

**THE EAST HARLEM SCHOOL
AT EXODUS HOUSE**

FINANCIAL STATEMENTS

AUGUST 31, 2006

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

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August 31, 2006

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GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The East Harlem School at Exodus House

We have audited the accompanying statement of financial position of The East Harlem School at Exodus House (the "School") as of August 31, 2006, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the School's August 31, 2005 financial statements and, in our report dated November 8, 2005 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The East Harlem School at Exodus House as of August 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of functional expenses and of per student cost are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

November 8, 2006

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

STATEMENT OF FINANCIAL POSITION

(with summarized financial information as of August 31, 2005)

August 31,	2006	2005
ASSETS		
Cash and Cash Equivalents:		
Capital campaign	\$4,269,697	\$ 2,595,338
Operating	2,423,439	2,008,042
	6,693,136	4,603,380
Contributions Receivable - capital campaign	2,026,784	2,307,953
Investments:		
Mutual funds	323,110	307,069
Real estate investment limited partnerships - capital campaign	240,000	
	563,110	307,069
Accrued Interest Receivable	33,205	
Prepaid Expenses and Other	23,866	21,615
Property and Equipment, net	511,783	512,552
Total Assets	\$9,851,884	\$ 7,752,569
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,642	\$ 57,216
Tuition advances	12,091	6,450
Total liabilities	32,733	63,666
Commitments		
Net Assets:		
Unrestricted		
Undesignated	3,205,864	2,664,933
Board designated - capital campaign	149,011	
Total unrestricted	3,354,875	2,664,933
Temporarily restricted	6,414,276	4,973,970
Permanently restricted	50,000	50,000
Total net assets	9,819,151	7,688,903
Total Liabilities and Net Assets	\$9,851,884	\$ 7,752,569

See Notes Financial Statements

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

STATEMENT OF ACTIVITIES

(with summarized financial information as of August 31, 2005)

Year ended August 31,	2006			2005	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating revenue:					
Contributions	\$ 983,862	\$ 200,247		\$1,184,109	\$ 681,405
Benefit income, net	690,215			690,215	774,863
Program services	78,520			78,520	68,228
Investment income	89,544			89,544	62,018
Donated services	17,343			17,343	24,838
Net assets released from restrictions	270,927	(270,927)			
Total operating revenue	2,130,411	(70,680)		2,059,731	1,611,352
Expenses:					
Program services	946,377			946,377	833,721
Fund development	190,957			190,957	191,694
Management and general	174,551			174,551	157,327
Total operating expenses	1,311,885			1,311,885	1,182,742
Change in net assets from operations:	818,526	(70,680)		747,846	428,610
Capital campaign:					
Contributions		1,919,339		1,919,339	3,358,453
Investment income	149,011			149,011	
Expenses	(199,648)			(199,648)	(117,550)
Net assets released from restrictions	407,591	(407,591)			
Unrealized gain on investments	16,763	(762)		16,001	25,980
Building and improvements write-off	(243,882)			(243,882)	
Relocation costs	(258,419)			(258,419)	
Change in net assets	689,942	1,440,306		2,130,248	3,695,493
Net assets at beginning of year	2,664,933	4,973,970	\$50,000	7,688,903	3,993,410
Net assets at end of year	\$3,354,875	\$6,414,276	\$50,000	\$9,819,151	\$7,688,903

See Notes to Financial Statements

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

STATEMENT OF CASH FLOWS

Year ended August 31,	2006	2005
Cash flows from operating activities:		
Change in net assets	\$2,130,248	\$ 3,695,493
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	284,936	26,887
Donated investments	(255,362)	(69,924)
Unrealized gain on investments	(16,001)	(25,980)
Decrease (increase) in operating assets:		
Contributions receivable - capital campaign	281,169	(2,307,953)
Accrued interest receivable	(33,205)	
Prepaid expenses and other	(2,251)	17,454
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(36,574)	57,216
Tuition advances	5,641	3,195
Net cash provided by operating activities	2,358,601	1,396,388
Cash flows from investing activities:		
Purchase of investments		689
Proceeds from sale of investments	15,322	69,826
Purchase of property and equipment	(284,167)	(181,530)
Net cash used in investing activities	(268,845)	(111,015)
Net increase in cash and cash equivalents	2,089,756	1,285,373
Cash and cash equivalents at beginning of year	4,603,380	3,318,007
Cash and cash equivalents at end of year	\$6,693,136	\$ 4,603,380
Supplemental schedule of noncash investing activity:		
Purchase of property and equipment included in accounts payable		\$ 27,404

