

HIGHER ACHIEVEMENT PROGRAM, INC.
(a nonprofit organization)

FINANCIAL STATEMENTS

Year Ended August 31, 2018
(with Summarized Comparative Information for the year ended August 31, 2017)

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6 - 7
Notes to Financial Statements	8 - 22

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Higher Achievement Program, Inc.
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Higher Achievement Program, Inc. (Higher Achievement) which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses, and 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Higher Achievement as of August 31, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the Higher Achievement's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2019, on our consideration of Higher Achievement's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Higher Achievement's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Higher Achievement's internal control over financial reporting and compliance.

Renner and Company, CPA, P.C.

Alexandria, Virginia
June 30, 2019

HIGHER ACHIEVEMENT PROGRAM, INC.**STATEMENT OF FINANCIAL POSITION****August 31, 2018 (with Comparative Information as of August 31, 2017)****ASSETS**

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,036,336	\$ 2,407,694
Grants receivable, net of allowance for doubtful accounts	1,755,425	2,164,586
Contributions receivable	637,763	393,493
Prepaid expense	49,462	71,778
Advances	1,200	1,700
TOTAL CURRENT ASSETS	<u>3,480,186</u>	<u>5,039,251</u>
PROPERTY AND EQUIPMENT , at cost, net of accumulated depreciation	<u>2,608,485</u>	<u>2,728,555</u>
OTHER ASSETS		
Investments	1,020,337	-
Contributions receivable, long-term, net of discount	17,500	125,457
Security deposit	3,656	3,656
TOTAL OTHER ASSETS	<u>1,041,493</u>	<u>129,113</u>
TOTAL ASSETS	<u>\$ 7,130,164</u>	<u>\$ 7,896,919</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 380,474	\$ 424,464
Deferred revenue	50,500	304,500
Refundable deposits	-	96,018
Deferred rent	6,239	5,206
Note payable	23,359	22,432
TOTAL CURRENT LIABILITIES	<u>460,572</u>	<u>852,620</u>
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	2,666	10,525
Note payable, net of current portion	665,593	686,868
TOTAL LONG-TERM LIABILITIES	<u>668,259</u>	<u>697,393</u>
TOTAL LIABILITIES	<u>1,128,831</u>	<u>1,550,013</u>
NET ASSETS		
With donor restriction	2,358,839	2,220,499
Without donor restriction	2,030,560	2,514,473
Without donor restriction - board designated	1,611,934	1,611,934
TOTAL NET ASSETS	<u>6,001,333</u>	<u>6,346,906</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,130,164</u>	<u>\$ 7,896,919</u>

See Notes to Financial Statements.

HIGHER ACHIEVEMENT PROGRAM, INC.**STATEMENT OF ACTIVITIES****Year Ended August 31, 2018 (with Summarized Comparative Information for the year ended August 31, 2017)**

	2018		2017	
	Without Donor Restriction	With Donor Restriction	Total	Total
REVENUE AND SUPPORT				
Grants and contributions, net of discount on long term pledges	\$ 1,307,985	\$ 2,994,587	\$ 4,302,572	\$ 2,813,325
Governmental grants	3,987,490	-	3,987,490	3,699,936
Individual and corporate contributions	1,603,196	-	1,603,196	2,833,252
In-kind donations	597,699	-	597,699	706,363
Investment and other	39,715	-	39,715	18,157
Net assets released from restrictions	2,856,247	(2,856,247)	-	-
TOTAL REVENUE AND SUPPORT	10,392,332	138,340	10,530,672	10,071,033
EXPENSES				
Program	7,254,224	-	7,254,224	7,614,521
General and administrative	2,318,335	-	2,318,335	2,363,064
Fundraising	1,303,686	-	1,303,686	1,044,406
TOTAL EXPENSES	10,876,245	-	10,876,245	11,021,991
CHANGE IN NET ASSETS	(483,913)	138,340	(345,573)	(950,958)
NET ASSETS, beginning of year	4,126,407	2,220,499	6,346,906	7,297,864
NET ASSETS, end of year	\$ 3,642,494	\$ 2,358,839	\$ 6,001,333	\$ 6,346,906

See Notes to Financial Statements.

