

Garden School
Financial Statements
For The Year Ended June 30, 2014

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January 13, 2015

Independent Auditors Report

**To the Board of Trustees of
Garden School**

We have audited the accompanying financial statements of Garden School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Garden School as of June 30, 2014, 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.

Lake Success, New York



Garden School
Statement of Financial Position
June 30, 2014

Assets

Cash - non-interest bearing	\$ 11,695	
- interest bearing	1,883,583	
		<u>1,895,278</u>
Short term investment		4,923
Tuition receivable, net		383,566
Marketable securities, net		27,148
Prepaid expenses and miscellaneous receivables		149,215
Land		117,600
Property and equipment, net		875,151
Security deposit		<u>10,800</u>
 Total Assets		 <u><u>\$ 3,463,681</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 666,644	
Deferred revenue	872,969	
Prepaid rent - related party	868	
Bond payable	332,875	
Loan payable	65,993	
		<u>1,939,349</u>

Net Assets

Unrestricted	1,437,939	
Temporarily restricted	86,393	
		<u>1,524,332</u>
 Total Liabilities and Net Assets		 <u><u>\$ 3,463,681</u></u>

See Independent Auditor's Report.

The accompanying notes are an integral part of these financial statements.

Garden School
Statement of Activities
For the Year Ended June 30, 2014

		Unrestricted	Temporarily Restricted	Total
Support and Revenue:				
Tuition and other instructional fees	\$ 4,119,709			
Less: financial aid awards	(909,400)			
Total Tuition and other fees - net		\$ 3,210,309	\$ 0	\$ 3,210,309
Summer program		386,460	0	386,460
Universal Pre-Kindergarten		316,800	0	316,800
Contributions		150,378	29,080	179,458
Non-instructional fees (transportation, lunch, after school, PTA)		454,590	0	454,590
Investment income		2,024	820	2,844
Unrealized gains on marketable securities		628	2,831	3,459
Special event revenue	\$ 58,685			
Less: Costs of direct benefits to donors	(22,105)			
Net revenue from special events		36,580	0	36,580
Net assets released from restrictions:				
Satisfaction of program restrictions		200,374	(200,374)	0
Total Support and Revenue		4,758,143	(167,643)	4,590,500
School Program Expenses				
Instructional		2,682,422	0	2,682,422
Universal Pre-Kindergarten		36,830	0	36,830
Transportation		239,291	0	239,291
Food Services		167,944	0	167,944
After School		60,088	0	60,088
Summer Camp		211,485	0	211,485
		<u>3,398,060</u>	<u>0</u>	<u>3,398,060</u>
Administration Expenses				
Custodial and building operations		527,568	0	527,568
Administrative expenses		1,151,175	0	1,151,175
		<u>1,678,743</u>	<u>0</u>	<u>1,678,743</u>
Fund Raising Expenses				
		13,905	0	13,905
		<u>1,692,648</u>	<u>0</u>	<u>1,692,648</u>
Total Operating Expenses		5,090,708	0	5,090,708
Excess of Expenses over Support and Revenue		(332,565)	(167,643)	(500,208)
Nonoperating Activities				
Rental income		89,000	0	89,000
PTA, net fundraising		20,902	0	20,902
Other sales, net		6,639	0	6,639
Depreciation expense		(42,807)	0	(42,807)
Total Net Income from Nonoperating Activities		73,734	0	73,734
Change in Net Assets		\$ (258,831)	\$ (167,643)	\$ (426,474)

See Independent Auditor's Report.

The accompanying notes are an integral part of these financial statements.

Garden School
Statement of Changes in Net Assets
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets - July 1, 2013	\$ 1,696,770	\$ 254,036	\$ 1,950,806
Change in Net Assets	<u>(258,831)</u>	<u>(167,643)</u>	<u>(426,474)</u>
Net Assets - June 30, 2014	<u>\$ 1,437,939</u>	<u>\$ 86,393</u>	<u>\$ 1,524,332</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of these financial statements.

Garden School
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash Flows from Operating Activities:

Change in Net Assets	\$ (426,474)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	42,807
Unrealized gains on marketable securities	(3,459)
Increase in short term investment	(2)
Decrease in tuition receivable	31,254
Decrease in rental income receivable	12,406
Increase in prepaid expenses and miscellaneous receivables	(17,014)
Increase in accounts payable	83,117
Decrease in pension plan payable	(679)
Increase in deferred revenue	153,528
Decrease in prepaid rent - related party	(3,262)
Net Cash used by Operating Activities	<u>(127,778)</u>

Cash Flows used by Investing Activities:

Purchase of property and equipment	<u>(109,358)</u>
Net Cash used by Investing Activities	<u>(109,358)</u>

Cash Flows from Financing Activities

Principal payments on debt	(15,945)
Increase in bond payable	26,466
Net Cash from Financing Activities	<u>10,521</u>

Decrease in Cash	(226,615)
Cash - July 1, 2013	<u>2,121,893</u>
Cash - June 30, 2014	<u><u>\$ 1,895,278</u></u>

Supplemental data for noncash investing and financing activities:	<u><u>\$ 0</u></u>
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See Independent Auditor's Report.

