

HARLEM RBI INCORPORATED

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

JUNE 30, 2008 AND DECEMBER 31, 2007

HARLEM RBI INCORPORATED

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-10
Additional Information	
Independent Auditor's Report on Additional Information	12
Schedule of Functional Expenses	13



LUTZ AND CARR

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Harlem RBI Incorporated

We have audited the accompanying statements of financial position of Harlem RBI Incorporated (a not-for-profit corporation) as of June 30, 2008 and December 31, 2007, and the related statements of activities and cash flows for the six months ended June 30, 2008 and the year ended December 31, 2007. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Harlem RBI Incorporated as of June 30, 2008 and December 31, 2007, and the changes in its net assets and its cash flows for the six months ended June 30, 2008 and the year ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
September 30, 2008

HARLEM RBI INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Assets		
Cash and cash equivalents (Notes 1b and 10)	\$ 1,472,708	\$ 1,349,139
Unconditional promises to give (Notes 1c and 3)		
Unrestricted	860,611	308,095
Restricted for future periods	317,971	367,970
Restricted for future programs	435,471	50,000
Investments (Notes 1e and 4)	-	18,250
Accounts receivable	3,683	1,673
Prepaid expenses	52,412	56,743
Property and equipment, at cost, net of accumulated depreciation (Notes 1d and 5)	551,367	631,496
Security deposits	<u>22,318</u>	<u>22,318</u>
Total Assets	<u><u>\$ 3,716,541</u></u>	<u><u>\$ 2,805,684</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 237,504	\$ 219,599
Due to DREAM Charter School (Notes 6 and 9)	322,600	56,500
Deferred rent liability (Note 7)	<u>22,163</u>	<u>12,329</u>
Total Liabilities	<u>582,267</u>	<u>288,428</u>
Commitments and Contingency (Note 7)		
Net Assets, as restated (Note 12)		
Unrestricted	2,140,616	1,863,499
Temporarily restricted (Note 2)	<u>993,658</u>	<u>653,757</u>
Total Net Assets	<u>3,134,274</u>	<u>2,517,256</u>
Total Liabilities and Net Assets	<u><u>\$ 3,716,541</u></u>	<u><u>\$ 2,805,684</u></u>

See notes to financial statements.

HARLEM RBI INCORPORATED
STATEMENTS OF ACTIVITIES

	Six Months Ended June 30, 2008	Year Ended December 31, 2007
Changes in Unrestricted Net Assets		
Revenue and Other Support		
Contributions	\$ 1,075,702	\$ 2,148,794
Special events revenue (Note 8)	1,054,011	1,451,228
Less: Direct benefit expense (Note 8)	(150,619)	(231,598)
Consulting fees	3,600	2,001
Investment income (Note 4b)	6,876	46,207
Miscellaneous income	-	29,983
	<u>1,989,570</u>	<u>3,446,615</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	<u>340,711</u>	<u>580,555</u>
Total Unrestricted Revenue and Other Support Before Donated Services	2,330,281	4,027,170
Donated services (Note 9)	54,761	113,163
Donated materials (Note 9)	<u>7,010</u>	<u>132,035</u>
Total Unrestricted Revenue and Other Support	<u>2,392,052</u>	<u>4,272,368</u>
Expenses		
Program Services	<u>1,640,489</u>	<u>2,918,333</u>
Supporting Services		
General and administrative	174,457	386,136
Fundraising	<u>238,218</u>	<u>469,372</u>
Total Supporting Services	<u>412,675</u>	<u>855,508</u>
Total Expenses Before Donated Services	2,053,164	3,773,841
Donated services (Note 9)	54,761	113,163
Donated materials (Note 9)	<u>7,010</u>	<u>132,035</u>
Total Expenses	<u>2,114,935</u>	<u>4,019,039</u>
Increase in Unrestricted Net Assets	<u>277,117</u>	<u>253,329</u>
Changes in Temporarily Restricted Net Assets		
Contributions	680,612	378,169
Net assets released from restrictions	<u>(340,711)</u>	<u>(580,555)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>339,901</u>	<u>(202,386)</u>
Increase in net assets	<u>617,018</u>	<u>50,943</u>
Net assets, beginning of year, as previously reported	2,573,756	2,522,813
Prior period adjustment (Note 12)	<u>(56,500)</u>	<u>-</u>
Net assets, beginning of year, as restated	<u>2,517,256</u>	<u>2,522,813</u>
Net Assets, End of Year	<u><u>\$ 3,134,274</u></u>	<u><u>\$ 2,573,756</u></u>

See notes to financial statements.

