



Audited Financial Statements

June 30, 2016

Independent Auditors' Report

To the Board of Directors of
Harlem Academy

Report on the Financial Statements

We have audited the accompanying financial statements of Harlem Academy (the "Academy"), which comprise the statement of financial position as of June 30, 2016, 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 organization'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 organization'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.

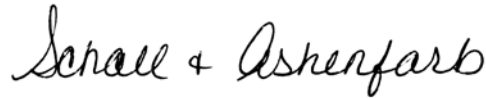
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2016, 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 Academy's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 26, 2016

HARLEM ACADEMY
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2016
(With comparative totals at June 30, 2015)

| | 6/30/16 | 6/30/15 |
|--|--------------|--------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$1,270,789 | \$933,033 |
| Short term pledges receivable (Note 3) | 2,429,900 | 2,594,645 |
| Tuition receivable, net | 23,187 | 25,288 |
| Prepaid expenses | 48,761 | 43,490 |
| Total current assets | 3,772,637 | 3,596,456 |
| Non-current assets: | | |
| Long term pledges receivable, net (Note 3) | 6,111,035 | 7,740,014 |
| Fixed assets, net (Note 4) | 10,926,456 | 10,275,065 |
| Security deposits | 97,629 | 89,616 |
| Cash held for endowment (Note 6) | 140,194 | 89,148 |
| Total non-current assets | 17,275,314 | 18,193,843 |
| Total assets | \$21,047,951 | \$21,790,299 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$12,598 | \$13,240 |
| Accrued expenses | 165,787 | 132,082 |
| Deferred tuition | 54,690 | 47,567 |
| Total current liabilities | 233,075 | 192,889 |
| Non-current liabilities: | | |
| Loan payable (Note 10) | 3,108,848 | 4,463,848 |
| Total non-current liabilities | 3,108,848 | 4,463,848 |
| Total liabilities | 3,341,923 | 4,656,737 |
| Net assets: | | |
| Unrestricted | 9,282,469 | 6,985,954 |
| Temporarily restricted (Note 5) | 8,283,969 | 10,058,518 |
| Permanently restricted (Note 6) | 139,590 | 89,090 |
| Total net assets | 17,706,028 | 17,133,562 |
| Total liabilities and net assets | \$21,047,951 | \$21,790,299 |

The attached notes and auditors' report are an integral part of these financial statements.

HARLEM ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With comparative totals for the year ended June 30, 2015)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 6/30/16 | Total 6/30/15 |
|--|--------------------|---------------------------|---------------------------|---------------------|---------------------|
| Support and revenue: | | | | | |
| Program income and fees | \$387,674 | | | \$387,674 | \$367,597 |
| Government grants | 85,700 | | | 85,700 | 72,191 |
| Contributions | 1,794,482 | \$50,266 | \$50,500 | 1,895,248 | 4,365,235 |
| Interest income | 868 | 546 | | 1,414 | 1,019 |
| Special events (net of \$114,135 of expenses with a direct benefit to donor) (Note 11) | 1,074,293 | | | 1,074,293 | 722,833 |
| In-kind goods and services (Note 7) | 532,488 | | | 532,488 | 10,175 |
| Net assets released from restrictions | 1,825,361 | (1,825,361) | | 0 | 0 |
| Total support and revenue | <u>5,700,866</u> | <u>(1,774,549)</u> | <u>50,500</u> | <u>3,976,817</u> | <u>5,539,050</u> |
| Expenses: | | | | | |
| Program services | 2,658,266 | | | 2,658,266 | 2,469,548 |
| Management and general | 298,926 | | | 298,926 | 257,727 |
| Fundraising | 447,159 | | | 447,159 | 471,484 |
| Total expenses | <u>3,404,351</u> | <u>0</u> | <u>0</u> | <u>3,404,351</u> | <u>3,198,759</u> |
| Change in net assets | 2,296,515 | (1,774,549) | 50,500 | 572,466 | 2,340,291 |
| Net assets - beginning | <u>6,985,954</u> | <u>10,058,518</u> | <u>89,090</u> | <u>17,133,562</u> | <u>14,793,271</u> |
| Net assets - ending | <u>\$9,282,469</u> | <u>\$8,283,969</u> | <u>\$139,590</u> | <u>\$17,706,028</u> | <u>\$17,133,562</u> |

The attached notes and auditors' report are an integral part of these financial statements.

