

# **The East Harlem School at Exodus House**

Financial Report  
August 31, 2017

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## Independent Auditor's Report

Board of Trustees  
The East Harlem School at Exodus House

### Report on the Financial Statements

We have audited the accompanying financial statements of The East Harlem School at Exodus House, which comprise the statement of financial position as of August 31, 2017, 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 entity'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 entity'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 East Harlem School at Exodus House as of August 31, 2017, 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 East Harlem School at Exodus House's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of per student costs on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

New York, New York  
December 11, 2017

The East Harlem School at Exodus House

Statement of Financial Position

August 31, 2017

(With Summarized Comparative Information as of August 31, 2016)

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 122,946	\$ 3,003,949
Accounts and contributions receivable, net	645	53,191
Prepaid expenses and other assets	133,217	130,215
Loan receivable	7,677	9,229
Investments	2,634,937	209,083
<b>Total current assets</b>	<b>2,899,422</b>	<b>3,405,667</b>
Noncurrent assets:		
Prepaid expenses and other assets	27,147	11,985
Loan receivable	-	7,552
Investments	5,140,765	4,881,304
Property and equipment, net	8,347,538	8,614,827
<b>Total assets</b>	<b>\$ 16,414,872</b>	<b>\$ 16,921,335</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,593	\$ 17,766
Tuition advances	26,794	25,465
Deferred revenue	1,100	1,510
<b>Total liabilities</b>	<b>44,487</b>	<b>44,741</b>
Net assets:		
Unrestricted:		
Undesignated	2,587,049	2,942,271
Board-designated for endowment	5,082,837	4,834,891
Invested in property and equipment	8,347,538	8,614,827
<b>Total unrestricted</b>	<b>16,017,424</b>	<b>16,391,989</b>
Temporarily restricted	152,961	284,605
Permanently restricted	200,000	200,000
<b>Total net assets</b>	<b>16,370,385</b>	<b>16,876,594</b>
<b>Total liabilities and net assets</b>	<b>\$ 16,414,872</b>	<b>\$ 16,921,335</b>

See notes to financial statements.

The East Harlem School at Exodus House

Statement of Activities

Year Ended August 31, 2017

(With Summarized Comparative Information for the Year Ended August 31, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating revenue:					
Contributions	\$ 510,912	\$ 277,400	\$ -	\$ 788,312	\$ 1,076,987
Benefit income, net	941,789	-	-	941,789	1,589,406
Program services	119,158	-	-	119,158	125,165
Government grants	106,476	-	-	106,476	104,703
Investment income	11,144	-	-	11,144	215
Net realized/unrealized gain on investments	1,926	-	-	1,926	17
Contributed services	75,968	-	-	75,968	50,182
Miscellaneous income	696	-	-	696	5,609
Endowment distribution for operations	200,396	10,547	-	210,943	207,013
Net assets released from restrictions	433,036	(433,036)	-	-	-
<b>Total operating revenue</b>	<b>2,401,501</b>	<b>(145,089)</b>	<b>-</b>	<b>2,256,412</b>	<b>3,159,297</b>
Expenses:					
Program services	2,191,124	-	-	2,191,124	2,152,062
Fund development	267,949	-	-	267,949	260,713
Management and general	263,075	-	-	263,075	253,418
<b>Total operating expenses</b>	<b>2,722,148</b>	<b>-</b>	<b>-</b>	<b>2,722,148</b>	<b>2,666,193</b>
<b>Change in net assets from operations</b>	<b>(320,647)</b>	<b>(145,089)</b>	<b>-</b>	<b>(465,736)</b>	<b>493,104</b>
Nonoperating:					
Endowment distribution for operations	(200,396)	(10,547)	-	(210,943)	(207,013)
Investment income	130,047	6,959	-	137,006	152,688
Realized/unrealized gain on investments	318,295	17,033	-	335,328	92,962
<b>Change in net assets from nonoperating</b>	<b>247,946</b>	<b>13,445</b>	<b>-</b>	<b>261,391</b>	<b>38,637</b>
Depreciation and amortization	(301,864)	-	-	(301,864)	(297,992)
<b>Change in net assets</b>	<b>(374,565)</b>	<b>(131,644)</b>	<b>-</b>	<b>(506,209)</b>	<b>233,749</b>
Net assets:					
Beginning	16,391,989	284,605	200,000	16,876,594	16,642,845
Ending	\$ 16,017,424	\$ 152,961	\$ 200,000	\$ 16,370,385	\$ 16,876,594

See notes to financial statements.

