

E3 ALLIANCE

**Financial Statements
as of and for the Year Ended
August 31, 2017 and
Independent Auditors' Report**

E3 ALLIANCE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
E3 Alliance:

We have audited the accompanying financial statements of E3 Alliance (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017, 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. 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.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

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 E3 Alliance as of August 31, 2017, 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.

Maxwell Locke + Ritter LLP

Austin, Texas
January 9, 2018

E3 ALLIANCE

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2017

ASSETS:

Cash	\$ 1,886,022
Accounts receivable	111,258
Contribution receivable	439,839
Prepaid expenses	<u>8,000</u>

TOTAL ASSETS \$ 2,445,119

LIABILITIES AND NET ASSETS

LIABILITIES-

Accounts payable	\$ 215,106
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NET ASSETS:

Unrestricted	1,544,575
Temporarily restricted	<u>685,438</u>
Total net assets	<u>2,230,013</u>

TOTAL LIABILITIES AND NET ASSETS \$ 2,445,119

See notes to financial statements.

E3 ALLIANCE

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2017

UNRESTRICTED NET ASSETS:

REVENUES:

Grants and contributions	\$ 246,526
Contracts	654,304
Memberships	<u>37,500</u>
Total revenues	938,330

Net assets released from restrictions 1,511,116

Total revenues and net assets released from restrictions 2,449,446

EXPENSES:

Program services	1,762,609
Fundraising	278,269
Management and general	<u>224,941</u>
Total expenses	<u>2,265,819</u>

Change in unrestricted net assets 183,627

TEMPORARILY RESTRICTED NET ASSETS:

Contributions	807,220
Net assets released from restrictions	<u>(1,511,116)</u>

Change in temporarily restricted net assets (703,896)

CHANGE IN NET ASSETS (520,269)

NET ASSETS, beginning of year 2,750,282

NET ASSETS, end of year \$ 2,230,013

See notes to financial statements.

E3 ALLIANCE

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED AUGUST 31, 2017

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total Expenses</u>
EXPENSES:				
Salaries	\$ 999,658	203,395	176,489	1,379,542
Consultants	432,100	8,100	-	440,200
Other expenses	181,152	26,561	21,636	229,349
Supplies	76,933	23,563	2,648	103,144
Rent and occupancy	20,573	4,115	12,344	37,032
Travel	20,871	2,783	4,174	27,828
Food	12,442	4,147	4,147	20,736
Professional development	14,209	2,102	-	16,311
Memberships	4,671	3,503	3,503	11,677
TOTAL EXPENSES	<u>\$ 1,762,609</u>	<u>278,269</u>	<u>224,941</u>	<u>2,265,819</u>

See notes to financial statements.

E3 ALLIANCE

STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (520,269)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Accounts receivable	17,327
Contribution receivable	493,335
Prepaid expenses	22
Accounts payable	<u>82,350</u>
Net cash provided by operating activities	<u>72,765</u>
CASH, beginning of year	<u>1,813,257</u>
CASH, end of year	<u><u>\$ 1,886,022</u></u>

See notes to financial statements.

E3 ALLIANCE

NOTES TO FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2017

1. ORGANIZATION

E3 Alliance is a Texas non-profit corporation chartered on February 12, 2007. E3 Alliance is a regional collaborative that was founded by the Austin Area Research Organization, the University of Texas at Austin, and Austin Community College District (“ACC”). E3 Alliance was created to develop a comprehensive, data-driven view of the Central Texas education landscape, to better align educational systems and practices to drive higher outcomes for students, and to ensure a more efficient allocation of resources within the Central Texas region. E3 Alliance is managed by a Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Financial Statement Presentation - Net assets of E3 Alliance and changes therein are classified and reported as follows:

Unrestricted - Net assets not subject to donor-imposed stipulations.

Temporarily restricted - Net assets subject to donor imposed stipulations that may or will be met by actions of E3 Alliance and/or the passage of time.

