# Harlem School of the Arts, Inc.

Audited Financial Statements

June 30, 2025

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Audited Financial Statements

June 30, 2025

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Services Provided by SAX LLP

## Independent Auditor's Report

To the Board of Directors of
The Harlem School of the Arts, Inc.

### Opinion

We have audited the financial statements of The Harlem School of the Arts ("HSA"), which comprise the statement of financial position as of June 30, 2025, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of HSA as of June 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HSA's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with Those Charged With Governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Report on Summarized Comparative Information**

We have previously audited HSA's 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 5, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sax LLP

New York, NY
May 12, 2026

# Harlem School of the Arts, Inc.

Statement of Financial Position

For the Year Ended June 30, 2025
(with comparative totals for the year ended June 30, 2024)

| | June 30, 2025 | June 30, 2024 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 694,795 | $ 1,918,857 |
| Tuition receivable, net | 26,249 | 38,928 |
| Contributions, grants, and bequests receivables | 373,864 | 312,470 |
| Other receivables | 179,358 | 149,500 |
| Prepaid expenses and other current assets | 64,679 | 68,162 |
| Property and equipment, net | 9,487,828 | 10,033,295 |
| Finance leases, right-of-use ("ROU") asset | 15,331 | 38,330 |
| Investments held for endowment | 3,338,665 | 3,282,910 |
| **TOTAL ASSETS** | **$ 14,180,769** | **$ 15,842,452** |
| **LIABILITIES AND NET ASSETS** | | |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 304,171 | $ 240,492 |
| Accrued salaries and payroll taxes | 88,376 | 133,118 |
| Deferred tuition | 122,024 | 133,833 |
| Conditional contributions and advances | 26,702 | 1,140 |
| Loans payable | 732,116 | 750,692 |
| Finance lease liability | 16,198 | 39,638 |
| Total liabilities | 1,289,587 | 1,298,913 |
| **NET ASSETS** | | |
| Without donor restrictions: | | |
| Operations | (959,554) | 118,849 |
| Capital fund | 9,487,828 | 10,033,295 |
| Jacqueline & Clarence Avant Scholarship and Arts Access Fund | 400,000 | 600,000 |
| Total net assets without donor restrictions | 8,928,274 | 10,752,144 |
| With donor restrictions: | | |
| Purpose and time restricted | 624,243 | 508,485 |
| Donor restricted endowment | 3,338,665 | 3,282,910 |
| Total net assets with donor restrictions | 3,962,908 | 3,791,395 |
| Total net assets | 12,891,182 | 14,543,539 |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 14,180,769** | **$ 15,842,452** |

*The attached notes and auditor's report are an integral part of these financial statements.*

