

NORTHSIDE EDUCATION FOUNDATION

Audited Financial Statements

May 31, 2010

AKIN, DOHERTY, KLEIN & FEUGE, P.C.
Certified Public Accountants

NORTHSIDE EDUCATION FOUNDATION
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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Northside Education Foundation
San Antonio, Texas

We have audited the accompanying statements of financial position of Northside Education Foundation as of May 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northside Education Foundation as of May 31, 2010 and 2009, and its activities and cash flows for the year then ended, in conformity with U. S. generally accepted accounting principles.

Akin, Doherty, Klein & Feuge P.C.

Akin, Doherty, Klein & Feuge, P.C.
San Antonio, Texas
August 2, 2010

NORTHSIDE EDUCATION FOUNDATION
Statements of Financial Position
May 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 57,584	\$ 97,198
Investments:		
Endowment	399,866	344,470
Other	2,124,195	1,738,281
Contributions receivable	6,000	3,000
Six Flags Fiesta Texas tickets receivable	195,513	198,481
Prepaid expenses	<u>7,900</u>	<u>-</u>
Total Assets	<u><u>\$ 2,791,058</u></u>	<u><u>\$ 2,381,430</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 128	\$ 5,105
Commissions payable	11,486	13,863
Six Flags Fiesta Texas tickets payable	<u>175,920</u>	<u>175,920</u>
Total liabilities	187,534	194,888
Net Assets:		
Unrestricted:		
Undesignated	2,203,658	1,842,072
Board designated, endowment investments	86,015	46,289
Temporarily restricted, endowment investments	289,412	273,742
Permanently restricted, endowment investments	<u>24,439</u>	<u>24,439</u>
Total net assets	<u><u>2,603,524</u></u>	<u><u>2,186,542</u></u>
Total Liabilities and Net Assets	<u><u>\$ 2,791,058</u></u>	<u><u>\$ 2,381,430</u></u>

See notes to audited financial statements.

NORTHSIDE EDUCATION FOUNDATION
Statements of Activities
Year Ended May 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions	\$ 625,978	\$ 21,938	\$ -	\$ 647,916
Ticket sales commission	27,219	-	-	27,219
Special events, net of expenses \$189,255	250,589	-	-	250,589
Investment earnings (loss):				
Realized losses on investments	(2,211)	-	-	(2,211)
Unrealized gains on investments	256,073	22,232	-	278,305
Dividends and interest, net of fees	55,247	-	-	55,247
Cookbook revenues, net of expenses	3,948	-	-	3,948
Total support and revenue	<u>1,216,843</u>	<u>44,170</u>	<u>-</u>	<u>1,261,013</u>
Expenses				
Program service fees:				
Grants	759,944	-	-	759,944
Scholarships	40,500	-	-	40,500
Total program services	<u>800,444</u>	<u>-</u>	<u>-</u>	<u>800,444</u>
Supporting services:				
Management and general	29,634	-	-	29,634
Fundraising	13,953	-	-	13,953
Total supporting services	<u>43,587</u>	<u>-</u>	<u>-</u>	<u>43,587</u>
Total expenses	<u>844,031</u>	<u>-</u>	<u>-</u>	<u>844,031</u>
Change in Net Assets	372,812	44,170	-	416,982
Net assets at beginning of year	1,888,361	273,742	24,439	2,186,542
Net assets released from restrictions	28,500	(28,500)	-	-
Net Assets at End of Year	<u>\$ 2,289,673</u>	<u>\$ 289,412</u>	<u>\$ 24,439</u>	<u>\$ 2,603,524</u>

See notes to audited financial statements.

