

# The East Harlem School at Exodus House

Financial Report  
August 31, 2018

## Contents

---

|                                  |      |
|----------------------------------|------|
| Independent auditor's report     | 1-2  |
| <hr/>                            |      |
| Financial statements             |      |
| Statement of financial position  | 3    |
| Statement of activities          | 4    |
| Statement of functional expenses | 5    |
| Statement of cash flows          | 6    |
| Notes to financial statements    | 7-17 |
| Supplementary information        |      |
| Schedule of per student costs    | 18   |

---



RSM US LLP

## Independent Auditor's Report

To the 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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, 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 18 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  
November 27, 2018

The East Harlem School at Exodus House

Statement of Financial Position

August 31, 2018

(With Summarized Comparative Information as of August 31, 2017)

|   | 2018                 | 2017                 |
|---|----------------------|----------------------|
| <b>Assets</b>                           |                      |                      |
| Current assets:                         |                      |                      |
| Cash                                    | \$ 171,552           | \$ 122,946           |
| Contributions receivable, net           | 130,000              | -                    |
| Accounts receivable                     | 7,223                | 645                  |
| Prepaid expenses and other assets       | 88,827               | 133,217              |
| Loan receivable                         | -                    | 7,677                |
| Investments                             | 2,345,625            | 2,634,937            |
| <b>Total current assets</b>             | <b>2,743,227</b>     | <b>2,899,422</b>     |
| Noncurrent assets:                      |                      |                      |
| Prepaid expenses and other assets       | 11,989               | 27,147               |
| Investments                             | 5,341,704            | 5,140,765            |
| Property and equipment, net             | 8,055,946            | 8,347,538            |
| <b>Total assets</b>                     | <b>\$ 16,152,866</b> | <b>\$ 16,414,872</b> |
| <b>Liabilities and Net Assets</b>       |                      |                      |
| Current liabilities:                    |                      |                      |
| Accounts payable and accrued expenses   | \$ 7,787             | \$ 16,593            |
| Tuition advances                        | 29,616               | 26,794               |
| Deferred revenue                        | -                    | 1,100                |
| <b>Total liabilities</b>                | <b>37,403</b>        | <b>44,487</b>        |
| Net assets:                             |                      |                      |
| Unrestricted:                           |                      |                      |
| Undesignated                            | 2,288,812            | 2,587,049            |
| Board-designated for endowment          | 5,279,499            | 5,082,837            |
| Invested in property and equipment      | 8,055,946            | 8,347,538            |
| <b>Total unrestricted</b>               | <b>15,624,257</b>    | <b>16,017,424</b>    |
| Temporarily restricted                  | 291,206              | 152,961              |
| Permanently restricted                  | 200,000              | 200,000              |
| <b>Total net assets</b>                 | <b>16,115,463</b>    | <b>16,370,385</b>    |
| <b>Total liabilities and net assets</b> | <b>\$ 16,152,866</b> | <b>\$ 16,414,872</b> |

See notes to financial statements.

The East Harlem School at Exodus House

Statement of Activities

Year Ended August 31, 2018

(With Summarized Comparative Information for the Year Ended August 31, 2017)