# Harlem School of the Arts, Inc.

## Statement of Activities

## For the Year Ended June 30, 2025
## (with comparative totals for the year ended June 30, 2024)

| | Net Assets Without Donor Restrictions | | | Net Assets With Donor Restrictions | | | | |
|---|---|---|---|---|---|---|---|---|
| | Operations | Capital | Total Without Donor Restrictions | Purpose and Time Restrictions | Donor Restricted Endowment | Total With Donor Restrictions | Total 06/30/25 | Total 06/30/24 |
| **PUBLIC SUPPORT** | | | | | | | | |
| Contributions | $ 1,223,176 | $ - | $ 1,223,176 | $ 739,000 | $ - | $ 739,000 | $ 1,962,176 | $ 1,666,053 |
| Government grants | 157,703 | - | 157,703 | - | - | - | 157,703 | 199,814 |
| Special events (net of expenses with a direct benefit to the donor totaling $201,076 and $303,346, respectively) | 564,251 | - | 564,251 | - | - | - | 564,251 | 2,070,759 |
| Total public support | 1,945,130 | - | 1,945,130 | 739,000 | - | 739,000 | 2,684,130 | 3,936,626 |
| **REVENUE** | | | | | | | | |
| Tuition and registration fees (net of scholarships and aid of $542,000 and $676,000 in 2025 and 2024, respectively) | 721,164 | - | 721,164 | - | - | - | 721,164 | 958,774 |
| Education outreach | 309,127 | - | 309,127 | - | - | - | 309,127 | 327,999 |
| Rental income | 611,850 | - | 611,850 | - | - | - | 611,850 | 261,118 |
| Admission income | 38,268 | - | 38,268 | - | - | - | 38,268 | 50,690 |
| In-kind goods and services | 268,206 | - | 268,206 | - | - | - | 268,206 | 82,244 |
| Interest income | 81 | - | 81 | - | - | - | 81 | 2 |
| Other loss | (700) | - | (700) | - | - | - | (700) | (4,397) |
| Total revenue | 1,947,996 | - | 1,947,996 | - | - | - | 1,947,996 | 1,676,430 |
| **NET ASSETS RELEASED FROM RESTRICTIONS** | | | | | | | | |
| Program | 517,714 | 46,528 | 564,242 | (564,242) | - | (564,242) | - | - |
| Endowment | 174,000 | | 174,000 | - | (174,000) | (174,000) | - | - |
| Time | 59,000 | | 59,000 | (59,000) | - | (59,000) | - | - |
| Total net assets released from restrictions | 750,714 | 46,528 | 797,242 | (623,242) | (174,000) | (797,242) | - | - |
| Total public support and revenue | 4,643,840 | 46,528 | 4,690,368 | 115,758 | (174,000) | (58,242) | 4,632,126 | 5,613,056 |
| **EXPENSES** | | | | | | | | |
| Program services - Instruction | 4,312,603 | - | 4,312,603 | - | - | - | 4,312,603 | 3,894,027 |
| Supporting services: | | | | | | | | |
| Management and general | 989,176 | - | 989,176 | - | - | - | 989,176 | 686,166 |
| Fundraising | 640,295 | - | 640,295 | - | - | - | 640,295 | 847,513 |
| Total supporting services | 1,629,471 | - | 1,629,471 | - | - | - | 1,629,471 | 1,533,679 |
| Total expenses | 5,942,074 | - | 5,942,074 | - | - | - | 5,942,074 | 5,427,706 |
| **Change in net assets from operations** | (1,298,234) | 46,528 | (1,251,706) | 115,758 | (174,000) | (58,242) | (1,309,948) | 185,350 |
| **NON-OPERATING ACTIVITY** | | | | | | | | |
| Investment return | - | - | - | - | 255,369 | 255,369 | 255,369 | 416,480 |
| Depreciation | - | (597,778) | (597,778) | - | - | - | (597,778) | (604,380) |
| Total non-operating activity | - | (597,778) | (597,778) | - | 255,369 | 255,369 | (342,409) | (187,900) |
| **Change in net assets** | **(1,298,234)** | **(551,250)** | **(1,849,484)** | **115,758** | **81,369** | **197,127** | **(1,652,357)** | **(2,550)** |
| **Transfers** | 19,831 | 5,783 | 25,614 | - | (25,614) | (25,614) | - | - |
| **NET ASSETS, *beginning of year*** | 718,849 | 10,033,295 | 10,752,144 | 508,485 | 3,282,910 | 3,791,395 | 14,543,539 | 14,546,089 |
| **NET ASSETS, *end of year*** | **$ (559,554)** | **$ 9,487,828** | **$ 8,928,274** | **$ 624,243** | **$ 3,338,665** | **$ 3,962,908** | **$ 12,891,182** | **$ 14,543,539** |

*The attached notes and auditor's report are an integral part of these financial statements.*

# Harlem School of the Arts, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2025
(with comparative totals for the year ended June 30, 2024)

| | Program Services | Supporting Services | | | | |
|---|---|---|---|---|---|---|
| | Instruction | Management and General | Fundraising | Total Supporting Services | Total Expenses 06/30/25 | Total Expenses 06/30/24 |
| Salaries | $ 3,079,705 | $ 232,400 | $ 317,054 | $ 549,454 | $ 3,629,159 | $ 3,329,283 |
| Payroll taxes and employee benefits | 446,789 | 33,715 | 45,997 | 79,712 | 526,501 | 447,827 |
| Total personnel expenses | 3,526,494 | 266,115 | 363,051 | 629,166 | 4,155,660 | 3,777,110 |
| Insurance | 122,948 | 9,278 | 12,657 | 21,935 | 144,883 | 146,313 |
| Consultant and professional fees | 141,056 | 270,301 | 82,683 | 352,984 | 494,040 | 498,521 |
| Repairs and maintenance | 62,985 | 6,296 | 5,403 | 11,699 | 74,684 | 137,226 |
| Utilities | 123,897 | 9,349 | 12,755 | 22,104 | 146,001 | 133,723 |
| Program supplies | 56,738 | - | - | - | 56,738 | 48,507 |
| Stationery and printing | 15,904 | 1,199 | 1,637 | 2,836 | 18,740 | 25,340 |
| Advertising and public relations | - | 3,742 | - | 3,742 | 3,742 | 8,689 |
| Equipment rental | - | - | - | - | - | 4,221 |
| Telephone | 33,904 | 2,558 | 3,490 | 6,048 | 39,952 | 34,520 |
| Travel and conferences | 14,450 | 1,090 | 1,488 | 2,578 | 17,028 | 9,534 |
| Payroll processing | 57,008 | 4,302 | 5,869 | 10,171 | 67,179 | 48,162 |
| Postage | 103 | 8 | 11 | 19 | 122 | 1,178 |
| Food | 80,926 | 2,334 | 3,184 | 5,518 | 86,444 | 96,879 |
| Other expenses | 61,789 | 12,324 | 6,361 | 18,685 | 80,474 | 99,098 |
| Dues and subscriptions | 14,401 | 1,087 | 1,483 | 2,570 | 16,971 | 25,507 |
| Special event production expense | - | - | 341,299 | 341,299 | 341,299 | 438,671 |
| Interest expense | - | 77,892 | - | 77,892 | 77,892 | 32,686 |
| Depreciation | 507,275 | 38,279 | 52,224 | 90,503 | 597,778 | 604,380 |
| Bad debt expense | - | 30,097 | - | 30,097 | 30,097 | 59,925 |
| In-kind legal expenses | - | 268,206 | - | 268,206 | 268,206 | 82,244 |
| ROU amortization | - | 22,998 | - | 22,998 | 22,998 | 22,998 |
| Total expenses | 4,819,878 | 1,027,455 | 893,595 | 1,921,050 | 6,740,928 | 6,335,432 |
| Less: Depreciation | (507,275) | (38,279) | (52,224) | (90,503) | (597,778) | (604,380) |
| Less: direct special event expenses netted with revenue | - | - | (201,076) | (201,076) | (201,076) | (303,346) |
| **Total functional expenses for statement of activities** | **$ 4,312,603** | **$ 989,176** | **$ 640,295** | **$ 1,629,471** | **$ 5,942,074** | **$ 5,427,706** |

