



MICHAEL L. HAMLIN, CPA
Certified Public Accountant & Business Advisor

HP Alliance, Inc.
d/b/a The Harry Potter Alliance
Financial Statements
Year Ended June 30, 2016

HP Alliance, Inc.
d/b/a The Harry Potter Alliance

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Year Ended June 30, 2016

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Independent Auditor's Report

Board of Directors
HP Alliance, Inc.

I have audited the accompanying financial statements of HP Alliance, Inc. d/b/a The Harry Potter Alliance (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses 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

My responsibility is to express an opinion on these financial statements based on my audit. I have conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HP Alliance, Inc. d/b/a The Harry Potter Alliance as of June 30, 2016, 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.

As discussed in Note 4 to the financial statements, for the purpose of regulatory compliance the Organization has changed from cash basis reporting to accrual basis reporting. My opinion is not modified with respect to that matter.

A handwritten signature in black ink, appearing to read 'Michael L. Hamlin, CPA', with a small 'CPA' in parentheses at the end.

Michael L. Hamlin, CPA

February 7, 2017
Stoneham, Massachusetts

HP Alliance, Inc.
d/b/a The Harry Potter Alliance

Statement of Financial Position

June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Assets			
Current assets:			
Cash	\$ 117,646	\$ 27,000	\$ 144,646
Accounts receivable	9,189	-	9,189
Inventory	35,947	-	35,947
Prepaid expenses	16,488	-	16,488
Total current assets	<u>179,270</u>	<u>27,000</u>	<u>206,270</u>
 Total assets	 <u>\$ 179,270</u>	 <u>\$ 27,000</u>	 <u>\$ 206,270</u>
 Liabilities and net assets			
Current liabilities			
Accounts payable	\$ 7,300	\$ -	\$ 7,300
Accrued expenses	9,577	-	9,577
Total current liabilities	<u>16,877</u>	<u>-</u>	<u>16,877</u>
 Total liabilities	 16,877	 -	 16,877
 Net assets	 <u>162,393</u>	 <u>27,000</u>	 <u>189,393</u>
 Total liabilities and net assets	 <u>\$ 179,270</u>	 <u>\$ 27,000</u>	 <u>\$ 206,270</u>

See Independent Auditor's Report and Notes to Financial Statements.

HP Alliance, Inc.
d/b/a The Harry Potter Alliance

Statement of Activities

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Donations	\$ 432,590	\$ 199,600	\$ 632,190
Net profit on sales of merchandise	74,235	-	74,235
Program service fees	15,550	-	15,550
Interest income	29	-	29
Total revenue and support	<u>522,404</u>	<u>199,600</u>	<u>722,004</u>
Net assets released from restriction	<u>247,600</u>	<u>(247,600)</u>	<u>-</u>
Total support and reclassifications	<u>770,004</u>	<u>(48,000)</u>	<u>722,004</u>
Functional Expenses			
Program services	495,881	-	495,881
General and administrative	115,740	-	115,740
Fundraising	155,728	-	155,728
Total functional expenses	<u>767,349</u>	<u>-</u>	<u>767,349</u>
Change in net assets	<u>2,655</u>	<u>(48,000)</u>	<u>(45,345)</u>
Net assets, beginning of year as previously stated	112,507	-	112,507
Adjustment to accrual basis of accounting	<u>47,231</u>	<u>75,000</u>	<u>122,231</u>
Net assets, beginning of year as adjusted	<u>159,738</u>	<u>75,000</u>	<u>234,738</u>
Net assets, end of year	<u>\$ 162,393</u>	<u>\$ 27,000</u>	<u>\$ 189,393</u>

See Independent Auditor's Report and Notes to Financial Statements.

HP Alliance, Inc.
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Statement of Functional Expenses

Year Ended June 30, 2016

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Functional expenses				
Personnel costs				
Salaries	\$ 186,145	\$ 72,533	\$ 64,892	\$ 323,570
Employee benefits	18,660	5,303	3,922	27,885
Payroll taxes	15,810	6,160	5,511	27,481
Total personnel costs	<u>220,615</u>	<u>83,996</u>	<u>74,325</u>	<u>378,936</u>
Professional fees	173,458	4,500	-	177,958
Event expenses	46,355	-	71,799	118,154
Travel and transportation	18,440	8,511	1,418	28,369
Internet services	14,013	10,191	1,274	25,478
Contributions	7,911	-	-	7,911
Project expenses	6,320	-	-	6,320
Payroll processing	2,804	1,093	977	4,874
Printing and publications	2,144	-	2,144	4,288
Insurance expense	-	4,003	-	4,003
Dues and subscriptions	811	648	1,784	3,243
Service fees	1,025	114	1,139	2,278
Taxes and licenses	-	1,392	-	1,392
Workers' compensation insurance	730	285	255	1,270
Postage and shipping	800	228	114	1,142
Office supplies and expenses	174	478	217	869
Meals	281	-	282	563
Miscellaneous	-	301	-	301
Total functional expenses	<u>\$ 495,881</u>	<u>\$ 115,740</u>	<u>\$ 155,728</u>	<u>\$ 767,349</u>