|   | 2018             |                        |                        | 2017             |                  |
|---|------------------|------------------------|------------------------|------------------|------------------|
|   | Unrestricted     | Temporarily Restricted | Permanently Restricted | Total            | Total            |
| Operating revenue:                                  |                  |                        |                        |                  |                  |
| Contributions                                       | \$ 576,874       | \$ 494,000             | \$ -                   | \$ 1,070,874     | \$ 788,312       |
| Benefit income, net of direct expenses of \$214,552 | 958,488          | -                      | -                      | 958,488          | 941,789          |
| Program services                                    | 110,315          | -                      | -                      | 110,315          | 119,158          |
| Government grants                                   | 122,928          | -                      | -                      | 122,928          | 106,476          |
| Investment income                                   | 36,285           | -                      | -                      | 36,285           | 11,144           |
| Net realized/unrealized (loss)/gain on investments  | (382)            | -                      | -                      | (382)            | 1,926            |
| Contributed services                                | 75,578           | -                      | -                      | 75,578           | 75,968           |
| Miscellaneous income                                | 812              | -                      | -                      | 812              | 696              |
| Endowment distribution for operations               | 207,003          | 10,895                 | -                      | 217,898          | 210,943          |
| Net assets released from restrictions               | 377,371          | (377,371)              | -                      | -                | -                |
| <b>Total operating revenue</b>                      | <b>2,465,272</b> | <b>127,524</b>         | <b>-</b>               | <b>2,592,796</b> | <b>2,256,412</b> |
| Expenses:   |                  |                        |                        |                  |                  |
| Program services                                    | 2,208,980        | -                      | -                      | 2,208,980        | 2,191,124        |
| Fund development                                    | 271,476          | -                      | -                      | 271,476          | 267,949          |
| Management and general                              | 270,047          | -                      | -                      | 270,047          | 263,075          |
| <b>Total operating expenses</b>                     | <b>2,750,503</b> | <b>-</b>               | <b>-</b>               | <b>2,750,503</b> | <b>2,722,148</b> |
| <b>Change in net assets from operations</b>         | <b>(285,231)</b> | <b>127,524</b>         | <b>-</b>               | <b>(157,707)</b> | <b>(465,736)</b> |
| Nonoperating:                                       |                  |                        |                        |                  |                  |
| Endowment distribution for operations               | (207,003)        | (10,895)               | -                      | (217,898)        | (210,943)        |
| Investment income                                   | 164,984          | 8,835                  | -                      | 173,819          | 137,006          |
| Net realized/unrealized gain on investments         | 238,681          | 12,781                 | -                      | 251,462          | 335,328          |
| <b>Change in net assets from nonoperating</b>       | <b>196,662</b>   | <b>10,721</b>          | <b>-</b>               | <b>207,383</b>   | <b>261,391</b>   |
| Depreciation and amortization                       | (304,598)        | -                      | -                      | (304,598)        | (301,864)        |
| <b>Change in net assets</b>                         | <b>(393,167)</b> | <b>138,245</b>         | <b>-</b>               | <b>(254,922)</b> | <b>(506,209)</b> |
| Net assets:   |                  |                        |                        |                  |                  |
| Beginning   | 16,017,424       | 152,961                | 200,000                | 16,370,385       | 16,876,594       |
| Ending  | \$ 15,624,257    | \$ 291,206             | \$ 200,000             | \$ 16,115,463    | \$ 16,370,385    |

See notes to financial statements.

The East Harlem School at Exodus House

Statement of Functional Expenses

Year Ended August 31, 2018

(With Summarized Comparative Information for the Year Ended August 31, 2017)

|                                    | 2018                |                     |                        |                           | 2017                |                     |
|------------------------------------|---------------------|---------------------|------------------------|---------------------------|---------------------|---------------------|
|                                    | Program Services    | Supporting Services |                        |                           | Total               | Total               |
|                                    |                     | Fund Development    | Management and General | Total Supporting Services |                     |                     |
| Salaries and related costs         | \$ 1,627,445        | \$ 185,860          | \$ 183,547             | \$ 369,407                | \$ 1,996,852        | \$ 2,021,423        |
| Administrative processing expenses | -                   | -                   | 10,493                 | 10,493                    | 10,493              | 11,452              |
| Benefit event expenses - indirect  | -                   | 53,587              | -                      | 53,587                    | 53,587              | 45,475              |
| Contributed services               | 75,328              | -                   | -                      | -                         | 75,328              | 75,968              |
| Dues and fees                      | -                   | -                   | 4,256                  | 4,256                     | 4,256               | 5,399               |
| Food service                       | 87,642              | -                   | -                      | -                         | 87,642              | 80,762              |
| Insurance                          | 47,530              | 4,604               | 2,973                  | 7,577                     | 55,107              | 55,670              |
| Office supplies                    | 28,334              | 2,744               | 1,773                  | 4,517                     | 32,851              | 34,247              |
| Postage and delivery               | 2,697               | 392                 | 169                    | 561                       | 3,258               | 3,103               |
| Professional services              | -                   | 1,613               | 53,341                 | 54,954                    | 54,954              | 50,434              |
| Program services                   | 112,584             | -                   | -                      | -                         | 112,584             | 127,096             |
| Public relations and marketing     | 23                  | 4,867               | -                      | 4,867                     | 4,890               | 2,606               |
| Repair and maintenance             | 84,960              | 2,712               | 2,712                  | 5,424                     | 90,384              | 50,869              |
| Staff development and training     | 18,735              | 1,815               | 1,172                  | 2,987                     | 21,722              | 20,029              |
| Technology                         | 47,268              | 4,579               | 2,957                  | 7,536                     | 54,804              | 51,338              |
| Telephone                          | 6,875               | 666                 | 430                    | 1,096                     | 7,971               | 8,975               |
| Travel and entertainment           | 1,319               | 1,427               | 183                    | 1,610                     | 2,929               | 1,534               |
| Utilities                          | 68,240              | 6,610               | 4,269                  | 10,879                    | 79,119              | 75,768              |
| Unrelated business income tax      | -                   | -                   | 1,772                  | 1,772                     | 1,772               | -                   |
| <b>Total operating expenses</b>    | <b>2,208,980</b>    | <b>271,476</b>      | <b>270,047</b>         | <b>541,523</b>            | <b>2,750,503</b>    | <b>2,722,148</b>    |
| Benefit expenses - direct          | -                   | 214,552             | -                      | 214,552                   | 214,552             | 153,578             |
| Depreciation and amortization      | 262,715             | 25,447              | 16,436                 | 41,883                    | 304,598             | 301,864             |
| <b>Total expenses</b>              | <b>\$ 2,471,695</b> | <b>\$ 511,475</b>   | <b>\$ 286,483</b>      | <b>\$ 797,958</b>         | <b>\$ 3,269,653</b> | <b>\$ 3,177,590</b> |

