

Writers in the Schools

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2016 and 2015

Writers in the Schools

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Independent Auditors' Report

To the Board of Directors of
Writers in the Schools:

We have audited the accompanying financial statements of Writers in the Schools, which comprise the statements of financial position as of August 31, 2016 and 2015 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.

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 Writers in the Schools as of August 31, 2016 and 2015 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

March 1, 2017

Writers in the Schools

Statements of Financial Position as of August 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents (<i>Notes 2 and 3</i>) | \$ 1,383,547 | \$ 1,118,853 |
| Program fees receivable, net | 185,781 | 200,947 |
| Prepaid expenses | 29,725 | 14,620 |
| Pledges receivable | 613,089 | 325,122 |
| Investments (<i>Note 3</i>) | <u>716,510</u> | <u>479,993</u> |
| TOTAL ASSETS | <u>\$ 2,928,652</u> | <u>\$ 2,139,535</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 58,630 | \$ 37,649 |
| Deferred revenue – special events | <u>37,770</u> | <u>25,403</u> |
| Total liabilities | <u>96,400</u> | <u>63,052</u> |
| Net assets: | | |
| Unrestricted (<i>Note 4</i>) | 1,993,280 | 1,750,300 |
| Temporarily restricted (<i>Note 5</i>) | <u>838,972</u> | <u>326,183</u> |
| Total net assets | <u>2,832,252</u> | <u>2,076,483</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,928,652</u> | <u>\$ 2,139,535</u> |

See accompanying notes to financial statements.

Writers in the Schools

Statement of Activities for the year ended August 31, 2016

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>TOTAL</u> |
|--|---------------------|-----------------------------------|-----------------------------|
| REVENUE: | | | |
| Program fees (Note 7) | \$ 1,589,201 | | \$ 1,589,201 |
| Contributions (Notes 6 and 7) | 228,236 | \$ 1,079,325 | 1,307,561 |
| Special events | 155,531 | | 155,531 |
| Direct donor benefits | (26,943) | | (26,943) |
| Investment return, net (Note 3) | <u>36,534</u> | <u> </u> | <u>36,534</u> |
| Total revenue | 1,982,559 | 1,079,325 | 3,061,884 |
| Net assets released from restrictions: | | | |
| Program expenditures | <u>566,536</u> | <u>(566,536)</u> | <u> </u> |
| Total | <u>2,549,095</u> | <u>512,789</u> | <u>3,061,884</u> |
| EXPENSES: | | | |
| Instructional writing program | 2,036,567 | | 2,036,567 |
| Management and general | 122,625 | | 122,625 |
| Fundraising | <u>146,923</u> | | <u>146,923</u> |
| Total expenses | <u>2,306,115</u> | | <u>2,306,115</u> |
| CHANGES IN NET ASSETS | 242,980 | 512,789 | 755,769 |
| Net assets, beginning of year | <u>1,750,300</u> | <u>326,183</u> | <u>2,076,483</u> |
| Net assets, end of year | <u>\$ 1,993,280</u> | <u>\$ 838,972</u> | <u>\$ 2,832,252</u> |

See accompanying notes to financial statements.

Writers in the Schools

Statement of Activities for the year ended August 31, 2015

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>TOTAL</u> |
|--|---------------------|-----------------------------------|-----------------------------|
| REVENUE: | | | |
| Program fees (Note 7) | \$ 1,455,960 | | \$ 1,455,960 |
| Contributions (Notes 6 and 7) | 207,150 | \$ 424,368 | 631,518 |
| Special events | 150,823 | | 150,823 |
| Direct donor benefits | (23,398) | | (23,398) |
| Investment return, net (Note 3) | <u>(22,535)</u> | <u> </u> | <u>(22,535)</u> |
| Total revenue | 1,768,000 | 424,368 | 2,192,368 |
| Net assets released from restrictions: | | | |
| Program expenditures | <u>535,132</u> | <u>(535,132)</u> | <u> </u> |
| Total | <u>2,303,132</u> | <u>(110,764)</u> | <u>2,192,368</u> |
| EXPENSES: | | | |
| Instructional writing program | 1,900,138 | | 1,900,138 |
| Management and general | 119,961 | | 119,961 |
| Fundraising | <u>125,838</u> | | <u>125,838</u> |
| Total expenses | <u>2,145,937</u> | | <u>2,145,937</u> |
| CHANGES IN NET ASSETS | 157,195 | (110,764) | 46,431 |
| Net assets, beginning of year | <u>1,593,105</u> | <u>436,947</u> | <u>2,030,052</u> |
| Net assets, end of year | <u>\$ 1,750,300</u> | <u>\$ 326,183</u> | <u>\$ 2,076,483</u> |

See accompanying notes to financial statements.

