

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Consolidated Financial Statements

June 30, 2017

Independent Auditors' Report

To the Board of Trustees of East Harlem Tutorial Program, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of East Harlem Tutorial Program, Inc. and Subsidiary ("EHTP") which comprise the consolidated statement of financial position as of June 30, 2017 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of East Harlem Tutorial Program, Inc. and Subsidiary as of June 30, 2017 and the consolidated changes in their net assets and their 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 East Harlem Tutorial Program, Inc. and Subsidiary's 2016 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position, activities and functional expenses on pages 20-22 are presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

PKF O'Connor Davies, LLP

November 13, 2017

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Consolidated Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 6,402,535	\$ 12,665,216
Grants receivable	555,503	132,828
Pledges Receivable		
Unrestricted, net	894,852	845,564
Restricted for capital campaign, net of discount	2,677,310	2,821,964
Other receivables	70,687	-
Receivable from related entity	1,008,316	574,960
Prepaid expenses and other assets	56,517	92,667
Investments	107,747	144,909
Deferred rent asset	304,391	-
Security deposits	40,869	36,766
Restricted investments	750,000	750,000
Land, building and equipment, net	31,149,910	28,282,990
	\$ 44,018,637	\$ 46,347,864
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 905,835	\$ 4,841,937
Scholarships payable	41,761	26,611
Deferred rent obligation	-	200,000
Loans payable, net of unamortized financing costs	22,430,352	22,346,651
Total Liabilities	23,377,948	27,415,199
 Net Assets		
Unrestricted		
Operating	8,060,754	7,743,063
Board designated	850,000	850,000
Total Unrestricted	8,910,754	8,593,063
Temporarily restricted	10,979,935	9,589,602
Permanently restricted	750,000	750,000
Total Net Assets	20,640,689	18,932,665
	\$ 44,018,637	\$ 46,347,864

See notes to consolidated financial statements

**East Harlem Tutorial Program, Inc.
and Subsidiary**

**Consolidated Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)**

	Unrestricted			Temporarily Restricted			Permanently Restricted	2017 Total	2016 Total
	Operations	Board Designated	Total	Operations	Capital Campaign	Total			
OPERATING REVENUES, GAINS AND SUPPORT									
Contributions									
Foundations	\$ 257,590	\$ -	\$ 257,590	\$ 418,000	\$ 200,000	\$ 618,000	\$ -	\$ 875,590	\$ 593,777
Corporations	278,275	-	278,275	-	-	-	-	278,275	52,683
Individual	738,928	-	738,928	110,000	3,340,311	3,450,311	-	4,189,239	2,166,814
Other	27,726	-	27,726	-	-	-	-	27,726	-
Government grants	274,404	-	274,404	531,508	-	531,508	-	805,912	510,712
Special events, net of expenses of \$371,598 and \$289,210	3,254,730	-	3,254,730	-	-	-	-	3,254,730	3,078,565
Rental income	1,221,336	-	1,221,336	-	-	-	-	1,221,336	-
Miscellaneous	160,599	-	160,599	-	-	-	-	160,599	78,577
Net assets released from restrictions	1,838,316	-	1,838,316	(849,637)	(988,679)	(1,838,316)	-	-	-
Total Operating Revenues, Gains and Support	8,051,904	-	8,051,904	209,871	2,551,632	2,761,503	-	10,813,407	6,481,128
OPERATING EXPENSES									
Program Services									
Elementary school	1,531,161	-	1,531,161	-	-	-	-	1,531,161	1,164,055
Middle school	950,652	-	950,652	-	-	-	-	950,652	691,606
High school	1,330,072	-	1,330,072	-	-	-	-	1,330,072	1,078,212
Residency program	918,098	-	918,098	-	-	-	-	918,098	806,458
Total Program Services	4,729,983	-	4,729,983	-	-	-	-	4,729,983	3,740,331
Supporting Services									
General and administrative	2,029,543	-	2,029,543	-	-	-	-	2,029,543	536,935
Fundraising	669,716	-	669,716	-	-	-	-	669,716	544,846
Total Supporting Services	2,699,259	-	2,699,259	-	-	-	-	2,699,259	1,081,781
Total Expenses	7,429,242	-	7,429,242	-	-	-	-	7,429,242	4,822,112
Excess of Operating Revenues, Gains and Support Over Operating Expenses	622,662	-	622,662	209,871	2,551,632	2,761,503	-	3,384,165	1,659,016
NONOPERATING CHANGES IN NET ASSETS									
Grants to affiliates	(1,737,095)	-	(1,737,095)	-	-	-	-	(1,737,095)	(2,228,303)
Net realized and unrealized gains (losses) on investments	7,428	-	7,428	16,485	-	16,485	-	23,913	(26,435)
Interest and dividends	6,213	-	6,213	39,724	-	39,724	-	45,937	65,157
Investment management fees	(8,336)	-	(8,336)	(560)	-	(560)	-	(8,896)	(8,844)
Net assets released from restrictions	1,426,819	-	1,426,819	(39,724)	(1,387,095)	(1,426,819)	-	-	-
Total Nonoperating Changes in Net Assets	(304,971)	-	(304,971)	15,925	(1,387,095)	(1,371,170)	-	(1,676,141)	(2,198,425)
Change in Net Assets	317,691	-	317,691	225,796	1,164,537	1,390,333	-	1,708,024	(539,409)
NET ASSETS									
Beginning of year	7,743,063	850,000	8,593,063	269,628	9,319,974	9,589,602	750,000	18,932,665	19,472,074
End of year	\$ 8,060,754	\$ 850,000	\$ 8,910,754	\$ 495,424	\$ 10,484,511	\$ 10,979,935	\$ 750,000	\$ 20,640,689	\$ 18,932,665