See notes to financial statements.

**The East Harlem School at Exodus House**

**Statement of Cash Flows**

**Year Ended August 31, 2018**

**(With Summarized Comparative Information for the Year Ended August 31, 2017)**

|   | 2018             | 2017               |
|---|------------------|--------------------|
| Cash flows from operating activities:   |                  |                    |
| Change in net assets  | \$ (254,922)     | \$ (506,209)       |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                  |                    |
| Depreciation and amortization   | 304,598          | 301,864            |
| Realized/unrealized gain on investments   | (251,080)        | (337,445)          |
| Increase (decrease) in operating assets:  |                  |                    |
| Prepaid expenses and other assets   | 59,548           | (18,164)           |
| Accounts receivable   | (6,578)          | 52,546             |
| Contributions receivable  | (130,000)        | -                  |
| Decrease (increase) in operating liabilities:   |                  |                    |
| Accounts payable and accrued expenses   | (8,806)          | (1,173)            |
| Deferred revenue  | (1,100)          | (410)              |
| Tuition advances  | 2,822            | 1,329              |
| <b>Net cash used in operating activities</b>  | <b>(285,518)</b> | <b>(507,662)</b>   |
| Cash flows from investing activities:   |                  |                    |
| Purchase of investments   | (7,268,400)      | (6,272,408)        |
| Proceeds from sale of investments   | 7,607,853        | 3,924,538          |
| Payments received on loan receivable  | 7,677            | 9,104              |
| Purchase of property and equipment  | (13,006)         | (34,575)           |
| <b>Net cash provided by (used) in investing activities</b>                              | <b>334,124</b>   | <b>(2,373,341)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b>                             | <b>48,606</b>    | <b>(2,881,003)</b> |
| Cash:   |                  |                    |
| Beginning   | 122,946          | 3,003,949          |
| Ending  | \$ 171,552       | \$ 122,946         |
| Supplemental Disclosure:  |                  |                    |
| Cash paid during the year for unrelated business income tax                             | \$ 566           | \$ -               |

See notes to financial statements.



## The East Harlem School at Exodus House

### Notes to Financial Statements

---

#### 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 \$5.5 million endowment, which includes approximately \$5.3 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 \$4.1 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:** 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.

**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. Current investments includes the short-term, liquid, treasury investments held for operations and the distribution for endowment operations. Non-current investments includes the endowment less the distribution for endowment operations. 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

---

#### 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 is used to support future operations, and is 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 are 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, 2018, 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

---

#### 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, 2018 and 2017, two donors accounted for 22% and 27%, 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 are computed using the straight-line method over the estimated useful lives of the respective assets, which are 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 asset 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

---

#### 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. Unrelated business income tax is due to transit benefits provided to employees on a pre-tax basis.

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.

**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, 2017, 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 November 27, 2018, for these financial statements.

**Recently issued accounting standards:** In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five step analysis of transactions to determine when and how revenue is recognized. Enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers are also required. The implementation date has been delayed by FASB and this guidance will be effective for the School for annual periods beginning on or after December 15, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The School is currently evaluating the impact of 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 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 adoption of the new standard on the financial statements.

