

HARLEM ACADEMY

Audited Financial Statements

June 30, 2014

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, 2014, 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.


Schall & Ashenfarb
Certified Public Accountants, LLC

September 19, 2014

HARLEM ACADEMY
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2014

(With comparative totals for June 30, 2013)

	<u>6/30/14</u>	<u>6/30/13</u>
Assets		
Current assets:		
Cash and cash equivalents (Notes 2d and 2e)	\$1,200,544	\$1,212,413
Short-term pledges receivable (Notes 2f and 3)	2,340,392	863,234
Tuition receivable, net (Note 2g)	29,068	30,436
Prepaid expenses	5,963	57,536
Total current assets	<u>3,575,967</u>	<u>2,163,619</u>
Non-current assets:		
Long-term pledges receivable, net (Notes 2f and 3)	8,815,650	4,099,014
Fixed assets: (Notes 2h and 4)		
Property and equipment, net	10,070,667	33,343
Security deposits	89,616	92,602
Total non-current assets	<u>18,975,933</u>	<u>4,224,959</u>
Total assets	<u><u>\$22,551,900</u></u>	<u><u>\$6,388,578</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$8,565	\$11,175
Accrued expenses	115,714	94,388
Deferred tuition	34,350	35,072
Total current liabilities	<u>158,629</u>	<u>140,635</u>
Non-current liabilities:		
Loan payable (Note 10)	7,600,000	0
Total non-current liabilities	<u>7,600,000</u>	<u>0</u>
Total liabilities	<u>7,758,629</u>	<u>140,635</u>
Net assets: (Note 2b)		
Unrestricted	3,593,171	1,208,741
Temporarily restricted (Note 5)	11,111,010	4,959,407
Permanently restricted (Note 6)	89,090	79,795
Total net assets	<u>14,793,271</u>	<u>6,247,943</u>
Total liabilities and net assets	<u><u>\$22,551,900</u></u>	<u><u>\$6,388,578</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, 2014
(With comparative totals for the year ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 6/30/14	Total 6/30/13
Support and revenue:					
Program income and fees	\$388,001			\$388,001	\$346,815
Government grants	65,685			65,685	54,271
Contributions	2,956,589	\$7,207,996	\$9,295	10,173,880	6,230,362
Interest income	103			103	194
Special events (net of \$133,716 of expenses where the donor received a direct benefit) (Note 11)	625,445			625,445	662,030
In-kind goods and services (Note 7)	268,431			268,431	10,000
Net assets released from restrictions	1,056,393	(1,056,393)		0	0
Total support and revenue	<u>5,360,647</u>	<u>6,151,603</u>	<u>9,295</u>	<u>11,521,545</u>	<u>7,303,672</u>
Expenses:					
Program services	2,289,054			2,289,054	2,363,332
Management and general	243,470			243,470	223,761
Fundraising	443,693			443,693	401,766
Total expenses	<u>2,976,217</u>	<u>0</u>	<u>0</u>	<u>2,976,217</u>	<u>2,988,859</u>
Change in net assets	2,384,430	6,151,603	9,295	8,545,328	4,314,813
Net assets - beginning	<u>1,208,741</u>	<u>4,959,407</u>	<u>79,795</u>	<u>6,247,943</u>	<u>1,933,130</u>
Net assets - ending	<u><u>\$3,593,171</u></u>	<u><u>\$11,111,010</u></u>	<u><u>\$89,090</u></u>	<u><u>\$14,793,271</u></u>	<u><u>\$6,247,943</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, 2014
(With comparative totals for the year ended June 30, 2013)

