Nehemiah Center, Inc.

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

Nehemiah Center, Inc.

Table of Contents

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, 2018 and 2017 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, 2018 and 2017 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

September 25, 2018

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

Nehemiah Center, Inc.

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

	2018	2017
ASSETS		
Cash and cash equivalents *(Note 2)*	$ 388,359	$ 186,353
Pledges receivable	13,030	14,158
Prepaid expenses and other assets	12,225	14,731
Cash designated for property maintenance *(Note 2)*	51,940	51,940
Cash restricted for capital acquisition *(Note 2)*		82,800
Property and equipment, net *(Note 3)*	1,847,206	1,796,454
TOTAL ASSETS	$ 2,312,760	$ 2,146,436
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 63,468	$ 50,580
Capital leases payable *(Note 4)*	18,418	
Notes payable *(Note 4)*	279,571	300,089
Total liabilities	361,457	350,669
Net assets:		
Unrestricted *(Note 5)*	1,873,108	1,646,263
Temporarily restricted *(Note 6)*	78,195	149,504
Total net assets	1,951,303	1,795,767
TOTAL LIABILITIES AND NET ASSETS	$ 2,312,760	$ 2,146,436

See accompanying notes to financial statements.

Nehemiah Center, Inc.

Statement of Activities for the year ended June 30, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions	$ 764,682	$ 231,953	$ 996,635
Special events	501,955		501,955
Direct donor benefit costs – special events	(90,989)		(90,989)
Program fees	94,571		94,571
Government grants	69,500		69,500
Total revenue	1,339,719	231,953	1,571,672
Net assets released from restrictions:			
Program expenditures	303,262	(303,262)	
Total	1,642,981	(71,309)	1,571,672
EXPENSES:			
Program services:			
Pre-kindergarten (Pre-K)	254,324		254,324
Academic enrichment	249,228		249,228
High school	197,127		197,127
Middle school	170,740		170,740
Family services	70,023		70,023
Adult literacy	52,785		52,785
Summer programs	40,921		40,921
Total program services	1,035,148		1,035,148
Supporting services:			
Management and general	134,384		134,384
Fundraising	246,604		246,604
Total supporting services	380,988		380,988
Total expenses	1,416,136		1,416,136
CHANGES IN NET ASSETS	226,845	(71,309)	155,536
Net assets, beginning of year	1,646,263	149,504	1,795,767
Net assets, end of year	$ 1,873,108	$ 78,195	$ 1,951,303

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
Academic enrichment	287,058		287,058
High school	204,189		204,189
Middle school	425,453		425,453
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.

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 155,536	$ (211,989)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	57,422	53,631
Donations received for capital acquisition	(12,400)	
Changes in operating assets and liabilities:		
Pledges receivable	1,128	(12,417)
Prepaid expenses and other assets	2,506	(3,043)
Accounts payable and accrued expenses	12,888	(26,738)
Net cash provided (used) by operating activities	217,080	(200,556)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(85,265)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advance on line of credit		100,000
Proceeds from contributions for capital acquisition	12,400	
Proceeds from notes payable	40,000	
Repayment of notes and capital leases	(65,009)	(13,387)
Net cash provided (used) by financing activities	(12,609)	86,613
NET CHANGE IN CASH AND CASH EQUIVALENTS	119,206	(113,943)
Cash and cash equivalents, beginning of year	321,093	435,036
Cash and cash equivalents, end of year	$ 440,299	$ 321,093

Reconciliation of cash and cash equivalents reported in the statement of financial position with cash reported in the statement of cash flows:

	2018	2017
Cash and cash equivalents	$ 388,359	$ 186,353
Cash designated for property maintenance	51,940	51,940
Cash restricted for capital acquisitions		82,800
Total cash and cash equivalents	$ 440,299	$ 321,093

Supplemental disclosure of cash flow information:

	2018	2017
Notes payable repaid through refinancing	$292,385	
Property acquired utilizing capital leasing	$22,729	
Interest paid	$13,286	$9,428

See accompanying notes to financial statements.

Nehemiah Center, Inc.

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

	PROGRAM SERVICES								SUPPORTING SERVICES		
	PRE-K	ACADEMIC ENRICHMENT	HIGH SCHOOL	MIDDLE SCHOOL	FAMILY SERVICES	ADULT LITERACY	SUMMER PROGRAMS	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related benefits	$ 153,085	$ 153,085	$ 72,513	$ 80,571	$ 48,343	$ 40,285	$ 32,228	$ 580,110	$ 64,457	$ 161,142	$ 805,709
Occupancy	34,562	52,708	26,290	35,091	11,827	10,065	5,576	176,119	18,335	10,343	204,797
Program supplies	53,457	19,174	17,199	4,335	4,753		2,241	101,159			101,159
Scholarships			71,613					71,613			71,613
Printing, postage and event production costs		120		1,029	185			1,334	1,375	68,466	71,175
Professional fees	616	103		41,679	103			42,501	21,009	2,776	66,286
Transportation/field trips	7,323	15,449	5,073	6,665			397	34,907	257		35,164
Family assistance	5,265	7,179	4,308		4,308	2,393	479	23,932			23,932
Other	16	1,410	131	1,370	504	42		3,473	28,951	3,877	36,301
Total expenses	$ 254,324	$ 249,228	$ 197,127	$ 170,740	$ 70,023	$ 52,785	$ 40,921	$1,035,148	$ 134,384	$ 246,604	1,416,136
Direct donor benefit costs – special events											90,989
Total											$1,507,125

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

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 2018, approximately 31 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 2018, approximately 130 children were served daily in the academic enrichment 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 2018, approximately 60 students were served daily in the college preparatory program. The Center transferred operations of the Nehemiah Middle School to Southwest Charter schools at the beginning of 2018. The middle school is now known as Discovery Middle School.