*The attached notes and auditor's report are an integral part of these financial statements.*

# Harlem School of the Arts, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2025
(with comparative totals for the year ended June 30, 2024)

| | June 30, 2025 | June 30, 2024 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ (1,652,357) | $ (2,550) |
| Adjustments to reconcile change in net assets to net cash (used for)/provided by operating activities: | | |
| Depreciation | 597,778 | 604,380 |
| Finance lease amortization | 22,998 | 22,998 |
| Realized & unrealized gain on investments | (98,592) | (336,653) |
| Donated stock | - | (25,615) |
| Changes in assets and liabilities: | | |
| Tuition receivable | 12,679 | (14,127) |
| Contributions, grants, and bequests receivable | (61,394) | 467,801 |
| Other receivables | (29,858) | (96,581) |
| Prepaid expenses and other current assets | 3,483 | (6,664) |
| Accounts payable and accrued expenses | 63,679 | (95,229) |
| Accrued salaries and payroll taxes | (44,742) | 61,231 |
| Deferred tuition | (11,809) | (49,529) |
| Conditional contributions and advances | 25,562 | (550) |
| Total adjustments | 479,784 | 531,462 |
| **Net cash (used for)/provided by operating activities** | (1,172,573) | 528,912 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (52,311) | (215,770) |
| Purchases of investments | (156,776) | (79,827) |
| Proceeds from sale of investments | 199,614 | 144,000 |
| **Net cash used for investing activities** | (9,473) | (151,597) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Loan proceeds | 181,750 | 454,633 |
| Repayment of loan payable | (200,326) | (68,114) |
| Principal payments on finance lease liability | (23,440) | (22,450) |
| **Net cash (used for)/provided by financing activities** | (42,016) | 364,069 |
| **Net (decrease)/increase in cash and cash equivalents** | **(1,224,062)** | **741,384** |
| **CASH AND CASH EQUIVALENTS, *beginning of year*** | 1,918,857 | 1,177,473 |
| **CASH AND CASH EQUIVALENTS, *end of year*** | **$ 694,795** | **$ 1,918,857** |
| **SUPPLEMENTAL INFORMATION** | | |
| Interest paid | **$ 77,892** | **$ 32,686** |
| Taxes paid | **$ -** | **$ -** |

*The attached notes and auditor's report are an integral part of these financial statements.*

# Harlem School of the Arts, Inc.

Notes to Financial Statements

June 30, 2025

**Note 1 - Organization**

The Harlem School of the Arts, Inc. ("HSA") is a community-based, not-for-profit corporation founded in 1964 by acclaimed soprano, Dorothy Maynor. Its mission is to enrich the lives of the students and their families, from the Harlem Community and beyond, through training in and exposure to the arts. HSA operates out of its owned facility, constructed in 1977, at 645 St. Nicholas Avenue, New York City.

The educational and cultural programs of HSA not only provide quality training in dance, music, theatre, and visual arts but also focus on celebrating the global influences on art and culture while preserving the uniqueness of the Harlem community.

HSA has been notified by the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws. HSA has not been designated as a private foundation.

HSA's main sources of revenue are contributions, tuition and registration fees.

**Note 2 - Summary of Significant Accounting Policies**

*a. Basis of Accounting*

The accompanying financial statements have been prepared using the accrual basis of accounting, which is the process of recording revenue and expenses when earned or incurred.

