

Harlem Educational Activities Fund, Inc.

Financial Statements

June 30, 2023

Harlem Educational Activities Fund, Inc.

Table of Contents
June 30, 2023

TABLE OF CONTENTS	<u>Page</u>
Independent Auditors' Report	1-3
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8-19

Independent Auditors' Report

Board of Directors
Harlem Educational Activities Fund, Inc.

Opinion

We have audited the accompanying financial statements of Harlem Educational Activities Fund, Inc. ("HEAF"), which comprise the statement of financial position as of June 30, 2023 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HEAF as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HEAF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, HEAF adopted the Financial Accounting Standards Board ("FASB") Topic 842, Leases, using the effective date method with July 1, 2022, as the date of initial adoption. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Responsibilities of Management for the Financial Statements (continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HEAF's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HEAF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HEAF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Harlem Educational Activities Fund, Inc.
Page 3

Report on Summarized Comparative Information

We have previously audited HEAF's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

October 4, 2023

Harlem Educational Activities Fund, Inc.

Statement of Financial Position
June 30, 2023
(with comparative amounts at June 30, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 624,988	\$ 254,863
Contributions and pledges receivable, net	815,661	593,802
Prepaid expenses and other assets	221,260	141,724
Investments	1,108,980	2,750,005
Security deposit	22,360	22,360
Property and equipment, net	168,882	195,492
Right-of-use assets - operating leases, net	3,393,282	-
Restricted cash-endowment funds	<u>103,200</u>	<u>103,200</u>
	<u><u>\$ 6,458,613</u></u>	<u><u>\$ 4,061,446</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 212,066	\$ 184,219
Operating lease liabilities	3,785,289	-
Deferred revenue	-	12,839
Deferred rent	-	381,795
Total Liabilities	<u>3,997,355</u>	<u>578,853</u>
Net Assets		
Without donor restrictions	<u>1,036,581</u>	<u>2,015,373</u>
With donor restrictions		
Temporary in nature	1,321,477	1,364,020
Perpetual in nature	<u>103,200</u>	<u>103,200</u>
Total With Donor Restrictions	<u>1,424,677</u>	<u>1,467,220</u>
Total Net Assets	<u>2,461,258</u>	<u>3,482,593</u>
	<u><u>\$ 6,458,613</u></u>	<u><u>\$ 4,061,446</u></u>

See notes to financial statements

Harlem Educational Activities Fund, Inc.

Statement of Activities

Year Ended June 30, 2023

(with summarized totals for the year ended June 30, 2022)

	2023				2022 Total	
	Without Donor Restrictions	With Donor Restrictions				
		Temporary in Nature	Perpetual in Nature	Total		
SUPPORT AND REVENUE						
Grants and Contributions						
Foundations and trusts	\$ 1,121,816	\$ 914,599	\$ -	\$ 2,036,415	\$ 1,326,944	
Corporations	113,335	-	-	113,335	195,165	
Individuals	66,034	1,720	-	67,754	104,836	
Government	7,613	-	-	7,613	629,164	
Special events, net of direct expenses of \$332,115 and \$226,330	706,951	7,000	-	713,951	1,465,411	
Contributed non-financial assets	92,448	-	-	92,448	100,948	
Interest and dividend income	41,096	-	-	41,096	2,130	
Other income	3,931	-	-	3,931	2,618	
Net assets released from restrictions	965,862	(965,862)	-	-	-	
Total Support and Revenue	<u>3,119,086</u>	<u>(42,543)</u>	<u>-</u>	<u>3,076,543</u>	<u>3,827,216</u>	
EXPENSES						
Program Services						
Academic high school	1,022,532	-	-	1,022,532	1,121,416	
Academic middle school	1,231,028	-	-	1,231,028	1,127,504	
Organizational activities	563,111	-	-	563,111	459,169	
Youth development	716,138	-	-	716,138	720,655	
Total Program Services	<u>3,532,809</u>	<u>-</u>	<u>-</u>	<u>3,532,809</u>	<u>3,428,744</u>	
Administration	225,571	-	-	225,571	243,244	
Fundraising	367,839	-	-	367,839	333,138	
Total Expenses	<u>4,126,219</u>	<u>-</u>	<u>-</u>	<u>4,126,219</u>	<u>4,005,126</u>	
Deficit of Support and Revenue Over Expenses Before Non-Operating Activity	(1,007,133)	(42,543)	-	(1,049,676)	(177,910)	
NON-OPERATING ACTIVITY						
Unrealized and realized appreciation (depreciation) of investments	28,341	-	-	28,341	(8,856)	
Change in Net Assets	(978,792)	(42,543)	-	(1,021,335)	(186,766)	
NET ASSETS						
Beginning of year	<u>2,015,373</u>	<u>1,364,020</u>	<u>103,200</u>	<u>3,482,593</u>	<u>3,669,359</u>	
End of year	<u>\$ 1,036,581</u>	<u>\$ 1,321,477</u>	<u>\$ 103,200</u>	<u>\$ 2,461,258</u>	<u>\$ 3,482,593</u>	