The East Harlem School at Exodus House

Statement of Functional Expenses

Year Ended August 31, 2017

(With Summarized Comparative Information for the Year Ended August 31, 2016)

	2017				2016	
	Program Services	Supporting Services		Total Supporting Services	Total	Total
		Fund Development	Management and General			
Salaries and related costs	\$ 1,649,426	\$ 185,941	\$ 186,056	\$ 371,997	\$ 2,021,423	\$ 1,968,590
Administrative processing expenses	-	-	11,452	11,452	11,452	12,027
Fund-raising event expenses - indirect	-	45,475	-	45,475	45,475	66,082
Contributed services	75,968	-	-	-	75,968	53,482
Dues and fees	1,146	4,145	108	4,253	5,399	3,401
Food service	80,762	-	-	-	80,762	78,514
Insurance	46,570	6,113	2,987	9,100	55,670	55,697
Office supplies	28,649	3,761	1,837	5,598	34,247	32,524
Postage and delivery	2,455	491	157	648	3,103	3,360
Professional services	-	-	50,434	50,434	50,434	48,034
Program services	127,096	-	-	-	127,096	129,497
Public relations and marketing	-	2,606	-	2,606	2,606	2,454
Repair and maintenance	47,817	1,526	1,526	3,052	50,869	56,352
Staff development and training	16,755	2,199	1,075	3,274	20,029	20,556
Technology	42,946	5,638	2,754	8,392	51,338	52,148
Telephone	7,508	985	482	1,467	8,975	8,138
Travel and entertainment	643	749	142	891	1,534	4,367
Utilities	63,383	8,320	4,065	12,385	75,768	70,970
<b>Total operating expenses</b>	<b>2,191,124</b>	<b>267,949</b>	<b>263,075</b>	<b>531,024</b>	<b>2,722,148</b>	<b>2,666,193</b>
Special events	-	153,578	-	153,578	153,578	245,473
Depreciation and amortization	252,521	33,147	16,196	49,343	301,864	297,992
<b>Total expenses</b>	<b>\$ 2,443,645</b>	<b>\$ 454,674</b>	<b>\$ 279,271</b>	<b>\$ 733,945</b>	<b>\$ 3,177,590</b>	<b>\$ 3,209,658</b>

See notes to financial statements.

**The East Harlem School at Exodus House**

**Statement of Cash Flows**

**Year Ended August 31, 2017**

**(With Summarized Comparative Information for August 31, 2016)**

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Change in net assets	\$ (506,209)	\$ 233,749
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	301,864	297,992
Realized/unrealized gain on investments	(337,445)	(92,962)
Decrease (increase) in operating assets:		
Prepaid expenses and other assets	(18,164)	(40,268)
Accounts and contributions receivable	52,546	23,215
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(1,173)	(14,539)
Deferred revenue	(410)	(236,671)
Tuition advances	1,329	188
<b>Net cash (used in) provided by operating activities</b>	<b>(507,662)</b>	<b>170,704</b>
Cash flows from investing activities:		
Purchase of investments	(6,272,408)	(792,092)
Proceeds from sale of investments	3,924,538	846,665
Payments received on loan receivable	9,104	9,014
Purchase of property and equipment	(34,575)	(91,045)
<b>Net cash used in investing activities</b>	<b>(2,373,341)</b>	<b>(27,458)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,881,003)</b>	<b>143,246</b>
Cash and cash equivalents:		
Beginning	3,003,949	2,860,703
Ending	\$ 122,946	\$ 3,003,949

See notes to financial statements.