See notes to consolidated financial statements

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Consolidated Statement of Cash Flows
Year Ended June 30, 2017
(with comparative amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,708,024	\$ (539,409)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	419,545	87,065
Amortization of deferred financing costs	90,432	89,726
Net realized and unrealized (gain) loss on investments	(23,913)	26,435
Deferred rent asset	(304,391)	200,000
Deferred rent obligation	(200,000)	-
Bad debt expense	109,435	-
Disposal of equipment	-	30,905
Changes in operating assets and liabilities		
Grants receivable	(532,110)	(130,750)
Unrestricted pledges receivable	(49,288)	(332,653)
Capital campaign pledges receivable	144,654	544,308
Other receivables	(70,687)	-
Receivable from related entity	(433,356)	(43,580)
Prepaid expenses and other assets	36,150	(8,867)
Accounts payable and accrued expenses	(3,936,102)	3,116,412
Scholarships payable	15,150	2,882
Net Cash from Operating Activities	(3,026,457)	3,042,474
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of building improvements and equipment	(3,286,465)	(18,787,899)
Purchase of investments	(734,190)	(494,557)
Proceeds from the sale of investments	795,265	379,276
Security deposit paid	(4,103)	(2,675)
Net Cash from Investing Activities	(3,229,493)	(18,905,855)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred financing costs	(6,731)	(47,919)
Net Change in Cash and Cash Equivalents	(6,262,681)	(15,911,300)
CASH AND CASH EQUIVALENTS		
Beginning of year	12,665,216	28,576,516
End of year	\$ 6,402,535	\$ 12,665,216
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, capitalized interest of \$116,018 and \$610,666	\$ 605,673	\$ 610,666

See notes to consolidated financial statements

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

1. Organization

As a vital East Harlem education and enrichment center, East Harlem Tutorial Program, Inc. and East Harlem Center LLC (EHC) a subsidiary of East Harlem Tutorial Program, Inc., together (EHTP) works with students from early childhood through adulthood to prepare them with the academic skills, strength of character, and social and emotional well-being to excel in high school and college, to lead in their communities, and to realize their best possible selves. For 59 years, EHTP has provided a safe, supportive learning environment for East Harlem youth, giving them access to educational resources that are not available in their schools, all the while providing encouragement and social support from caring adults who serve as educators, role models, and mentors. EHTP works with students from kindergarten through college.

EHTP is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, (US GAAP) which 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates. Some of the more significant estimates required to be made by management include the collectability of pledges receivable and the resulting allowance and discount.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors for the investment in perpetuity. Accordingly, EHTP's net assets are classified as permanently restricted, temporarily restricted or unrestricted net assets.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of East Harlem Tutorial Program, Inc. and its subsidiary, EHC. All material intercompany accounts and transactions have been eliminated in consolidation.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, EHTP considers all highly liquid instruments purchased with a maturity of three months or less, including money market funds, to be cash equivalents, except for cash and cash equivalents held for investment purposes.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding, after management has used reasonable collection efforts, are written off through a charge to the valuation allowance and a credit to accounts receivable. At June 30, 2017 and 2016 management believes the amounts recorded as grants receivable are fully collectible, and as such no allowance has been provided.