NORTHSIDE EDUCATION FOUNDATION
Statements of Activities
Year Ended May 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions	\$ 594,703	\$ 34,888	\$ -	\$ 629,591
Ticket sales commission	40,790	-	-	40,790
Special events, net of expenses \$177,597	235,182	-	-	235,182
Investment earnings (loss):				
Realized losses on investments	(95,316)	-	-	(95,316)
Unrealized losses on investments	(442,553)	-	-	(442,553)
Dividends and interest, net of fees	95,551	-	-	95,551
Other revenues	1,069	-	-	1,069
Total support and revenue	<u>429,426</u>	<u>34,888</u>	<u>-</u>	<u>464,314</u>
Expenses				
Program service fees:				
Grants	602,768	-	-	602,768
Scholarships	43,150	-	-	43,150
Total program services	<u>645,918</u>	<u>-</u>	<u>-</u>	<u>645,918</u>
Supporting services:				
Management and general	23,069	-	-	23,069
Fundraising	19,489	-	-	19,489
Total supporting services	<u>42,558</u>	<u>-</u>	<u>-</u>	<u>42,558</u>
Total expenses	<u>688,476</u>	<u>-</u>	<u>-</u>	<u>688,476</u>
Change in Net Assets	(259,050)	34,888	-	(224,162)
Net assets at beginning of year	2,084,373	301,892	24,439	2,410,704
Net assets released from restrictions	<u>63,038</u>	<u>(63,038)</u>	<u>-</u>	<u>-</u>
Net Assets at End of Year	<u>\$ 1,888,361</u>	<u>\$ 273,742</u>	<u>\$ 24,439</u>	<u>\$ 2,186,542</u>

See notes to audited financial statements.

NORTHSIDE EDUCATION FOUNDATION
Statements of Cash Flows
Years Ended May 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Activities		
Change in net assets	\$ 416,982	\$ (224,162)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Realized (gains) losses on sales of securities	2,211	95,316
Unrealized (gains) losses on investments	(278,305)	442,553
Change in operating assets and liabilities:		
Contributions receivable	(3,000)	(450)
Six Flags Fiesta Texas tickets receivable	2,968	(64,372)
Prepaid expenses	(7,900)	-
Accounts payable	(4,977)	430
Commissions payable	(2,377)	(667)
Six Flags Fiesta Texas tickets payable	-	35,605
Net cash provided by operating activities	<u>125,602</u>	<u>284,253</u>
Investing Activities		
Net (purchases) sales of investments	<u>(165,216)</u>	<u>(227,706)</u>
Net cash (used) by investing activities	<u>(165,216)</u>	<u>(227,706)</u>
Net change in cash and cash equivalents	(39,614)	56,547
Cash and cash equivalents at beginning of year	<u>97,198</u>	<u>40,651</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 57,584</u></u>	<u><u>\$ 97,198</u></u>
Supplemental Disclosures		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	-	-

See notes to audited financial statements.

NORTHSIDE EDUCATION FOUNDATION
Notes to Audited Financial Statements
May 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Northside Education Foundation (the Foundation) is a Texas not-for-profit corporation incorporated on January 9, 1995. The mission of the Foundation is to foster community involvement in innovative educational programs by generating and disbursing funds and other resources to provide enrichment for students of the Northside Independent School District ("NISD").

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U. S. generally accepted accounting principles. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations. Assets restricted solely through actions of the Board are reported as unrestricted net assets. Board designated net assets represent amounts subject to Board-imposed restrictions that will be met by actions of the Foundation.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that the assets be maintained permanently. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Contributions: Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, such assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Contributions received with donor restrictions whose restrictions are met in the same reporting period are generally reported as unrestricted support.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Special Events: Costs associated with Special Events are netted against the related revenue.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash-on-hand, demand deposits held by banks and any equivalent securities with a maturity of three months or less.

Investments: The Foundation reports its investment securities at fair value. See Note H. Investment interest and dividends are reported net of fees of approximately \$20,500 in 2010 and \$17,500 in 2009.

NORTHSIDE EDUCATION FOUNDATION
Notes to Audited Financial Statements
May 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Endowments: The Foundation's endowment, included in investments on the Statement of Financial Position, consists of approximately 22 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Contributions Receivable: Legally enforceable pledges and contributions, less an allowance for uncollectible amounts, are recorded as receivables in the year made unless the pledge or contribution is dependent upon the occurrence of a specified future and uncertain event to bind the promisor. No allowance was deemed necessary for 2010 and 2009.

Donated Services, Material, and Facilities: The Foundation receives donated services from a variety of unpaid volunteers assisting the Foundation in fundraising events. No amounts have been recognized in the accompanying statements of activities and changes in net assets because the criteria for recognition of such volunteer effort under *generally accepted accounting principles* has not been satisfied. Donated materials are valued based on their estimated fair market value on the date of contribution.