HIGHER ACHIEVEMENT PROGRAM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2018 (with Summarized Comparative Information for the year ended August 31, 2017)

	2018			2017	
	Program	General and Administrative	Fundraising	Total	Total
Payroll	\$ 3,971,360	\$ 1,007,039	\$ 762,333	\$ 5,740,732	\$ 5,591,235
Fringe benefits and payroll taxes	718,892	194,488	148,428	1,061,808	1,047,067
Professional fees	576,275	231,300	88,906	896,481	-
Consulting fees - In-kind	563,155	-	-	563,155	1,541,972
Scholar transportation and housing	330,953	-	-	330,953	397,745
Information technology	196,599	50,383	28,645	275,627	201,276
Special events	66,989	1,302	141,538	209,829	231,120
Bad debt	183,556	24,864	-	208,420	323,050
Travel and training	64,517	33,940	39,654	138,111	73,792
Depreciation	24,365	95,705	-	120,070	154,137
Security and maintenance	117,949	362	-	118,311	74,708
Insurance	-	98,252	-	98,252	61,618
Elective programs	96,255	-	-	96,255	105,153
Occupancy	4,920	83,964	-	88,884	112,236
Center educational supplies	79,176	-	-	79,176	151,106
Cleaning, utilities and security	995	68,973	-	69,968	95,401
Office supplies	25,328	39,785	2,100	67,213	55,513
Telephone	24,683	41,562	-	66,245	48,495
Interest	-	52,976	-	52,976	35,044
Licenses and fees	-	600	50,574	51,174	11,156
Field trips	50,679	-	-	50,679	50,656
Copying and printing	14,706	26,466	9,128	50,300	52,279
Promotional materials	19,547	4,480	21,790	45,817	30,563
Repairs and maintenance	-	41,640	-	41,640	14,347
Payroll processing fees	40,979	-	-	40,979	58,410
Dues and subscriptions	4,253	28,634	3,105	35,992	29,351
Miscellaneous	-	34,781	-	34,781	479
Legal - In-kind	-	34,544	-	34,544	148,855
Tuition reimbursement	-	33,147	-	33,147	27,617
Professional development	6,792	22,623	2,238	31,653	33,931
Scholar meals	26,974	-	-	26,974	72,828
Job posting and background checks	18,948	4,744	-	23,692	15,644
Real estate taxes	-	23,638	-	23,638	21,278
Meetings	7,634	11,022	3,592	22,248	60,230
Recognition	9,592	9,815	179	19,586	-
Bank service fees	7,020	3,189	-	10,209	15,322
Audit fees	-	9,465	-	9,465	63,482
Postage	1,133	4,652	1,476	7,261	10,170
Vacation accrual	-	-	-	-	4,725
TOTAL EXPENSES	\$ 7,254,224	\$ 2,318,335	\$ 1,303,686	\$ 10,876,245	\$ 11,021,991

See Notes to Financial Statements.

HIGHER ACHIEVEMENT PROGRAM, INC.**STATEMENT OF CASH FLOWS****Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations		
Government grants, fees, contributions received	\$ 10,536,690	\$ 10,978,304
Interest income	4,489	844
	<u>10,541,179</u>	<u>10,979,148</u>
Cash disbursed by operations		
Payments to employees and suppliers	10,827,217	11,172,126
Interest paid	52,976	35,044
	<u>10,880,193</u>	<u>11,207,170</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(339,014)</u>	<u>(228,022)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	73,553	-
Purchase of investments	(1,085,549)	-
Purchase of equipment	-	(12,750)
	<u>(1,011,996)</u>	<u>(12,750)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,011,996)</u>	<u>(12,750)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on note payable	(20,348)	(16,022)
Line of credit charge waiver	-	(47)
	<u>(20,348)</u>	<u>(16,069)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(20,348)</u>	<u>(16,069)</u>
NET DECREASE IN CASH	(1,371,358)	(256,841)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,407,694</u>	<u>2,664,535</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,036,336</u>	<u>\$ 2,407,694</u>
NON-CASH INVESTING ACTIVITIES		
Unrealized gain in fair value of investments	\$ (8,341)	\$ -
Increase in fair value of investments	8,341	-
	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