*b. Basis of Presentation*

The financial statements are presented in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 - *Presentation of Financial Statements of Not-For-Profit Entities*. FASB ASC 958 requires HSA to report information regarding its financial position and activities according to the following specific classes of net assets:

- *Net Assets Without Donor Restrictions* - accounts for activity without donor-imposed restrictions. The board of directors established a board designated fund, the Jacqueline and Clarence Avant Scholarship and Arts Access Fund (the Fund) which totaled $400,000 and $600,000 as of June 30, 2025 and 2024, respectively. The Fund will support scholarships, tuition assistance, and the maintenance and expansion of after school and outreach programs. Any additions or allocations to the Fund as well as drawdowns of the Fund require board approval.

- *Net Assets With Donor Restrictions* - represents those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact in perpetuity.

*c. Revenue Recognition*

HSA follows the requirements of FASB ASC 606 for recognizing revenue from contracts with customers. HSA receives tuition and registration fees, education outreach, admission, and rental income that fall under FASB ASC 606. Tuition and registration fees are recognized as revenue when the class takes place. Program fees related to the education outreach and admission income are recognized as revenue when the performance obligations are met. Rental income is recorded as revenue over the period that the space is provided. Tuition and registration fees, program fees, and rental income that has been earned but not paid at year end are recognized as revenue and a related receivable. Cash that has been received but not earned at year-end is recognized as deferred revenue.

**Note 2 - Summary of Significant Accounting Policies - Continued**

*c. Revenue Recognition - Continued*

Special event revenue is comprised of payments received from third parties to support and/or attend fundraising events. Special event revenue includes an exchange transaction component for the value of the goods or services rendered, which follows revenue recognition guidance under FASB ASC 606. The amount paid by third parties that is above the value of the goods or services is considered a contribution. Revenue is recognized at the time the fundraising event occurs.

HSA follows FASB Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses* ("Topic 326"), which potentially subject HSA to credit losses related to the tuition and other receivables reflected on the statement of financial position. Expected losses are recorded to an allowance for credit losses valuation account that is net against the corresponding asset to present the net amount expected to be collected on the financial asset. The credit loss allowance is determined through analysis of the financial assets and assessments of risk that are based on historical trends and evaluation of the impact of current and projected economic conditions.

Management believes that the historical loss information it has compiled is a reasonable basis on which to determine expected credit losses for tuition receivables held at year end because the composition of the tuition and other receivables is consistent with that used in developing the historical credit loss amounts (i.e., the similar risk characteristics of its customers and its lending practices have not changed significantly over time). Management developed this estimate based on its knowledge of past experience for which there were similar economic conditions. As a result, management evaluated the receivable balances on an individual basis to determine the expected credit loss estimate. Accordingly, the allowance for expected credit losses at June 30, 2025 and 2024 totaled $186,780 and $283,135, respectively. Tuition and other receivables are all due within one year.

HSA follows FASB ASC 958-605 for recording contributions, which are recognized when they become unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

Contributions may be subject to conditions which are defined as both a barrier to entitlement and a right of return of payments or release from obligations and are recognized as income once the conditions have been substantially met.

HSA’s government grants are primarily conditional non-exchange transactions and fall under the scope of FASB ASC 958-605. Revenue from these transactions is recognized when qualifying expenditures are incurred, performance related outcomes are achieved, and other conditions under the agreements are met. Cash received in advance of the conditions being met are treated as liabilities.

**Note 2 - Summary of Significant Accounting Policies - Continued**

*c. Revenue Recognition - Continued*

Unconditional promises to give that are expected to be received in less than one year are recorded at net realizable value. Those that are due in greater than one year are recorded at fair value which is calculated using risk adjusted present value techniques. Long-term promises to give are treated as time restricted until the period they are due, at which time they will be released from restriction and counted towards operations. Contributions, grants, and bequests receivables are due over a period of time which is outlined in Note 3.

When HSA is notified of an irrevocable trust where they are the beneficiary, a contribution and related receivable is recognized. Fair value is determined using risk adjusted present value techniques of the estimated benefits HSA will receive at the time the trust will be distributed. Each subsequent year, receivables are adjusted to account for changes in the value of assets within the trust. These adjustments are reported as part of contribution revenue.

Included in contributions, grants and bequests receivable is the fair value of an irrevocable remainder trust held by an outside trustee; whereby, HSA is the ultimate beneficiary. The value was $1,000 and $5,000 at June 30, 2025 and 2024, respectively.

HSA reviews all outstanding receivables and based on subsequent collections and historical experience, determines the amount of allowance for doubtful accounts. Based on a review of specific outstanding balances and historical experience, it has been determined that no allowance for uncollectible amounts is necessary as of June 30, 2025 and 2024.