## The East Harlem School at Exodus House

### Notes to Financial Statements

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#### Note 1. Organization

The East Harlem School at Exodus House (the School) is a tax-exempt (under Section 501(c)(3)) of the Internal Revenue Code (IRC) nonprofit school incorporated by a charter from The University of the State of New York Education Department as an educational corporation in 1993. The School is a year-round middle school that teaches children from low-income families in Harlem to develop academic excellence, moral integrity, courtesy and an unshakeable commitment to their future and the fate of their community.

The School operated in a building owned by Exodus House, Inc., a New York nonprofit corporation, which was subsequently torn down. All of the current trustees of Exodus House, Inc. are also trustees of the School. In 2004, Exodus House, Inc. entered into a lease agreement with the School whereby the property was leased by Exodus House, Inc. to the School for a term of 49 years at a nominal amount.

The School has completed a \$12.1 million capital campaign to build a new facility on its current site. The new 30,000 square foot facility provides room for the student population of approximately 150 students, enhances academic and extracurricular instruction, allows the School to gather as a full community and serves as a national model for the School's peers. The campaign was accomplished through a fund-raising and communications campaign led by the School's board of trustees and Capital Campaign Committee. The building was completed and occupied by the School in December 2008.

The School currently has a \$5.4 million endowment, which includes approximately \$5.1 million of board-designated unrestricted net assets; \$1.4 million of this endowment is derived from the excess of the School's \$12.1 million capital campaign revenue over the \$10.7 million cost to build the new facility. The remaining \$3.7 million represents a board-designated endowment that has been funded by annual operating surpluses and endowment earnings.

#### Note 2. Summary of Significant Accounting Policies

**Basis of presentation:** The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

**Cash and cash equivalents:** The School maintains its cash in bank deposits at one high-credit quality financial institution. The balances, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts.

Cash and cash equivalents represent cash in demand deposit accounts at one financial institution, as well as short-term, liquid and treasury instruments. The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

**Investments and investment returns:** Investments are valued at fair value, as discussed in Note 3, with the resulting change in unrealized gains or losses included in the statement of activities. Investment transactions are recorded on a trade-date basis and gains and losses on the sale of investments are calculated by the specific-identification method. Investment income and net gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by the donor.

## The East Harlem School at Exodus House

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

Management designates only a portion of the School's cumulative investment income for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The investment return on short-term investments is used to support current operations. The return on investments held in the endowment fund are used to support future operations, and are included as nonoperating income for the periods presented with the exception of the annual endowment distribution which supports current operations.

**Fair value measurements:** The School follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (FASB ASC 820). Under this guidance fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the School uses various methods including market, income and cost approaches. Based on these approaches, the School often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The School utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the School is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three levels:

**Level 1:** Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

**Level 2:** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

**Level 3:** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single-dealer quotes not corroborated by observable market data.

For the year ended August 31, 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market price activity of the instrument.

**Contributions and related receivables:** Contributions receivable are reported at their outstanding unpaid balances, less an allowance for present value discounts and doubtful accounts. Management evaluates the collectability of these receivables on a case-by-case basis considering the School's experience with the donor or funding source and their ability to pay, and writes off receivables that are deemed to be uncollectible.

Contributions are recognized as revenue in the year the unconditional promise is received and documented.

## The East Harlem School at Exodus House

### Notes to Financial Statements

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#### **Note 2. Summary of Significant Accounting Policies (Continued)**

Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted, or permanently restricted support, which increases those net asset classes. When the specified purpose of donor-restricted contributions is met, the net assets are released from restrictions and transferred to unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Unconditional promises that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated cash flows, discounted at a rate commensurate with the risks involved. Amortization of the discount is offset against contributions revenue.

**Contributed services:** Contributed services are recorded at their fair value when such services are rendered. Contributed services are recognized as contributions if the services: (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the School.

A number of volunteers have made a contribution of their time to the School to develop its academic and other programs and to serve on the School's board of trustees. The value of this contributed time is not reflected in these financial statements since it does not meet the criteria for recognition.