HIGHER ACHIEVEMENT PROGRAM, INC.**STATEMENT OF CASH FLOWS****Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)****RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH USED BY OPERATING ACTIVITIES**

	<u>2018</u>	<u>2017</u>
CHANGE IN NET ASSETS	<u>\$ (345,573)</u>	<u>\$ (950,958)</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Depreciation	120,070	154,137
Unrealized gain on investments	(8,341)	-
Non-cash occupancy costs	<u>(6,826)</u>	<u>20,939</u>
NET ADJUSTMENTS	<u>104,903</u>	<u>175,076</u>
CHANGES IN ASSETS AND LIABILITIES AFFECTING OPERATIONS PROVIDING (USING) CASH AND CASH EQUIVALENTS		
ASSETS		
Grants receivable, net of allowance for doubtful accounts	409,161	794,520
Contributions receivable, net of discount	(136,313)	188,077
Prepaid expense	22,316	(21,321)
Advances	<u>500</u>	<u>(1,700)</u>
	<u>295,664</u>	<u>959,576</u>
LIABILITIES		
Accounts payable and accrued expenses	(43,990)	(338,934)
Deferred revenue	(254,000)	(93,800)
Refundable deposits	<u>(96,018)</u>	<u>21,018</u>
	<u>(394,008)</u>	<u>(411,716)</u>
NET CHANGES IN ASSETS AND LIABILITIES	<u>(98,344)</u>	<u>547,860</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (339,014)</u></u>	<u><u>\$ (228,022)</u></u>

See Notes to Financial Statements.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE

Organization

The Higher Achievement Program, Inc. (Higher Achievement) is a 501(c)(3) nonprofit organization incorporated in 1985 under the laws of the District of Columbia. Higher Achievement is dedicated to challenging intellectually curious middle school students from low-income neighborhoods in Washington, DC, Alexandria, VA, Baltimore, MD, Pittsburgh, PA, and Richmond, VA to reach their highest potential for academic performance and community leadership. Higher Achievement's programs are supported primarily through grants and contributions.

Program Descriptions

Higher Achievement operates year-round Achievement Centers in four cities that offer over 650 hours annually of rigorous academic enrichment to children during the most critical time in a child's development: middle school. Centers operate year-round during critical "gap" periods when children are not in school: after school and in the summer. Children enroll in 5th or 6th grade and dedicate three to four years after school and summer to stay on track for college.

Higher Achievement cultivates talent in middle school scholars and connects them with the opportunity to attend college-preparatory high school programs. Ultimately, 95% of alumni graduate from high school – approximately twice the rates of their peers.

Classes of Assets

In accordance with U.S. GAAP, Higher Achievement's net assets are classified into two categories: without donor restriction and with donor restriction. Net assets without donor restriction are available for the general operations of Higher Achievement or are designated by the Board for future use or a particular purpose. Net assets with donor restriction are subject to donor-imposed stipulations as to their use for specific programs conducted by Higher Achievement or are held in perpetuity.

Net Assets Without Donor Restriction

Higher Achievement includes operating net assets which are available for the general operations of Higher Achievement as net assets without donor restriction, as well as Board-designated net assets set aside for future use or a particular purpose.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (CONTINUED)

Classes of Assets (Continued)

Net Assets With Donor Restriction

Higher Achievement reports gifts of cash and other restricted support if they are received with donor stipulations that limit the use of donated assets as net assets with donor restriction. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Investment gains and losses earned on donor restricted funds held by Higher Achievement are recorded as an increase or decrease in net assets with donor restriction.

Adoption of New Accounting Standard

Higher Achievement has adopted the financial statement presentation and disclosure standards contained in the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, modifying ASC 958. The change has been applied as of August 31, 2018 with no effect on beginning net assets.

