

HARLEM ACADEMY

Audited Financial Statements

June 30, 2012

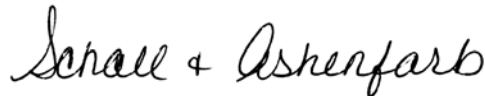
INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Harlem Academy

We have audited the accompanying statement of financial position of Harlem Academy (the "Academy") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Academy's June 30, 2011 financial statements and, in our report dated January 24, 2012, we expressed an unqualified opinion on those financial statements.

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 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 audit provides 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 Harlem Academy as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


Schall & Ashenfarb
Certified Public Accountants, LLC

November 15, 2012

HARLEM ACADEMY
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2012
(With comparative totals for June 30, 2011)

	<u>6/30/12</u>	<u>6/30/11</u>
Assets		
Current assets:		
Cash and cash equivalents (Notes 2d and 2e)	\$978,707	\$931,632
Short-term pledges receivable (Note 3)	252,444	478,114
Tuition receivable, net	27,877	24,574
Prepaid expenses	48,771	59,251
Total current assets	<u>1,307,799</u>	<u>1,493,571</u>
Non-current assets:		
Long-term pledges receivable, net (Note 3)	559,871	536,358
Fixed assets: (Notes 2h and 5)		
Property and equipment, net	94,706	109,540
Security deposits	114,427	99,936
Total non-current assets	<u>769,004</u>	<u>745,834</u>
Total assets	<u><u>\$2,076,803</u></u>	<u><u>\$2,239,405</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$28,696	\$4,040
Accrued expenses	89,673	75,917
Deferred tuition	25,304	18,728
Total liabilities	<u>143,673</u>	<u>98,685</u>
Net assets: (Note 2b)		
Unrestricted	1,199,517	1,081,482
Temporarily restricted (Note 4)	732,513	1,059,238
Permanently restricted (Note 9)	1,100	0
Total net assets	<u>1,933,130</u>	<u>2,140,720</u>
Total liabilities and net assets	<u><u>\$2,076,803</u></u>	<u><u>\$2,239,405</u></u>

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, 2012
(With comparative totals for the year ended June 30, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 6/30/12</u>	<u>Total 6/30/11</u>
Support and revenue:					
Program income and fees	\$339,118			\$339,118	\$281,208
Government grants	68,953			68,953	24,908
Contributions	1,365,336	\$298,095	\$1,100	1,664,531	1,247,769
Interest income	495			495	696
Special events (net of \$69,338 of expenses where the donor received a direct benefit)	448,141			448,141	391,097
In-kind goods and services (Note 6)	8,500			8,500	71,640
Net assets released from restrictions	624,820	(624,820)		0	0
Total support and revenue	<u>2,855,363</u>	<u>(326,725)</u>	<u>1,100</u>	<u>2,529,738</u>	<u>2,017,318</u>
Expenses:					
Program services	2,162,762			2,162,762	1,759,004
Supporting services:					
Management and general	203,327			203,327	199,375
Fundraising	371,239			371,239	275,127
Total supporting services	<u>574,566</u>	<u>0</u>	<u>0</u>	<u>574,566</u>	<u>474,502</u>
Total expenses	<u>2,737,328</u>	<u>0</u>	<u>0</u>	<u>2,737,328</u>	<u>2,233,506</u>
Change in net assets	118,035	(326,725)	1,100	(207,590)	(216,188)
Net assets - beginning	<u>1,081,482</u>	<u>1,059,238</u>		<u>2,140,720</u>	<u>2,356,908</u>
Net assets - ending	<u><u>\$1,199,517</u></u>	<u><u>\$732,513</u></u>	<u><u>\$1,100</u></u>	<u><u>\$1,933,130</u></u>	<u><u>\$2,140,720</u></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, 2012
(With comparative totals for the year ended June 30, 2011)

	Program Services	Management and General	Fundraising	Total 6/30/12	Total 6/30/11
Salaries	\$1,040,985	\$126,784	\$197,045	\$1,364,814	\$1,029,284
Employee benefits and payroll taxes	228,844	19,593	33,200	281,637	228,369
Total personnel services	<u>1,269,829</u>	<u>146,377</u>	<u>230,245</u>	<u>1,646,451</u>	<u>1,257,653</u>
Consultants and professional (including in-kind - Note 6)	38,928	25,560	56,136	120,624	139,268
Marketing and publications	10,153		17,339	27,492	34,067
Printing and supplies (including in-kind - Note 6)	33,632		6,314	39,946	44,560
Program technology and equipment	29,137			29,137	29,376
Insurance	33,236	2,086	5,094	40,416	18,862
Repairs and maintenance	29,036			29,036	24,242
Miscellaneous		19,341	16,736	36,077	31,349
Rent	427,320	5,812	15,869	449,001	394,434
Staff development	30,107			30,107	18,911
Utilities	23,751	556	1,427	25,734	26,183
Food	84,080			84,080	68,622
Education	83,901			83,901	62,049
Bad debt		2,648		2,648	28,278
Depreciation and amortization	69,652	947	2,587	73,186	55,652
Event expense			19,492	19,492	0
Total expenses	<u>\$2,162,762</u>	<u>\$203,327</u>	<u>\$371,239</u>	<u>\$2,737,328</u>	<u>\$2,233,506</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, 2012
(With comparative totals for the year ended June 30, 2011)