HARLEM ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(With comparative totals for the year ended June 30, 2015)

| | Program Services | Management and General | Fundraising | Total 6/30/16 | Total 6/30/15 |
|--|---------------------|------------------------------|------------------|--------------------|--------------------|
| Salaries | \$1,509,859 | \$175,562 | \$275,029 | \$1,960,450 | \$1,881,232 |
| Employee benefits and payroll taxes | 282,512 | 24,017 | 49,672 | 356,201 | 332,604 |
| Total personnel services | <u>1,792,371</u> | <u>199,579</u> | <u>324,701</u> | <u>2,316,651</u> | <u>2,213,836</u> |
| Consultants and professional (including in-kind - Note 7) | 92,123 | 25,428 | 45,999 | 163,550 | 115,635 |
| Marketing and publications | 14,504 | | 13,042 | 27,546 | 23,019 |
| Printing and supplies | 37,504 | | | 37,504 | 39,836 |
| Program technology and equipment | 5,822 | | | 5,822 | 8,200 |
| Insurance | 47,125 | 2,520 | 4,631 | 54,276 | 48,303 |
| Repairs and maintenance | 29,407 | | | 29,407 | 36,722 |
| Other | | 57,719 | 19,609 | 77,328 | 51,282 |
| Rent | 361,116 | 4,377 | 15,321 | 380,814 | 363,602 |
| Staff development | 40,054 | | | 40,054 | 30,992 |
| Utilities | 27,919 | 608 | 1,677 | 30,204 | 30,995 |
| Food | 77,486 | | | 77,486 | 71,559 |
| Education | 119,150 | | | 119,150 | 119,392 |
| Bad debt | | 8,529 | | 8,529 | 10,342 |
| Depreciation and amortization | 13,685 | 166 | 581 | 14,432 | 19,381 |
| Event expense (including in-kind - Note 7) | | | 21,598 | 21,598 | 15,663 |
| Total expenses | <u>\$2,658,266</u> | <u>\$298,926</u> | <u>\$447,159</u> | <u>\$3,404,351</u> | <u>\$3,198,759</u> |

The attached notes and auditors' report are an integral part of these financial statements.

HARLEM ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

(With comparative totals for the year ended June 30, 2015)

| | <u>6/30/16</u> | <u>6/30/15</u> |
|---|---------------------------|-------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$572,466 | \$2,340,291 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,432 | 19,381 |
| Cash received for endowment | (50,500) | 0 |
| Interest restricted to endowment | (546) | (58) |
| Changes in assets and liabilities: | | |
| Pledges receivable | 1,793,724 | 821,383 |
| Tuition receivable | 2,101 | 3,780 |
| Prepaid expenses | (5,271) | (37,527) |
| Security deposits | (8,013) | 0 |
| Accounts payable | (642) | 4,675 |
| Accrued expenses | 33,705 | 16,368 |
| Deferred tuition | 7,123 | 13,217 |
| Total adjustments | <u>1,786,113</u> | <u>841,219</u> |
| Net cash provided by operating activities | <u>2,358,579</u> | <u>3,181,510</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (534,151) | (7,620) |
| Capitalized interest | (131,672) | (216,159) |
| Transfers to cash held for endowment | (51,046) | (58) |
| Net cash used for investing activities | <u>(716,869)</u> | <u>(223,837)</u> |
| Cash flows from financing activities: | | |
| Repayment of loan | (1,355,000) | (3,136,152) |
| Investment in endowment | 50,500 | 0 |
| Interest restricted to endowment | 546 | 58 |
| Net cash used for financing activities | <u>(1,303,954)</u> | <u>(3,136,094)</u> |
| Net increase/(decrease) in cash and cash equivalents | 337,756 | (178,421) |
| Cash and cash equivalents - beginning of year | <u>933,033</u> | <u>1,111,454</u> |
| Cash and cash equivalents - end of year | <u><u>\$1,270,789</u></u> | <u><u>\$933,033</u></u> |
| Supplemental data: | | |
| Interest paid | <u>\$131,672</u> | <u>\$216,158</u> |
| Taxes paid | <u>\$0</u> | <u>\$0</u> |