HARLEM RBI INCORPORATED
STATEMENTS OF CASH FLOWS

	Six Months Ended <u>June 30, 2008</u>	Year Ended <u>December 31, 2007</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 617,018	\$ 50,943
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	100,660	204,073
Realized loss on investments	10,771	631
Unrealized gain on investments	(5,211)	(4,151)
Donated securities	-	(81,145)
(Increase) decrease in:		
Unconditional promises to give	(887,988)	(41,745)
Accounts receivable	(2,010)	33,327
Prepaid expenses	4,331	(25,664)
Increase (decrease) in:		
Accounts payable and accrued expenses	17,905	79,264
Due from DREAM Charter School	266,100	-
Deferred rent liability	9,834	(3,324)
Net Cash Provided By Operating Activities	<u>131,410</u>	<u>212,209</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(20,531)	(48,108)
Proceeds from sales of investments	12,690	80,514
Net Cash Provided (Used) By Investing Activities	<u>(7,841)</u>	<u>32,406</u>
Net increase in cash and cash equivalents	123,569	244,615
Cash and cash equivalents, beginning of Year	<u>1,349,139</u>	<u>1,104,524</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,472,708</u></u>	<u><u>\$ 1,349,139</u></u>

See notes to financial statements.

HARLEM RBI INCORPORATED**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2008 AND DECEMBER 31, 2007****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Harlem RBI uses baseball, softball and the power of teams to provide inner city youth with opportunities to play, to learn and to grow, inspiring them to recognize their potential and realize their dreams.

Harlem RBI, a 501(c)3 organization, is a dynamic youth development program located in East Harlem, New York. Harlem RBI prides itself on being a community-based organization that successfully integrates youth development principles with the benefits of sports activity and team participation. A staff of 25 full-time professionals – with the support of a dedicated corps of over 250 part-time staff, volunteers and interns – implement year-round programs for more than 650 boys and girls, ages 7-18. Membership on a baseball or softball team opens the door to participation in an array of exemplary programs that support youth as they grow from vulnerable children into resilient young adults.

b - Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all short-term highly liquid investments, such as money market funds, to be cash equivalents.

c - Contributions and Unconditional Promises to Give

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

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

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

d - Property and Equipment

Property and equipment acquired are recorded at cost. Property and equipment are depreciated using the straight-line method over the estimated useful life of the related asset. The Organization had adopted a policy of implying a time restriction on contributions to acquire fixed assets that expire over the assets' depreciable lives, consequently, the assets contributed to acquire property and equipment, are recorded as restricted support to be released from restriction over the assets' useful lives.

HARLEM RBI INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND DECEMBER 31, 2007

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

e - Investments

The Organization reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets.

f - Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

g - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

h - Tax Status

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

i - Change in Fiscal Year

Effective January 1, 2008, the Organization elected to change its fiscal year from December 31 to June 30. Accordingly, the statement of activities for June 30, 2008 reflects a six month period.

Note 2 - Temporarily Restricted Net Assets

Temporarily restricted net assets are donor designated for future programs and activities. Temporarily restricted net assets are restricted as follows:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Future periods	\$337,971	\$370,471
Future programs	<u>655,687</u>	<u>283,286</u>
	<u>\$993,658</u>	<u>\$653,757</u>

HARLEM RBI INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND DECEMBER 31, 2007

Note 2 - Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets consist of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Unconditional promises to give	\$753,442	\$417,970
Cash and cash equivalents	<u>240,216</u>	<u>235,787</u>
	<u>\$993,658</u>	<u>\$653,757</u>

Note 3 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Due in less than one year	\$1,521,082	\$633,094
Due in one to five years	<u>100,000</u>	<u>100,000</u>
	1,621,082	733,094
Less: Discount to present value at 5%	<u>(7,029)</u>	<u>(7,029)</u>
	<u>\$767,672</u>	<u>\$726,065</u>

Note 4 - Investments

a) At December 31, 2007, investments consisted of common stock with a fair market value of \$18,250 and a cost of \$23,461.

b) Investment income (loss) consists of the following:

	<u>Six Months Ended June 30, 2008</u>	<u>Year Ended December 31, 2007</u>
Interest income	\$12,436	\$42,687
Realized loss on investments	(10,771)	(631)
Unrealized gain on investments	<u>5,211</u>	<u>4,151</u>
Total Investment Income	<u>\$ 6,876</u>	<u>\$46,207</u>

HARLEM RBI INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND DECEMBER 31, 2007