See notes to financial statements

Harlem Educational Activities Fund, Inc.

Statement of Functional Expenses

Year Ended June 30, 2023

(with summarized totals for the year ended June 30, 2022)

	Program Services					Supporting Services		Total Expenses 2023	Total Expenses 2022		
	Academic		Organizational Activities	Youth Development	Total Program Services	Administration	Fundraising				
	Academic High School	Middle School									
Salaries	\$ 554,791	\$ 734,863	\$ 171,558	\$ 393,442	\$ 1,854,654	\$ 89,437	\$ 173,781	\$ 2,117,872	\$ 1,886,502		
Payroll taxes and employee benefits	<u>116,068</u>	<u>154,924</u>	<u>36,192</u>	<u>82,512</u>	<u>389,696</u>	<u>18,931</u>	<u>36,411</u>	<u>445,038</u>	<u>402,720</u>		
Total Salaries and Related Expenses	670,859	889,787	207,750	475,954	2,244,350	108,368	210,192	2,562,910	2,289,222		
Contracted services (includes in-kind services)	5,107	21,727	300,022	28,029	354,885	28,500	147,208	530,593	518,652		
Audit and legal (includes in-kind services)	15,082	15,082	-	15,082	45,246	39,984	-	85,230	88,685		
Computer related	2,871	2,871	7,434	2,871	16,047	1,329	20	17,396	17,478		
Meeting and event expenses	2,069	880	16,292	585	19,826	665	217,193	237,684	108,997		
Occupancy	209,134	215,634	-	144,792	569,560	20,883	64,342	654,785	665,967		
Equipment rental, repairs and maintenance	4,441	4,441	-	4,441	13,323	1,482	-	14,805	19,809		
Design, typography and printing	400	-	235	-	635	-	15,387	16,022	18,188		
Telecommunications	2,677	2,677	-	2,677	8,031	1,014	-	9,045	14,006		
Postage and delivery	629	42	677	-	1,348	175	1,865	3,388	6,036		
Travel	38,678	4,719	304	-	43,701	248	2,156	46,105	41,585		
Insurance	16,970	16,970	-	11,752	45,692	1,052	5,481	52,225	45,104		
Depreciation	9,685	9,685	-	6,458	25,828	3,228	3,228	32,284	32,042		
Program supplies and activities	19,444	15,985	7,002	4,615	47,046	-	17	47,063	111,602		
Office expense	5,443	5,443	5,616	5,402	21,904	4,841	87	26,832	126,689		
Office supplies	-	-	30	-	30	1,633	-	1,663	2,057		
Dues and subscription	105	-	10,963	-	11,068	5,032	8,833	24,933	19,632		
Professional development	-	-	639	50	689	3,153	-	3,842	8,560		
Charges and fees	<u>18,938</u>	<u>25,085</u>	<u>6,147</u>	<u>13,430</u>	<u>63,600</u>	<u>3,984</u>	<u>23,945</u>	<u>91,529</u>	<u>97,145</u>		
Total Expenses	1,022,532	1,231,028	563,111	716,138	3,532,809	225,571	699,954	4,458,334	4,231,456		
Less costs with direct benefit to donors	-	-	-	-	-	-	<u>(332,115)</u>	<u>(332,115)</u>	<u>(226,330)</u>		
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 1,022,532</u>	<u>\$ 1,231,028</u>	<u>\$ 563,111</u>	<u>\$ 716,138</u>	<u>\$ 3,532,809</u>	<u>\$ 225,571</u>	<u>\$ 367,839</u>	<u>\$ 4,126,219</u>	<u>\$ 4,005,126</u>		

See notes to financial statements

Harlem Educational Activities Fund, Inc.