The attached notes and auditors' report are an integral part of these financial statements.

HARLEM ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 - Nature of Entity

Harlem Academy (the "Academy") is an independent school (grades 1-8) that prepares bright, motivated students for success at top secondary schools and lifelong learning. The Academy offers merit-based admissions, cultivates strong family partnerships, and ensures its economic diversity by meeting all demonstrated needs for tuition support. The Academy relentlessly adheres to the highest academic standards and works intentionally to develop strong characters and habits. Offering programming from 7:30 a.m. to 6:00 p.m., the Academy's extended hours give students more time to focus on learning and overall development while also supporting the needs of working parents.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements of the Academy have been prepared on the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

b. Basis of Presentation

As a not-for-profit organization, the Academy reports information regarding its financial position and activities according to the following classes of net assets:

- *Unrestricted* – represents all activity without donor imposed restrictions.
- *Temporarily restricted* – accounts for activity based on specific donor restrictions that are expected to be satisfied by passage of time or performance of activities (see Note 5).
- *Permanently restricted* – accounts for donations that are required to be set aside to create an endowment (see Note 6).

c. Revenue Recognition

Tuition is recognized in the period the class takes place. Amounts collected in advance are reflected as liabilities until earned.

Government grants are analyzed to determine if they contain traits more closely associated with contributions or exchange transactions. All government grants have been determined to be exchange transactions and are recognized as revenue in the period earned.

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. If a restricted donation is satisfied within the

same period it has been received, it is recorded as unrestricted. Contributions that contain conditions are recognized when the condition has been substantially met.

d. Cash and Cash Equivalents

The Academy considers all liquid investments, with an initial maturity of three months or less to be cash and cash equivalents.

e. Concentration of Credit Risk

Financial instruments which potentially subject the Academy to concentration of credit risk consist of cash and money market accounts which have been placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. The Academy has not experienced any losses from these accounts due to bank failure.

f. Pledges Receivable

Pledges that are expected to be received in less than one year are recorded at net realizable value. Those that are due in greater than one year are recorded at fair value which is calculated using risk adjusted present value techniques. Long term pledges are treated as time restricted until the period they are due, at which time they will be released from restriction and counted towards operations.

g. Allowance for Doubtful Accounts

Management reviews receivables for collectability based on various factors such as historical experience and subsequent collections. Based on this review, management has established a reserve for potential uncollectable pledges and tuition receivables of approximately \$14,000 and \$8,000 for the years-ending June 30, 2016 and 2015, respectively.

h. Fixed Assets

Purchases of equipment, furniture and fixtures that exceed predetermined levels are capitalized at cost or at fair value if donated. Depreciation is provided on a straight-line basis over the estimated useful life of the assets. Leasehold improvements that materially benefit future periods are capitalized and amortized over the life of the lease.

i. In-Kind Contributions

The Academy recognizes contributions of services that create or enhance non-financial assets or require specialized skills, are performed by those who possess those skills and would ordinarily have to be purchased if not provided in-kind. Many individuals volunteer their time and perform a variety of tasks that assist the Academy with specific assistance programs, campaign solicitation, and various committee assignments. These volunteer services do not meet the criteria outlined above and have not been recognized in the financial statements.

j. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

k. Expense Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Academy.

l. Tax Status/Accounting for Uncertainty of Income Taxes

The Academy is a not-for-profit organization exempt from Federal income taxes under Section 501(c)3 of the Internal Revenue Code and has not been determined to be a private foundation as defined in Section 509(a). The Academy does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2013 and later are subject to examination by applicable taxing authorities.

m. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Academy's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

n. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 26, 2016, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

o. New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the June 30, 2019 year, with early implementation permitted, focuses on improving the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The Academy has not yet evaluated the impact this will have on future statements.