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Summarized Comparative Information

The financial statements include certain summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with Higher Achievement's financial statements for the year ended August 31, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash consists of checking accounts. Higher Achievement considers all highly liquid debt instruments with an initial maturity of 90 days or less and money market funds held with investment brokers to be cash equivalents.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (CONTINUED)

Grants Receivable

Grants receivable are stated at unpaid balances, less an allowance for doubtful accounts and a discount on long-term grants receivable. Higher Achievement provides for losses on grants receivable using the allowance method. The allowance is based on the reserve method using management's judgment and Higher Achievement's approved policy. Higher Achievement utilizes an allowance method for amounts past due. A balance is considered past due 30 days after the invoice date. When all collection efforts have been exhausted, the receivable is written off against the related reserve. An allowance was recorded in the amount of \$80,000 as of August 31, 2018 and August 31, 2017.

Contributions Receivable

Contributions receivable are recognized as support in the period the contribution is made. Conditional contributions receivable are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions receivable are carried at the original amount promised less any estimates made for doubtful contributions based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful contributions by regularly evaluating individual contributions and considering the prior history of the donor and proven collectability of past donations. Contributions receivable are written off when deemed uncollectible. Recoveries of contributions receivable previously written off are recorded when received. Contributions due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 4%.

Property and Equipment

Buildings and related improvements, furniture, equipment and software are stated at cost and are depreciated using the straight-line method over their estimated useful lives, with no salvage value. The estimated useful lives used for depreciating fixed assets range from three to five years for furniture, equipment, and software, to 30 years for buildings. Building improvements are depreciated over the shorter of the remaining life of the building or the life of the improvements. Expenditures for major repairs and improvements are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred. All acquisitions greater than \$5,000 with expected useful lives greater than one year are capitalized.

Fair Value Measurements

Higher Achievement applies U.S. GAAP for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (CONTINUED)

Donor Restricted Revenue

Grants received are recorded as net assets without donor restriction, or net assets with donor restriction, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue is reported as an increase in net assets with donor restriction, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restriction.

Revenue from government grants is recognized on the basis of allowable direct and indirect costs incurred. Revenue from government grants earned but not collected by year-end is included in grants and contribution receivable in the accompanying statement of financial position.

Deferred revenue represents revenue collected in advance for future services.

In-kind Contributions

In-kind contributions of professional volunteer services have been recorded based on estimated fair value. In-kind items donated for various special events are recorded based on estimated fair value.

Income Taxes

Higher Achievement is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for federal income taxes has been recorded except as may be determined for unrelated business income.

In accounting for uncertainty in income taxes, accounting standards require an entity to recognize the financial statement impact of a tax position when it is more-likely-than-not than the position will not be sustained upon examination. Management evaluated Higher Achievement's tax position and concluded there are no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the guidance.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (CONTINUED)

Allocated Expenses

Direct costs associated with specific programs are recorded as program expenses. Administrative staff and staff working on multiple programs use time sheets to capture actual hours devoted to project areas.

Higher Achievement's policy is to allocate allocable general operating expenses and management expenses to certain programs based on the direct costs. Allocated management and general expenses not reimbursed by grant programs are borne by Higher Achievement.

The costs of providing various programs and other activities have been summarize on a functional basis in the statement of activities. Accordingly, certain costs, such as payroll, fringe benefits and payroll taxes, professional fees, information technology, special events, bad debt, travel and training, depreciation, security and maintenance, occupancy, cleaning, utilities and security, office supplies, telephone, licenses and fees, copying and printing, promotional materials, dues and subscriptions, professional development, job posting and background check, meetings, recognition, bank service fees, and postage have been allocated among the program and supporting services based on level of effort.

Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with U.S. GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

The significant estimates affecting the financial statements include the estimated fair value of the in-kind professional volunteer services.

Higher Achievement participates in a number of federally assisted programs which are subject to financial and compliance audits by the federal agencies or their representatives. As such, there is a possibility that questioned costs might result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit for the current year costs.

Reclassification

Certain account balances within the prior year financial statements have been reclassified to conform to the current year financial statement presentation.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (CONTINUED)

Liquidity

Higher Achievement maintains a liquid cash balance in checking and money market accounts in an amount necessary to meet its anticipated expenditures for the next 30 days. Cash in excess of this amount is invested in short-term investments.

Higher Achievement has secured a line of credit of up to \$600,000 to help manage cash flow. There was no borrowing during the year ended August 31, 2018. The line of credit expires May 12, 2020.