Statement of Cash Flows
Year Ended June 30, 2023
(with comparative amounts for the year ended June 30, 2022)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$(1,021,335)	\$ (186,766)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	32,284	32,042
Amortization of right to use assets - operating leases	391,561	-
Deferred rent	-	18,966
Unrealized and realized (appreciation) depreciation of investments	(28,341)	8,856
Paycheck Protection Program loan forgiveness	-	(619,750)
Changes in operating assets and liabilities		
Contributions and pledges receivable	(221,859)	97,538
Prepaid expenses and other assets	(79,536)	(42,492)
Accounts payable and accrued expenses	27,847	(70,016)
Payments on lease payable	(381,349)	-
Deferred revenue	<u>(12,839)</u>	<u>-</u>
Net Cash from Operating Activities	<u>(1,293,567)</u>	<u>(761,622)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,736,132	2,157,000
Purchase of investments	(1,066,766)	(1,766,635)
Purchase of equipment	<u>(5,674)</u>	<u>(11,885)</u>
Net Cash from Investing Activities	<u>1,663,692</u>	<u>378,480</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	370,125	(383,142)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	<u>358,063</u>	<u>741,205</u>
End of year	<u>\$ 728,188</u>	<u>\$ 358,063</u>
NON CASH FINANCING ACTIVITY		
Paycheck Protection Program loan forgiveness	\$ -	\$ 619,750

See notes to financial statements

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

1. Organization and Tax Status

Harlem Educational Activities Fund, Inc. ("HEAF") is a non-profit organization incorporated in the State of Delaware on February 23, 1990. HEAF's mission is to change the lives of young people in underserved communities beginning in middle school and continuing into college and beyond through a youth development approach that includes rigorous year-round academic enrichment, social and cultural exposure and constant individual attention.

HEAF is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code") and from state income taxes under state statutes and regulations. Contributions to HEAF are tax deductible within the limitations prescribed by the Code. HEAF has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash held in checking, money market accounts and certificates of deposit with maturities of three months or less from the date of purchase. Cash, cash equivalents and restricted cash consists of the following at June 30:

	2023	2022
Cash, Cash Equivalents and Restricted Cash		
Cash and cash equivalents	\$ 624,988	\$ 254,863
Restricted cash-endowment funds	<u>103,200</u>	<u>103,200</u>
Total Cash, Cash Equivalents and Restricted Cash	<u><u>\$ 728,188</u></u>	<u><u>\$ 358,063</u></u>

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements **June 30, 2023**

2. Summary of Significant Accounting Policies *(continued)*

Adoption of New Accounting Policies

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, *Leases* (Topic 842) which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset.

HEAF adopted the requirements of the new standard effective July 1, 2022, using the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. HEAF adopted the following practical expedients and elected the following accounting policies related to this standard: Carry forward of historical lease classifications and accounting treatment. Accordingly, HEAF will recognize lease payments on a straight-line basis over the lease term and variable payments in the period when the corresponding obligation is incurred. Adoption of this standard resulted in the recognition of an initial operating lease liability of \$4,172,076, that represents the present value of the remaining operating lease payments of \$4,339,988, with a discounted value at 4.25% amounting to \$167,912 and right-of-use asset of \$3,790,281, that represents the operating lease liability of \$4,172,076 netted against deferred rent totaling \$381,795 recorded under previous lease guidance. The standard did not materially impact operating results or liquidity.

Contributions and Pledges Receivable

Unconditional promises to give are recorded when a pledge is made. Unconditional pledges to be received in future years are discounted to present value using a risk-adjusted rate. An allowance for uncollectible receivables is estimated based on a combination of collection history, ongoing analysis and specifically known troubled accounts.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

2. Summary of Significant Accounting Policies (*continued*)

In-kind Contributions and Donated Services

In-kind contributions are recorded as income and expenses at the time the items are received, which is also the time they are placed into service. Donated services are reported as income and expense at their fair value if such services create value or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

HEAF received donated contributions and services for the years ended June 30, as follows:

	2023	2022	Usage in Program/Activities	Donor Restriction	Fair Value Techniques
Legal services	\$ 60,330	\$ 63,498	Program and administration	None	Estimated based on current rates of legal services provided by law firm
Special events	-	1,000	Fundraising	None	Estimated based on usual and customary rates of the vendor
Contracted services	<u>32,118</u>	<u>36,450</u>	Organizational activities	None	Estimated based on usual and customary rates of the vendor
	<u><u>\$ 92,448</u></u>	<u><u>\$ 100,948</u></u>			

HEAF does not sell in-kind contributions.