The accompanying notes are an integral part of these financial statements.

Garden School
Notes to Financial Statements
June 30, 2014

1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Garden School was founded in 1923 to meet the need for a high-quality, independent school in Queens. This mission remains unchanged as the faculty and administration work to offer the student body the best possible education in an atmosphere where both individual goals and those of the community are respected and nurtured. At the center of Garden School is the curriculum. The context in which that curriculum unfolds distinguishes us from other schools—the context of small classes in a small school; of freedom from bureaucracy; of carefully focused college counseling; of a professional and caring relationship among teachers, students, parents, and administrators; of a passionate dedication to education rather than to the politics of education; of a firm commitment to understand, interpret, and present each student as an individual; of recognizing when growth is part of a child's intellectual development; of building a curriculum based on the highest university standards; and, finally, of knowing when to encourage and support risk-taking in students.

Garden School owns the land and school building located at 33-16 79th Street, Jackson Heights, New York.

Income Taxes

Garden School is a non-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The rate used to discount the cash flows approximates the rate of return on US government securities at the origination of the pledge and are commensurate with the risk management associated with the ultimate collection of the receivables. The discount is amortized using an effective yield over the expected collection period of the receivables and reflected as contribution revenue.

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Garden School
Notes to Financial Statements
June 30, 2014

Promises to Give (continued)

Contributions that are restricted by the donor 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. Conditional promises to give are not included as support until the conditions are substantially met.

Contributed property is recorded at fair value at the date of donation. No allowance for uncollectible amounts has been provided for.

Contributed Services

No amounts have been reflected in the financial statements for donated services. Garden School generally pays for services requiring specific expertise. However, Board of Trustees and parents volunteer their time and provide a variety of tasks that assist Garden School but do not meet the criteria for recognition as contributed services.

Use of estimates in the preparation of financial statement

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events to determine if events or transactions occurring through January 13, 2015, date on which financial statements were available to be issued, require potential adjustment to or disclosure in the financial statements.

Land, Property and Equipment

Land is recorded at historical cost and is not depreciated. Property and equipment are recorded at cost and are being written off pursuant to the straight-line method of depreciation over various estimated lives.

Deferred Revenue

Tuition and program fees are recognized as tuition revenue as soon as the program commences.

Continued...

Garden School

Notes to Financial Statements

June 30, 2014

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of Garden School have been summarized on a functional and object classification basis in the statement of activities. Certain costs have been allocated among the programs and supporting services benefited.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Garden School considers all highly liquid investments available for current use with an initial maturity of three months or less to be a cash equivalent. Cash equivalents are recorded at fair value which approximates cost.

Short term Investments

Investments with a maturity of greater than three months but less than one year are classified as short term investments.

Marketable Securities

Marketable securities with readily determinable fair values and investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Fair Value Measurement

Exit prices are used to measure assets and liabilities that fall within the scope of the fair value measurements guidance. Under this guidance, Garden School is required to classify certain assets and liabilities based on the following fair value hierarchy:

- Level 1—Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2—Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3—Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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Notes to Financial Statements
June 30, 2014

Fair Value Measurement (continued)

The guidance requires the use of observable market data if such data is available without undue cost and effort.

Concentration of Credit Risk

Financial instruments that potentially subject Garden School to risk of loss consist principally of tuition receivable. Garden School extends credit to the families of its students without a requirement for collateral.

2. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Library and other books	\$ 85,587
Writing project	806
	<u>\$ 86,393</u>

3. Cash

Garden School maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. Garden School has not experienced any losses in such accounts. Garden School believes it is not exposed to any significant credit risk to cash.

4. Tuition Receivable

Tuition receivable consists of the following:

School tuition receivable	\$ 322,406
Families turned over for collection	79,272
Summer camp receivable	8,377
	<u>410,055</u>
Allowance from uncollectible amounts	<u>(26,489)</u>
Tuition receivable, net	<u>\$ 383,566</u>

Continued...