*d. Measure of Operations*

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to HSA's ongoing services. Non-operating activities are limited to resources that generate return from investments and depreciation, as well as activities that are peripheral to the central mission of HSA.

*e. Cash and Cash Equivalents*

Checking and money market accounts with local banks and highly liquid financial instruments purchased with an initial maturity of three months or less (excluding accounts held with investment advisors) are considered to be cash and cash equivalents.

*f. Concentration of Credit Risk*

Financial instruments, which potentially subject HSA to a concentration of credit risk, consist of cash, money market accounts and investment securities, which are placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At year end and at various times throughout the year, balances were in excess of insured amounts. HSA has not experienced any losses from these accounts due to bank failure.

The fair value of investments is subject to fluctuation. Management believes the investment policy is prudent for the long-term welfare of HSA. The portfolio has been diversified with the goal of being able to obtain the long-term objectives of the organization, without taking on risks they feel are imprudent.

**Note 2 - Summary of Significant Accounting Policies - Continued**

*g. Investments*

Investments are recorded at fair value, which refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Net gains and losses and dividend income are included in non-operating activity as investment return on the statement of activities.

*h. Fair Value Measurements*

Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that HSA has the ability to access.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall value measurement.

*i. Property and Equipment*

Property and equipment (including musical instruments) that exceed $1,000 and have a useful life of greater than one year are capitalized at cost, or at fair value, if donated. Such amounts do not purport to represent replacement values. Furniture, office equipment and musical instruments are depreciated using the straight-line method over the estimated useful lives of the respective assets, which are between three to ten years. Building and building improvements are depreciated using the straight-line method over the estimated useful life of between fifteen to twenty-five years.

*j. Advertising Costs*

The cost of advertising is expensed as incurred.

*k. In-Kind Donations*

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided in-kind.

HSA received contributions of in-kind legal services that were valued at $268,206 and $82,244 during the years ended June 30, 2025, and 2024, respectively. All in-kind legal expenses have been allocated between management and general and program on the statement of functional expenses. The fair value of the in-kind legal services was determined based on current standard hourly rates for similar legal services in the New York City Metropolitan area.

Board members and other individuals volunteer their time and perform a variety of services that assist HSA. These services have not been recorded in the financial statements, as they do not meet the criteria outlined above.

**Note 2 - Summary of Significant Accounting Policies - Continued**

*l. Functional Allocation of Expenses*

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

Salaries were allocated using time and effort as the basis. The following expenses were allocated using salary allocation as the basis:

- Payroll taxes and employee benefits
- Insurance
- Consultant and professional fees
- Repairs and maintenance
- Utilities
- Stationery and printing
- Equipment rental
- Telephone
- Travel and conferences
- Payroll processing
- Postage
- Depreciation

All other expenses have been charged directly to the applicable program or supporting service.

*m. Management Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

*n. Leases*

HSA determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use ("ROU") assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Finance lease expense is recognized on a straight-line basis over the lease term. HSA does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that HSA will exercise that option.

*o. Accounting for Uncertainty of Income Taxes*

HSA does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2022 and later are subject to examination by applicable taxing authorities.

**Note 3 - Contributions, Grants, and Bequests Receivable**

Contributions, grants, and bequests receivable are due in the following periods.

| | June 30, | |
|---|---|---|
| Year ending: | 2025 | 2024 |
| June 30, 2025 | $ - | $ 302,470 |
| June 30, 2026 | 372,864 | 5,000 |
| In greater than 5 years | 1,000 | 5,000 |
| Total | $ 373,864 | $ 312,470 |

No discount to present value was taken due to its immaterial nature.

**Note 4 - Tuition Receivables and Liabilities**

| | Tuition Receivable, net | | Deferred Tuition | |
|---|---|---|---|---|
| | 6/30/2025 | 6/30/2024 | 6/30/2025 | 6/30/2024 |
| Beginning of year | $ 38,928 | $ 24,801 | $ 133,833 | $ 183,362 |
| Period Change | (12,679) | 14,127 | $ (11,809) | $ (49,529) |
| End of year | $ 26,249 | $ 38,928 | $ 122,024 | $ 133,833 |

**Note 5 - Investments Held for Endowment**

Accounting standards establish a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. All investments were measured using Level 1 inputs, which are the quoted prices in active markets for identical assets.

The following summarizes the composition of investments:

| | June 30, | |
|---|---|---|
| | 2025 | 2024 |
| Mutual funds - equities - domestic | $ 2,061,165 | $ 2,032,996 |
| Mutual funds - bonds | 1,268,231 | 1,218,532 |
| Equities - domestic | - | 25,922 |
| Money Market Funds | 9,269 | 5,460 |
| Total | $ 3,338,665 | $ 3,282,910 |

Level 1 securities are valued at the closing price reported on the active market they are traded on.