Writers in the Schools

Statements of Functional Expenses for the years ended August 31, 2016 and 2015

| | INSTRUCTIONAL WRITING PROGRAM | MANAGEMENT AND GENERAL | FUNDRAISING | 2016 TOTAL |
|-------------------------------|-------------------------------------|---------------------------|-------------------|---------------------|
| Salaries and related expenses | \$ 1,604,503 | \$ 83,782 | \$ 114,938 | \$ 1,803,223 |
| Professional fees | 146,761 | 19,281 | 11,873 | 177,915 |
| Publicity and printing | 138,804 | 2,739 | 2,059 | 143,602 |
| Occupancy | 23,740 | 2,638 | 6,595 | 32,973 |
| Credit card and bank fees | 27,552 | 567 | 1,819 | 29,938 |
| Travel | 28,505 | | 169 | 28,674 |
| Supplies | 18,402 | 3,681 | 2,454 | 24,537 |
| Meals and food supplies | 13,245 | 5,663 | 1,145 | 20,053 |
| Insurance | 10,571 | 1,175 | 2,936 | 14,682 |
| Rental equipment | 5,881 | 653 | 1,634 | 8,168 |
| Space rental | 6,156 | 293 | | 6,449 |
| Telephone and utilities | 2,974 | 595 | 397 | 3,966 |
| Postage and delivery | 996 | 249 | 830 | 2,075 |
| Other | <u>8,477</u> | <u>1,309</u> | <u>74</u> | <u>9,860</u> |
| Total | <u>\$ 2,036,567</u> | <u>\$ 122,625</u> | <u>\$ 146,923</u> | <u>\$ 2,306,115</u> |

| | INSTRUCTIONAL WRITING PROGRAM | MANAGEMENT AND GENERAL | FUNDRAISING | 2015 TOTAL |
|-------------------------------|-------------------------------------|---------------------------|-------------------|---------------------|
| Salaries and related expenses | \$ 1,447,576 | \$ 71,138 | \$ 103,684 | \$ 1,622,398 |
| Professional fees | 185,616 | 29,937 | 1,715 | 217,268 |
| Publicity and printing | 105,250 | 2,670 | 3,918 | 111,838 |
| Occupancy | 22,675 | 2,519 | 6,299 | 31,493 |
| Credit card and bank fees | 28,256 | 974 | 1,719 | 30,949 |
| Travel | 24,966 | | 112 | 25,078 |
| Supplies | 13,802 | 2,760 | 1,840 | 18,402 |
| Meals and food supplies | 12,575 | 6,169 | | 18,744 |
| Insurance | 10,342 | 1,149 | 2,873 | 14,364 |
| Rental equipment | 7,048 | 783 | 1,959 | 9,790 |
| Space rental | 11,115 | 383 | | 11,498 |
| Telephone and utilities | 2,507 | 501 | 334 | 3,342 |
| Postage and delivery | 1,662 | 416 | 1,385 | 3,463 |
| Other | <u>26,748</u> | <u>562</u> | <u></u> | <u>27,310</u> |
| Total | <u>\$ 1,900,138</u> | <u>\$ 119,961</u> | <u>\$ 125,838</u> | <u>\$ 2,145,937</u> |

See accompanying notes to financial statements.

Writers in the Schools

Statements of Cash Flows for the years ended August 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 755,769 | \$ 46,431 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Net realized and unrealized (gain) loss on investments | (31,233) | 24,409 |
| Changes in operating assets and liabilities: | | |
| Program fees receivable | 15,166 | (153,378) |
| Prepaid expenses | (15,105) | (4,271) |
| Pledges receivable | (287,967) | 117,597 |
| Accounts payable and accrued expenses | 20,981 | 10,787 |
| Deferred revenue – special events | <u>12,367</u> | <u>7,678</u> |
| Net cash provided by operating activities | <u>469,978</u> | <u>49,253</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales of investments | 149,175 | |
| Purchases of investments | (318,778) | (492,358) |
| Net change in money market mutual funds held as investments | <u>(35,681)</u> | <u>(12,044)</u> |
| Net cash used by investing activities | <u>(205,284)</u> | <u>(504,402)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 264,694 | (455,149) |
| Cash and cash equivalents, beginning of year | <u>1,118,853</u> | <u>1,574,002</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,383,547</u> | <u>\$ 1,118,853</u> |

See accompanying notes to financial statements.

Writers in the Schools

Notes to Financial Statements for the years ended August 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Writers in the Schools (WITS) is a Texas nonprofit corporation created to engage children in the pleasure of writing and reading by placing professional writers in schools and community settings in order to develop creative and analytical thinking. Writers work with students from kindergarten to twelfth grade in public and private schools in Houston, Texas and the surrounding metropolitan area. WITS' writers also conduct in-service training and workshops for teachers, summer creative writing workshops, and special outreach programs for children at M.D. Anderson Cancer Center, Texas Children's Hospital, The Menil Collection, and various community centers.

Federal income tax status – WITS is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi).