Higher Achievement reconciles the balance of financial assets subject to donor restrictions monthly, based on restricted amounts used and received. Restricted cash and investments are separately identified and monitored as part of the Higher Achievement's monthly financial reporting process.

Higher Achievement's financial assets available within one year to meet cash needs for general expenditures through August 31, 2019 are as follows:

Financial Assets	
Cash	\$ 1,036,336
Grants receivable, net of allowance for doubtful accounts	1,755,425
Contributions receivable	637,763
Investments	1,020,337
Total Financial assets	<u>4,449,861</u>
Less amounts not available within one year	
Purpose restricted net assets	(2,358,839)
Board-designated net assets	<u>(1,611,934)</u>
Financial assets available within one year to meet cash needs for general expenditures within one year	<u>\$ 479,088</u>

2. CASH AND CASH EQUIVALENTS

Cash at August 31, 2018, and 2017 consisted of the following:

	2018	2017
Checking	\$ 1,027,148	\$ 1,512,918
Money market fund	9,188	894,776
	<u>\$ 1,036,336</u>	<u>\$ 2,407,694</u>

Bank balances in a financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The amounts in excess of the limit of the FDIC coverage as of August 31, 2018 and 2017 are \$1,038,515 and \$2,048,346, respectively.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

3. GRANTS RECEIVABLE

Grants receivable as of August 31, 2018 and 2017 consisted of the following:

	2018	2017
Government grants and other	\$ 1,002,728	\$ 1,354,194
Corporation and individual contributions	826,550	633,500
Foundation grants	6,147	256,892
	<u>1,835,425</u>	<u>2,244,586</u>
Less: allowance for doubtful accounts	<u>(80,000)</u>	<u>(80,000)</u>
	<u>\$ 1,755,425</u>	<u>\$ 2,164,586</u>

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of August 31, 2018 and 2017 consisted of the following:

	2018	2017
Government grants and other	\$ 425,200	\$ 6,095
Corporation and individual contributions	231,106	376,678
Foundation grants	15,000	152,220
	<u>671,306</u>	<u>534,993</u>
Less: discounts on multi-year pledges	<u>(16,043)</u>	<u>(16,043)</u>
	<u>\$ 655,263</u>	<u>\$ 518,950</u>

Contributions receivable at August 31, 2018 and 2017 were due over the following periods:

	2018	2017
Due in less than one year	\$ 637,763	\$ 393,493
Due in one to five years	17,500	125,457
	<u>\$ 655,263</u>	<u>\$ 518,950</u>

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

5. PROPERTY AND EQUIPMENT

A summary of information relative to property and depreciation for the year ended August 31, 2018 and August 31, 2017 are as follows:

	2018		
	Cost	Depreciation Expense	Accumulated Depreciation
Land and building	\$ 2,561,054	\$ 53,289	\$ 548,024
Property improvements	633,137	26,538	95,829
Software	66,352	8,136	66,051
Computers and equipment	124,412	18,089	113,815
Furniture	87,478	10,908	51,716
Scholar library	2,442	-	2,442
Closing costs	27,931	3,110	16,444
	<u>\$ 3,502,806</u>	<u>\$ 120,070</u>	<u>\$ 894,321</u>
	2017		
	Cost	Depreciation Expense	Accumulated Depreciation
Land and building	\$ 2,561,054	\$ 53,288	\$ 494,736
Property improvements	717,204	23,556	153,358
Software	605,087	20,904	596,650
Computers and equipment	255,155	40,782	226,469
Furniture	253,787	12,497	207,116
Scholar library	2,442	-	2,442
Closing costs	27,931	3,110	13,334
	<u>\$ 4,422,660</u>	<u>\$ 154,137</u>	<u>\$ 1,694,105</u>

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

6. INVESTMENTS

Investments at December 31, 2018 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Accumulated Unrealized gain/(loss)</u>
Mutual funds			
Corporate bond	\$ 50,000	\$ 49,901	\$ (99)
Foreign small growth	30,000	31,018	1,018
Large blend	140,000	142,768	2,768
Large growth	245,000	246,763	1,763
Large value	135,000	136,141	1,141
Medium value	40,000	40,000	-
Mid-cap growth	115,000	117,826	2,826
Mid-cap value	75,000	75,471	471
Short-term bond	100,000	100,000	-
Small blend	30,000	30,449	449
Ultra short bond	50,000	50,000	-
	<u>\$ 1,010,000</u>	<u>\$ 1,020,337</u>	<u>\$ 10,337</u>