**Note 5 - Investments Held for Endowment - Continued**

Investment return consists of the following:

| | June 30, 2025 | June 30, 2024 |
|---|---|---|
| Realized gain on investments | $ 90,280 | $ 29,766 |
| Unrealized gain on investments | 8,312 | 306,887 |
| Dividend income | 156,777 | 79,827 |
| Total investment return | $ 255,369 | $ 416,480 |

All dividends received during the year have been reinvested in additional shares.

**Note 6 - Property and Equipment**

Property and equipment consist of the following:

| | June 30, 2025 | June 30, 2024 |
|---|---|---|
| Building and building improvements | $ 12,705,668 | $ 12,672,571 |
| Equipment, furniture, and fixtures | 599,583 | 596,095 |
| Software | 79,876 | 66,750 |
| Musical instruments | 748,894 | 746,294 |
| | 14,134,021 | 14,081,710 |
| Less: accumulated depreciation | (4,809,409) | (4,211,631) |
| Property and equipment - net | 9,324,612 | 9,870,079 |
| Land | 163,216 | 163,216 |
| Total property and equipment | $ 9,487,828 | $ 10,033,295 |

The City of New York's investment of capital funding obligated HSA to operate the facility and/or maintain equipment for the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City of New York for cultural, educational, or artistic uses and/or related purposes approved by the City.

**Note 7 - Finance Lease Right-of-Use ("ROU") Asset and Finance Lease Liability**

HSA evaluated current contracts to determine which met the criteria of a lease. The ROU assets represent HSA's right to use underlying assets for the lease term, and the lease liabilities represent HSA's obligation to make lease payments arising from these leases. HSA entered into a lease for the acquisition of copiers and related equipment in November 2022 for 39 months. There is a purchase option at the end of the lease term at fair market value. The ROU assets and lease liabilities, all of which arise from a finance lease, were calculated based on the present value of future lease payments over the lease terms. HSA has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of June 30, 2025 and 2024 was 4.32%. The weighted-average lease term as of June 30, 2025 and 2024 was 8 months and 20 months, respectively.

**Note 7 - Finance Lease Right-of-Use ("ROU") Asset and Finance Lease Liability - Continued**

For the year ended June 30, 2025, total finance lease cost was $24,161 of which $22,998 is related to amortization of the ROU asset and $1,163 is interest. For the year ended June 30, 2024, total finance lease cost was $25,151 of which $22,998 is related to amortization of the ROU asset and $2,153 is interest. There were no short-term lease costs during the years ended June 30, 2025 and 2024.

Cash paid for finance leases for the year ended June 30, 2025 totaled $24,603 of which $23,440 is related to principal and $1,163 is related to interest. Cash paid for finance leases for the year ended June 30, 2024 totaled $24,603 of which $22,450 is related to principal and $2,153 is related to interest. There were no noncash investing and financing transactions related to leasing except for the ROU asset obtained in exchange for the lease liability recorded at the date of commencement.

The aggregate future minimum lease payments due under these finance leases as of June 30, 2025 are as follows:

| | |
|---|---|
| Year ending: | |
| June 30, 2026 | $ 16,402 |
| Less: discount to present value at 4.32% | (204) |
| Total | $ 16,198 |

**Note 8 - Loans Payable**

The following summarizes the loans payable:

| | June 30, 2025 | June 30, 2024 |
|---|---|---|
| Term loan, interest at 5.89% | $ - | $ 9,508 |
| Economic Injury Disaster Loan ("EIDL") | 138,678 | 138,679 |
| Line of credit | 550,000 | 550,000 |
| Equipment loan | 43,438 | 52,505 |
| Total | $ 732,116 | $ 750,692 |

HSA has a five-year term loan with an interest rate of 5.89% which is paid in monthly installments through the maturity date of August 9, 2024. There is no collateral on this loan. This loan was paid in full by its maturity date.

On July 31, 2020, HSA obtained an Economic Injury Disaster Loan ("EIDL") from the SBA in the amount of $150,000 with an interest rate of 2.75%. The loan has a maturity of 30 years with a deferment of payments for the first 24 months. This loan contains an all business assets collateral as well as a Universal Commercial Code lien, which gives the lender the legal right to access HSA's business assets in the event of a default by HSA.

During the year ended June 30, 2025, HSA renewed their line of credit, which has a maximum balance of $550,000 at an interest rate of 14.19%. As of June 30, 2025 and 2024, there was an outstanding balance of $550,000. There is no collateral on this line of credit.

**Note 8 - Loans Payable - Continued**

On March 26, 2024, HSA entered into an equipment financing loan agreement with a principal of $54,633 for IT infrastructure wiring upgrades in the building. Installment payments of $1,164 are due monthly beginning on April 24, 2024 for 60 months at the rate of 10.12%. Collateral includes the assets purchased with the funds.

