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HARLEM ACADEMY

Audited Financial Statements

June 30, 2013

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, 2013, 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.

Auditor's 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 auditor's 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.

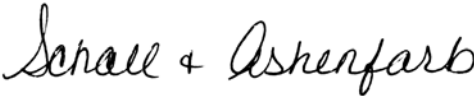
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.


Schall & Ashenfarb
Certified Public Accountants, LLC

October 10, 2013

HARLEM ACADEMY
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2013
(With comparative totals for June 30, 2012)

	<u>6/30/13</u>	<u>6/30/12</u>
Assets		
Current assets:		
Cash and cash equivalents (Notes 2d and 2e)	\$1,212,413	\$978,707
Short-term pledges receivable (Notes 2f and 3)	863,234	252,444
Tuition receivable, net (Note 2g)	30,436	27,877
Prepaid expenses	57,536	48,771
Total current assets	<u>2,163,619</u>	<u>1,307,799</u>
Non-current assets:		
Long-term pledges receivable, net (Notes 2f and 3)	4,099,014	559,871
Fixed assets: (Notes 2h and 4)		
Property and equipment, net	33,343	94,706
Security deposits	92,602	114,427
Total non-current assets	<u>4,224,959</u>	<u>769,004</u>
Total assets	<u><u>\$6,388,578</u></u>	<u><u>\$2,076,803</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$11,175	\$28,696
Accrued expenses	94,388	89,673
Deferred tuition	35,072	25,304
Total liabilities	<u>140,635</u>	<u>143,673</u>
Net assets: (Note 2b)		
Unrestricted	1,208,741	1,199,517
Temporarily restricted (Note 5)	4,959,407	732,513
Permanently restricted (Note 6)	79,795	1,100
Total net assets	<u>6,247,943</u>	<u>1,933,130</u>
Total liabilities and net assets	<u><u>\$6,388,578</u></u>	<u><u>\$2,076,803</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, 2013
(With comparative totals for the year ended June 30, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 6/30/13</u>	<u>Total 6/30/12</u>
Support and revenue:					
Program income and fees	\$346,815			\$346,815	\$339,118
Government grants	54,271			54,271	68,953
Contributions	683,667	\$5,468,000	\$78,695	6,230,362	1,664,531
Interest income	194			194	495
Special events (net of \$96,684 of expenses where the donor received a direct benefit)	662,030			662,030	448,141
In-kind goods and services (Note 7)	10,000			10,000	8,500
Net assets released from restrictions	1,241,106	(1,241,106)		0	0
Total support and revenue	<u>2,998,083</u>	<u>4,226,894</u>	<u>78,695</u>	<u>7,303,672</u>	<u>2,529,738</u>
Expenses:					
Program services	2,363,332			2,363,332	2,162,762
Management and general	223,761			223,761	203,327
Fundraising	401,766			401,766	371,239
Total expenses	<u>2,988,859</u>	<u>0</u>	<u>0</u>	<u>2,988,859</u>	<u>2,737,328</u>
Change in net assets	9,224	4,226,894	78,695	4,314,813	(207,590)
Net assets - beginning	<u>1,199,517</u>	<u>732,513</u>	<u>1,100</u>	<u>1,933,130</u>	<u>2,140,720</u>
Net assets - ending	<u><u>\$1,208,741</u></u>	<u><u>\$4,959,407</u></u>	<u><u>\$79,795</u></u>	<u><u>\$6,247,943</u></u>	<u><u>\$1,933,130</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, 2013
(With comparative totals for the year ended June 30, 2012)

	Program Services	Management and General	Fundraising	Total 6/30/13	Total 6/30/12
Salaries	\$1,167,860	\$148,163	\$229,201	\$1,545,224	\$1,364,814
Employee benefits and payroll taxes	225,982	20,683	38,625	285,290	281,637
Total personnel services	<u>1,393,842</u>	<u>168,846</u>	<u>267,826</u>	<u>1,830,514</u>	<u>1,646,451</u>
Consultants and professional (including in-kind - Note 7)	28,988	16,737	59,054	104,779	120,624
Marketing and publications	15,238		11,621	26,859	27,492
Printing and supplies (including in-kind - Note 7)	39,710			39,710	39,946
Program technology and equipment	11,004			11,004	29,137
Insurance	35,700	1,787	3,942	41,429	40,416
Repairs and maintenance	25,928			25,928	29,036
Other		26,457	18,253	44,710	36,077
Rent	462,315	5,569	19,492	487,376	449,001
Staff development	55,733			55,733	30,107
Utilities	24,040	670	1,685	26,395	25,734
Food	78,751			78,751	84,080
Education	109,100			109,100	83,901
Bad debt		2,695		2,695	2,648
Depreciation and amortization	82,983	1,000	3,499	87,482	73,186
Event expense			16,394	16,394	19,492
Total expenses	<u>\$2,363,332</u>	<u>\$223,761</u>	<u>\$401,766</u>	<u>\$2,988,859</u>	<u>\$2,737,328</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, 2013
(With comparative totals for the year ended June 30, 2012)

