

Harlem Educational Activities Fund, Inc.

Financial Statements

June 30, 2019

Harlem Educational Activities Fund, Inc.

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Independent Auditors' Report

Board of Directors **Harlem Educational Activities Fund, Inc.**

We have audited the accompanying financial statements of Harlem Educational Activities Fund, Inc. which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Harlem Educational Activities Fund, Inc. as of June 30, 2019 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Harlem Educational Activities Fund, Inc. adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Harlem Educational Activities Fund, Inc.'s June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2018. In our opinion, the summarized comparative information, presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

September 19, 2019

Harlem Educational Activities Fund, Inc.

Statement of Financial Position
June 30, 2019
(with comparative amounts at June 30, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 451,069	\$ 855,058
Contributions and pledges receivable, net	659,078	527,618
Prepaid expenses and other assets	115,897	129,021
Investments	2,325,108	12,469
Security deposit	22,360	22,360
Property and equipment, net	306,172	275,989
Restricted cash-endowment funds	<u>103,200</u>	<u>103,200</u>
	<u>\$ 3,982,884</u>	<u>\$1,925,715</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 206,328	\$ 190,023
Office furniture lease payable	26,057	50,889
Deferred revenue	6,300	11,305
Deferred rent	<u>285,617</u>	<u>228,008</u>
Total Liabilities	<u>524,302</u>	<u>480,225</u>
Net Assets		
Without donor restrictions	<u>1,057,048</u>	<u>679,181</u>
With Donor Restrictions		
Temporary in Nature	2,298,334	663,109
Perpetual in Nature	<u>103,200</u>	<u>103,200</u>
Total With Donor Restriction	<u>2,401,534</u>	<u>766,309</u>
Total Net Assets	<u>3,458,582</u>	<u>1,445,490</u>
	<u>\$ 3,982,884</u>	<u>\$1,925,715</u>

See notes to financial statements

Harlem Educational Activities Fund, Inc.

Statement of Activities Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	2019			Total	2018 Total
	Without Donor Restriction	With Donor Restriction			
		Temporary in Nature	Perpetual in Nature		
SUPPORT AND REVENUE					
Grants and Contributions					
Foundations and trusts	\$ 670,803	\$ 487,000	\$ -	\$ 1,157,803	\$ 885,280
Corporations	192,120	1,542,350	-	1,734,470	358,651
Friends and family	4,802	-	-	4,802	4,053
Individuals	135,032	-	-	135,032	546,487
Government	254,034	-	-	254,034	41,721
Special events, net of direct expenses of \$378,330 and \$294,793	1,652,337	28,200	-	1,680,537	1,249,682
In-kind contributions	79,703	-	-	79,703	42,332
Interest and dividend income	9,122	-	-	9,122	458
Other income	637	-	-	637	3,013
Net assets released from restrictions	<u>422,325</u>	<u>(422,325)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,420,915</u>	<u>1,635,225</u>	<u>-</u>	<u>5,056,140</u>	<u>3,131,677</u>
EXPENSES					
Program Services					
Academic high school	896,574	-	-	896,574	770,826
Academic middle school	891,711	-	-	891,711	864,250
Organizational activities	282,630	-	-	282,630	220,688
Youth development	<u>481,216</u>	<u>-</u>	<u>-</u>	<u>481,216</u>	<u>461,682</u>
Total Program Services	2,552,131	-	-	2,552,131	2,317,446
Administration	185,524	-	-	185,524	197,055
Fundraising	<u>315,635</u>	<u>-</u>	<u>-</u>	<u>315,635</u>	<u>285,601</u>
Total Expenses	<u>3,053,290</u>	<u>-</u>	<u>-</u>	<u>3,053,290</u>	<u>2,800,102</u>
Excess of Support and Revenue Over Expenses Before Non-Operating Activity	367,625	1,635,225	-	2,002,850	331,575
NON-OPERATING ACTIVITY					
Unrealized and realized appreciation (depreciation) of investments	<u>10,242</u>	<u>-</u>	<u>-</u>	<u>10,242</u>	<u>(3,100)</u>
Change in Net Assets	377,867	1,635,225	-	2,013,092	328,475
NET ASSETS					
Beginning of year	<u>679,181</u>	<u>663,109</u>	<u>103,200</u>	<u>1,445,490</u>	<u>1,117,015</u>
End of year	<u>\$ 1,057,048</u>	<u>\$ 2,298,334</u>	<u>\$ 103,200</u>	<u>\$ 3,458,582</u>	<u>\$ 1,445,490</u>

See notes to financial statements

Harlem Educational Activities Fund, Inc.