Fair Value Measurements

EHTP follows US 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.

Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donations of assets other than cash are recorded as support at the estimated fair value at the date of contribution. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Reclassification

Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (continued)

Scholarships

Scholarships are reimbursements for eligible educational expenses incurred by EHTP Scholars and are recorded when approved by management.

Investments and Investment Income

Investments are stated at fair value. Purchases and sales of investments 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 the change in net assets.

Deferred Financing Costs

In 2016 EHTP adopted new U.S. GAAP guidance for the presentation of debt issuance costs and related amortization. All costs associated with securing long term debt are capitalized and reflected on the consolidated statement of financial position as a direct deduction from the loans payable and amortized over the term of the loan on a method that approximates the effective interest method. EHTP reflects amortization of debt issuance costs within interest expense.

Land, Building and Equipment

Land, building and equipment are recorded at cost or if donated, at their fair value at the date of donation. Building improvements, equipment, furniture and fixtures, are depreciated using the straight-line method over the useful lives varying from three to thirty-one years.

Impairment of Long-Lived Assets

Management reviews its real estate assets for impairment whenever events or a change in circumstances indicate that the carrying value of assets held for use may not be recoverable. No indicators of impairment were present at June 30, 2017 and 2016 and no impairment losses were recorded.

Accounting for Uncertainty in Income Taxes

EHTP recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that EHTP had no uncertain tax positions that would require financial statement recognition or disclosure. EHTP is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to fiscal 2014.

Functional Allocation of Expenses

The cost of providing various programs and the supporting services has been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (continued)

Summarized Prior-Year Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with EHTP's consolidated financial statements as of and for the year ended June 30, 2016, from which the summarized information was derived.

3. Concentration of Credit Risk

Financial instruments that potentially subject EHTP to concentrations of credit risk consist principally of cash and cash equivalents, pledges receivable and investments. At times, cash balances may be in excess of federally insured limits. Pledges receivable are principally from one contributor and expected to be collected within two to five years. EHTP believes it has no credit risk concentration regarding its investments due to the diversification and quality of investments held.

4. Pledges Receivable

At June 30, pledges receivable are due as follows:

	2017	2016
Due within one year	\$ 2,254,379	\$ 2,198,012
Due within two to five years	1,407,217	1,539,277
	3,661,596	3,737,289
Less: Discount to present value	(29,434)	(60,761)
Allowance for doubtful accounts	(60,000)	(9,000)
	\$ 3,572,162	\$ 3,667,528

Pledges receivable at June 30, 2017 which are due after one year are reflected at present value of estimated cash flows using discount rates ranging from 2.78% to 3.75%.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

5. Investments

The following are the classes and major categories of investments at June 30:

	<u>2017</u>	<u>2016</u>
Common Stocks		
Services	\$ 53,406	\$ 52,343
Technology	52,976	63,637
Utilities	80,447	111,317
Financial	15,180	14,048
Exchange Traded Funds		
Financial	30,451	26,398
Other	231,136	226,250
Emerging markets bond	15,439	15,545
Treasury bond	93,446	94,364
Mutual Fund		
Foreign large blend	144,410	112,430
Preferred Stocks		
Financial	39,818	80,105
Corporate Fixed Income		
Fixed-rate capital securities	72,607	75,035
Total Investments at Fair Value	<u>829,316</u>	<u>871,472</u>
Cash and cash equivalents, at cost	28,431	23,437
Total	<u>\$ 857,747</u>	<u>\$ 894,909</u>

At June 30, 2017 and 2016 all investments measured at fair value were valued using level 1 inputs.

During the years ended June 30, 2017 and 2016, there were no transfers between input levels of the fair value hierarchy.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

6. Land, Building and Equipment

Land, building and equipment consists of the following at June 30:

	2017	2016
Land	\$ 3,367,698	\$ 3,367,698
Building	28,089,665	-
Building improvements	301,624	301,624
Equipment, furniture and fixtures	121,681	112,097
Construction in progress - educational facility	-	24,812,784
	31,880,668	28,594,203
Less accumulated depreciation	(730,758)	(311,213)
	\$ 31,149,910	\$ 28,282,990

During 2007, EHTP purchased three lots in East Harlem from the New York City Economic Development Corporation. In 2010, EHTP purchased an additional adjoining lot. The four lots (collectively, the “Lots”) were purchased for the purpose of developing an educational facility (the “Education Facility”) to be used by EHTP for programming and to be leased to East Harlem Scholars Academy Charter School (“Scholars Academy”), a separately incorporated 501(c)(3) charter school, for one of its K-8 programs.