Donated Marketable Securities

HEAF occasionally receives donations of marketable securities. Donations of securities are recorded at their fair value at the time of the gift.

Fair Value Measurements

HEAF follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation

Investments are carried at fair value, except for temporary cash investments, which are carried at cost plus accrued interest.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment with a cost of \$5,000 or more are capitalized at cost or fair value if donated. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which range from three to ten years. For leasehold improvements, depreciation is provided over the shorter of the life of the asset or the term of the related lease.

Net Asset Presentation

The financial statements report net assets separately by class of net assets based on the presence or absence of donor restrictions with the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of HEAF, its programs or supporting activities. These net assets may be used at the discretion of HEAF's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets that are subject to stipulations imposed by donors and grantors that limit their use either through purpose or time restrictions. Some donor restrictions are temporary in nature, which will be met by actions of HEAF or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated HEAF maintain the assets in perpetuity, but permit HEAF to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Donor restricted contributions are reported as an increase in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Public Support and Revenue

Contributions are considered without donor restriction unless specifically restricted by the donor or subject to other legal restrictions. Contributions that are received with donor stipulations that limit the use of donated assets, or which will be received over time are recorded as with donor restriction.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Investment Income Recognition

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Deferred Revenue

Contributions related to and received in advance of a fundraising event or stipulated contract year are recorded as deferred revenue until the actual occurrence of the event or start of the contract year, at which time the contributions are then recognized as revenue.

Deferred Rent

Prior to the adoption of Topic 842, U.S. GAAP required that the rent over the life of a lease is expensed on a straight line basis notwithstanding the actual cash payments required under the lease, with the difference between the straight line expense and the actual rent payments shown as deferred rent liability on the statement of financial position. Accordingly, \$381,795 representing the excess of straight line rent expense over actual cash rent payments is reported as deferred rent at June 30, 2022.

Operating Measure

HEAF classifies its activities in the accompanying statement of activities as operating or non-operating. Operating activities principally include all income and expenses related to carrying out HEAF's charitable and educational mission. Operating revenue also includes investment return to fund current operations in accordance with HEAF's endowment spending rate policy.

Non-operating activities principally include realized and unrealized gains, contributions and other resources intended for permanently restricted purposes and other activities considered to be of a more unusual or non-recurring nature.

Functional Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Allocation is based on a conservative average of time spent on program expenses versus administration duties. It is based on job duties, time spent working on those duties, or working on an event. Time spent performing program specific activities is allocated directly at time of expense. Remaining time is part of indirect costs and is split between program and administration at year end. Other than payroll expenses are allocated the same as salary expenses unless it can be identified as program specific.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

2. Summary of Significant Accounting Policies *(continued)*

Accounting for Uncertainty in Income Taxes

HEAF recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that HEAF had no uncertain tax positions that would require financial statement recognition or disclosure. HEAF is no longer subject to federal, state, or local tax examinations by taxing authorities for years prior to fiscal 2020.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is October 4, 2023.

3. Concentration and Risks

Credit Risk

HEAF's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, money market funds, certificate of deposits, and contributions and pledges receivable. HEAF maintains cash in bank accounts which at times may exceed federally insured limits. HEAF has not experienced any losses in such accounts. As of December 31, 2022 and 2021, HEAF had approximately \$125,000 and \$0 in balances that exceeded FDIC limits.

Concentrations of credit risk with respect to contributions and pledges receivable are generally diversified due to the large number of individuals comprising HEAF's donor database. HEAF performs ongoing collectability evaluations and writes off uncollectible amounts as they become known.

4. Contributions and Pledges Receivable

Contributions and pledges receivable that are due beyond one year from June 30 have been recorded net of a present value discount of 4.25%.