Minimum scheduled principal payments on all loans are as follows:

| Year ending: | |
|---|---|
| June 30, 2026 | $ 563,938 |
| June 30, 2027 | 15,110 |
| June 30, 2028 | 16,398 |
| June 30, 2029 | 14,294 |
| June 30, 2030 | 4,363 |
| Thereafter | 118,013 |
| Total | $ 732,116 |

**Note 9 - Net Assets With Donor Restrictions**

Net assets with donor restrictions are available for the following purposes:

| | June 30, 2025 | June 30, 2024 |
|---|---|---|
| Purpose and time restrictions: | | |
| Prep and other programs | $ 514,579 | $ 443,293 |
| Renaissance Campaign | 3,664 | 50,192 |
| Time restricted | 106,000 | 15,000 |
| Total purpose and time restrictions | 624,243 | 508,485 |
| Endowment | 3,338,665 | 3,282,910 |
| Total net assets with donor restrictions | $ 3,962,908 | $ 3,791,395 |

Net assets were released from donor restrictions by satisfying the following purposes:

| | June 30, 2025 | June 30, 2024 |
|---|---|---|
| Purpose and time restrictions: | | |
| Prep and other programs | $ 517,714 | $ 698,045 |
| Renaissance Campaign | 46,528 | 54,700 |
| Time restricted | 59,000 | 74,000 |
| Total purpose and time restrictions | 623,242 | 826,745 |
| Endowment earnings appropriated for use | 174,000 | 144,000 |
| Total net assets released from restrictions | $ 797,242 | $ 970,745 |

**Note 10 - Donor Restricted Endowment Fund**

HSA's endowment includes donations that were restricted by donors to be held in perpetuity. HSA holds these funds in its investment account. The income from these investments can be used to support HSA's general activities and provide scholarships.

*Interpretation of Relevant Law*

HSA follows New York Prudent Management of Institutional Funds Act ("NYPMIFA"). The Board of Directors of HSA has interpreted NYPMIFA as requiring certain amounts to be retained permanently. Absent explicit donor stipulations to the contrary, HSA will preserve the fair value of the original gift as of the gift date for all donor-restricted endowment funds.

However, under certain circumstances, HSA has the right to appropriate for expenditure the fair value of the original gift in a manner consistent with the standard of prudence specifically prescribed by NYPMIFA.

As a result of this interpretation, HSA classifies as endowment corpus (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the donor's intention.

When endowment funds have earnings in excess of amounts that need to be retained as part of the corpus, their earnings are restricted until the board appropriates for expenditure; therefore, they have been classified in the class of net assets with donor restrictions.

*Spending Policies*

In accordance with NYPMIFA, HSA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of HSA and the donor-restricted endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of HSA;
(7) The investment policies of HSA;
(8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on HSA.

HSA has created a spending policy; whereby, appropriations are made on an annual basis, not to exceed 5% of the fair value of the investment balance as of the beginning of the year.

**Note 10 - Donor Restricted Endowment Fund - Continued**

Change in endowment net assets consists of:

| | June 30, 2025 | | | |
|---|---|---|---|---|
| | Fund Deficiency | Unappropriated Earnings | Corpus | Total Donor Restricted |
| Endowment net assets, beginning of year | $ (442,602) | $ 609,814 | $ 3,115,698 | $ 3,282,910 |
| Stock Liquidation | (25,614) | | | (25,614) |
| Donor release of corpus | 468,216 | - | (468,216) | - |
| Appropriation towards scholarships and financial aid | - | (174,000) | - | (174,000) |
| Interest and dividend income | - | 156,779 | - | 156,779 |
| Net gain on investments | - | 98,590 | - | 98,590 |
| Endowment net assets, end of year | $ - | $ 691,183 | $ 2,647,482 | $ 3,338,665 |

| | June 30, 2024 | | | |
|---|---|---|---|---|
| | Fund Deficiency | Unappropriated Earnings | Corpus | Total Donor Restricted |
| Endowment net assets, beginning of year | $ (468,217) | $ 337,334 | $ 3,115,698 | $ 2,984,815 |
| Donated Stock | 25,615 | | | 25,615 |
| Appropriation towards scholarships and financial aid | - | (144,000) | - | (144,000) |
| Interest and dividend income | - | 79,827 | - | 79,827 |
| Net loss on investments | - | 336,653 | - | 336,653 |
| Endowment net assets, end of year | $ (442,602) | $ 609,814 | $ 3,115,698 | $ 3,282,910 |

*Endowment Investment Policies*

HSA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HSA targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires HSA to retain as a fund of perpetual duration. In previous years, HSA used a portion of these restricted funds to support operations. As a result, the balance of investments was below the original corpus and accumulated earnings by $468,217 as of June 30, 2024. During the audit for the year ended June 30, 2025, one of the donors associated with the original endowment corpus approved the release of a portion of the endowment restrictions to restore the amount that had previously been underwater in the investment account. As a result, the endowment balance was restored to its historical dollar value.