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 adoption of the new standard on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance presented in Topic 958, "Not-for-Profit Entities," of the FASB's Accounting Standards Codification (ASC) for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU is effective for resource recipients in annual periods beginning after June 15, 2019. The School is currently evaluating the impact of adoption of the new standard on the financial statements.

**The East Harlem School at Exodus House**

**Notes to 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, 2018, are as follows:

|                         | Fair Value   | Fair Value Measurements Using  |   |  |
|-------------------------|--------------|--|---|--|
|                         |              | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Money market funds      | \$ 1,433,810 | \$ 1,433,810   | \$ -  | \$ -   |
| Mutual funds:           |              |  |   |  |
| Large-cap funds         | 1,588,092    | 1,588,092  | -   | -  |
| International funds     | 897,923      | 897,923  | -   | -  |
| Balanced funds          | 674,502      | 674,502  | -   | -  |
| Bond funds              | 1,049,886    | 1,049,886  | -   | -  |
| Stocks                  | 444,098      | 444,098  | -   | -  |
| Commodity funds         | 13,314       | 13,314   | -   | -  |
| Subtotal – mutual funds | 4,667,815    | 4,667,815  | -   | -  |
| Exchange-traded funds:  |              |  |   |  |
| Large cap               | 167,147      | 167,147  | -   | -  |
| U.S. government bonds   | 1,418,557    | -  | 1,418,557   | -  |
| Total investments       | \$ 7,687,329 | \$ 6,268,772   | \$ 1,418,557  | \$ -   |

## 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, 2017, are as follows:

|                         | Fair Value   | Fair Value Measurements Using  |   |  |
|-------------------------|--------------|--|---|--|
|                         |              | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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 investments are reported on the statement of financial positions as follows:

|                         | 2018         | 2017         |
|-------------------------|--------------|--------------|
| Current investments     | \$ 2,345,625 | \$ 2,634,937 |
| Non-current investments | 5,341,704    | 5,140,765    |
| Total investments       | \$ 7,687,329 | \$ 7,775,702 |

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 2018 and 2017.

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.

## The East Harlem School at Exodus House

### Notes to Financial Statements

---

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

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.

#### Note 4. Contributions Receivable

Contributions receivable consist of the following at August 31:

|                                  | 2018              | 2017        |
|----------------------------------|-------------------|-------------|
| Amount due in less than one year | \$ 90,000         | \$ -        |
| Due in one to five years         | 40,000            | -           |
|                                  | <u>\$ 130,000</u> | <u>\$ -</u> |

There was no allowance for doubtful accounts as of August 31, 2018 and 2017.

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

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

|  | 2018                | 2017                |
|--|---------------------|---------------------|
| Land   | \$ 35,000           | \$ 35,000           |
| Furniture and equipment                        | 669,279             | 667,621             |
| Building and improvements                      | 10,480,374          | 10,469,026          |
|  | <u>11,184,653</u>   | <u>11,171,647</u>   |
| Less accumulated depreciation and amortization | (3,128,707)         | (2,824,109)         |
|  | <u>\$ 8,055,946</u> | <u>\$ 8,347,538</u> |

#### Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets available for the years ended August 31, 2018 and 2017, were as follows:

|   | 2018              | 2017              |
|---|-------------------|-------------------|
| Backyard project  | \$ 78,299         | \$ 78,299         |
| Time restricted   | 130,000           | -                 |
| Faculty development, financial aid and facility maintenance | 82,907            | 72,186            |
| School programs   | -                 | 2,476             |
|   | <u>\$ 291,206</u> | <u>\$ 152,961</u> |



## The East Harlem School at Exodus House

### Notes to Financial Statements

---

#### Note 6. Temporarily Restricted Net Assets (Continued)

Net assets were released from temporary restrictions during the years ended August 31, 2018 and 2017, for the following purposes:

|   | 2018              | 2017              |
|---|-------------------|-------------------|
| Time restricted   | \$ 90,000         | \$ 125,808        |
| Faculty development, financial aid and facility maintenance | 18,895            | 20,547            |
| Capital improvements and repairs                            | 10,000            | 10,000            |
| School programs   | 258,476           | 276,681           |
|   | <u>\$ 377,371</u> | <u>\$ 433,036</u> |

#### 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, 2018 and 2017, the School made contributions of \$77,119 and \$88,214, 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: |                  |
| 2019                    | \$ 11,976        |
| 2020                    | 9,980            |
|                         | <u>\$ 21,956</u> |

Rental expense for office equipment was approximately \$12,000 for the years ended August 31, 2018 and 2017.