As of June 30, 2016, pre-development costs reimbursed to EHTP, and all costs associated with the development of the educational facility subsequent to the closing date of the financing transaction, are classified as construction in progress. Upon completion of construction during 2017, the facility was placed into service and depreciated over its useful life.

7. Long Term Debt – New Market Tax Credit Financing (“NMTC”)

EHTP participates in a New Market Tax Credit (NMTC) program. NMTC programs were established as part of the Community Renewal Tax Relief Act of 2000. The goal of NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in certified community development entities. A community development entity (CDE) is required to participate and has the primary mission of providing financing for revitalization projects in low-income communities. NMTC financing allows organizations such as EHTP to receive low-interest loans or investment capital from CDEs.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

7. Long Term Debt – New Market Tax Credit Financing (“NMTC”) (continued)

As a result of participation in the NMTC program, EHTP has financed the acquisition and construction of the educational facility (see Note 6) through several notes payable from various lenders. Interest only payments are due quarterly and began in January 2015. Principal payments will commence in the year 2021 and end in 2054.

As of June 30, 2017 EHTP had loans at the varying interest rates and payable to the three CDEs as follows:

<u>CDE</u>	<u>Interest Rate</u>	<u>Loan Term</u>	<u>Total</u>
<u>Note A</u>			
Civic Builders Sub-CDE III, LLC	3.0798%	7 years	\$ 4,661,628
TRF NMTC Fund XXIX, LP	3.0798%	7 years	<u>5,888,372</u>
Total Note A			<u>10,550,000</u>
<u>Note A1</u>			
Civic Builders Sub-CDE III, LLC	3.0798%	40 years	1,937,072
TRF NMTC Fund XXIX, LP	3.0798%	40 years	2,566,828
CNMC Sub-CDE 57, LLC	1.9900%	40 years	<u>1,329,200</u>
Total Note A1			<u>5,833,100</u>
<u>Note B</u>			
Civic Builders Sub-CDE III, LLC	3.0798%	40 years	2,711,300
TRF NMTC Fund XXIX, LP	3.0798%	40 years	3,544,800
CNMC Sub-CDE 57, LLC	1.9900%	40 years	<u>670,800</u>
Total Note B			<u>6,926,900</u>
Unamortized financing costs			<u>(879,648)</u>
Total Loans Payable			<u>\$ 22,430,352</u>

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

7. Long Term Debt – New Market Tax Credit Financing (“NMTC”) (continued)

In connection with the loans, EHTP also incurred debt issuance costs of \$1,145,245 which have been capitalized and will be amortized over the term of the loans. Amortization of deferred financing costs for the years ended June 30, 2017 and 2016 totaled \$90,432 and \$89,726. Total interest incurred for the year ended June 30, 2017 was \$696,105, of which \$116,018 was capitalized. Total interest incurred for the year ended June 30, 2016 was \$696,105, all of which was capitalized. Interest and amortization of deferred financing costs was capitalized until construction of the education facility was completed in September 2016. EHTP was in compliance with the terms of its NMTC loans, including loan covenants, at June 30, 2017.

8. Pension Plan

EHTP maintains a 403(b) defined contribution pension plan for its employees. The plan is funded through individual insurance contracts. The plan provides for a match of employee contributions of up to 3.5% of employee’s salary paid on a monthly basis. Pension plan expense for the year ended June 30, 2017 was \$29,068, and \$32,497 for the year ended June 30, 2016.

9. Related Entity Transactions

East Harlem Scholars Academy

In 2011, Scholars Academy was granted a charter by The University of the State of New York (“SUNY”) and as stipulated in the bylaws of Scholars Academy, at least 51% and no more than 60% of Scholars Academy’s Board of Directors may also be EHTP board members thus resulting in common control. In 2013, SUNY authorized East Harlem Scholars Academy II, (“Scholars Academy II”) a public charter school operating under the same education corporation. Both Scholars Academies share personnel, administrative, and other support under a cost sharing agreement with EHTP. Shared operating costs are allocated to each Scholars Academy based on employee hours spent. The total amount of the cost sharing agreement for the year ended June 30, 2017 was \$999,323 and \$713,582 for the year ended June 30, 2016.