See Independent Auditor's Report and Notes to Financial Statements.

HP Alliance, Inc.
d/b/a The Harry Potter Alliance

Statement of Cash Flows

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating			
Change in net assets	\$ 2,655	\$ (48,000)	\$ (45,345)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Accounts receivable	(4,277)	75,000	70,723
Inventory	(5,799)	-	(5,799)
Prepaid expenses	6,161	-	6,161
Accounts payable	4,569	-	4,569
Accrued expenses	1,830	-	1,830
Net cash provided by operating activities	<u>5,139</u>	<u>27,000</u>	<u>32,139</u>
Net increase in cash	5,139	27,000	32,139
Cash, beginning of period	112,507	-	112,507
Cash, end of period	<u>\$ 117,646</u>	<u>\$ 27,000</u>	<u>\$ 144,646</u>

See Independent Auditor's Report and Notes to Financial Statements.

HP Alliance, Inc.
d/b/a The Harry Potter Alliance

Notes to Financial Statements

Year Ended June 30, 2016

Note 1 – Organization

Organization

HP Alliance, Inc. d/b/a The Harry Potter Alliance, (“the Organization”) is organized for the purpose of enacting social change in the United States and throughout the world by using parallels from the Harry Potter book series.

The Organization was formed in 2008 and is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code of 1986. Section 501(c)(3) of the code provides for the exemption of entities that were organized and operated exclusively for religious, charitable, scientific, literary or educational purposes and whose net earnings do not inure to the benefit of any private shareholders or individuals.

Note 2 – Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The financial statements of the Organization are prepared in accordance with accounting standards generally accepted in the United States (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). Reference to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

The Organization has adopted Accounting Standards Codification Topic 958-205 “Not-for-Profit Entities Presentation of Financial Statements,” (ASC 958-205), issued by the Financial Accounting Standards Board (“FASB”). Under ASC 958-205, the Organization is required to present a statement of cash flows. Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Temporarily restricted net assets are those resources subject to donor-imposed restrictions that will be satisfied by the actions of the Organization or the passage of time. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets which have permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently but permit the Organization to expend part or all of the income derived from the donated assets.

As of June 30, 2016 there were no permanently restricted net assets.

HP Alliance, Inc.
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Notes to Financial Statements

Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Support / Revenue Recognition

The Organization complies with ASC Topic 958-605, “*Not-for-Profit Entities Revenue Recognition*” (ASC 958-605), issued by FASB. Under these standards, contributions are recognized as revenues when they are received or unconditionally committed.

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 restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions are released from temporarily restricted revenue and/or net assets upon the satisfaction of donor imposed restrictions or passage of time over the grant period where applicable.

The Organization performs certain consulting services consisting primarily of speaking engagements. Revenue is recognized when the service is performed.

Cash

Cash consists of cash held in checking and savings accounts. The Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

Management has reviewed pledges receivable as of June 30, 2016 and considers all pledges receivable to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined by first-in, first-out (FIFO). Market is generally based on net realizable value. Inventory consists of finished goods available for sale.

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Notes to Financial Statements

Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and pledges receivable. The Organization places its cash primarily with a high credit financial institution. However, portions of cash balances may exceed FDIC insured limits (\$250,000) from time to time during the year. The Organization has not experienced any losses in its cash accounts and believes it is not exposed to any significant credit risk on any of its cash balances. Management evaluates the need to maintain allowances for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

Cost of Goods Sold

The Organization will purchase items for resale during the course of its activities. These items typically have a shelf life of three months or less and are expensed upon purchase.

Shipping and Handling Costs

The Organization includes the cost of freight to ship goods to customers in cost of goods sold (See Note 6).