Investment income for the years ended December 31, 2018 and 2017 is comprised of the following:

	<u>2018</u>	<u>2017</u>
Unrealized gain	\$ 8,341	\$ -
Interest and dividends	4,489	-
Total investment income	<u>\$ 12,830</u>	<u>\$ -</u>

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

7. FAIR VALUE MEASUREMENTS

Higher Achievement records investments based on fair value on a recurring basis. Financial accounting and reporting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The standard emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the standards established a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent from the reporting entity (observable inputs that are classified within level 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level 3 of the hierarchy).

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Higher Achievement's assessment of the significance of the particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets and liabilities.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

7. FAIR VALUE MEASUREMENTS (CONTINUED)

The following summarizes investments, measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, as of August 31, 2018:

	<u>Fair Value</u>	<u>Level 1</u>
Mutual funds		
Corporate bond	\$ 49,901	\$ 49,901
Foreign small growth	31,018	31,018
Large blend	142,768	142,768
Large growth	246,763	246,763
Large value	136,141	136,141
Medium value	40,000	40,000
Mid-cap growth	117,826	117,826
Mid-cap value	75,471	75,471
Short-term bond	100,000	100,000
Small blend	30,449	30,449
Ultra short bond	50,000	50,000
	<u>\$ 1,020,337</u>	<u>\$ 1,020,337</u>

8. NOTE PAYABLE

Higher Achievement was awarded a capital grant from Freddie Mac in the amount of \$640,000 for the purchase of a new building in Washington DC. In May 2013, Higher Achievement also entered into a business loan agreement and executed a Promissory Note in the principal amount of \$800,000, with a maturity date of May 31, 2023.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

8. NOTE PAYABLE (CONTINUED)

The note requires monthly payments of \$4,249 for 119 payments with a balloon payment of \$576,380 in 2023, and it is secured by the newly acquired building. Interest rate on the note is a variable 3.0% points over the Treasury Index, rounded to the nearest 0.125%. At no time will the interest be less than 4%. The note agreement includes restrictive covenants. As of August 31, 2018, management believes Higher Achievement was in compliance with the covenants. Estimated future principal payments due on the note as of August 31, 2018 are as follows:

Year Ending August 31,	
2019	\$ 23,359
2020	24,249
2021	25,325
2022	26,372
2023	589,647
	<hr/>
	\$ 688,952
	<hr/>

The interest expense related to this note payable was \$52,976 and \$35,044 for the years ended August 31, 2018 and August 31, 2017, respectively.

9. LINE OF CREDIT

Higher Achievement has a \$600,000 line of credit secured by the property located at 1750 Columbia Road. Bank advances on the credit line are payable on demand. The interest rate is 0.500 percentage points over U.S. Prime Rate, rounded up to the nearest 0.125 percent. Under no circumstances will the interest rate on this line of credit be less than 4.25% per annum. For the year ended August 31, 2018, the interest rate was 4.75%. The maturity date is open ended. The unused line of credit at August 31, 2018 was \$600,000. There was no outstanding balance on this line of credit as of August 31, 2018 and August 31, 2017. There was no borrowing on the line of credit during the current or prior year and thus the interest expense was \$0 for the year ended August 31, 2018 and August 31, 2017.

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

10. NET ASSETS WITH DONOR RESTRICTION

As of August 31, 2018 and August 31, 2017, net assets with donor restriction were available for the following programs and time periods:

	2018			Balance August 31, 2018
	Balance August 31, 2017	Support and Revenue	Net assets released from restriction	
Capacity building, expansion, and program evaluation	\$ 379,688	\$ 30,000	\$ 145,000	\$ 264,688
Program support and other	735,671	1,923,779	1,514,203	1,145,247
Time restricted	1,105,140	1,040,808	1,197,044	948,904
Total	<u>\$ 2,220,499</u>	<u>\$ 2,994,587</u>	<u>\$ 2,856,247</u>	<u>\$ 2,358,839</u>