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Equipment	3-5 years	\$ 157,086	\$ 151,706
Furniture	7 years	31,448	22,318
Leasehold improvements	Life of lease	353,239	348,366
Field costs	Life of lease	<u>805,413</u>	<u>804,265</u>
		1,347,186	1,326,655
Less: Accumulated depreciation		<u>(795,819)</u>	<u>(695,159)</u>
		<u>\$ 551,819</u>	<u>\$631,496</u>

The Organization completed designing and rebuilding its Field of Dreams in 2005. Harlem RBI licensed the property from the City of New York, Department of Parks and Recreation ("Parks Department") for an initial term of 5 years with an option to renew for additional five-years at the Parks Department's sole discretion. Field costs include all design and construction costs incurred to date. The Organization is obligated to maintain the field during the duration of the agreement.

Depreciation expense for the years ended June 30, 2008 and December 31, 2007 was \$100,208 and \$204,073, respectively.

Note 6 - Due to DREAM Charter School

Due to DREAM Charter School represents contributions received by Harlem RBI on behalf of the school of \$500,600. These amounts are net of expenses paid by Harlem RBI on behalf of the school of \$177,911. The resulting amount was paid back to the school subsequent to June 30, 2008.

Note 7 - Commitments and Contingency

a - On April 12, 2005, the Organization renewed the lease agreement for the facility that is used for baseball youth services, which provides for the following annual minimum rentals:

<u>Year Ending June 30,</u>	
2009	\$40,700
2010	42,750
2011	7,000

HARLEM RBI INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND DECEMBER 31, 2007

Note 7 - Commitments and Contingency

a - (continued)

The Organization has the option to renew the lease through September 30, 2013.

On October 1, 2005, the Organization entered into a lease agreement for new office space, which provides for the following annual minimum rentals through September 30, 2010:

<u>Year Ending June 30,</u>	
2009	\$102,300
2010	102,300
2011	25,600

Rent expense is recognized on a straight-line basis, including all scheduled rent increases and all free rent periods.

The Organization is responsible for utility expenses related to the office spaces. The total rent expense was \$72,936 and \$121,935 at June 30, 2008 and December 31, 2007, respectively.

b - Government supported programs are subject to audit by the respective government agency.

Note 8 - Special Events Revenue

Harlem RBI holds several fundraising events annually as follows:

	Six Months Ended <u>June 30, 2008</u>	Year Ended <u>December 31, 2007</u>
Bid for Kids Gala	\$1,054,011	\$1,223,339
15 th Anniversary Dinner	-	9,045
Golf event	-	116,468
Junior and other event	-	<u>102,376</u>
	1,054,011	1,451,228
Less: Direct benefit expense	<u>(150,619)</u>	<u>(231,598)</u>
	<u>\$ 903,392</u>	<u>\$1,219,630</u>

HARLEM RBI INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND DECEMBER 31, 2007

Note 9 - Donated Services and Materials

In 2008 and 2007, Harlem RBI received in-kind legal services on a number of issues from several law firms. Work included updating an employee manual for Harlem RBI, as well as ongoing legal assistance related to facilities operations. The total value of donated legal services was \$54,761 and \$104,523 for the six months ended June 30, 2008 and for the year ended December 31, 2007, respectively. The Organization also received in-kind accounting services totaling \$3,698 and \$8,640 for the six months ended June 30, 2008 and for the year ended December 31, 2007, respectively. In addition, for the year ended December 31, 2007, Harlem RBI received in-kind baseball equipment, printing services and various memorabilia items totaling \$132,035. For the six months June 30, 2008, the Organization received \$7,010 of in-kind baseball equipment.

Harlem RBI requires the support of hundreds of volunteers each year to support its mission and accomplish its programmatic goals. During the six months ended June 30, 2008 and during the year ended December 31, 2007, over 250 volunteers gave anywhere between 5 and 250 hours of volunteer time to the Organization. Harlem RBI estimates that volunteers spend upwards of 15,000 each year coaching baseball and softball, tutoring youth and supporting enrichment activities or helping with administrative tasks.

Note 10 - Concentration of Credit Risk

The Organization's cash and cash equivalents are on deposit with two financial institutions.

Note 11 - Functional Allocation of Expenses

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

Note 12 - Prior Period Adjustment

Unrestricted net assets as of December 31, 2007 have been reduced by \$56,500 to properly reflect certain contributions received by the Organization on behalf of DREAM Charter School as amounts due to DREAM Charter School, and not as contributions earned during the year ended December 31, 2007.