	<u>6/30/13</u>	<u>6/30/12</u>
Cash flows from operating activities:		
Change in net assets	\$4,314,813	(\$207,590)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	87,482	73,186
(Increase)/decrease in assets:		
Pledges receivable	(4,149,933)	202,157
Tuition receivable	(2,559)	(3,303)
Prepaid expenses	(8,765)	10,480
Security deposits	21,825	(14,491)
Increase/(decrease) in liabilities:		
Accounts payable	(17,521)	24,656
Accrued expenses	4,715	13,756
Deferred tuition	9,768	6,576
Total adjustments	<u>(4,054,988)</u>	<u>313,017</u>
Net cash provided by operating activities	<u>259,825</u>	<u>105,427</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(26,119)</u>	<u>(58,352)</u>
Net cash used for investing activities	<u>(26,119)</u>	<u>(58,352)</u>
Net increase in cash and cash equivalents	233,706	47,075
Cash and cash equivalents - beginning of year	<u>978,707</u>	<u>931,632</u>
Cash and cash equivalents - end of year	<u><u>\$1,212,413</u></u>	<u><u>\$978,707</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, 2013

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. All significant receivables, payables, and other liabilities have been included.

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 6).

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 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 a risk adjusted rate of return. 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 \$8,000.

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 does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2010 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, 2012, 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 10, 2013, 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, 2013, pledges receivable are anticipated to be collected as follows:

June 30, 2014	\$863,234
June 30, 2015	706,000
June 30, 2016	600,000
June 30, 2017	600,000
June 30, 2018	500,000
Thereafter	<u>2,500,000</u>
	5,769,234
Less: discount to fair value	<u>(806,986)</u>
Total	<u>\$4,962,248</u>

Note 4 - Fixed Assets

Fixed assets at June 30, 2013 consist of the following:

Equipment (3 years)	\$151,273
Leasehold improvements (2-5 years)	<u>429,727</u>
Total assets - cost	581,000
Less: accumulated depreciation	<u>(547,657)</u>
Total fixed assets - net	<u>\$33,343</u>

At June 30, 2013 depreciation expense totaled \$87,482.

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 consist of the following:

	<u>6/30/12</u>	Restricted Contributions	Released from Restrictions	<u>6/30/13</u>
Time restricted	\$560,716	\$5,360,000	(\$1,056,702)	\$4,864,014
Technology and special projects	26,402	20,000	(29,585)	16,817
Education	<u>145,395</u>	<u>88,000</u>	<u>(154,819)</u>	<u>78,576</u>
Total	<u>\$732,513</u>	<u>\$5,468,000</u>	<u>(\$1,241,106)</u>	<u>\$4,959,407</u>

Note 6 - Permanently Restricted Net Assets

The Academy began an appeal in the prior year that was held 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 yet set a spending policy. Currently, all funds have been pooled with the operating checking account and has not earned income.

Changes in endowment net assets for the year ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$0	\$0	\$1,100	\$1,100
Contributions	<u>0</u>	<u>0</u>	<u>78,695</u>	<u>78,695</u>
Endowment net assets, end of year	<u>\$0</u>	<u>\$0</u>	<u>\$79,795</u>	<u>\$79,795</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. As the entire endowment has been pooled with the operating checking account there were no such deficiencies as of June 30, 2013.

Note 7 - In-Kind Contributions

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

	<u>Total</u>	<u>Program</u>	<u>Management and General</u>
Legal services	\$5,000	\$0	\$5,000
Printing services	<u>5,000</u>	<u>5,000</u>	<u>0</u>
Total	<u>\$10,000</u>	<u>\$5,000</u>	<u>\$5,000</u>

Note 8 - Commitments & Contingencies

The Academy renewed their operating lease for the use of classrooms and office space through June 30, 2016.

Future minimum payments due under the leases are as follows:

	<u>Amount</u>
For the year ended: June 30, 2014	\$335,625
June 30, 2015	348,924
June 30, 2016	<u>361,137</u>
Total	<u>\$1,045,686</u>

Rent expense for the year ending June 30, 2013 was \$487,376.

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 a year or more of service with the Academy. For the year ended June 30, 2013, the employer expense was \$20,500.