See Notes to Financial Statements

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

NOTES TO FINANCIAL STATEMENTS

August 31, 2006

**1. DESCRIPTION
OF THE
ORGANIZATION:**

The East Harlem School at Exodus House (the "School") is a tax-exempt (under Section 501(c)(3) of the Internal Revenue Code (the "Code")), nonprofit organization incorporated by charter from The University of the State of New York Education Department as an educational corporation in 1993. The School operates an intermediate school formed to develop students in the fifth through eighth grades, who primarily reside in the East Harlem community, into creative, self-reliant and responsible community members through emphasis on intellectual, aesthetic, physical and social development. The School operated in a building owned by Exodus House, a New York nonprofit corporation that is controlled by the School. The directors of Exodus House are appointed by the Board of the School. The accounting records of Exodus House have been lost and management does not have any details but believes that the assets, liabilities and net assets of Exodus House are not material to these financial statements. Accordingly, management is unable to consolidate Exodus House into these financial statements. The School utilizes the building owned by Exodus House and is responsible for all costs related to operating it. Such costs are included in these financial statements.

The School has addressed the potential for expansion by completing a rigorous long-term strategic planning process which mapped out the steps necessary to expand the School from its current 60 students to 150 students. The School has embarked on a multifaceted \$15,000,000 capital campaign to build a new facility on its current site. The new 30,000-square-foot facility will enhance academic and extracurricular instruction, allow the School to gather as a full community and serve as a national model for the School's peers. The campaign is being accomplished through a fund-raising and communications campaign led by the School's Campaign Committee and Board of Trustees with the assistance of campaign counsel. While the new school is being built, the School is being housed at St. Lucy's former school building, located at 340 East 104th Street. Ground has been broken and construction will commence in January 2007.

**2. SUMMARY OF
SIGNIFICANT
ACCOUNTING
POLICIES:**

The Financial Accounting Standards Board ("FASB") Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, requires that net assets be presented as being unrestricted, temporarily restricted or permanently restricted. Unrestricted net assets result from contributions whose use is not limited by the donor. Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to these restrictions. Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the School.

The accompanying financial statements have been prepared on the accrual basis.

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

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

NOTES TO FINANCIAL STATEMENTS

August 31, 2006

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results may vary.

Cash and cash equivalents represent cash in demand deposit accounts at financial institutions, as well as short-term, liquid, bank certificates of deposit and treasury instruments.

The School maintains its cash in bank deposits at high credit quality financial institutions. The balances, at times, may exceed federally insured limits.

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

Investments in real estate investment limited partnerships are valued at fair value and were sold in November 2006 at the appraised value.

Contributed services with an established fair market value are recorded as contributions at such value, when received, with appropriate charges to assets, liabilities or expenses. During the years ended August 31, 2006 and 2005, the School received \$0- and \$1,400, respectively, of contributed legal services and \$17,343 and \$23,000, respectively, of contributed recreational facilities.

The 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended August 31, 2005, from which the summarized information was derived.

**3. EMPLOYEE
BENEFIT
PLAN:**

The School participates in a tax-deferred annuity retirement plan under Section 403(b) of the Code for the benefit of eligible employees. During the years ended August 31, 2006 and 2005, the School made contributions of \$20,031 and \$30,788, respectively.

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

NOTES TO FINANCIAL STATEMENTS

August 31, 2006

4. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net, consists of the following:

August 31,	2006	2005
Land	\$ 35,000	\$ 35,000
Building and improvements		362,813
Furniture and equipment	138,821	138,821
Construction-in-progress	464,561	180,394
	638,382	717,028
Less accumulated depreciation and amortization	(126,599)	(204,476)
	\$ 511,783	\$ 512,552

The assets are recorded at cost when purchased, or at fair value when contributed, and depreciated over the estimated useful lives of the respective assets, which is from 5 to 39 years. During the year, the School condemned the building in preparation for the new construction. All costs related to the building and its improvements were written off to operations. In addition, all cost incurred in getting the new construction started are reported as construction-in-progress.