Note 3 - Pledges Receivable

Pledges receivable are anticipated to be collected in the following periods:

| | <u>6/30/16</u> | <u>6/30/15</u> |
|-------------------------------------|--------------------|---------------------|
| June 30, 2016 | \$0 | \$2,594,645 |
| June 30, 2017 | 2,429,900 | 2,110,048 |
| June 30, 2018 | 2,030,047 | 2,010,048 |
| June 30, 2019 | 1,905,047 | 1,885,047 |
| June 30, 2020 | 905,047 | 700,000 |
| June 30, 2021 | 700,000 | 700,000 |
| Thereafter | <u>1,400,000</u> | <u>1,400,000</u> |
| | 9,370,041 | 11,399,788 |
| Less: present value discount (3.5%) | <u>(829,106)</u> | <u>(1,065,129)</u> |
| Total | <u>\$8,540,935</u> | <u>\$10,334,659</u> |
| | <u>6/30/16</u> | <u>6/30/15</u> |
| Short-term pledges receivable | \$2,429,900 | \$2,594,645 |
| Long-term pledges receivable | <u>6,111,035</u> | <u>7,740,014</u> |
| Total | <u>\$8,540,935</u> | <u>\$10,334,659</u> |

Total pledges receivable of approximately 86% and 84% were due from two donors at June 30, 2016 and 2015, respectively.

Note 4 - Fixed Assets

Fixed assets consists of the following:

| | <u>6/30/16</u> | <u>6/30/15</u> |
|------------------------------------|---------------------|---------------------|
| Equipment (3 years) | \$197,440 | \$179,289 |
| Leasehold improvements (2-5 years) | 429,727 | 429,727 |
| Land | 9,855,832 | 9,855,832 |
| Building – work in progress | <u>1,052,018</u> | <u>404,346</u> |
| | 11,535,017 | 10,869,194 |
| Less: accumulated depreciation | <u>(608,561)</u> | <u>(594,129)</u> |
| Total fixed assets - net | <u>\$10,926,456</u> | <u>\$10,275,065</u> |

On February 12, 2014, the Academy purchased a plot of vacant land at 655 St. Nicholas Avenue, New York, N.Y. The School intends to develop this site to establish its permanent campus. The land is secured by a mortgage. See Note 10 for details. Capitalized interest of \$401,000 and \$270,000 is included in building-work in progress as of June 30, 2016 and 2015, respectively.

Note 5 - Temporarily Restricted Net Assets

Activity in the temporarily restricted class of net assets can be summarized as follows:

| | <u>June 30, 2016</u> | | | |
|------------------|----------------------|---------------------------------|-----------------------------------|--------------------|
| | <u>7/1/15</u> | <u>Restricted Contributions</u> | <u>Released from Restrictions</u> | <u>6/30/16</u> |
| Time restricted | \$3,745,166 | \$0 | (\$715,532) | \$3,029,634 |
| Permanent campus | 6,271,231 | 14,500 | (1,062,256) | 5,223,475 |
| Education | <u>42,121</u> | <u>36,312</u> | <u>(47,573)</u> | <u>30,860</u> |
| Total | <u>\$10,058,518</u> | <u>\$50,812</u> | <u>(\$1,825,361)</u> | <u>\$8,283,969</u> |