EHTP also pays certain expenses on behalf of each Scholars Academy which are subsequently reimbursed. The total amount of these reimbursed expenses for the year ended June 30, 2017 was \$1,402,816 and \$1,977,495 for the year ended June 30, 2016. The balance due from the Scholars Academies to EHTP related to both the cost sharing and reimbursable expenses as of June 30, 2017 totaled \$1,492,151 and \$560,852 as of June 30, 2016. In addition, during 2017 EHC made payments for utilities on behalf of Scholars Academy of \$206,165. These amounts due from Scholars Academy at June 30, 2017 are included in receivable from related entity.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

9. Related Entity Transactions (continued)

East Harlem Scholars Academy (continued)

At June 30, 2017, EHTP's board of directors approved two grants payable to Scholars Academy totaling \$690,000. This amount due to Scholars Academy at June 30, 2017 is netted with receivable from related entity.

During 2016, Scholars Academy contributed a grant of \$200,000 for the construction of the education facility (see note 6). As of June 30, 2016, the grant is recorded as a deferred rent obligation on the accompanying 2016 statement of financial position. During 2017, the amount is netted with deferred rent asset as EHTP is recording rental income on a straight line basis. The total amortization expense related to this grant was \$5,555 for the year ended June 30, 2017.

East Harlem Community Learning Program

As described in Notes 6 and 7, EHTP entered into an NMTC transaction as a borrower to finance the construction of the education facility. In accordance with the terms and requirements of the NMTC transaction, EHTP made a grant of approximately \$2.1 million and \$5.95 million in fiscal 2016 and 2015, respectively, to East Harlem Community Learning Program, Inc. ("EHCLP"), an affiliated not-for-profit corporation with a mission of supporting community learning efforts in East Harlem. EHCLP was established as the Leverage Lender to assist EHTP in its efforts to secure NMTC financing.

The accompanying consolidated financial statements reflect only the activities and net assets of EHTP. Management has applied US GAAP guidance in assessing the need to consolidate the financial statements of EHTP with those of each Scholars Academy and EHCLP. Under these standards, consolidation should occur if both an economic interest in either Scholars Academy and EHCLP and control by a majority of common board members exist. Management has determined that there is no economic interest in either Scholars Academy or EHCLP and consolidation is precluded.

10. Board Designated Unrestricted Net Assets

Board designated unrestricted net assets consisted of the following at June 30, 2017 and 2016:

Future Fund	\$	250,000
Reserve		<u>600,000</u>
	\$	<u><u>850,000</u></u>

The Board of Trustees has designated unrestricted funds as follows:

Future Fund:

This designation's purpose is to accumulate dollars for future EHTP programs.

Reserve:

This designation's purpose is to provide a cash reserve for EHTP programs.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2017	2016
Capital Campaign	\$ 10,484,511	\$ 9,319,974
Future Fund	323,493	92,830
OST Fund	46,615	46,615
Program Fund	34,677	34,677
Gladys Brooks Scholarship Fund	50,000	50,000
Susan Lurie Scholarship Fund	-	1,000
Helen Webber Book Fund	40,639	44,506
	\$ 10,979,935	\$ 9,589,602

Temporarily restricted net assets are to be used as follows:

Capital Campaign:

These funds are restricted by the donors to finance the costs of the educational facility land and building construction.

OST Fund:

These funds are designated to support after school programs.

Program Fund:

This designation's purpose is to provide support for academic work with at risk students in East Harlem.

Gladys Brooks Scholarship Fund:

These funds are restricted by the donor to support EHTP's summer programs.

Susan Lurie Scholarship Fund:

These funds are restricted by the donors to provide an annual scholarship for students studying education.

Helen Webber Book Fund:

These funds are restricted by the donors for the purpose of acquiring a children's library.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

11. Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets were released from restriction for the following purposes for the years ended June 30:

	2017	2016
Capital Campaign	\$ 2,375,774	\$ 2,232,451
Future Fund	606,493	587,340
Operations	279,000	-
Books	3,868	-
	\$ 3,265,135	\$ 2,819,791

12. Permanently Restricted Net Assets

The permanently restricted net assets consist of the Ilma F. Kern Foundation Endowment Fund. Earnings from the permanently restricted net assets are unrestricted.

