$ 302,914	$ 156,680	$ 83,563	$ 52,227	$ 41,781	$ 20,891	$ 814,736	$ 62,672	$ 167,125	$1,044,533
Occupancy	37,025	55,332	62,530	31,540	13,157	11,524	2,479	213,587	15,465	13,231	242,283
Program supplies	33,763	49,535	37,748	18,426	2,031		864	142,367	345		142,712
Printing, postage and event production costs	49				242			291	1,308	87,278	88,877
Scholarships				64,250				64,250			64,250
Professional fees	825	1,657	73	11	55			2,621	25,738	2,505	30,864
Transportation/field trips	4,630	5,796	21,545	3,881	498		3,993	40,343	20		40,363
Family assistance	3,597	5,395	6,744	2,248	1,798	2,248	450	22,480			22,480
Other	461	4,824	1,738	270	882	20		8,195	23,532	9,263	40,990
Total expenses	$ 237,030	$ 425,453	$ 287,058	$ 204,189	$ 70,890	$ 55,573	$ 28,677	$1,308,870	$ 129,080	$ 279,402	1,717,352
Direct donor benefit costs – special events											129,913
Total											$1,847,265

See accompanying notes to financial statements.

Nehemiah Center, Inc.

Statement of Functional Expenses for the year ended June 30, 2016

	PROGRAM SERVICES								SUPPORTING SERVICES		
	PRE-K	MIDDLE SCHOOL	ACADEMIC ENRICHMENT	HIGH SCHOOL	FAMILY SERVICES	ADULT LITERACY	SUMMER PROGRAMS	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related benefits	$ 156,486	$ 333,670	$ 157,252	$ 83,286	$ 55,007	$ 50,297	$ 28,544	$ 864,542	$ 69,555	$ 164,274	$1,098,371
Occupancy	37,133	55,452	71,109	31,125	13,097	11,478	4,753	224,147	12,495	12,063	248,705
Program supplies	24,804	40,568	30,247	16,583	4,562		1,941	118,705	531	22	119,258
Printing, postage and event production costs	278	779	1,143	86	33			2,319	6,090	78,032	86,441
Scholarships				65,022				65,022			65,022
Professional fees	322	2,211	73	11	55			2,672	25,913	3,215	31,800
Transportation/field trips	4,277	5,519	11,335	3,573			4,939	29,643	22		29,665
Family assistance	1,886	2,829	3,536	1,179	943	1,179	236	11,788			11,788
Other	250	5,841	914	193	941		92	8,231	28,564	3,278	40,073
Total expenses	$ 225,436	$ 446,869	$ 275,609	$ 201,058	$ 74,638	$ 62,954	$ 40,505	$1,327,069	$ 143,170	$ 260,884	1,731,123
Direct donor benefit costs – special events											121,314
Total											$1,852,437

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Nehemiah Center, Inc. (the Center) was founded by members of the First Presbyterian Church of Houston (the Church) in 1994 as a Texas nonprofit corporation. The Center's mission is to offer academic, emotional, cultural, social, and spiritual enrichment to children and their families residing in the Houston inner city. The healthy environment of the Center helps to build trust and a sense of community by developing long-term relationships through a process of engaging and retaining family participation year after year. The Center provides a Pre-K program to eligible children ages 3 to 5. In 2017, approximately 36 students were served daily in the Pre-K program. The Academic enrichment program follows by serving the needs of children after school in kindergarten through elementary school. In 2017, approximately 52 children were served daily in the Academic enrichment program. The Center operates a middle school to serve the needs of economically disadvantaged students in grades 6, 7, and 8. In 2017, approximately 34 students were enrolled in the middle school program. The college preparatory program for after school children is available to those who are beyond elementary school and encompass the unique needs of middle school and high school students. In 2017, approximately 13 students were served daily in the college preparatory program.

Parents are required to be active participants at the Center for their children to remain enrolled. This approach allows the Center's staff the opportunity to interface with the whole family over extended periods of time. In addition, all parents are required to volunteer at least 20 hours a semester at the Center. New families are required to attend 25 hours of Effective Parenting Classes. This requirement presents an opportunity to introduce other programs of the Center such as Life Skills for Women, Fathers & Sons, Computer Literacy, GED, English as a Second Language, and Counseling Services. These adult programs are designed to help identify and deal with the realities of the inner-city family dynamics.

Federal income tax status – The Center 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) and §170(b)(1)(A)(vi).