| | <u>June 30, 2015</u> | | | |
|------------------|----------------------|---------------------------------|-----------------------------------|---------------------|
| | <u>7/1/14</u> | <u>Restricted Contributions</u> | <u>Released from Restrictions</u> | <u>6/30/15</u> |
| Time restricted | \$4,303,808 | \$120,000 | (\$678,642) | \$3,745,166 |
| Permanent campus | 6,796,842 | 1,000,000 | (1,525,611) | 6,271,231 |
| Education | <u>10,360</u> | <u>60,058</u> | <u>(28,297)</u> | <u>42,121</u> |
| Total | <u>\$11,111,010</u> | <u>\$1,180,058</u> | <u>(\$2,232,550)</u> | <u>\$10,058,518</u> |

Note 6 - Permanently Restricted Net Assets

The Academy began a fundraising appeal to commemorate the first 8th grade graduating class. All funds received for this appeal are being held in perpetuity as permanently restricted net assets.

Interpretation of Relevant Law

The Academy follows New York Prudent Management of Institutional Funds Act ("NYPMIFA"), which the Board of Directors has interpreted to require certain amounts be retained permanently. Absent explicit donor stipulations to the contrary, the Academy will preserve the fair value of the original gift as of the gift date of all donor-restricted endowment funds. However, under certain circumstances, the Academy has the right to appropriate for expenditure the fair value of the original gift in a manner consistent with the standard of prudence specifically prescribed by NYPMIFA.

As a result of this interpretation, the Academy classifies as permanently restricted net assets (a) the original value of gifts donated 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.

Absent any specific donor-stipulations, when endowment funds have earnings in excess of amounts that need to be retained permanently, these excess amounts are classified as temporarily restricted net assets until appropriated for expenditure by the organization's governing board.

Spending Policies

In accordance with NYPMIFA, the Academy considers the following factors 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 Academy 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 Academy
- (7) The investment policies of the Academy
- (8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Academy.

The Academy has not set a spending policy. During the year-ended June 30, 2016, the Academy placed the funds in a money market account which earns interest.

Changes in endowment net assets are as follows:

| | <u>June 30, 2016</u> | | | |
|---|----------------------|-------------------------------|-------------------------------|------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Endowment net assets, beginning of year | \$0 | \$58 | \$89,090 | \$89,148 |
| Contributions | 0 | 0 | 50,500 | 50,500 |
| Interest income | <u>0</u> | <u>546</u> | <u>0</u> | <u>546</u> |
| Endowment net assets, end of year | <u>\$0</u> | <u>\$604</u> | <u>\$139,590</u> | <u>\$140,194</u> |

| | <u>June 30, 2015</u> | | | |
|---|----------------------|-------------------------------|-------------------------------|-----------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Endowment net assets, beginning of year | \$0 | \$0 | \$89,090 | \$89,090 |
| Contributions | 0 | 0 | 0 | 0 |
| Interest income | <u>0</u> | <u>58</u> | <u>0</u> | <u>58</u> |
| Endowment net assets, end of year | <u>\$0</u> | <u>\$58</u> | <u>\$89,090</u> | <u>\$89,148</u> |

All endowment net assets are donor restricted.

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 NYPMIFA requires the Academy to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016.

Note 7 - In-Kind Contributions

The following summarizes the in-kind contributions recognized:

| | <u>June 30, 2016</u> | | | |
|--|----------------------|-------------------------------|--------------------|---------------------|
| | <u>Total</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Fixed Assets</u> |
| Legal services | \$12,779 | \$12,779 | \$0 | \$0 |
| Architectural services - design of building | 516,000 | 0 | 0 | 516,000 |
| Event printing | <u>3,709</u> | <u>0</u> | <u>3,709</u> | <u>0</u> |
| Total | <u>\$532,488</u> | <u>\$12,779</u> | <u>\$3,709</u> | <u>\$516,000</u> |

| | <u>June 30, 2015</u> | | |
|-------------------|----------------------|-------------------------------|--------------------|
| | <u>Total</u> | <u>Management and General</u> | <u>Fundraising</u> |
| Legal services | \$6,444 | \$6,444 | \$0 |
| Printing services | <u>3,731</u> | <u>0</u> | <u>3,731</u> |
| Total | <u>\$10,175</u> | <u>\$6,444</u> | <u>\$3,731</u> |

Note 8 - Commitments & Contingencies

The Academy has an operating lease for the use of classrooms and office space through June 30, 2018.