Income Taxes: The Foundation is a not-for-profit organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, and is not a "private foundation" within the meaning of Section 509(a). Donors of money and/or property are entitled to the maximum charitable contribution deduction allowed by law. The Foundation is not subject to the Texas margin tax. Management is not aware of any tax position that would have a significant impact on their financial position. The Foundation's income tax returns for the last four years remain subject to examination.

Concentrations of Credit Risk: Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation maintains cash deposits with major financial institutions which, from time-to-time, may exceed federally insured limits. The Foundation periodically assesses the financial condition of the institutions and believes the risk of any loss is minimal. The Foundation periodically assesses the financial condition of the institutions holding the investments, as well as the diverse nature of its investments, and believes that the risk of loss is minimal.

Subsequent Events: Subsequent events have been evaluated by management through the date of the report of the independent auditors. Material subsequent events, if any, are disclosed in a separate footnote to these financial statements.

New Accounting Pronouncements: Management is not aware of any new accounting pronouncements that have been released, and are not yet effective, which will have a significant impact to its financial position, or results of activities in future periods.

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications, none of which are significant, have been made to the prior year's financial statements in order to conform to the current presentation.

NORTHSIDE EDUCATION FOUNDATION
Notes to Audited Financial Statements
May 31, 2010 and 2009

NOTE B – ENDOWMENT INVESTMENTS

A rollforward of earnings and losses for endowment investments is as follows for May 31:

	Board- Designated <u>Unrestricted</u>	Temporarily Restricted	Permanently Restricted	<u>Total</u>
Endowment investments at May 31, 2008	\$ -	\$ 301,892	\$ 24,439	\$ 326,331
Interest and dividends	-	-	-	-
Net realized gains on sales	-	-	-	-
Net unrealized losses	-	-	-	-
Contributions	27,211	34,888	-	62,099
Appropriation	(13,860)	(30,100)	-	(43,960)
Reclassification based on change in law	<u>32,938</u>	<u>(32,938)</u>	-	-
Endowment investments at May 31, 2009	<u>\$ 46,289</u>	<u>\$ 273,742</u>	<u>\$ 24,439</u>	<u>\$ 344,470</u>
Represented as:				
Donor-restricted endowment investments	\$ -	\$ 123,595	\$ 24,439	\$ 148,034
Board-designated endowment investments	<u>46,289</u>	<u>150,147</u>	-	<u>196,436</u>
Total endowment investments	<u>\$ 46,289</u>	<u>\$ 273,742</u>	<u>\$ 24,439</u>	<u>\$ 344,470</u>
Endowment investments at May 31, 2009	\$ 46,289	\$ 273,742	\$ 24,439	\$ 344,470
Interest and dividends	-	-	-	-
Net realized gains on sales	-	-	-	-
Net unrealized gains	-	22,232	-	22,232
Contributions	137,001	21,938	-	158,939
Appropriation	<u>(97,275)</u>	<u>(28,500)</u>	-	<u>(125,775)</u>
Endowment investments at May 31, 2010	<u>\$ 86,015</u>	<u>\$ 289,412</u>	<u>\$ 24,439</u>	<u>\$ 399,866</u>
Represented as:				
Donor-restricted endowment investments	\$ -	\$ 142,579	\$ 24,439	\$ 167,018
Board-designated endowment investments	<u>86,015</u>	<u>146,833</u>	-	<u>232,848</u>
Total endowment investments	<u>\$ 86,015</u>	<u>\$ 289,412</u>	<u>\$ 24,439</u>	<u>\$ 399,866</u>

NORTHSIDE EDUCATION FOUNDATION
Notes to Audited Financial Statements
May 31, 2010 and 2009

NOTE C –ENDOWMENT INVESTMENTS - continued

Interpretation of Relevant Law: The Board of Directors of the Foundation has interpreted the State of Texas Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation. The following factors, among others, are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the Foundation and the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of the Foundation.
- 7) The investment policies of the Foundation.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of May 31, 2010 and 2009.

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that equal or exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to generate a return which exceeds the rate of inflation over time. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that allows flexibility in investment options, based on market conditions, to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Board of Directors has established rigid distribution policies. Distributions are made from time to time based on written request of the NISD to the Foundation. Each request is reviewed by the Foundation and may or may not be granted. The Foundation considers the specific purpose of the request, as well as the long-term objectives of the Foundation.