Cash equivalents are highly liquid financial instruments with original maturities of three months or less.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. At June 30, 2017, all pledges receivable are expected to be collected within one year.

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is calculated using the straight-line method over estimated useful lives of 3 to 39 years.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or future 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 as revenue when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit the use of the donated assets are classified as restricted revenue.

Fees for services – Program fees and government grants are recognized as revenue as services are provided.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of 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. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration, and fundraising for which no amount has been recorded in the financial statements because the services do not meet the criteria for recognition under generally accepted accounting principles.

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 reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are the first phase of changes 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. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2017	2016
Bank deposits	$ 266,031	$ 379,980
Money market mutual funds	55,062	55,056
Total cash and cash equivalents	$ 321,093	$ 435,036

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

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	2017	2016
Land and land improvements	$ 575,873	$ 575,873
Buildings and improvements	1,938,008	1,938,008
Equipment	158,176	158,176
Vans and trucks	102,000	102,000
Total property and equipment, at cost	2,774,057	2,774,057
Accumulated depreciation	(977,603)	(923,972)
Property and equipment, net	$ 1,796,454	$ 1,850,085

NOTE 4 – NOTES PAYABLE AND LINE OF CREDIT

The Center entered into a loan agreement with a bank for the purchase of land in the amount of $270,000. Monthly principal and interest payments of $1,901 (approximately $23,000 per year) are due through August 2018 when a final payment of $185,000 is due. Interest on the loan is a fixed rate of 4.5%. The loan is collateralized by the land purchased.

In June 2016, the Center obtained a $100,000 line of credit from the Church to finance short-term capital needs. This line is uncollateralized and the interest rate is 7%. At June 30, 2017, the Center had an outstanding balance of $100,000 due at June 30, 2018.

Subsequent to year end, the Center entered into a loan agreement with a bank to refinance both of the above notes. This loan bears interest at 5%. The loan is collaterized by land and contains other covenants and commitments.

Future principal payments on the notes payable after the refinancing are as follows:

2018	$ 19,182
2019	23,834
2020	25,053
2021	26,335
2022	27,682
Thereafter through 2027	178,003
Total	$ 300,089

In June 2017, the Center obtained a $100,000 line of credit from a bank to provide for short term cash needs. The loan matures in June 2018. This line is uncollateralized and the interest rate is Wall Street prime plus 2.5%. There was no balance due at June 30, 2017 but subsequent to year end, the Center has borrowed $40,000 and repaid $20,000.

Total interest paid for the years ended June 30, 2017 and 2016 was approximately $9,500 and $10,100, respectively.

NOTE 5 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	2017	2016
Property and equipment, net of debt	$ 1,596,365	$ 1,636,609
Board-designated for property maintenance	51,940	73,125
Undesignated	(2,042)	124,135
Total unrestricted net assets	$ 1,646,263	$ 1,833,869

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
School transportation	$ 82,800	$ 82,800
Camp scholarships	25,115	27,386
Mommy & Me	12,366	13,266
High school scholarship fund	8,157	
Alcorn Scholarship Fund	5,235	29,535
Nehemiah Middle School		7,880
Other	15,831	13,020
Total temporarily restricted net assets	$ 149,504	$ 173,887

NOTE 7 – RELATED PARTY TRANSACTIONS

The Session of the Church approves the members of the Board of Directors of the Center of which the majority are members of the Church. The Church contributed approximately $26,500 in 2017 and $140,000 in 2016 to the Center, of which approximately $23,000 and $42,000, respectively, were from members contributing amounts to the Church designated for the Center. The Session of the Church also approved a revolving line of credit for $100,000 with interest at 7%. At June 30 2017, there was an outstanding balance on the line of $100,000. There was no balance outstanding at June 30, 2016.

NOTE 8 – MANAGEMENT'S PLANS

The Center has experienced a decrease in net assets during the past three fiscal years and now has a small deficit in undesignated, unrestricted net assets and at June 30, 2017 did not have sufficient unrestricted liquid net assets to meet debt requirements during the next 12 months. Subsequent to year end, the Center refinanced debt as described in Note 4.

Effective July 1, 2017, the Center entered into a strategic alliance with Southwest Schools to assume the operations of the Center's charter school. The collaboration with Southwest Schools is expected to decrease annual operating costs by $280,000 in the year ending June 30, 2018 and approximately $325,000 per year thereafter.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 29, 2017, which is the date that the financial statements were available for issuance. Subsequent to year end, the Center obtained a commitment to refinance its notes payable as described in Note 4. 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.