	2023	2022
Due within one year	\$ 458,596	\$ 425,987
Due within two years	<u>415,175</u>	<u>225,000</u>
	873,771	650,987
Discount on contributions and pledges receivable	(18,469)	(11,285)
Allowance for doubtful accounts	<u>(39,641)</u>	<u>(45,900)</u>
Total	<u><u>\$ 815,661</u></u>	<u><u>\$ 593,802</u></u>

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

5. Investments

As of June 30, HEAF's investments consist of the following:

	2023	2022
Common stocks:		
Beverages (level 1)	\$ 21,422	\$ 19,642
U.S. Treasury notes (level 1)	330,041	247,620
Certificate of deposits including accrued interest (level 2)	<u>757,517</u>	<u>2,482,743</u>
	<u><u>\$ 1,108,980</u></u>	<u><u>\$ 2,750,005</u></u>

Investment return for the years ended June 30, was as follows:

	2023	2022
Dividends and interest	\$ 41,096	\$ 2,130
Unrealized and realized appreciation (depreciation)	<u>28,341</u>	<u>(8,856)</u>
	<u><u>\$ 69,437</u></u>	<u><u>\$ (6,726)</u></u>

6. Property and Equipment

Property and equipment consist of the following as of June 30:

	2023	2022
Leasehold improvements	\$ 128,934	\$ 128,934
Furniture, fixtures and equipment	<u>336,857</u>	<u>331,183</u>
	<u><u>465,791</u></u>	<u><u>460,117</u></u>
Less: accumulated depreciation	<u>(296,909)</u>	<u>(264,625)</u>
Property and Equipment, net	<u><u>\$ 168,882</u></u>	<u><u>\$ 195,492</u></u>

Depreciation expense amounted to \$32,284 and \$32,042 for the years ended June 30, 2023 and 2022. For the years ended June 30, 2022, HEAF disposed of \$6,750 of fully depreciated furniture, fixtures and equipment. There were no disposals for the year ended June 30, 2023.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

7. Paycheck Protection Program Loan

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. HEAF applied for and received a \$292,305 Paycheck Protection Program loan (the “PPP Loan”) from the Small Business Administration. The PPP Loan has an interest rate of 1.0% per annum, and the principal amount outstanding may be eligible for forgiveness if HEAF meets certain requirements of the CARES Act.

On March 13, 2021, HEAF received a second PPP Loan in the amount of \$327,445. The second PPP Loan has an interest rate of 1.0% per annum, and the principal amount outstanding may be eligible for forgiveness if HEAF meets certain requirements of the CARES Act.

Both of the PPP loans were forgiven in full during the year ended June 30, 2022 and recognized in government revenue on the accompanying 2022 statement of activities.

8. Net Assets With Donor Restrictions

Changes in net assets with donor restriction that are temporary in nature for the years ended June 30, were as follows:

Purpose	2023			
	Balance at June 30, 2022	Contributions Received	Net Assets Released from Restrictions	Balance at June 30, 2023
Timing	\$ 105,000	\$ 838,121	\$ 495,000	\$ 448,121
Access and academics	1,081,171	85,198	466,171	700,198
Scholarship fund	175,186	-	2,028	173,158
Technology	2,663	-	2,663	-
Total	\$ 1,364,020	\$ 923,319	\$ 965,862	\$ 1,321,477

Purpose	2022			
	Balance at June 30, 2021	Contributions Received	Net Assets Released from Restrictions	Balance at June 30, 2022
Timing	\$ 240,042	\$ 105,000	\$ 240,042	\$ 105,000
Access and academics	1,393,247	509,171	821,247	1,081,171
Scholarship fund	168,486	17,700	11,000	175,186
Technology	7,663	-	5,000	2,663
Total	\$ 1,809,438	\$ 631,871	\$ 1,077,289	\$ 1,364,020

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

8. Net Assets With Donor Restrictions (continued)

Net assets with donor restriction net assets that are perpetual in nature consist of a money market account with income restricted for the following purposes as of June 30, 2023 and 2022:

College Quest Program (within the Academy High School Program)	\$ 103,000
General endowment	200
Total	<u>\$ 103,200</u>

9. Endowment and Net Assets Designated for Investments

HEAF maintains assets that are limited in their use by donor-imposed restrictions and restricted for investment in perpetuity. The income and gains from investment of these funds are available to support the operations and various programs of HEAF.