Garden School
Notes to Financial Statements
June 30, 2014

4. Tuition Receivable (continued)...

Management regularly assesses the adequacy of the allowance for uncollectible accounts by performing ongoing evaluation of the student receivable portfolios.

Included in school tuition receivable is unpaid Universal Pre-Kindergarten in the amount of \$80,276 from the New York City Board of Education. \$9,174 remains unpaid as of January 13, 2015.

There was no bad debt expense for the year ended June 30, 2014.

5. Bond Receivable

Garden School requires all newly enrolled families, in pre-kindergarten through grade 12, to purchase a non-interest bearing bond in the amount of \$2,000, payable over 2 years. For the fiscal year ended June 30, 2014, all the bonds previously invoiced were paid in full.

6. Marketable Securities

Marketable securities consist of the following:

Equity securities	\$ 2,408
Mutual funds of equities	15,420
Mutual funds of bonds	5,764
Mutual fund of bonds and equities	<u>3,556</u>
	<u>\$ 27,148</u>

Garden School
Notes to Financial Statements
June 30, 2014

7. Fair Value Measurements

The following table presents Garden School's financial assets and financial liabilities that are measured at fair value on a recurring basis:

Description	Fair Value	Fair Value at Reporting Date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	<u>\$ 1,895,278</u>	<u>\$ 1,895,278</u>		
Short term investments				
Certificate of deposit	<u>\$ 4,923</u>		<u>\$ 4,923</u>	
Available for sale equity securities				
Equity securities	\$ 2,408	<u>\$ 2,408</u>		
Available for sale mutual fund securities				
Mutual fund securities	24,740		<u>\$ 24,740</u>	
	<u>\$ 27,148</u>			

Fair values for mutual fund securities are determined by reference to quoted market prices generated by market transactions. Mutual funds are not traded throughout the day but rather can be liquidated the next day based on the prior day's closing price.

8. Prepaid Expenses and Miscellaneous Receivables

Prepaid expenses and miscellaneous receivables consist of the following:

Prepaid insurance	\$ 81,405
NYS receivable for mandated services and attendance program	57,231
Prepaid expenses	10,579
	<u>\$ 149,215</u>

Garden School
Notes to Financial Statements
June 30, 2014

9. Property and Equipment

Property and equipment consist of the following:

Building and improvements	\$ 2,619,013
Leasehold improvements	24,000
Pool	281,257
Furniture and fixtures	693,490
School buses	212,767
Computer equipment	86,475
Library books	27,251
Computer software	2,710
	<u>3,946,963</u>
Less: Accumulated depreciation	<u>(3,071,812)</u>
	<u>\$ 875,151</u>

Depreciation and amortization expense for the year ended June 30, 2014 is \$42,807.

10. Deferred Revenue

Deferred revenue represents tuition and camp deposits for the 2014 summer and the 2014/2015 school year. These amounts are all applied to invoices during the next fiscal year.

11. Bond Payable

Bond payable represents funds due back to families upon the withdrawal or graduation of the last student from a family. The family is repaid by December 31st of the academic year after separation unless the family donates it to Garden School. In the event that a student is at the school for a period of less than 5 years (other than graduation), a percentage of the bond is forfeited by the family and results in income to the school.

Continued...

Garden School
Notes to Financial Statements
June 30, 2014

11. Bond Payable (continued)

The aggregate maturities of the above obligations are as follows:

For the years ending June 30, 2015	\$ 127,000
2016	20,000
2017	24,000
2018	29,375
2019	31,500
thereafter	<u>101,000</u>
	<u>\$ 332,875</u>

As of January 13, 2015, \$32,474 has been donated to Garden School and \$3,200 returned to families.

12. Loan Payable

Loan payable, secured as noted below, is recorded net of deferred interest and consist of the following:

Due March 2018. Secured by 2 buses, 44 remaining monthly installments of principal and interest of \$1,644. Interest at approximately 5%	<u>\$ 65,993</u>
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The aggregate maturities of the above obligations are as follows:

For the years ending June 30, 2015	16,785
2016	17,669
2017	18,599
2018	<u>12,940</u>
	<u>\$ 65,993</u>

Total interest expense for the year ended June 30, 2014 is \$3,946.

Garden School
Notes to Financial Statements
June 30, 2014

13. Special Event Revenue

Garden School conducts an annual Gala dinner in which a portion of the gross proceeds paid by the participants (exchange revenues) represents payment for the direct cost of the benefits received by the participants (exchange expenses) at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured by the actual cost to Garden School. All proceeds received for the sale of contributed merchandise is included in special event revenue. All proceeds received in excess of the direct costs are recorded as contributions in the accompanying statement of activities.