NORTHSIDE EDUCATION FOUNDATION
Notes to Audited Financial Statements
May 31, 2010 and 2009

NOTE D - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets consist of the following at May 31:

	<u>2010</u>	<u>2009</u>
Temporarily Restricted Net Assets		
Business Careers High School Scholarships	\$ 146,833	\$ 150,147
Ward Family Fund	1,072	10
Jack C. Jordan Penny Drive	<u>141,507</u>	<u>123,585</u>
Total temporarily restricted net assets	<u>\$ 289,412</u>	<u>\$ 273,742</u>
Permanently Restricted Net Assets		
Ward Family Investment Fund	<u>\$ 24,439</u>	<u>\$ 24,439</u>

NOTE E – SIX FLAGS FIESTA TEXAS TICKETS

As part of its operating activities, the Foundation sells Six Flags Fiesta Texas tickets on consignment. The tickets are sold at the NISD campuses to students, as well as to the general public. When the tickets are received from Six Flags Fiesta Texas, the Foundation distributes a portion of the tickets to each NISD campus. The tickets are sold at either the Foundation’s main office or the NISD campuses. For tickets sold at each NISD campus, the receipts from ticket sales are retained by each NISD campus until all tickets are sold. Six Flags Fiesta Texas does not bill the Foundation for the consigned tickets until the month of August.

During the years ended May 31, 2010 and 2009, the retail value of each ticket was \$27. The Foundation’s commission for the sale of each ticket is \$5, of which \$2.50 is paid to NISD campuses as commission for each ticket sold at each campus. At year-end, the Foundation will have a receivable from NISD campuses for the amount of tickets sold through year-end and a payable to NISD campuses for the related \$2.50 commission. A payable to Six Flags Fiesta Texas is also recognized for the amount of consigned tickets sold. These amounts are reflected in the financial statements at May 31, 2010 and 2009.

NOTE F – SIGNIFICANT CONTRIBUTIONS

A significant portion of the Foundation’s contributions were from the Kronkosky Foundation, representing 37% in 2010 and 34% in 2009 of its total contributions.

NOTE G – RELATED PARTY TRANSACTIONS

Substantially all of the Foundation’s supporting services are with the NISD. The NISD provides administrative personnel, office space, and furniture and equipment, without charge to the Foundation. These costs are not reflected in the financial statements since separate accountability is not maintained. The Foundation owed NISD \$11,486 at May 31, 2010 and \$13,863 at May 31, 2009 for commission on Six Flag ticket sales.

NORTHSIDE EDUCATION FOUNDATION
Notes to Audited Financial Statements
May 31, 2010 and 2009

NOTE H – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles (GAAP) has established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs, as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities;
- Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or
- Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth, by level within the fair value hierarchy, the Plan's assets at fair value:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
<i>May 31, 2010</i>				
Cash and cash equivalents	\$ 449,289	\$ -	\$ -	\$ 449,289
Mutual funds	1,296,808	-	-	1,296,808
Commodity equities	129,364	-	-	129,364
Commodity trust	-	389,200	-	389,200
Alternative investments	-	-	259,400	259,400
Total investments, at fair value	\$ 1,875,461	\$ 389,200	\$ 259,400	\$ 2,524,061
<i>May 31, 2009</i>				
Certificate of deposit	\$ 66,613	\$ -	\$ -	\$ 66,613
Cash and cash equivalents	87,936	-	-	87,936
Mutual funds	1,928,202	-	-	1,928,202
Total investments, at fair value	\$ 2,082,751	\$ -	\$ -	\$ 2,082,751

NORTHSIDE EDUCATION FOUNDATION
Notes to Audited Financial Statements
May 31, 2010 and 2009

NOTE H – FAIR VALUE MEASUREMENTS - continued

The following table sets forth a reconciliation of changes in the fair value of alternative investments classified as Level 3 in the fair value hierarchy:

	<u>Alternative Investments</u>
Balance as of June 1, 2008	\$ -
Total losses (unrealized) included in net assets	-
Purchases, issuances, and settlements	-
Transfers in and out of level 3	<u>-</u>
Balance as of May 31, 2009	-
Total gains (unrealized) included in net assets	-
Purchases, issuances, and settlements	-
Transfers in and out of level 3	<u>259,400</u>
Balance as of May 31, 2010	<u>\$ 259,400</u>