**Concentration:** For the years ended August 31, 2017 and 2016, two donors accounted for 27% and 22%, respectively, of total contribution revenue.

**Property and equipment:** Property and equipment is recorded at cost when purchased, or at fair value when contributed. The School capitalizes all purchases of fixed assets in excess of \$500. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets, which is from five to ten years for furniture and equipment. Leasehold improvements are amortized over the shorter of the useful life or the life of the lease, which is 40 years.

**Deferred revenue:** Deferred revenue represents monies received in advance of income not earned from ticket sales for future special events, which will be recognized in the statement of activities when the event occurs.

**Tuition revenue:** Student tuition and fees are reported as revenue when earned. Student tuition and fees received in advance are deferred and are recognized as revenue over the period of instruction as services are delivered to students.

**Net assets classifications:** Permanently restricted net assets include contributions that donors have specified must be maintained in perpetuity. Interest and dividends, and net realized and unrealized appreciation on the related investments, are expended for such purposes as specified by the donor or, if none, then for general purposes.

Temporarily restricted net assets are comprised of funds which are restricted by donors for specific purposes. Upon the expiration of either donor-imposed time and purpose restrictions, temporarily restricted net assets are transferred to unrestricted net assets.

Unrestricted net assets represent funds which are neither permanently nor temporarily restricted and are generally available for the School to utilize in any of its programs or supporting services.

## The East Harlem School at Exodus House

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Expenses:** Expenses are reported as decreases in unrestricted net assets. The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Endowment:** When the School receives a contribution and the donor restricts the School from spending the principal, the contribution is classified as an endowment, with the amount of the gift recorded as permanently restricted. The School is subject to the New York Prudent Management of Institutional Funds Act (NYPMIFA). The School has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by NYPMIFA.

**Income taxes:** The School qualifies as a charitable organization as defined by IRC Section 501(c) (3) and, accordingly, is exempt from federal income taxes under IRC Section 501(a). The School is also exempt from New York State and New York City income taxes. The School is not classified as a private foundation.

Management evaluated the School's tax positions and concluded that the School had taken no uncertain income tax positions that require adjustments or disclosure to the financial statements. Generally, the School is no longer subject to income tax examinations by U.S. federal, state, and local tax authorities for years before 2014, which is the standard statute of limitations look-back period.

**Prior-year summarized comparative information:** The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended August 31, 2016, from which the summarized information was derived.

**Evaluation of subsequent events:** The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available to be issued, which was December 11, 2017 for these financial statements.

**Recently issued accounting standards:** In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The School is currently evaluating the impact of its pending adoption of the new standard on the financial statements.

## The East Harlem School at Exodus House

### Notes to Financial Statements

#### Note 2. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor does not convey risks and rewards or control, an operating lease results. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The School is currently evaluating the impact of its pending adoption of the new standard on the financial statements.

#### Note 3. Investments and Fair Value Measurement

Investments measured at fair value by level, within the fair value hierarchy, as of August 31, 2017, are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 976,878	\$ 976,878	\$ -	\$ -
Mutual funds:				
Large-cap funds	1,764,247	1,764,247	-	-
International funds	775,239	775,239	-	-
Balanced funds	611,730	611,730	-	-
Bond funds	693,374	693,374	-	-
Stocks	411,481	411,481	-	-
Commodity funds	17,821	17,821	-	-
Subtotal – mutual funds	4,273,892	4,273,892	-	-
Exchange-traded funds:				
Large cap	143,475	143,475	-	-
U.S. government bonds	2,381,457	-	2,381,457	-
Total investments	\$ 7,775,702	\$ 5,394,245	\$ 2,381,457	\$ -