Interpretation of Relevant Law

The Board of Directors (the "Board") interpreted New York's Prudent Management of Institutional Funds Act (NYPMIFA) as allowing HEAF to appropriate for expenditures or accumulate so much of the donor-restricted endowment fund as HEAF determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donors as expressed in their gift instruments except in those cases where the law allows appropriation for spending of the original gift amounts. The assets in the endowment funds shall be donor-restricted assets until appropriated for expenditure by the Board. Unless authorized by the Board, the appropriations from the endowment fund should not deplete the historical dollar value of the endowment fund.

Investment Policy, Return Objective and Risk Parameters

HEAF's investment objective is to provide a liquid vehicle with a modest stream of funds to support its operations through money market earnings with a prudent level of risk.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

9. Endowment and Net Assets Designated for Investments (continued)

Spend Policy

HEAF's spending policy is to use only interest and dividends earned on the endowment funds, per donor stipulation. Changes in donor-restricted endowment net assets for the years ended June 30, are as follows:

	With Donor Restriction		
	Temporary in Nature	Perpetual in Nature	Total
Balance, June 30, 2021	\$ -	\$ 103,200	\$ 103,200
Interest	40	-	40
Appropriation for expenditure	(40)	-	(40)
Balance, June 30, 2022	-	103,200	103,200
Interest	250	-	250
Appropriation for expenditure	(250)	-	(250)
Balance, June 30, 2023	<u>\$ -</u>	<u>\$ 103,200</u>	<u>\$ 103,200</u>

10. Leases

HEAF amortizes the operating lease right-of-use asset over the remaining life of the lease agreement. The right-of-use asset consists of the following at June 30, 2023:

Right of use asset - operating lease	\$ 3,784,843
Less: accumulated amortization	391,561
	<u>\$ 3,393,282</u>

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

10. Leases (continued)

On February 28, 2015 HEAF renewed its lease agreement for office space for a period of fifteen years commencing on September 1, 2015 and expiring on August 31, 2030. The lease provides for minimum future annual rental payments, including a discount rate of 4.25%, for the years ending June 30 as follows:

2024	\$ 568,567
2025	582,781
2026	597,350
2027	612,283
2028	627,590
Thereafter	<u>1,412,989</u>
	Total Undiscounted Operating Lease Payable
	4,401,560
	Less: imputed interest
	<u>(616,271)</u>
	<u>\$ 3,785,289</u>

For the years ended June 30, 2023 and 2022, rent expense amounted to \$612,373 and \$623,965 which included \$32,627 and \$58,361 of other occupancy related costs, such as the permit for the Brooklyn location, utilities and property tax, and cash paid for rent amounted to \$607,599 and \$605,039.

11. Retirement Plan

HEAF sponsors a tax-deferred retirement plan for its full-time employees under Section 403(b) of the Code. The plan gives full-time employees the option to contribute a percentage of their pre-tax earnings to the plan. HEAF does not contribute to this plan.

12. Related Party Transactions

During the years ended June 30, 2023 and 2022, HEAF received contributions of \$928,370 and \$837,333 from members of the Board or organizations with which they are affiliated.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements June 30, 2023

13. Liquidity and Availability of Resources

HEAF's financial assets available within one year of the statement of financial position date for general expenditures are as follows at June 30:

	2023	2022
Cash and cash equivalents	\$ 624,988	\$ 254,863
Investments	1,108,980	2,750,005
Contributions and pledges receivable, net	815,661	593,802
Donor restricted endowment funds	<u>103,200</u>	<u>103,200</u>
	<u>2,652,829</u>	<u>3,701,870</u>
Less contractual or donor imposed restricted amounts:		
Restricted by donor with purpose or time restrictions	1,321,477	1,364,020
Amounts expected to be released within one year	(709,024)	(963,834)
Donor restricted endowment funds	<u>103,200</u>	<u>103,200</u>
	<u>715,653</u>	<u>503,386</u>
Total Financial Assets Available Within One Year	<u><u>\$ 1,937,176</u></u>	<u><u>\$ 3,198,484</u></u>

As part of HEAF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, HEAF invests cash in excess of daily requirements in certificate of deposits and U.S. Treasury notes.

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