	2017			Balance August 31, 2017
	Restated Balance August 31, 2016	Support and Revenue	Net assets released from restriction	
Capacity building, expansion, and program evaluation	\$ 233,480	\$ 259,680	\$ 113,472	\$ 379,688
Program support and other	529,249	1,627,527	1,421,105	735,671
Time restricted	2,412,849	140,444	1,448,153	1,105,140
Total	<u>\$ 3,175,578</u>	<u>\$ 2,027,651</u>	<u>\$ 2,982,730</u>	<u>\$ 2,220,499</u>

11. SPECIAL EVENTS

Higher Achievement held an annual fundraising event in November 2017 and October 2016. The event activity was as follows:

	2018	2017
Corporate and individual contributions	\$ 1,031,098	\$ 1,296,045
Foundation revenue	60,000	25,000
Less: Direct benefits to donors	(1)	(128,074)
Total	<u>\$ 1,091,097</u>	<u>\$ 1,192,971</u>

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

11. SPECIAL EVENTS (CONTINUED)

It is reflected as follows in the statement of activities:

Corporate and individual contributions	\$ 1,031,097	\$ 1,170,395
Foundation revenue	<u>60,000</u>	<u>22,576</u>
Total	<u>\$ 1,091,097</u>	<u>\$ 1,192,971</u>

12. LEASES

Higher Achievement entered into a lease agreement for office space in Baltimore, Maryland which commenced on April 1, 2012 with an initial termination of April 30, 2015 that was extended to March 31, 2021. The lease extension requires annual rental payments of \$19,536, and includes a provision for annual 3% increase of base rent, if extension beyond March 31, 2021 is exercised.

Higher Achievement entered into a lease agreement for office space in Richmond, Virginia which commenced on January 15, 2014 with an initial termination of January 30, 2017 that was extended to January 31, 2020. The lease extension requires annual rental payments of \$38,160 with a monthly rental payment increase to \$3,212 in February 2019.

Higher Achievement entered into a lease agreement for office space in Pittsburgh, Pennsylvania which commenced on September 15, 2014 with an initial termination of August 31, 2017 that was extended to April 30, 2020. The lease extension requires annual rental payments of \$20,640, and includes a provision for annual 5% increase of base rent for each 2-year lease term commencing after May 1, 2020, if exercised.

Total rent expense for the year ended August 31, 2018 was \$88,884.

Future minimum lease payments required under the leases as of August 31, 2018 are as follows:

For the fiscal year ended:		
2019	\$	85,100
2020		51,451
2021		<u>11,396</u>
	\$	<u>147,947</u>

HIGHER ACHIEVEMENT PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018 (with Comparative Information for the year ended August 31, 2017)

13. IN-KIND DONATIONS

During the year ended August 31, 2018 and 2017 Higher Achievement recognized the following in-kind support services:

	2018	2017
Professional fees (supporting service)		
Consulting and mentorship	\$ 563,155	\$ 557,974
Legal and business	34,544	148,389
	<u> </u>	<u> </u>
Total	<u>\$ 597,699</u>	<u>\$ 706,363</u>

14. RETIREMENT PLAN

Higher Achievement has a 403(b) defined contribution plan that is available to all employees. Employees are eligible to participate in the plan immediately and employer contributions are made upon completion of two years of service. The plan requires an annual employer contribution of 5% of each eligible employee's earnings, as defined by the plan, and provides for a one time matching contribution of up to \$3,000. For the year ended August 31, 2018 and August 31, 2017, Higher Achievement incurred expenses of \$254,215 and \$216,215, respectively, related to this plan.

15. CONCENTRATIONS

Approximately 38% and 34% of Higher Achievement's revenue was derived from various grants and contracts awarded by agencies of the United States Department of Education and other governmental entities for the year ended August 31, 2018 and August 31, 2017, respectively. Higher Achievement has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect Higher Achievement's ability to finance ongoing operations.

16. SUBSEQUENT EVENTS

In preparing these financial statements, Higher Achievement has evaluated events and transactions for potential recognition or disclosure through June 30, 2019, the date the financial statements were available to be issued.