## The East Harlem School at Exodus House

### Notes to Financial Statements

#### Note 3. Investments and Fair Value Measurement (Continued)

Investments measured at fair value by level, within the fair value hierarchy, as of August 31, 2016, are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 155,627	\$ 155,627	\$ -	\$ -
Mutual funds:				
Large-cap funds	1,555,025	1,555,025	-	-
International funds	556,034	556,034	-	-
Balanced funds	551,463	551,463	-	-
Bond funds	685,336	685,336	-	-
Stocks	381,854	381,854	-	-
Commodity funds	18,431	18,431	-	-
Subtotal – mutual funds	3,748,143	3,748,143	-	-
Exchange-traded funds:				
Large cap	112,433	112,433	-	-
U.S. government bonds	1,074,184	-	1,074,184	-
Total investments	\$ 5,090,387	\$ 4,016,203	\$ 1,074,184	\$ -

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The School's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The School assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that cause the transfer. There were no transfers among Levels 1, 2 and 3 during fiscal years 2017 and 2016.

Below are the valuation techniques used by the School to measure different financial instruments at fair value and the level within the fair value hierarchy in which the financial instrument is categorized.

Money market funds and exchange-traded funds listed on a national securities exchange or reported on the Nasdaq global market are stated at the last reported sales or trade price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

U.S. government bonds are valued based on the last reported bid price provided by broker-dealers, and are reported as Level 2 in the fair value hierarchy.

Investments in mutual funds are stated at fair value based on the last quoted evaluation price and are classified as Level 1 in the fair value hierarchy based on ASU No. 2015-10, *Technical Corrections and Improvements*, which clarified the definition of readily determinable fair value.

## The East Harlem School at Exodus House

### Notes to Financial Statements

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#### Note 4. Accounts and Contributions Receivable

Accounts and contributions receivable of \$645 and \$53,191 at August 31, 2017 and 2016, respectively, were expected to be collected within one year. There was no allowance for doubtful account as of August 31, 2017 and 2016.

#### Note 5. Property and Equipment, Net

Property and equipment, net, consists of the following as of August 31:

	2017	2016
Land	\$ 35,000	\$ 35,000
Furniture and equipment	667,621	661,704
Building and improvements	10,469,026	10,440,368
	<u>11,171,647</u>	<u>11,137,072</u>
Less accumulated depreciation and amortization	(2,824,109)	(2,522,245)
	<u>\$ 8,347,538</u>	<u>\$ 8,614,827</u>

#### Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets available for the years ended August 31, 2017 and 2016, were as follows:

	2017	2016
Backyard project	\$ 78,299	\$ 78,299
Time restricted	-	125,808
Faculty development, financial aid and facility maintenance	72,186	68,740
School programs	2,476	11,758
	<u>\$ 152,961</u>	<u>\$ 284,605</u>

Net assets were released from temporary restrictions during the years ended August 31, 2017 and 2016, for the following purposes:

	2017	2016
Backyard project	\$ -	\$ 2,545
Time restricted	125,808	150,808
Faculty development, financial aid and facility maintenance	20,547	10,351
Capital improvements and repairs	10,000	10,000
School programs	276,681	337,901
	<u>\$ 433,036</u>	<u>\$ 511,605</u>

## The East Harlem School at Exodus House

### Notes to Financial Statements

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#### Note 7. Employee Benefit Plan

The School participates in a tax-deferred annuity retirement plan under Section 403(b) of the Internal Revenue Code for the benefit of eligible employees. During the years ended August 31, 2017 and 2016, the School made contributions of \$88,214 and \$81,464, respectively.

#### Note 8. Commitments

In fiscal year 2015, the School entered into operating leases for office equipment which expire at various dates through June 2020.

The minimum future lease payments from these leases are as follows:

Years ending August 31:		
2018	\$	11,976
2019		11,976
2020		9,980
	\$	<u>33,932</u>

Rental expense for office equipment was approximately \$12,000 for the years ended August 31, 2017 and 2016.

#### Note 9. Contributed Services

The School recognized donated goods and services for the years ended August 31, 2017 and 2016, as follows:

	2017	2016
Facilities and services for swimming lessons in afterschool program	\$ 69,888	\$ 43,994
Coats for students	4,560	1,000
Soccer match tickets for students	188	4,188
Other	1,332	1,000
	<u>75,968</u>	<u>50,182</u>
Goods and services for Annual Benefit event	89,689	111,224
Goods and services for Poetry Slam event	2,956	3,548
	<u>\$ 168,613</u>	<u>\$ 164,954</u>

#### Note 10. Endowments

The School's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The School's approach to the management of these funds is to achieve desirable long-term results while maintaining the liquidity necessary to meet distribution policies.