	Program Services	Management and General	Fundraising	Total 6/30/14	Total 6/30/13
Salaries	\$1,292,562	\$151,194	\$267,363	\$1,711,119	\$1,545,224
Employee benefits and payroll taxes	227,301	22,684	43,878	293,863	285,290
Total personnel services	<u>1,519,863</u>	<u>173,878</u>	<u>311,241</u>	<u>2,004,982</u>	<u>1,830,514</u>
Consultants and professional	59,715	11,319	61,782	132,816	104,779
Marketing and publications	6,709		15,258	21,967	26,859
Printing and supplies	38,635			38,635	39,710
Program technology and equipment	8,063			8,063	11,004
Insurance	38,724	1,887	4,179	44,790	41,429
Repairs and maintenance	25,619			25,619	25,928
Other (including in-kind - Note 7)		35,455	14,513	49,968	44,710
Rent	327,402	3,999	13,996	345,397	487,376
Staff development	34,230			34,230	55,733
Utilities	24,512	601	1,601	26,714	26,395
Food	82,199			82,199	78,751
Education	97,704			97,704	109,100
Bad debt		16,017		16,017	2,695
Depreciation and amortization	25,679	314	1,098	27,091	87,482
Event expense (including in-kind - Note 7)			20,025	20,025	16,394
Total expenses	<u>\$2,289,054</u>	<u>\$243,470</u>	<u>\$443,693</u>	<u>\$2,976,217</u>	<u>\$2,988,859</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, 2014

(With comparative totals for the year ended June 30, 2013)

	<u>6/30/14</u>	<u>6/30/13</u>
Cash flows from operating activities:		
Change in net assets	\$8,545,328	\$4,314,813
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	27,091	87,482
(Increase)/decrease in assets:		
Pledges receivable	(6,193,794)	(4,149,933)
Tuition receivable	1,368	(2,559)
Prepaid expenses	51,573	(8,765)
Security deposits	2,986	21,825
Increase/(decrease) in liabilities:		
Accounts payable	(2,610)	(17,521)
Accrued expenses	21,326	4,715
Deferred tuition	(722)	9,768
Total adjustments	<u>(6,092,782)</u>	<u>(4,054,988)</u>
Net cash provided by operating activities	<u>2,452,546</u>	<u>259,825</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(10,064,415)</u>	<u>(26,119)</u>
Net cash used for investing activities	<u>(10,064,415)</u>	<u>(26,119)</u>
Cash flows from financing activities:		
Proceeds from loan	<u>7,600,000</u>	<u>0</u>
Net cash provided by financing activities	<u>7,600,000</u>	<u>0</u>
Net (decrease)/increase in cash and cash equivalents	(11,869)	233,706
Cash and cash equivalents - beginning of year	<u>1,212,413</u>	<u>978,707</u>
Cash and cash equivalents - end of year	<u><u>\$1,200,544</u></u>	<u><u>\$1,212,413</u></u>
Supplemental data:		
Interest paid - \$53,000		
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, 2014

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 (see Note 5).
- *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 \$15,000 and \$8,000 for the years ending June 30, 2014 and 2013, respectively.

h. Fixed Assets

Purchases of equipment, furniture and fixtures that 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, 2011 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, 2013, 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 September 19, 2014, 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

Pledges receivable are anticipated to be collected as follows:

	<u>6/30/14</u>	<u>6/30/13</u>
June 30, 2014	\$0	\$863,234
June 30, 2015	2,340,392	706,000
June 30, 2016	1,975,000	600,000
June 30, 2017	1,900,000	600,000
June 30, 2018	1,800,000	500,000
June 30, 2019	1,700,000	500,000
Thereafter	<u>2,800,000</u>	<u>2,000,000</u>
	12,515,392	5,769,234
Less: Present value discount (3.25%)	<u>(1,359,350)</u>	<u>(806,986)</u>
Total	<u>\$11,156,042</u>	<u>\$4,962,248</u>

At June 30, 2014, approximately 90% of total pledges receivable are due from two donors. Contributions from these two donors during the year ended June 30, 2014 were approximately 61% of total support and revenue.

Note 4 - Fixed Assets

Fixed assets consist of the following:

	<u>6/30/14</u>	<u>6/30/13</u>
Equipment (3 years)	\$171,669	\$151,273
Leasehold improvements (2-5 years)	429,727	429,727
Land	9,855,832	0
Building – work in progress	<u>188,187</u>	<u>0</u>
Total assets - cost	10,645,415	581,000
Less: accumulated depreciation	<u>(574,748)</u>	<u>(547,657)</u>
Total fixed assets - net	<u>\$10,070,667</u>	<u>\$33,343</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 that was obtained to finance this purchase. See Note 10 for details. Capitalized interest of \$53,000 is included in building-work in progress.