Contributed Services

A number of unpaid volunteers, including members of the Board of Directors, have made significant contributions of their time to develop and promote the Organization. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement of valuation. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by the individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses

Expenses are allocated among programs and supporting services directly, on the basis of time records or utilization estimates made by the Organization's management. General and administrative expenses include those that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

HP Alliance, Inc.
d/b/a The Harry Potter Alliance

Notes to Financial Statements

Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code (the “Code”) and is not a private foundation. The Organization is required to file an annual information return with the Internal Revenue Service and the Commonwealth of Massachusetts. The Organization has either filed or extended the time to file the annual information returns and has not been notified by any federal or state taxing authorities of any matters that would jeopardize the Organization’s tax-exempt status. Accordingly, no income tax expense has been recorded in the financial statements.

FASB issued ASC Topic 740, “*Income Taxes*,” (ASC 740). ASC 740 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in ASC 740 as a tax position that is more likely than not to be sustained upon examination by the applicable tax authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The uncertain tax position standard must be applied to all existing tax positions upon initial adoption.

As of June 30, 2016, the Organization had no material unrecognized tax benefits and no adjustments to liabilities or operations were required under ASC 740. The Organization’s practice was and continues to be to recognize interest and penalty expenses related to uncertain tax positions in income tax expense, which were zero for the years ended June 30, 2016. Generally, the Organization’s three preceding tax years are subject to examination by federal and state tax authorities. There are no income tax examinations currently in process.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued, February 7, 2017. There were no material subsequent events noted during the evaluation.

Note 3 – Cash

Cash as June 30, 2016 consisted of the following:

Checking accounts with bank	\$ 54,366
Savings accounts with bank	90,280
	<u>\$ 144,646</u>

HP Alliance, Inc.
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Notes to Financial Statements

Year Ended June 30, 2016

Note 4 – Change in Accounting Method

Unrestricted and temporarily restricted beginning net assets as of June 30, 2015 have been adjusted for a change in accounting method. For the purpose of regulatory compliance, the Organization now reports under the accrual basis of accounting where previously issued financial statements were reported on the cash basis of accounting. The following items have been adjusted as of June 30, 2015:

	Previously Reported	Adjustment	Adjusted Amount
Accounts receivable	\$ -	\$ 79,912	\$ 79,912
Inventory	-	30,148	30,148
Prepaid expenses	-	22,649	22,649
Accounts payable	-	2,731	2,731
Accrued expenses	-	7,747	7,747
Net assets, unrestricted	112,507	47,231	159,738
Net assets, temporarily restricted	-	75,000	75,000

Note 5 – Retirement Plan

The Organization maintains a 401(k) Profit Sharing Plan that covers all eligible employees. The Organization matches the first 50% of an eligible participant's elective deferral, not to exceed 4% of the participant's compensation. Employees may contribute up to the maximum allowed by the Internal Revenue Code. The Organization's contribution to the plan for the year ended June 30, 2016, amounted to \$3,375.

Note 6 – Sales of Merchandise

The Organization had the following sales and cost of goods sold for the year ended June 30, 2016:

Sales of merchandise	\$ 160,015
Cost of goods sold	86,078
Net profit on sales of merchandise	\$ <u>73,937</u>

Note 7 – Significant Contributors

Contributions from two foundations totaled \$252,500, or 40% of total donations for the year ended June 30, 2016. Included in this amount are contributions totaling \$175,000 designated for fiscal sponsor Imagine Better.

HP Alliance, Inc.
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Notes to Financial Statements

Year Ended June 30, 2016

Note 8 – Split-Interest Agreement

During the year ended June 30, 2016 the Organization entered into an agreement to act as a fiscal sponsor on behalf of a former board member. The agreement calls for the Organization to receive donations on behalf of a former board member, doing business as Imagine Better, and disbursing according to the exempt purpose established by the agreement and carried out by Imagine Better. During the year ended June 30, 2016 the Organization received a service fee totaling \$30,400 for carrying out this duty. Transactions related to the fiscal sponsor and included in the statement of activities consist of the following:

Income (expenses)	
Donations, net of administrative service fee	\$ 199,600
Professional fees	<u>(173,600)</u>
Temporarily restricted cash	<u>\$ 27,000</u>

Note 9 – Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2016 consisted of certain grants restricted for use by a fiscal sponsor, Imagine Better (See Note 8).

Net assets released from donor restrictions by the Organization by incurring expenses satisfying the purposes specified by the respective donors for the year ended June 30, 2016 consist of the following:

Granger Leadership Academy	\$ 25,000
Imagine Better	<u>222,600</u>
	<u>\$ 247,600</u>