Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

As of June 30, 2015 and 2014

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Harlem Children's Zone, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Harlem Children's Zone, Inc. and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harlem Children's Zone, Inc. and Subsidiaries as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedules of Functional Expenses for the years ended June 30, 2015 and 2014 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

New York, New York
December 7, 2015

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of June 30, 2015 and 2014

ASSETS	**2015**	**2014**
CURRENT ASSETS		
Cash and cash equivalents	$ 38,189,820	$ 33,716,131
Grants and contributions receivable, net	15,177,944	40,797,408
Other receivables	835,443	1,122,443
Prepaid expenses	974,625	760,107
Total current assets	55,177,832	76,396,089
Grants and contributions receivable, net	4,596,072	9,670,545
Investments	403,513,124	300,336,401
Security deposits	726,412	629,647
Property and equipment, net	131,660,164	134,856,224
Total assets	$ 595,673,604	$ 521,888,906
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 8,562,654	$ 8,027,359
Deferred compensation payable	1,404,223	1,308,602
Due to related party - 457(f) plan	2,371,756	2,470,360
Other liabilities	-	91,628,237
Grant payable - contributed space	1,831,979	-
Total current liabilities	14,170,612	103,434,558
Deferred compensation payable, net of current portion	5,765,176	5,022,205
Due to related party - 457(f) plan, net of current portion	9,121,103	8,077,474
Grant payable - contributed space, net of current portion	69,615,204	-
Total liabilities	98,672,095	116,534,237
Commitments and Contingencies		
NET ASSETS		
Unrestricted:		
Board-designated	382,575,791	283,606,631
Undesignated	90,818,138	57,200,111
Total unrestricted	473,393,929	340,806,742
Temporarily restricted	19,968,618	61,409,965
Permanently restricted	3,638,962	3,137,962
Total net assets	497,001,509	405,354,669
Total liabilities and net assets	$ 595,673,604	$ 521,888,906

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statement of Activities
For the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
REVENUES				
Grants and contributions	$ 69,940,381	$ 102,518,495	$ 501,000	$ 172,959,876
Government grants	11,117,136	-	-	11,117,136
Special event, net of expenses totaling $313,300	11,024,941	-	-	11,024,941
Interest income	29,817	-	-	29,817
Other income	3,822,539	-	-	3,822,539
Gain on investments, net	56,996,706	734,839	-	57,731,545
	152,931,520	103,253,334	501,000	256,685,854
Net assets released from restrictions	144,694,681	(144,694,681)	-	-
Total revenues	297,626,201	(41,441,347)	501,000	256,685,854
OPERATING EXPENSES				
Program services:				
Early childhood	11,877,191	-	-	11,877,191
In school and afterschool programs	43,023,992	-	-	43,023,992
College programs	7,279,626	-	-	7,279,626
Preventive services	6,529,966	-	-	6,529,966
Other community services	12,152,499	-	-	12,152,499
Total program services	80,863,274	-	-	80,863,274
Supporting services:				
Management and general	9,233,791	-	-	9,233,791
Fundraising	1,662,787	-	-	1,662,787
Total supporting services	10,896,578	-	-	10,896,578
Total operating expenses	91,759,852	-	-	91,759,852
NON-OPERATING EXPENSES				
Grant expense - contributed space	73,279,162	-	-	73,279,162
Total expenses	165,039,014	-	-	165,039,014
Change in net assets	132,587,187	(41,441,347)	501,000	91,646,840
Net assets, beginning of year	340,806,742	61,409,965	3,137,962	405,354,669
Net assets, end of year	$ 473,393,929	$ 19,968,618	$ 3,638,962	$ 497,001,509

The accompanying notes are an integral part of this consolidated statement.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statement of Activities
For the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
REVENUES				
Grants and contributions	$ 46,174,422	$ 8,716,902	$ 1,500,000	$ 56,391,324
Government grants	9,244,654	-	-	9,244,654
Special event, net of expenses totaling $329,400	9,084,767	-	-	9,084,767
Interest income	46,126	-	-	46,126
Other income	904,235	-	-	904,235
Gain on investments, net	43,779,066	315,224	-	44,094,290
	109,233,270	9,032,126	1,500,000	119,765,396
Net assets released from restrictions	40,630,169	(40,630,169)	-	-
Total revenues	149,863,439	(31,598,043)	1,500,000	119,765,396
EXPENSES				
Program services:				
Early childhood	12,621,201			12,621,201
In school and afterschool programs	42,923,003	-	-	42,923,003
College programs	6,083,896	-	-	6,083,896
Preventive services	7,093,543	-	-	7,093,543
Other community services	13,052,522	-	-	13,052,522
Total program services	81,774,165	-	-	81,774,165
Supporting services:				
Management and general	8,187,801	-	-	8,187,801
Fundraising	1,582,914	-	-	1,582,914
Total supporting services	9,770,715	-	-	9,770,715
Total expenses	91,544,880	-	-	91,544,880
Change in net assets	58,318,559	(31,598,043)	1,500,000	28,220,516
Net assets, beginning of year	282,488,183	93,008,008	1,637,962	377,134,153
Net assets, end of year	$ 340,806,742	$ 61,409,965	$ 3,137,962	$ 405,354,669