Statement of Functional Expenses Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	Program Services				Supporting Services		Total Expenses 2019	Total Expenses 2018	
	Academic High School	Academic Middle School	Organizational Activities	Youth Development	Total Program Services	Administration			Fundraising
Salaries	\$ 383,977	\$ 456,747	\$ 148,155	\$ 218,355	\$ 1,207,234	\$ 51,666	\$ 108,611	\$ 1,367,511	\$ 1,265,593
Payroll taxes and employee benefits	<u>77,237</u>	<u>92,350</u>	<u>29,974</u>	<u>44,136</u>	<u>243,697</u>	<u>10,261</u>	<u>21,790</u>	<u>275,748</u>	<u>246,877</u>
Total Salaries and Related Expenses	461,214	549,097	178,129	262,491	1,450,931	61,927	130,401	1,643,259	1,512,470
Contracted services (includes in-kind services)	3,655	3,995	24,215	3,655	35,520	41,426	100,511	177,457	195,569
Marketing and advertising (includes in-kind services)	-	-	4,000	-	4,000	13	13	4,026	5,625
Audit and legal (includes in-kind services)	17,487	17,487	-	17,487	52,461	41,037	-	93,498	53,482
Computer related	2,594	2,636	960	2,250	8,440	862	144	9,446	20,891
Meeting and event expenses	530	2,684	35,513	27	38,754	1,231	283,640	323,625	231,652
Occupancy	212,853	216,625	300	141,995	571,773	15,538	63,229	650,540	634,642
Equipment rental, repairs and maintenance	4,580	6,328	1,204	3,938	16,050	1,483	-	17,533	18,005
Design, typography and printing	-	-	10,200	-	10,200	-	68,412	78,612	54,752
Telecommunications	2,722	2,722	10,000	2,722	18,166	907	-	19,073	18,564
Postage and delivery	567	1,659	314	-	2,540	453	5,269	8,262	8,550
Travel	109,192	9,824	1,293	15,182	135,491	1,034	761	137,286	79,783
Insurance	12,700	9,606	-	6,384	28,690	567	2,979	32,236	27,150
Depreciation	14,344	14,344	-	9,563	38,251	4,781	4,781	47,813	44,992
Program expense	36,382	33,221	2,921	4,285	76,809	280	245	77,334	86,886
Office expense	1,975	3,623	5,388	1,989	12,975	1,408	261	14,644	17,890
Office supplies	842	1,162	66	949	3,019	3,566	141	6,726	4,608
Dues and subscription	835	-	119	-	954	340	8,283	9,577	10,188
Professional development	465	433	250	550	1,698	-	250	1,948	2,246
Charges and fees	<u>13,637</u>	<u>16,265</u>	<u>7,758</u>	<u>7,749</u>	<u>45,409</u>	<u>8,671</u>	<u>24,645</u>	<u>78,725</u>	<u>66,950</u>
Total Expenses	896,574	891,711	282,630	481,216	2,552,131	185,524	693,965	3,431,620	3,094,895
Less costs with direct benefit to donors	-	-	-	-	-	-	(378,330)	(378,330)	(294,793)
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 896,574</u>	<u>\$ 891,711</u>	<u>\$ 282,630</u>	<u>\$ 481,216</u>	<u>\$ 2,552,131</u>	<u>\$ 185,524</u>	<u>\$ 315,635</u>	<u>\$ 3,053,290</u>	<u>\$ 2,800,102</u>

See notes to financial statements

Harlem Educational Activities Fund, Inc.