	<u>Exchange Revenues</u>	<u>Exchange Expenses</u>
Special events	\$ 15,640	\$ 16,777
Journal	9,596	3,270
Sale of contributed merchandise	33,449	2,058
	<u>\$ 58,685</u>	<u>\$ 22,105</u>

Contributions above the value of the meals and entertainment are \$11,515 and are included in contribution income on the Statement of Activities.

14. Advertising

Advertising is expensed as incurred. For the year ended June 30, 2014, total advertising charged to expense is \$36,062.

15. Pension Plan

All full time employees of Garden School can participate in a tax sheltered annuity plan under a salary reduction agreement beginning in their second year of employment that requires a minimum 3% employee contribution. The plan provides for matching employer's contributions up to 3%. For the year ended June 30, 2014, Garden School's contributions are approximately \$68,000.

Garden School
Notes to Financial Statements
June 30, 2014

16. Related Parties

The Director of Finance rents space to run programs in Garden School. For the fiscal year ended June 30, 2014, the Director of Finance had prepaid rent of \$868 and is reflected on the Balance Sheet as a liability. Rental income from this related party of \$39,000 is included in non-operating activities on the Statement of Activities.

One of the members of the Board of Trustees who is an attorney, occasionally, on behalf of Garden School, brings suit for collection of accounts receivable only, at no fee to Garden School.

Formation of LLC and new Leased Space for Universal Pre-Kindergarten

Subsequent to June 30, 2014, Garden School formed 7800 Boulevard LLC, and is the sole member in the limited liability company (LLC) in accordance with the Limited Liability Company Law of the State of New York. Effective August 7, 2014, the LLC entered into a 10 year triple net lease for real property located at 78-02 Northern Blvd, Jackson Heights, New York with rent beginning November 1, 2014. In addition to the minimum rent, Garden School is responsible for electricity, water charges, and real estate taxes. There is an option to renew the lease for an additional five (5) year term with annual increases of 2% per year.

Garden School will run the expansion of the universal pre-kindergarten program, a program operated solely in furtherance of its charitable and educational purposes within the meaning of Code Section 501(c)(3) and Section 420-a of the New York Real Property Tax Law and for no pecuniary profit.

Annual minimum lease commitments are as follows:

For the fiscal year ending June 30,	2015	\$	104,000
	2016		158,860
	2017		162,037
	2018		165,278
	2019		168,583
	thereafter		910,398
		\$	<u>1,669,156</u>

Garden School
Notes to Financial Statements
June 30, 2014

17. Commitments and Contingencies

Field Rental expense

Garden School is obligated under a lease agreement with the City of New York, by which Garden School is permitted to use the field at certain designated times, expiring June 30, 2018, with an option to renew, at a monthly rental of \$1,000 for the ten months September through June.

Annual minimum lease commitments are as follows:

For the fiscal years ending June 30, 2015	\$	10,000
		2016 10,000
		2017 10,000
		2018 10,000
		<u>\$ 40,000</u>

Universal Pre-Kindergarten

Garden School had an contract with the New York City Department of Education, (hereinafter DOE), to provide universal pre-kindergarten, (hereinafter UPK) services to 54 students for the fiscal year ended June 30, 2014.

For the next fiscal year ending June 30, 2015, within the existing school building, Garden School has a contract with the DOE, to provide full time UPK to 72 students, with the DOE paying \$9,320 per student. This contract terminates on June 30, 2017 and is subject to renewal.

In addition, Garden School has a second contract with the DOE, for an additional 138 students enrolled in full time UPK at the new leasehold located at 78-02 Northern Blvd, Jackson Heights, New York. (See Note 16). The contract provides that the DOE will pay \$9,720 per student. This contract terminates on June 30, 2017 and is subject to renewal.

As of June 30, 2014, Garden School incurred certain expenses in connection with the new expanded full time UPK. Included in prepaid expenses is legal fees of \$2,700 and included in leasehold improvements is architect fees of \$24,000.

Continued...

Garden School
Notes to Financial Statements
June 30, 2014

17. Commitments and Contingencies (continued)

Contracts

There are teacher and other administrative contracts whose term is different fiscal periods and are subject to renewal. Teacher contracts are paid over twelve months ended August 31st for the school year ended June 30th. Therefore, teacher salaries, payroll taxes and health benefits are accrued for July 1 through August 31, 2014 for the year ended June 30, 2014.

The minimum obligation for the other administrative contract maturity is as follows:

For the year ended June 30, 2015	<u>\$ 235,000</u>
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