13. Endowment Funds

EHTP maintains various funds whose purpose is to provide long term support for its programs. In classifying such funds for financial statement purposes as either permanently restricted, temporarily restricted or unrestricted net assets, the Board of Trustees looks to the explicit directions of the donor where applicable and provisions of the laws of State of New York.

Interpretation of Relevant Law

The Board of Trustees of EHTP has interpreted New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary and except in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, the Board of Trustees classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted 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 Board of Trustees in a manner consistent with the standard of prudence prescribed by NYPMIFA.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

13. Endowment Funds (continued)

Investment Strategy

The endowment funds are invested in accordance with the parameters set forth by the finance committee with the objective of achieving conservative returns with minimal risk exposure. To reduce the risk of wide swings in market value from year-to-year, and the risk of incurring large losses because of concentrated positions, the endowment is invested in various asset classes, namely marketable equities, mutual funds, fixed income and cash.

Spend Rate Policy

The objective for donor-restricted endowment funds is to preserve the capital base. Investment earnings are to be used for their temporarily restricted purposes where applicable.

The following is a reconciliation of the investment activity in the endowment funds for the years ended June 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, July 1, 2016	\$ (19,868)	\$ -	\$ 750,000	\$ 730,132
Interest and dividends	-	39,724	-	39,724
Realized/unrealized gains	7,428	-	-	7,428
Management fees	(8,896)	-	-	(8,896)
Appropriation for expenditures	-	(39,724)	-	(39,724)
Balance, June 30, 2017	<u>\$ (21,336)</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 728,664</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, July 1, 2015	\$ -	\$ 4,297	\$ 750,000	\$ 754,297
Interest and dividends	-	43,876	-	43,876
Realized/unrealized losses	(11,532)	-	-	(11,532)
Management fees	(8,336)	(508)	-	(8,844)
Appropriation for expenditures	-	(47,665)	-	(47,665)
Balance, June 30, 2016	<u>\$ (19,868)</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 730,132</u>

From time to time, the fair value of assets associated with endowment funds may fall below the level that the donor or NYPMIFA requires EHTP to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$21,336 and \$19,868 as of June 30, 2017 and June 30, 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

14. Commitments and Contingencies

Lease Commitments

EHTP occupies program space at 2053 Second Avenue under an operating lease which expires July 15, 2019. EHTP also occupies office space at 2035 Second Avenue under an operating lease which expired during the year and was renewed through May 2019. EHTP occupies program space at 312 East 104th street under an operating lease which expired August 2017 and was not renewed. Rental expense for the year ended June 30, 2017 was \$349,903 and \$295,484 for the year ended June 30, 2016.

EHTP leases photocopiers and other equipment under operating lease agreements which provide for minimum annual rentals through June 2018. Rent expense for equipment for the year ended June 30, 2017 was \$23,702 and \$33,638 for the year ended June 30, 2016.

Minimum future rental payments under non-cancelable operating leases with remaining terms in excess of one year and in the aggregate, for fiscal years ending June 30, are payable as follows:

	<u>Office and Program Facilities</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 303,823	\$ 3,714	\$ 307,537
2019	<u>177,892</u>	<u>-</u>	<u>177,892</u>
	<u>\$ 481,715</u>	<u>\$ 3,714</u>	<u>\$ 485,429</u>

During the fiscal year ended June 30, 2015 an agreement to lease the land and buildings located at 2040-2050 Second Avenue, New York, NY was executed between Scholars Academy and EHC. The lease has a term of 30 years commencing on September 1, 2016. Future minimum lease amounts to be received are as follows:

	<u>Total</u>
2018	\$ 1,269,900
2019	1,416,600
2020	1,416,600
2021	1,416,600
2022	1,416,600
Thereafter	<u>36,309,268</u>
	<u>\$ 43,245,568</u>

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements
June 30, 2017

14. Commitments and Contingencies (continued)

Lease Commitments (continued)

In addition, Scholars Academy entered into an agreement with EHTP to sublease a portion of its space at 2040-2050 Second Avenue, New York, NY. The lease has a term of 30 years commencing on September 1, 2016. Future minimum lease amounts to be paid by EHTP are as follows:

	<u>Total</u>
2018	\$ 21,900
2019	24,600
2020	24,600
2021	24,600
2022	24,600
Thereafter	<u>629,268</u>
	<u>\$ 749,568</u>

15. Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is November 13, 2017.