Statement of Cash Flows Year Ended June 30, 2019

(with comparative amounts for the year ended June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,013,092	\$ 328,475
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	47,813	44,992
Donated stock	-	(84,928)
Deferred rent	57,609	69,865
Unrealized and realized (appreciation) depreciation of investments	(10,242)	3,100
Changes in operating assets and liabilities		
Contributions and pledges receivable	(131,460)	(244,201)
Prepaid expenses and other assets	13,124	(51,459)
Accounts payable and accrued expenses	16,305	69,686
Deferred revenue	(5,005)	(22,615)
Net Cash from Operating Activities	2,001,236	112,915
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	83,362
Purchase of investments	(2,302,397)	-
Purchase of equipment	(77,996)	(6,798)
Net Cash from Investing Activities	(2,380,393)	76,564
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on office furniture lease	(24,832)	(22,952)
Net Change in Cash and Cash Equivalents	(403,989)	166,527
 CASH AND CASH EQUIVALENTS		
Beginning of year	855,058	688,531
End of year	\$ 451,069	\$ 855,058
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 3,134	\$ 5,014

See notes to financial statements

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2019

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 goal is to help children from disadvantaged backgrounds in New York City to develop the values, attitudes and skills that will enable them to lead satisfying and productive lives in mainstream America.

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 revenues and expenses. Actual results could differ from those estimates.

Change in Accounting Principle

On July 1, 2018 HEAF adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires HEAF to collapse the three-category (unrestricted, temporarily restricted and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires HEAF to make certain expanded disclosures relating to (1) the liquidity of financial assets and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for temporarily restricted and permanently restricted net assets were combined as net assets with donor restrictions.

Cash and Cash Equivalents

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.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2019

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

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 specific known trouble accounts.

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:

	<u>2019</u>	<u>2018</u>
Legal services	\$ 69,703	\$ 35,932
Design services	4,000	6,400
Human resources	<u>6,000</u>	<u>-</u>
	<u>\$ 79,703</u>	<u>\$ 42,332</u>

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, 2019

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 from 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction.

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, 2019

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, at which time the contributions are then recognized as revenue.

Deferred Rent

U.S. GAAP requires 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, \$285,617 and \$228,008 representing the excess of straight line rent expense over actual cash rent payments is reported as deferred rent at June 30, 2019 and 2018.

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.

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.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2019

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

Functional Expenses (continued)

Allocation is based on a conservative average of time spent on program expenses verses administration duties. It is based on job duties, time spent working on those duties, or working on an event. Time spent doing 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.

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 2015.

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 September 19, 2019.

3. Concentration of 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. 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 at June 30, are as follows:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 622,928	\$ 394,894
Due within two to four years	<u>40,000</u>	<u>145,000</u>
	662,928	539,894
Allowance for doubtful accounts	<u>(3,850)</u>	<u>(12,276)</u>
Total	<u>\$ 659,078</u>	<u>\$ 527,618</u>

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2019

5. Investments

As of June 30, 2019 and 2018, all of HEAF's investments consist of certificate of deposits (at cost) of \$2,309,594 and \$0 and common stocks (Level 1 inputs) of \$15,514 and \$12,469.

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

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 9,122	\$ 458
Unrealized and realized appreciation (depreciation)	<u>10,242</u>	<u>(3,100)</u>
	<u>\$ 19,364</u>	<u>\$ (2,642)</u>

6. Property and Equipment

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

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 128,934	\$ 128,934
Furniture, fixtures and equipment	312,099	278,617
Website	<u>25,000</u>	<u>25,000</u>
	466,033	432,551
Less: accumulated depreciation	<u>(159,861)</u>	<u>(156,562)</u>
Property and Equipment, net	<u>\$ 306,172</u>	<u>\$ 275,989</u>

Depreciation expense amounted to \$47,813 and \$44,992 for the years ended June 30, 2019 and 2018. For the year ended June 30, 2019, HEAF disposed of \$44,514 of fully depreciated furniture, fixtures and equipment.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2019

7. 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	2019			Balance at June 30, 2019
	Balance at June 30, 2018	Contributions Received	Net Assets Released from Restrictions	
Timing	\$ 280,705	\$ 202,200	\$ 180,705	\$ 302,200
Access and academics	220,000	1,855,350	180,379	1,894,971
Scholarship fund	10,000	-	-	10,000
Technology	93,904	-	11,241	82,663
Government relations	58,500	-	50,000	8,500
Total	<u>\$ 663,109</u>	<u>\$ 2,057,550</u>	<u>\$ 422,325</u>	<u>\$ 2,298,334</u>