	<u>6/30/12</u>	<u>6/30/11</u>
Cash flows from operating activities:		
Change in net assets	(\$207,590)	(\$216,188)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	73,186	55,652
(Increase)/decrease in:		
Pledges receivable	202,157	313,013
Tuition receivable	(3,303)	12,266
Prepaid expenses	10,480	(13,978)
Security deposits	(14,491)	0
Increase/(decrease) in:		
Accounts payable	24,656	(3,456)
Accrued expenses	13,756	21,971
Deferred tuition	6,576	(8,497)
Total adjustments	<u>313,017</u>	<u>376,971</u>
Net cash provided by operating activities	<u>105,427</u>	<u>160,783</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(58,352)</u>	<u>(15,924)</u>
Net cash used for investing activities	<u>(58,352)</u>	<u>(15,924)</u>
Net increase in cash and cash equivalents	47,075	144,859
Cash and cash equivalents - beginning of year	<u>931,632</u>	<u>786,773</u>
Cash and cash equivalents - end of year	<u><u>\$978,707</u></u>	<u><u>\$931,632</u></u>
Supplemental data:		
Interest paid - \$0		
Taxes paid - \$0		

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

HARLEM ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 and accordingly reflect all significant receivables, payables, and other liabilities.

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.
- *Permanently restricted* – accounts for donations received during the year that are required to be set aside to create an endowment (see Note 9).

c. Revenue Recognition

Tuition is recognized in the period earned. 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 recognized at the earlier of when cash is received or a promise made is considered unconditional in nature. Those contributions received with donor stipulations that limit the use of the assets to a particular program or stated time period are reported as temporarily restricted support. All other contributions are recorded as unrestricted. 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 restrictions. However, those contributions whose restrictions lapse in the same period the contribution is made are 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.

The Academy places its temporary cash and money market accounts with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At year end, the Academy had an uninsured balance of \$564,171.

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 a risk adjusted rate of return.

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 \$10,000.

h. Fixed Assets

Equipment, furniture and fixtures that are purchased and exceed predetermined levels are capitalized at cost or at fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives 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 such skills and would ordinarily pay for such services if they had not been 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 statement of activities and in the statement of functional expenses. 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. Accounting for Uncertainty of Income Taxes
The Academy has adopted the provisions of FASB ASC 740, *Income Taxes*, which applies to positions taken or expected to be taken in a tax return. Organizations are required to recognize the effects of the positions if they are more likely than not of being sustained. The Academy does not believe its financial statements include any uncertain tax positions.
- 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, 2011, 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 November 15, 2012, 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.

Note 3 - Pledges Receivable

At June 30, 2012, pledges receivable are anticipated to be collected as follows:

Within 1 year	\$252,444
From 1-5 years	<u>603,769</u>
	856,213
Less: discount to fair value	<u>(43,898)</u>
Total	<u>\$812,315</u>

Note 4 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 consist of the following:

	<u>6/30/11</u>	<u>Restricted Contributions</u>	<u>Released from Restrictions</u>	<u>6/30/12</u>
Time restricted	\$924,537	\$23,558	(\$387,379)	\$560,716
Technology and special projects	18,701	30,000	(22,299)	26,402
Education	<u>116,000</u>	<u>244,537</u>	<u>(215,142)</u>	<u>145,395</u>
Total	<u>\$1,059,238</u>	<u>\$298,095</u>	<u>(\$624,820)</u>	<u>\$732,513</u>

Note 5 - Fixed Assets

Fixed assets at June 30, 2012 consist of the following:

Equipment (3 years)	\$125,154
Leasehold improvements (2-5 years)	<u>429,727</u>
Total net assets	554,881
Less: accumulated depreciation	<u>(460,175)</u>
Total	<u>\$94,706</u>

At June 30, 2012 depreciation expense totaled \$73,186.

Note 6 - In-Kind Contributions

The following summarizes the in-kind contributions recognized during this year:

	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>
Legal services	\$4,500	\$0	\$4,500	\$0
Printing services	<u>4,000</u>	<u>0</u>	<u>0</u>	<u>4,000</u>
Total	<u>\$8,500</u>	<u>\$0</u>	<u>\$4,500</u>	<u>\$4,000</u>

Note 7 - Commitments & Contingencies

The Academy has a non-cancelable operating lease for the use of classrooms and office space that expires on June 30, 2013. Future minimum payments are \$481,448.

Rent expense for the year ending June 30, 2012 was \$449,001.

Note 8 - 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 the year ended June 30, 2012, the employer expense was \$18,875.

Note 9 - Permanently Restricted Net Assets

During the year ended June 30, 2012, an appeal was held commemorating the first 8th grade graduating class. All funds received through year end for this appeal, which amounted to \$1,100, are being held in perpetuity as permanently restricted net assets.