* * * * *

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Supplementary Information

June 30, 2017

**East Harlem Tutorial Program, Inc.
and Subsidiary**

Consolidating Schedule of Financial Position
June 30, 2017

	East Harlem Tutorial Program, Inc.	East Harlem Center LLC	Eliminating Entry	Consolidated Totals
ASSETS				
Cash and cash equivalents	\$ 5,554,800	\$ 847,735	\$ -	\$ 6,402,535
Grants receivable	555,503	-	-	555,503
Pledges Receivable				
Unrestricted, net	894,852	-	-	894,852
Restricted for capital campaign, net of discount	2,677,310	-	-	2,677,310
Other receivables	9,586,854	-	(9,516,167)	70,687
Receivable from related entity	802,152	206,164	-	1,008,316
Prepaid expenses and other assets	56,517	-	-	56,517
Investments	107,747	-	-	107,747
Deferred rent asset	-	304,391	-	304,391
Security deposits	40,869	-	-	40,869
Restricted investments	750,000	-	-	750,000
Land, building and equipment, net	26,193	31,123,717	-	31,149,910
	<u>\$ 21,052,797</u>	<u>\$ 32,482,007</u>	<u>\$ (9,516,167)</u>	<u>\$ 44,018,637</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 833,989	\$ 9,588,013	\$ (9,516,167)	\$ 905,835
Scholarships payable	41,761	-	-	41,761
Loans payable, net	-	22,430,352	-	22,430,352
Total Liabilities	<u>875,750</u>	<u>32,018,365</u>	<u>(9,516,167)</u>	<u>23,377,948</u>
Net Assets				
Unrestricted				
Operating	7,597,112	463,642	-	8,060,754
Board designated	850,000	-	-	850,000
Total Unrestricted	8,447,112	463,642	-	8,910,754
Temporarily restricted	10,979,935	-	-	10,979,935
Permanently restricted	750,000	-	-	750,000
Total Net Assets	<u>20,177,047</u>	<u>463,642</u>	<u>-</u>	<u>20,640,689</u>
	<u>\$ 21,052,797</u>	<u>\$ 32,482,007</u>	<u>\$ (9,516,167)</u>	<u>\$ 44,018,637</u>

See independent auditors' report

**East Harlem Tutorial Program, Inc.
and Subsidiary**

**Consolidating Schedule of Activities
Year Ended June 30, 2017**

	East Harlem Tutorial Program, Inc.			East Harlem Center LLC	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
OPERATING REVENUES, GAINS AND SUPPORT					
Contributions					
Foundations	\$ 257,590	\$ 618,000	\$ -	\$ 875,590	\$ -
Corporations	78,275	-	-	78,275	200,000
Individual	738,928	3,450,311	-	4,189,239	-
Other	3,181	-	-	3,181	24,545
Government grants	274,404	531,508	-	805,912	-
Special events, net of expenses of \$371,598	3,254,730	-	-	3,254,730	-
Rental income	-	-	-	-	1,221,336
Miscellaneous	160,599	-	-	160,599	-
Net assets released from restrictions	1,838,316	(1,838,316)	-	-	-
Total Operating Revenue, Gains and Support	<u>6,606,023</u>	<u>2,761,503</u>	<u>-</u>	<u>9,367,526</u>	<u>1,445,881</u>
OPERATING EXPENSES					
Program Services					
Elementary school	1,531,161	-	-	1,531,161	-
Middle school	950,652	-	-	950,652	-
High school	1,330,072	-	-	1,330,072	-
Residency program	918,098	-	-	918,098	-
Total Program Services	<u>4,729,983</u>	<u>-</u>	<u>-</u>	<u>4,729,983</u>	<u>-</u>
Supporting Services					
General and administrative	816,440	-	-	816,440	1,213,103
Fundraising	669,716	-	-	669,716	-
Total Supporting Services	<u>1,486,156</u>	<u>-</u>	<u>-</u>	<u>1,486,156</u>	<u>1,213,103</u>
Total Expenses	<u>6,216,139</u>	<u>-</u>	<u>-</u>	<u>6,216,139</u>	<u>1,213,103</u>
Excess of Operating Revenues, Gains and Support Over Operating Expenses	<u>389,884</u>	<u>2,761,503</u>	<u>-</u>	<u>3,151,387</u>	<u>232,778</u>
NONOPERATING CHANGES IN NET ASSETS					
Grants to affiliates	(1,737,095)	-	-	(1,737,095)	-
Net realized and unrealized gains on investments	7,428	16,485	-	23,913	-
Interest and dividends	5,523	39,724	-	45,247	690
Investment management fees	(8,336)	(560)	-	(8,896)	-
Net assets released from restrictions	1,426,819	(1,426,819)	-	-	-
Total Nonoperating Changes in Net Assets	<u>(305,661)</u>	<u>(1,371,170)</u>	<u>-</u>	<u>(1,676,831)</u>	<u>690</u>
Change in Net Assets	84,223	1,390,333	-	1,474,556	233,468
NET ASSETS					
Beginning of year	<u>8,362,889</u>	<u>9,589,602</u>	<u>750,000</u>	<u>18,702,491</u>	<u>230,174</u>
End of year	<u>\$ 8,447,112</u>	<u>\$ 10,979,935</u>	<u>\$ 750,000</u>	<u>\$ 20,177,047</u>	<u>\$ 463,642</u>