Future minimum payments due under the lease are as follows:

| | <u>Amount</u> |
|----------------------------|------------------|
| Year-ending: June 30, 2017 | \$373,777 |
| June 30, 2018 | <u>386,858</u> |
| Total | <u>\$760,635</u> |

In the normal course of business, the Academy may be subject to proceedings, lawsuits and other claims. These matters are subject to many uncertainties, and outcomes are not predictable with a high degree of assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of June 30, 2016, cannot be ascertained. Management does not believe that there are any outstanding claims where the final outcome will have a material impact on the financial statements. Any such claim will be recorded in the period that it is deemed probable that a liability has been incurred.

Note 9 - Retirement Plan

The Academy has a voluntary, tax deferred retirement plan under Internal Revenue Code Section 403(b). Employees may participate by designating a percentage of their salaries, subject to regulatory limits, to be contributed to the plan on a pre-tax basis. The plan provides for an employer match of 150% with a maximum limit set at 3% of employees' salary for those who have one year or more of service with the Academy. Employer expense was \$32,000 and \$33,000 for the years ended June 30, 2016 and 2015, respectively.

Note 10 - Loan Payable/Related Party Transaction

During the year-ended June 30, 2014, the Academy entered into a loan with an entity that is owned by a board member. Upon execution of the promissory note dated February 12, 2014, the payer executed a mortgage, security agreement and assignment of leases. The principal balance was originally due on August 12, 2015, and was extended annually for two years to August 11, 2017. Interest payments on the outstanding balance are due quarterly at a rate of 3% plus the current applicable LIBOR rate. The Academy expects to repay the loan with proceeds raised through a capital campaign or by refinancing through a separate mortgage. At June 30, 2016, the balance of the loan due is \$3,108,848.

Note 11 - Special Events

The following summarizes the special event activity:

| | <u>June 30, 2016</u> | | | |
|--|-----------------------------|---------------------------|----------------------------|--------------------|
| | <u>French Consulate</u> | <u>Spring Benefit</u> | <u>Founders Dinner</u> | <u>Total</u> |
| Event income | \$12,977 | \$1,175,451 | \$0 | \$1,188,428 |
| Less: expenses with a direct benefit to donor | <u>0</u> | <u>(114,135)</u> | <u>0</u> | <u>(114,135)</u> |
| | 12,977 | 1,061,316 | 0 | 1,074,293 |
| Less: other event expenses | <u>(539)</u> | <u>(12,274)</u> | <u>(8,785)</u> | <u>(21,598)</u> |
| Total | <u>\$12,438</u> | <u>\$1,049,042</u> | <u>(\$8,785)</u> | <u>\$1,052,695</u> |
| | <u>June 30, 2015</u> | | | |
| | <u>French Consulate</u> | <u>Spring Benefit</u> | <u>Founders Dinner</u> | <u>Total</u> |
| Event income | \$77,500 | \$750,426 | \$0 | \$827,926 |
| Less: expenses with a direct benefit to donor | <u>(12,320)</u> | <u>(92,773)</u> | <u>0</u> | <u>(105,093)</u> |
| | 65,180 | 657,653 | 0 | 722,833 |
| Less: other event expenses | <u>(239)</u> | <u>(8,316)</u> | <u>(7,108)</u> | <u>(15,663)</u> |
| Total | <u>\$64,941</u> | <u>\$649,337</u> | <u>(\$7,108)</u> | <u>\$707,170</u> |