Purpose	2018			Balance at June 30, 2018
	Balance at June 30, 2017	Contributions Received	Net Assets Released from Restrictions	
Timing	\$ 384,080	\$ 260,705	\$ 364,080	\$ 280,705
Access and academics	100,000	170,000	50,000	220,000
Scholarship fund	10,000	-	-	10,000
Technology	28,904	75,000	10,000	93,904
Government relations	-	58,500	-	58,500
Total	<u>\$ 522,984</u>	<u>\$ 564,205</u>	<u>\$ 424,080</u>	<u>\$ 663,109</u>

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, 2019 and 2018:

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

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2019

8. 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.

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, 2017	\$ -	\$ 103,200	\$ 103,200
Interest	1,551	-	1,551
Appropriation for expenditure	<u>(1,551)</u>	<u>-</u>	<u>(1,551)</u>
Balance, June 30, 2018	-	103,200	103,200
Interest	52	-	52
Appropriation for expenditure	<u>(52)</u>	<u>-</u>	<u>(52)</u>
Balance, June 30, 2019	<u>\$ -</u>	<u>\$ 103,200</u>	<u>\$ 103,200</u>

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2019

9. Leases

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 for the years ending June 30 as follows:

2020	\$ 515,094
2021	527,971
2022	541,170
2023	554,699
2024	568,567
Thereafter	<u>3,832,994</u>
Total	<u>\$ 6,540,495</u>

For the years ended June 30, 2019 and 2018, rent expense amounted to \$650,540 and \$634,642, which included \$89,434 and \$74,504 of other occupancy related costs such as the permit for the Brooklyn location, utilities and property tax.

HEAF entered into capital lease agreement for office furniture on June 17, 2015 for a period of 5 years. The lease provides for total future annual payments as follows:

Minimum lease payments due in 2020	\$ 27,966
Less amount representing interest	<u>(1,909)</u>
Present value of future minimum lease payments	<u>\$ 26,057</u>

The total principal payments for the years ended June 30, 2019 and 2018 were \$24,832 and \$22,952 and total interest expense were \$3,134 and \$5,014.

Net book value of the capital lease included in property and equipment at June 30, 2019 and 2018 was \$89,694 and \$97,494. Accumulated depreciation for the capital lease included in property and equipment at June 30, 2019 and 2018 was \$27,098 and \$19,498.

10. 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.

Harlem Educational Activities Fund, Inc.

Notes to Financial Statements
June 30, 2019

11. Contributions

Related Parties

During the years ended June 30, 2019 and 2018, HEAF received contributions of \$1,559,059 and \$1,061,454 from members of the Board or organizations with which they are affiliated. Amounts totaling \$11,600 and \$1,975 were not collected and are included in contributions and pledges receivable at June 30, 2019 and 2018.

Deferred Contribution Revenue

During the years ended June 30, 2019 and 2018 HEAF received contributions in the amount of \$34,500 and \$172,010 for the Annual Gala that is held in October each year. Of these totals, \$6,300 and \$11,305 are included in the accompanying statement of financial position as deferred revenue and \$28,200 and \$160,705 were recognized as contributions with donor restrictions.

12. Litigation

HEAF is involved in a legal claim dispute incurred in the normal course of operations. In management's opinion, the ultimate liability for these claims will not be in excess of HEAF's insurance coverage and will not have a material adverse effect on the financial position of HEAF.

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, 2019:

Cash	\$ 451,069
Investments	2,325,108
Contributions and pledges receivable, net	659,078
Other receivables includes prepaid expenses and other assets	379
	<u>3,435,634</u>
Less contractual or donor imposed restricted amounts:	
Restricted by donor with purpose or time restrictions	2,298,334
Amounts expected to be released within one year	(1,520,671)
Donor restricted endowment funds	103,200
	<u>880,863</u>
Total Financial Assets Available Within One Year	<u>\$ 2,554,771</u>

As part of the 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.

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