See independent auditors' report

**East Harlem Tutorial Program, Inc.
and Subsidiary**

**Consolidating Schedule of Functional Expenses
For the Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)**

	East Harlem Tutorial Program, Inc.					East Harlem Center LLC			2017 Total	2016 Total	
	Program Services				Total	Supporting Services		Total			
	Elementary School	Middle School	High School	Residency Program		General and Administrative	Fundraising				Supporting Services General and Administrative
Salaries	\$ 798,386	\$ 626,938	\$ 646,847	\$ 328,233	\$ 2,400,404	\$ 449,639	\$ 504,603	\$ 954,242	\$ -	\$ 3,354,646	\$ 2,503,909
Payroll taxes and fringe benefits	134,086	72,377	96,242	61,523	364,228	156,864	79,217	236,081	-	600,309	451,392
Student stipends	5,683	1,318	26,454	14	33,469	15	6	21	-	33,490	20,459
Professional fees	101,602	68,695	114,334	141,468	426,099	64,776	26,922	91,698	-	517,797	599,673
Rent and other building expenses	255,649	33,959	75,864	74,277	439,749	21,478	8,927	30,405	69,681	539,835	429,458
Telephone and internet	22,147	10,426	18,257	50,763	101,593	4,420	1,837	6,257	-	107,850	43,790
Printing/duplicating	11,104	8,762	11,675	11,035	42,576	9,948	4,135	14,083	-	56,659	29,284
Office supplies	5,868	4,393	6,523	10,753	27,537	3,132	1,302	4,434	-	31,971	23,801
Postage	1,419	844	1,243	1,759	5,265	769	320	1,089	-	6,354	8,740
Program and educational supplies	25,477	22,545	28,854	3,657	80,533	2,492	1,036	3,528	-	84,061	57,246
Student food, trips and support	34,306	22,444	117,498	15,431	189,679	6,674	2,774	9,448	-	199,127	126,083
Transportation and travel	5,825	3,566	11,941	26,395	47,727	4,212	1,750	5,962	-	53,689	42,624
Staff and board development	29,487	13,280	23,069	37,002	102,838	8,444	3,510	11,954	-	114,792	66,083
Insurance	18,940	12,445	15,818	17,449	64,652	18,180	7,556	25,736	-	90,388	69,954
Repairs, maintenance and equipment leases	10,071	3,619	6,613	7,100	27,403	1,583	658	2,241	-	29,644	56,528
Interest, amortization and other finance fees	9,919	6,473	8,325	9,076	33,793	9,456	3,930	13,386	809,777	856,956	43,828
Scholarship expense	-	-	66,562	63,228	129,790	-	-	-	-	129,790	123,445
Bad debt expense	22,931	15,068	19,151	21,126	78,276	22,011	9,148	31,159	-	109,435	-
Miscellaneous	20,262	11,673	19,769	21,226	72,930	15,070	4,904	19,974	-	92,904	38,750
Total Expenses Before Depreciation	1,513,162	938,825	1,315,039	901,515	4,668,541	799,163	662,535	1,461,698	879,458	7,009,697	4,735,047
Depreciation	17,999	11,827	15,033	16,583	61,442	17,277	7,181	24,458	333,645	419,545	87,065
Total Expenses	\$ 1,531,161	\$ 950,652	\$ 1,330,072	\$ 918,098	\$ 4,729,983	\$ 816,440	\$ 669,716	\$ 1,486,156	\$ 1,213,103	\$ 7,429,242	\$ 4,822,112

See independent auditors' report