**Note 10 - Donor Restricted Endowment Fund - Continued**

The corpus consists of the following:

| | June 30, 2025 | June 30, 2024 |
|---|---|---|
| HSA General Endowment | $ 334,628 | $ 334,628 |
| Mary Flager Cary Trust Scholarship Fund (including match) | 250,000 | 250,000 |
| McCrindle Music Program Fund | 267,797 | 267,797 |
| The HSA Financial Aid Scholarship Fund | 1,795,057 | 2,263,273 |
| Total | $ 2,647,482 | $ 3,115,698 |

**Note 11 - Contingencies**

Government grants are subject to audit by the applicable government granting agencies. Management does not believe that there will be any material disallowances and thus has not established a reserve on the books for this. Any disallowances that are to result from potential future audits will be charged to operations in the year the disallowance becomes known and probable of payment.

In the normal course of business, HSA may be involved in proceedings, lawsuits, or other claims, mainly related to employment issues. These matters are subject to many uncertainties, and outcomes are not predictable with a high degree of assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of June 30, 2025 cannot be ascertained. Management does not believe that there are any such matters that are probable of having a material impact on the financial statements and no liabilities have been recorded.

**Note 12 - Retirement Plans**

HSA has a retirement plan under IRS Section 403(b) that all employees are eligible to participate in beginning on the date of hire. All eligible employees may elect to defer a portion of their salary and contribute to this plan up to statutory amounts. HSA can provide a discretionary match to eligible employees. No match was provided during the years ended June 30, 2025 and 2024.

**Note 13 - Availability and Liquidity**

HSA maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for ongoing operations. In addition, HSA maintains an investment account for its donor restricted endowment. As part of its liquidity management, HSA operates its programs within a board approved budget and relies on contributions, earned income, and appropriations from the endowment to fund its operations and program activities.

HSA's donor restricted endowment fund is held for long-term purposes. Therefore, these assets are not considered available for general expenditures until they are appropriated for spending. HSA has created a spending policy; whereby, appropriations are made on an annual basis, not to exceed 5% of the fair value of the investment balance as of the beginning of the year. This portion is considered available for general expenditures.

**Note 13 - Availability and Liquidity - Continued**

The following reflects HSA's financial assets at June 30, 2025, reduced by amounts that have donor-imposed restrictions within one year of the date of the statement of financial position:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 694,795 |
| Tuition receivable | | 26,249 |
| Contributions and grants receivable, due within one year | | 372,864 |
| Other receivables | | 179,358 |
| Total financial assets | $ | 1,273,266 |
| Less amounts not available for general expenditures: | | |
| Donor contributions restricted for specific purposes | | (518,243) |
| Board designated - Jacqueline & Clarence Avant Scholarship and Arts Access Fund | | (400,000) |
| Endowment earnings appropriated for spending in the following year | | 445,000 |
| Financial assets available to meet cash needs for general expenditures within one year | $ | 800,023 |

**Note 14 - Going Concern and Management's Plan**

As of June 30, 2025 and through the date the financial statements were available to be issued, there were conditions and events which initially raised substantial doubt about the HSA's ability to continue as a going concern, however, as described below, management concluded that its plans alleviated the doubt. As such, the accompanying financial statements have been prepared assuming that HSA will continue as a going concern.

For the year ended June 30, 2025, HSA incurred a change in net assets from operations of approximately $1.3 million and used approximately $1.2 million of cash in operating activities. In addition, as of year-end and through the date the financial statements were available to be issued, HSA had limited liquidity for general expenditures within one year, a fully drawn $550,000 line of credit. These conditions and events raised substantial doubt about HSA's ability to continue as a going concern within one year after the date the financial statements were available to be issued.

Management has implemented cost-reduction initiatives, strengthened development and marketing leadership, advanced fundraising efforts including its annual gala, expanded recurring rental revenue arrangements, and engaged an agent to pursue monetization of certain property and development rights in relation to the ownership of the building. Additionally, the building does not currently have any debt related to it, as such it could be leveraged for liquidity purposes, which is part of the plans for monetization of the property. Based on management's cash flow forecast and these actions, management concluded that its plans are probable of being effectively implemented and probable to mitigate the conditions that raised substantial doubt. Accordingly, management concluded that substantial doubt has been alleviated.

**Note 15 - Subsequent Events**

Subsequent events have been evaluated through May 12, 2026, the date the financial statements were available to be issued. Adjustments and disclosures have been made for all subsequent events that have occurred.