## The East Harlem School at Exodus House

### Notes to Financial Statements

#### Note 10. Endowments (continued)

In fiscal year 2015, the board of trustees approved a 4% annual distribution from the endowment, based on a three-year average of the endowment balance, for fiscal year 2015 and for subsequent years. In fiscal year 2017, the board of trustees approved a change in the distribution method according to the Tobin Rule. For the past several years, the School's trustees, parents, alumni and friends have helped to establish the endowment fund to provide lasting support for financial aid, faculty professional development, academics, and capital projects. As an aggregate, this fund generates annual income for the School that is devoted to designated purposes that primarily support faculty development, financial aid and facility maintenance and for general operations. There were approved appropriations by the Board during fiscal years ended August 31, 2017 and 2016, of \$210,943 and \$207,013, respectively.

The School's endowment portfolio is managed by the finance committee of the board of trustees.

The School's endowments consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of August 31, 2017				
Donor-restricted endowment funds	\$ -	\$ 72,185	\$ 200,000	\$ 272,185
Board-designated endowment funds	5,082,837	-	-	5,082,837
Total funds	<u>\$ 5,082,837</u>	<u>\$ 72,185</u>	<u>\$ 200,000</u>	<u>\$ 5,355,022</u>
Balance as of August 31, 2016				
Donor-restricted endowment funds	\$ -	\$ 58,740	\$ 200,000	\$ 258,740
Board-designated endowment funds	4,834,891	-	-	4,834,891
Total funds	<u>\$ 4,834,891</u>	<u>\$ 58,740</u>	<u>\$ 200,000</u>	<u>\$ 5,093,631</u>
Endowment net assets, August 31, 2015				
Endowment net assets, August 31, 2015	\$ 4,798,373	\$ 56,621	\$ 200,000	\$ 5,054,994
Distribution for operations	(196,662)	(10,351)	-	(207,013)
Investment return:				
Investment income	144,937	7,751	-	152,688
Unrealized and realized gains	88,243	4,719	-	92,962
Total investment return	<u>233,180</u>	<u>12,470</u>	<u>-</u>	<u>245,650</u>
Endowment net assets, August 31, 2016	<u>4,834,891</u>	<u>58,740</u>	<u>200,000</u>	<u>5,093,631</u>
Distribution for operations	(200,396)	(10,547)	-	(210,943)
Investment return:				
Investment income	130,047	6,959	-	137,006
Unrealized and realized gains	318,295	17,033	-	335,328
Total investment return	<u>448,342</u>	<u>23,992</u>	<u>-</u>	<u>472,334</u>
Endowment net assets, August 31, 2017	<u>\$ 5,082,837</u>	<u>\$ 72,185</u>	<u>\$ 200,000</u>	<u>\$ 5,355,022</u>

**The East Harlem School at Exodus House**

**Supplementary Information  
Schedule of Per Student Costs**

**For the Year Ended August 31, 2017**

School program	\$ 2,919,391
Alumni program	<u>104,622</u>
<b>Total expenses</b>	<b><u><u>\$ 3,024,013</u></u></b>

School Program	Expenses	Number of Students	Cost Per Student
Summer	\$ 249,453	154	\$ 1,620
Afterschool	653,724	154	4,245
Regular session	<u>2,016,214</u>	154	<u>13,092</u>
	<b><u><u>\$ 2,919,391</u></u></b>		<b><u><u>\$ 18,957</u></u></b>

Total expenses include program, development, administrative and noncash expenses such as contributed goods and services and normal depreciation. Student travel is included in the summer session expenses.

The alumni program served 401 and 368 former students at a cost of \$260.90 and \$270.12 per alumni for the years ended August 31, 2017 and 2016, respectively.