5. CONTRIBUTIONS RECEIVABLE - CAPITAL CAMPAIGN:

Contributions receivable, discounted to fair value at August 31, 2006 and 2005, were expected to be collected as follows:

	2006	2005
Within one year	\$1,880,855	\$1,094,332
One to five years	159,294	1,256,668
	2,040,149	2,351,000
Less discount to present value at rate of 3.00% - 5.00%	(13,365)	(43,047)
	\$2,026,784	\$2,307,953

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

NOTES TO FINANCIAL STATEMENTS

August 31, 2006

- 6. COMMITMENTS:** In fiscal year ended August 31, 2005, the School entered into a five-year operating lease for office equipment with a fixed monthly amount.

At August 31, 2006, future minimum lease payments are as follows:

Year ending August 31,	Lease Commitments
2007	\$ 5,888
2008	5,888
2009	5,888
2010	2,944
	\$20,608

On January 27, 2006, the School entered into a two-year lease with the St. Lucy's Roman Catholic Church for space at 344 East 104th Street, New York 10029. The annual base rent of \$120,000 is payable in equal monthly installments of \$10,000.

As of August 31, 2006, the future rent payments are as follows:

Year ending August 31,	Rent Commitments
2007	\$120,000
2008	50,000
	\$170,000

The School entered into a consulting contract for the capital campaign implementation, which expires on December 14, 2006. The cost payable to the consultants for raising the campaign funds amounted to approximately \$9,800 per month over the contract life.

- 7. TEMPORARILY RESTRICTED NET ASSETS:** Temporarily restricted net assets are available for the following purposes:

August 31,	2006	2005
Restricted for capital campaign	\$6,414,276	\$4,903,290
Restricted for specific educational programs		70,680
	\$6,414,276	\$4,973,970

- 8. PERMANENTLY RESTRICTED NET ASSETS:** Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested in perpetuity and the income earned from the principal be used for scholarships.

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

NOTES TO FINANCIAL STATEMENTS August 31, 2006

**9. FUNCTIONAL
EXPENSES:**

The School incurred total expenses (including nonoperating expenses) in conducting the following activities during the year:

August 31,	2006	2005
Program services associated with providing education to students	\$1,398,446	\$ 833,721
Fund development	405,675	309,244
Management and general	209,713	157,327
	<u>\$2,013,834</u>	<u>\$1,300,292</u>

THE EAST HARLEM SCHOOL AT EXODUS HOUSE

SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNCTIONAL EXPENSES

Year ended August 31,	2006			2005		
	Supporting Services					
	Program Services	Fund Development	Management and General	Total Supporting Services	Total	Total
Salaries and related costs	\$ 604,532	\$138,300	\$124,365	\$262,665	\$ 867,197	\$ 849,100
Contributed services	17,343				17,343	24,838
Bank and credit card fees			3,507	3,507	3,507	3,729
Repair and maintenance	9,367	312	729	1,041	10,408	14,852
Contributions	500				500	
Dues and fees	350				350	
Food service	30,847				30,847	28,322
Public relations and marketing	1,593	6,373		6,373	7,966	16,125
Insurance	28,405	6,340	5,665	12,005	40,410	54,257
Office supplies	8,054	1,849	1,652	3,501	11,555	10,388
Postage and delivery	4,653	1,068	955	2,023	6,676	6,010
Professional services	10,150	23,781	19,816	43,597	53,747	20,160
Program services	90,406				90,406	61,514
Staff development and training	9,157	2,223	7,772	9,995	19,152	20,349
Technology	2,354	2,562	134	2,696	5,050	7,686
Telephone	6,630	221	516	737	7,367	7,037
Travel and entertainment	667	3,883		3,883	4,550	9,123
Utilities	21,420	714	1,666	2,380	23,800	22,365
Rent	63,000	2,100	4,900	7,000	70,000	
Depreciation and amortization	36,949	1,231	2,874	4,105	41,054	26,887
Total operating expenses	946,377	190,957	174,551	365,508	1,311,885	1,182,742
Capital campaign expenses		199,648		199,648	199,648	117,550
Building and improvements write-off	219,493	7,317	17,072	24,389	243,882	
Relocation costs	232,576	7,753	18,090	25,843	258,419	
Total expenses	\$1,398,446	\$405,675	\$209,713	\$615,388	\$2,013,834	\$1,300,292

See Notes to Financial Statements