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

Program fees receivable – An allowance for program receivables is provided when it is believed they may not be collected in full. The amount of bad debt expense recorded each period and the resulting adequacy of the allowance at the end of each period are determined using a customer-by-customer analysis of balances each period. At August 31, 2016 and 2015, the allowance for uncollectible accounts are \$10,558 and \$19,558, respectively.

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 recorded at the present value of the expected future cash flows, if material. At August 31, 2016, pledges receivable are due to be received as follows: \$363,089 within one year and \$250,000 in one to five years.

Investments are reported at fair value.

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 time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Program fees are recognized when the related services are provided. Amounts received but unearned are reported as deferred revenue.

Contributions are recognized as revenue when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials, services, and use of facilities are recognized at fair value as 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.

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------|---------------------|---------------------|
| Bank deposits | \$ 1,205,188 | \$ 940,512 |
| Money market mutual funds | <u>178,359</u> | <u>178,341</u> |
| Total cash and cash equivalents | <u>\$ 1,383,547</u> | <u>\$ 1,118,853</u> |

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

NOTE 3 – 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 August 31, 2016 are as follows:

| | <u>LEVEL 1</u> | <u>LEVEL 2</u> | <u>LEVEL 3</u> | <u>TOTAL</u> |
|--|-------------------|----------------|----------------|-------------------|
| Investments: | | | | |
| Exchange-traded equity funds | \$ 358,566 | | | \$ 358,566 |
| Exchange-traded fixed-income funds | 310,219 | | | 310,219 |
| Money market mutual funds | <u>47,725</u> | | | <u>47,725</u> |
| Total investments measured at fair value | 716,510 | | | 716,510 |
| Cash equivalents: | | | | |
| Money market mutual funds | <u>178,359</u> | | | <u>178,359</u> |
| Total assets measured at fair value | <u>\$ 894,869</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 894,869</u> |

Assets measured at fair value at August 31, 2015 are as follows:

| | <u>LEVEL 1</u> | <u>LEVEL 2</u> | <u>LEVEL 3</u> | <u>TOTAL</u> |
|--|-------------------|----------------|----------------|-------------------|
| Investments: | | | | |
| Exchange-traded equity funds | \$ 276,141 | | | \$ 276,141 |
| Exchange-traded fixed-income funds | 191,808 | | | 191,808 |
| Money market mutual funds | <u>12,044</u> | | | <u>12,044</u> |
| Total investments measured at fair value | 479,993 | | | 479,993 |
| Cash equivalents: | | | | |
| Money market mutual funds | <u>178,341</u> | | | <u>178,341</u> |
| Total assets measured at fair value | <u>\$ 658,334</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 658,334</u> |

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

- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.

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 WITS 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.

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

| | <u>2016</u> | <u>2015</u> |
|--|------------------|--------------------|
| Interest and dividends | \$ 13,842 | \$ 4,562 |
| Net realized and unrealized gain (loss) on investments | 31,233 | (24,409) |
| Investment management fees | <u>(8,541)</u> | <u>(2,688)</u> |
| Investment return, net | <u>\$ 36,534</u> | <u>\$ (22,535)</u> |

NOTE 4 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|---------------------|---------------------|
| Undesignated | \$ 1,493,280 | \$ 1,450,300 |
| Board-designated for cash reserves | <u>500,000</u> | <u>300,000</u> |
| Total unrestricted net assets | <u>\$ 1,993,280</u> | <u>\$ 1,750,300</u> |

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Writers in the Schools Collaborative Project | \$ 675,000 | \$ 150,000 |
| Program support for future periods | 92,175 | 153,618 |
| Writers in the Schools Performance Series | 27,565 | 22,565 |
| Writers in the Schools Digital Series | <u>44,232</u> | <u> </u> |
| Total temporarily restricted net assets | <u>\$ 838,972</u> | <u>\$ 326,183</u> |

NOTE 6 – NON-CASH CONTRIBUTIONS

WITS recognized the following non-cash contributions:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|------------------|-------------------|
| Printing and graphic design services | \$ 53,552 | \$ 48,790 |
| Security, facility and personnel | 25,000 | 25,000 |
| Consultant for Performance | | 18,000 |
| Other | <u>9,726</u> | <u>13,297</u> |
| Total | <u>\$ 88,278</u> | <u>\$ 105,087</u> |

These amounts were recognized as contributions and instructional writing program expenses in the statement of activities.

NOTE 7 – CONCENTRATIONS

WITS contracts with various private and public schools. During the years ended August 31, 2016 and 2015, approximately 23% and 21%, respectively, of program fees resulted from contracts with one public school district.

For the years ended August 31, 2016 and 2015, pledges receivable consisted of approximately 73% from one donor and 88% from three donors, respectively. For the years ended August 31, 2016 and 2015, approximately 65% and 40%, respectively, of contributions were from three donors.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 1, 2017, 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.