Note 5 - Temporarily Restricted Net Assets

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

	<u>June 30, 2014</u>			
	<u>7/1/13</u>	Restricted Contributions	Released from Restrictions	<u>6/30/14</u>
Time restricted	\$4,864,014	\$150,794	(\$711,000)	\$4,303,808
Technology and special projects	16,817	0	(16,817)	0
Permanent campus Education	<u>0</u>	<u>7,046,842</u>	<u>(250,000)</u>	<u>6,796,842</u>
	<u>78,576</u>	<u>10,360</u>	<u>(78,576)</u>	<u>10,360</u>
Total	<u>\$4,959,407</u>	<u>\$7,207,996</u>	<u>(\$1,056,393)</u>	<u>\$11,111,010</u>
	<u>June 30, 2013</u>			
	<u>7/1/12</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 a fundraising 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 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:

	<u>June 30, 2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$0	\$0	\$79,795	\$79,795
Contributions	<u>0</u>	<u>0</u>	<u>9,295</u>	<u>9,295</u>
Endowment net assets, end of year	<u>\$0</u>	<u>\$0</u>	<u>\$89,090</u>	<u>\$89,090</u>

	<u>June 30, 2013</u>			
	<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, 2014.

Note 7 - In-Kind Contributions

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

	<u>June 30, 2014</u>			
	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Fixed Assets</u>
Legal services – land acquisition	\$120,090	\$0	\$0	\$120,090
Architectual services – design of building	135,000	0	0	135,000
Event printing	3,746	0	3,746	0
Other – state registration preparation	<u>9,595</u>	<u>9,595</u>	<u>0</u>	<u>0</u>
Total	<u>\$268,431</u>	<u>\$9,595</u>	<u>\$3,746</u>	<u>\$255,090</u>

	<u>June 30, 2013</u>		
	<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 lease are as follows:

	<u>Amount</u>
For the year ended: June 30, 2015	\$348,924
June 30, 2016	<u>361,137</u>
Total	<u>\$710,061</u>

Rent expense for the year ending June 30, 2014 and 2013 was \$345,397 and \$487,376, respectively.

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, 2014 and 2013, the employer expense was \$28,000 and \$20,500, respectively.

Note 10 - Loan Payable

The Academy entered into a loan with an entity that is owned by a board member. The principal balance of \$7,600,000 is due on August 12, 2015. 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.

Note 11 - Special Events

The following summarizes the special event activity:

	<u>June 30, 2014</u>			
	<u>French Consulate</u>	<u>Climb Bike Ride</u>	<u>Spring Benefit</u>	<u>Total</u>
Event income	\$94,648	\$51,925	\$612,588	\$759,161
Expenses where the donor receives a direct benefit	<u>(13,025)</u>	<u>(15,118)</u>	<u>(105,573)</u>	<u>(133,716)</u>
Net event income	81,623	36,807	507,015	625,445
Other event expenses	<u>(251)</u>	<u>(2,401)</u>	<u>(9,230)</u>	<u>(11,882)</u>
Total	<u>\$81,372</u>	<u>\$34,406</u>	<u>\$497,785</u>	<u>\$613,563</u>

	<u>June 30, 2013</u>			
	<u>French Consulate</u>	<u>Climb Bike Ride</u>	<u>Spring Benefit</u>	<u>Total</u>
Event income	\$27,440	\$91,924	\$639,350	\$758,714
Expenses where the donor receives a direct benefit	<u>0</u>	<u>(16,136)</u>	<u>(80,548)</u>	<u>(96,684)</u>
Net event income	27,440	75,788	558,802	662,030
Other event expenses	<u>(168)</u>	<u>(1,594)</u>	<u>(9,585)</u>	<u>(11,347)</u>
Total	<u>\$27,272</u>	<u>\$74,194</u>	<u>\$549,217</u>	<u>\$650,683</u>