## The East Harlem School at Exodus House

### Notes to Financial Statements

---

#### Note 9. Contributed Services

The School recognized donated goods and services for the years ended August 31, 2018 and 2017, as follows:

|   | 2018              | 2017              |
|---|-------------------|-------------------|
| Facilities and services for swimming lessons in afterschool program | \$ 61,724         | \$ 69,888         |
| Computer Hardware   | 11,504            | -                 |
| Coats for students  | -                 | 4,560             |
| Soccer match tickets for students                                   | 1,500             | 188               |
| Other   | 850               | 1,332             |
|   | <u>75,578</u>     | <u>75,968</u>     |
| Goods and services for Annual Benefit event                         | 99,629            | 89,689            |
| Goods and services for Poetry Slam event                            | 3,047             | 2,956             |
|   | <u>\$ 178,254</u> | <u>\$ 168,613</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.

In fiscal year 2017, the board of trustees approved the distribution method according to the Tobin Rule. The Tobin Rule uses the prior year's spending adjusted for inflation, the stability term, and the long-term sustainable rate of distribution, the market term, weighted as determined appropriate by the School. The School has weighted the stability term 80% and the market term 20% for the distribution calculation. The School used an inflation rate of 2.87% and a sustainable rate of distribution of 4%. 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, facility maintenance and for general operations. There were approved appropriations by the Board during fiscal years ended August 31, 2018 and 2017 of \$217,898 and \$210,943, respectively.

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

**The East Harlem School at Exodus House**

**Notes to Financial Statements**

**Note 10. Endowments (Continued)**

The School's endowments consist of the following:

|                                       | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total               |
|---------------------------------------|---------------------|------------------------|------------------------|---------------------|
| Balance as of August 31, 2018         |                     |                        |                        |                     |
| Donor-restricted endowment funds      | \$ -                | \$ 82,906              | \$ 200,000             | \$ 282,906          |
| Board-designated endowment funds      | 5,279,499           | -                      | -                      | 5,279,499           |
| Total funds                           | <u>\$ 5,279,499</u> | <u>\$ 82,906</u>       | <u>\$ 200,000</u>      | <u>\$ 5,562,405</u> |
| 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> |
|                                       |                     |                        |                        |                     |
|                                       | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total               |
| 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           | <u>(200,396)</u>    | <u>(10,547)</u>        | <u>-</u>               | <u>(210,943)</u>    |
| Investment return:                    |                     |                        |                        |                     |
| Investment income                     | 130,047             | 6,959                  | -                      | 137,006             |
| Unrealized and realized gains, net    | 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>    |
| Distribution for operations           | <u>(207,003)</u>    | <u>(10,895)</u>        | <u>-</u>               | <u>(217,898)</u>    |
| Investment return:                    |                     |                        |                        |                     |
| Investment income                     | 164,984             | 8,835                  | -                      | 173,819             |
| Unrealized and realized gains, net    | 238,681             | 12,781                 | -                      | 251,462             |
| Total investment return               | <u>403,665</u>      | <u>21,616</u>          | <u>-</u>               | <u>425,281</u>      |
| Endowment net assets, August 31, 2018 | <u>\$ 5,279,499</u> | <u>\$ 82,906</u>       | <u>\$ 200,000</u>      | <u>\$ 5,562,405</u> |

**The East Harlem School at Exodus House**

**Supplementary Information  
Schedule of Per Student Costs**

**For the Year Ended August 31, 2018**

|                       |                     |
|-----------------------|---------------------|
| School program        | \$ 2,963,831        |
| Alumni program        | 91,270              |
| <b>Total expenses</b> | <b>\$ 3,055,101</b> |

| School Program  | Expenses            | Number of<br>Students | Cost Per<br>Student |
|-----------------|---------------------|-----------------------|---------------------|
| Summer          | \$ 276,832          | 151                   | \$ 1,833            |
| Afterschool     | 654,777             | 151                   | 4,336               |
| Regular session | <u>2,032,222</u>    | 151                   | <u>13,459</u>       |
|                 | <u>\$ 2,963,831</u> |                       | <u>\$ 19,628</u>    |

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 437 former students at a cost of \$208.86 per alumni for the year ended August 31, 2018.