Permanently restricted - Net assets subject to donor-imposed restrictions that such assets be maintained permanently. E3 Alliance has no permanently restricted assets.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - E3 Alliance considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are recorded at the amount E3 Alliance expects to collect on outstanding balances for services provided. E3 Alliance did not record an allowance for uncollectible accounts receivable at August 31, 2017 as management estimates all balances to be collectible.

Contributions Receivable - Contributions receivable are recorded at the amount E3 Alliance expects to receive from grantors and donors. Promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. E3 Alliance did not record a net present value discount on outstanding receivables at August 31, 2017, as the amount was deemed immaterial. Management has determined that the contributions receivable are fully collectible; therefore, no allowance for uncollectible receivables was considered necessary at August 31, 2017.

Grants and Contributions Revenue Recognition - Grants and contributions are recognized at fair value and are considered to be available for operations unless specifically restricted by the donor. Contributions of assets other than cash are recorded at their estimated fair value when received and are expensed over the period that the assets are used. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills and would typically need to be purchased if not provided by donation. These contributions are recorded at fair value and presented as in-kind contributed services on the statements of activities fair value and recognized as revenue and expense in the period the services are provided. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the statement of activities as net assets released from restrictions. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Contract Revenue - Contract revenue represents fees for services performed by E3 Alliance recognized as services are performed.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been charged to functions based on direct expenses incurred or allocated among the programs and supporting services benefited.

Income Tax Status - E3 Alliance is a nonprofit entity that is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, except for income tax related to unrelated business income. E3 Alliance did not incur any significant tax liabilities due to unrelated business income during the year ended August 31, 2017. E3 Alliance files a Form 990 tax return in the U.S. federal jurisdiction, and is subject to routine examinations of its returns; however, there are no examinations currently in progress.

Concentrations of Credit Risk - Financial instruments that potentially expose E3 Alliance to concentrations of credit risk consist of cash and receivables. E3 Alliance places its cash with a high quality financial institution and at times may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash. E3 Alliance does not maintain collateral for its receivables and does not believe significant risk exists at August 31, 2017. For the year ended August 31, 2017, one donor accounted for 16% of total revenues and five donors accounted for 75% of total receivables.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued Accounting Standards Updates (“ASU”) No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. E3 Alliance is currently evaluating the impact the standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of activities for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019 and early adoption is permitted. E3 Alliance is currently evaluating the impact the standard will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statement of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method. Entities will be required to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. E3 Alliance is currently evaluating the impact the standard will have on its financial statements.

3. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2017 temporarily restricted net assets were available for the following purposes:

RAISEup replication	\$ 266,784
Pathways of promise	215,645
Financial aid	105,204
Donated use of office space	56,283
Pre-kindergarten and kindergarten instructional practices	41,522
Total	<u>\$ 685,438</u>

4. RELATED PARTY TRANSACTIONS

A memorandum of understanding (“MOU”) between ACC and E3 Alliance, as amended, states in addition to standard terms of agreement that ACC will provide office space to E3 Alliance in exchange for services provided to ACC in support of its mission and activities. The MOU will terminate on August 31, 2020, unless sooner terminated or extended by mutual agreement.

The donated office space to E3 Alliance included in the MOU is valued at \$18,761 annually until August 31, 2020. During the year ended August 31, 2017, E3 Alliance recognized rent expense of \$18,761 for use of the office space. Future maturities of the donated office space at August 31, 2017 are as follows:

2018	\$	18,761
2019		18,761
2020		18,761
Total	\$	<u>56,283</u>

5. LEASE COMMITMENTS

E3 Alliance has entered into a cancelable, after the third year, operating lease for office space, which expires in 2022. Rent expense under this agreement was \$7,568 for the year ended August 31, 2017. Future minimum lease payments under the operating lease at August 31, 2017 are as follows:

2018	\$	15,136
2019		15,136
2020		15,363
2021		15,824
2022		8,029
Total	\$	<u>69,488</u>

6. SUBSEQUENT EVENTS

E3 Alliance has evaluated subsequent events through January 9, 2018 (the date the financial statements were available to be issued). In November 2017, the Organization executed a \$150,000 promissory note to expand program services. The promissory note bears a 2% interest rate, with interest only payments due quarterly until maturity on March 31, 2019.