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, 2018, 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 pronouncements – 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 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 Center is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

During 2018, the Center adopted ASU 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires the statement of cash flows to explain the change in total cash, including restricted cash, during the year and to provide a reconciliation of cash reported in the statement of financial position with cash reported in the statement of cash flows. The statement of cash flows for 2017 was restated to conform with the new presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2018	2017
Bank deposits	$ 394,293	$ 266,031
Money market mutual funds	46,006	55,062
Total cash and cash equivalents	$ 440,299	$ 321,093

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

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	2018	2017
Land and land improvements	$ 575,873	$ 575,873
Buildings and improvements	1,950,398	1,938,008
Equipment	189,585	158,176
Vans and trucks	166,375	102,000
Total property and equipment, at cost	2,882,231	2,774,057
Accumulated depreciation	(1,035,025)	(977,603)
Property and equipment, net	$ 1,847,206	$ 1,796,454

NOTE 4 – DEBT PAYABLE

Notes payable

In January 2018, the Center refinanced its debt. The remaining balance of approximately $192,000 and the outstanding balance on the line of credit from the Church of approximately $100,000 were consolidated into a single note with a bank. Monthly principal and interest payments of $3,111 (approximately $37,000 per year) are due through December 2027. Interest on the loan is at a fixed rate of 5.00%. The loan is collateralized by land and contains other covenants and commitments.

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

2019	$ 23,933
2020	25,158
2021	26,445
2022	27,798
2023	29,220
Thereafter through 2027	147,017
Total	$ 279,571

Total interest expense for the years ended June 30, 2018 and 2017 was approximately $13,300 and $9,500, respectively.

Capital leases payable

The Center is the lessee of telephone and security monitoring equipment under capital leases expiring in various years through 2023. The equipment cost totaled $31,409 and is included with equipment with accumulated depreciation of $2,427. Monthly monitoring fees are included as part of the security monitoring equipment lease.

Minimum future lease payments under capital leases as of June 30, 2018 are as follows:

2019	$ 9,685
2020	9,685
2021	4,264
2022	4,264
2023	4,263
Minimum lease payments	32,161
Amount representing monitoring services	(10,932)
Amount representing interest	(2,811)
Present value of net minimum lease payments	$ 18,418

Interest rates on capitalized leases vary from 7.5% to 8.8%.

Line of credit

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 2019. This line is uncollateralized and the interest rate is Wall Street prime plus 2.5%. At June 30, 2018 and 2017, the Center had no outstanding balance due.

NOTE 5 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	2018	2017
Property and equipment, net of debt	$ 1,549,217	$ 1,596,365
Board-designated for property maintenance	51,940	51,940
Undesignated	271,951	(2,042)
Total unrestricted net assets	$ 1,873,108	$ 1,646,263

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Camp scholarships	$ 28,264	$ 25,115
Alcorn Scholarship Fund	18,335	5,235
High school scholarship fund	7,803	8,157
Mommy & Me	6,529	12,366
School transportation		82,800
Other	17,264	15,831
Total temporarily restricted net assets	$ 78,195	$ 149,504

NOTE 7 – RELATED PARTY TRANSACTIONS

The Session of the Church approves the members of the Board of Directors of the Center, a majority of which are Church members. The Church contributed approximately $100,000 in 2018 and $26,500 in 2017 to the Center, of which approximately $31,000 and $23,000, respectively, were from Church members who designated contributions to the Church for the use of the Center.

In 2017, the Session of the Church provided a $100,000 revolving line of credit to the Center, bearing interest at 7%. There was an outstanding balance on this line of $100,000 at June 30, 2017. This balance was repaid in 2018, interest expense was waived by the Church, and the line was not renewed.

NOTE 8 – COMMITMENTS

Effective July 1, 2017, the Center entered into a strategic alliance with Southwest Charter Schools to assume the operations of the Center's charter school. The contract with the Southwest Charter Schools is for three school years and requires that the Center reimburse Southwest Charter Schools for deficits occurred if the enrollment falls below 40 students. For the 2017-2018 school year, the Center paid for a deficit of $41,575. The contract is renewable for successive one-year terms and under certain conditions is cancellable by either party with 90 days' written notice.

In addition, the Center has an operating lease for copiers under a non-cancelable contract. This lease expires in September 2023 and requires monthly payments totaling approximately $11,700 annually.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 25, 2018, 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.