ADDITIONAL INFORMATION



LUTZ AND CARR

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**INDEPENDENT AUDITOR'S REPORT ON
ADDITIONAL INFORMATION**

To the Board of Directors of
Harlem RBI Incorporated

Our report on our audits of the basic financial statements of Harlem RBI Incorporated for 2008 and 2007 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the six months ended June 30, 2008 with comparative totals for the year ended December 31, 2007 is presented for purposes of additional analysis and is 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.

Lutz + Carr, LLP

New York, New York
September 30, 2008

HARLEM RBI INCORPORATED

SCHEDULE OF FUNCTIONAL EXPENSES

SIX MONTHS ENDED JUNE 30, 2008 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Six Months Ended June 30, 2008							Year Ended December 31, 2007	
	Program Services				Supporting Services			Total Expenses	Total Expenses
	Youth Development Services	HRBI School Expenses	Capital Campaign	Total	General and Administrative	Fundraising	Total		
Salaries, payroll taxes and employee benefits	\$ 794,746	\$103,664	\$ -	\$ 898,410	\$ 109,504	\$ 158,393	\$267,897	\$1,166,307	\$ 2,085,714
Baseball umpires, equipment and fees	129,710	-	-	129,710	-	-	-	129,710	134,398
Communications and outreach	18,746	1,053	-	19,799	4,631	7,186	11,817	31,616	19,193
Transportation	14,648	1,243	246	16,137	828	1,286	2,114	18,251	77,069
Scholarships and stipends	34,860	-	-	34,860	-	-	-	34,860	173,336
Youth Program Expenses									
Food	33,608	978	221	34,807	753	1,100	1,853	36,660	80,709
Admissions/fees	5,291	254	-	5,545	85	1,645	1,730	7,275	21,103
Supplies	17,582	-	-	17,582	48	-	48	17,630	44,521
Camp fees	2,180	-	-	2,180	-	-	-	2,180	50,981
Program events	4,127	-	-	4,127	-	-	-	4,127	22,816
Emergency assistance	5,362	-	-	5,362	-	-	-	5,362	1,309
Other	2,846	-	-	2,846	-	-	-	2,846	8,997
Rent	63,078	1,972	-	65,050	3,450	4,436	7,886	72,936	121,935
Consulting and technology fees	85,980	10,900	99,380	196,260	25,488	3,625	29,113	225,373	339,735
Accounting and bookkeeping fees	4,861	278	-	5,139	493	684	1,177	6,316	7,072
Audit	-	-	-	-	10,252	-	10,252	10,252	19,374
Legal	-	-	10,000	10,000	-	-	-	10,000	-
Insurance	28,977	1,161	-	30,138	4,608	2,945	7,553	37,691	69,211
Indirect benefit expense	356	2,453	-	2,809	-	30,171	30,171	32,980	51,812
Office/Administrative Expenses									
Printing and photocopying	8,375	235	-	8,610	219	2,505	2,724	11,334	29,768
Non-program supplies	17,679	748	-	18,427	2,204	2,803	5,007	23,434	58,261
Office cleaning and maintenance	5,480	221	-	5,701	508	502	1,010	6,711	35,857
Office equipment leasing	9,613	218	-	9,831	910	1,116	2,026	11,857	27,830
Telephone and internet	9,672	325	-	9,997	591	1,307	1,898	11,895	25,159
Other	19,806	845	-	20,651	1,918	7,143	9,061	29,712	42,890
Dues and publications	1,758	199	-	1,957	920	2,312	3,232	5,189	17,988
Miscellaneous expenses	-	-	-	-	-	-	-	-	2,730
Total expenses before depreciation (excluding donated services)	1,319,341	126,747	109,847	1,555,935	167,410	229,159	396,569	1,952,504	3,569,768
Depreciation	80,528	4,026	-	84,554	7,047	9,059	16,106	100,660	204,073
Total Expenses, June 30, 2008 (excluding donated services)	<u>\$ 1,399,869</u>	<u>\$130,773</u>	<u>\$109,847</u>	<u>\$1,640,489</u>	<u>\$ 174,457</u>	<u>\$ 238,218</u>	<u>\$412,675</u>	<u>\$2,053,164</u>	
Total Expenses, December 31, 2007 (excluding donated services)	<u>\$ 2,918,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,918,333</u>	<u>\$ 386,136</u>	<u>\$ 469,372</u>	<u>\$855,508</u>		<u>\$ 3,773,841</u>

See independent auditor's report on additional information.