The accompanying notes are an integral part of this consolidated statement.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 91,646,840	$ 28,220,516
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,258,032	4,214,294
Provision for bad debt	(100,000)	-
Gain on investments, net	(57,731,545)	(44,094,290)
Increase in assets held for deferred compensation - 457(f) plan	(4,388,449)	(294,352)
Decrease in grants and contributions receivable, net	30,793,937	29,342,614
Decrease in other receivables	287,000	162,898
(Increse) decrease in prepaid expenses	(214,518)	271,762
Increase in accounts payable and accrued expenses	535,295	1,099,116
Increase in deferred compensation payable	838,592	109,654
Increase in due to related party - 457(f) plan	945,025	1,540,538
(Decrease) increase in other liabilities	(91,628,237)	3,950,612
Increase in grant payable - contributed space	71,447,183	-
Net cash provided by operating activities	46,689,155	24,523,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,061,972)	(6,412,053)
Purchases of investments	(48,626,750)	(25,207,644)
Sales of investments	7,570,021	12,930,060
Security deposits paid	(96,765)	(5,435)
Net cash used in investing activities	(42,215,466)	(18,695,072)
Increase in cash and cash equivalents	4,473,689	5,828,290
Cash and cash equivalents, beginning of year	33,716,131	27,887,841
Cash and cash equivalents, end of year	$ 38,189,820	$ 33,716,131

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

1. ORGANIZATION

Harlem Children's Zone, Inc. ("HCZ"), founded in 1970, is a pioneer non-profit community-based organization that works to enhance the quality of life for children and families in some of New York City's most devastated neighborhoods. Formerly known as Rheedlen Centers for Children and Families, HCZ's 20 centers serve approximately 13,000 children and 13,000 adults. The emphasis of HCZ's work is not just on education, social services, and recreation, but also on rebuilding the very fabric of community life.

The Internal Revenue Service determined HCZ to be a publicly supported organization, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Rheedlen 125th Street, LLC ("Rheedlen") and HCZ Promise LLC ("HCZ Promise") are subsidiaries of HCZ, their sole member.

Rheedlen and HCZ Promise (the "Subsidiaries") were organized in the State of New York in June 2000 and April 2010 respectively, under Section 203 of the Limited Liability Company Law of the State of New York to acquire, own, and operate real property. Rheedlen and HCZ Promise are the owners of real property that is currently used by HCZ.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statement presentation conforms with accounting principles generally accepted in the United States of America ("US GAAP") for non-profit organizations, which require that HCZ and Subsidiaries (collectively, the "Organization") report information regarding their consolidated financial position and changes in net assets according to three classes of net assets, as follows:

<u>Unrestricted net assets</u>
Net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of the Organization.

<u>Temporarily restricted net assets</u>
Net assets which include resources that have been limited by donor-imposed stipulations that either expire with the passage of time and/or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

<u>Permanently restricted net assets</u>
Net assets which include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors.

The accompanying consolidated statements of activities report changes in net assets by operating and non-operating activities. Non-operating activities include items considered to be of an unusual or of a non-recurring nature.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Organization. Intercompany transactions and balances have been eliminated in consolidation.

Functional Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the accompanying consolidated statements of activities, which includes all operating expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management allocates the direct costs of its operations to its programs and services based upon the percentage of direct labor costs charged to each program and supporting services by the Organization staff.

Cash and Cash Equivalents

The Organization considers money market fund investments and all highly liquid debt instruments with a maturity of three months or less on the date of acquisition to be cash equivalents.

Receivables

Receivables contain some level of uncertainty surrounding timing and amount at collection. Therefore, management provides an allowance for doubtful accounts based on the consideration of the type of receivable, responsible party, the known financial condition of the respective party, historical collection patterns and comparative aging. These allowances are maintained at a level management considers adequate to provide for subsequent adjustments and potential uncollectible accounts. These estimates are reviewed periodically and, if the financial condition of a party changes significantly, management will evaluate the recoverability of any receivables from that organization and write off any amounts that are no longer considered to be recoverable. Any payments subsequently collected on such written-off receivables are recorded as income in the period received.

Investments

Investments are held in limited partnerships and are carried at fair value as determined by the respective general partners. Realized and unrealized gains and losses on investments are included in the accompanying statements of activities as increases or decreases in the unrestricted class of net assets, unless donor or relevant laws place temporary or permanent restrictions on these gains and losses. Dividends and interest are recognized as earned.

Fair Value of Financial Instruments

The carrying amounts of cash, receivables, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities approximate fair value due to the short-term maturity of these financial instruments.

Fair Value Measurements

The Organization follows guidance which establishes a framework for measuring fair value, expands disclosures about fair value measurements and provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The guidance also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date. Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments in Level 1 include listed equities held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.

Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies. Also included in Level 2 are investments using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at NAV at the statement of financial position date or in the near term, which the Organization has determined to be within ninety days.

Level 3 - Pricing inputs are unobservable for the assets or liability and includes situations where there is little, if any, market activity for the assets or liability. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Property and Equipment

Property and equipment purchased for a value greater than $1,000 and with depreciable lives greater than one year are carried at cost, net of depreciation. Significant additions or improvements extending asset lives are capitalized; normal maintenance and repair costs are expensed as incurred. Leasehold improvements are amortized based on the lesser of the estimated useful life or remaining lease term. Property and equipment used in operations are depreciated over their estimated useful lives using the straight-line method, as follows:

Asset Category	Estimated Useful Life
Automobiles	5 years
Equipment	5 years
Furniture	7 years
Computer software	5 years
Leasehold improvements	5 - 31.5 years
Building improvements	31.5 years
Buildings	40 years

Contributions and Special Events

Contribution revenues are recorded at fair value in the period received as unrestricted, temporarily restricted or permanently restricted revenue depending upon the existence or absence of donor-imposed stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions. Prior to fiscal 2015, temporarily restricted contributions were recorded as unrestricted contributions if the restriction is met in the same reporting period. Contributions to be received after one year are discounted at an appropriate discount rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any. Donated materials, equipment, and services are reflected as in-kind contributions (revenues and expenses, or assets, if capitalizable) at their estimated fair value at the date of receipt. Revenues and expenses related to special events are recognized upon occurrence of the respective event.

Government Contracts

Revenue from cost reimbursement-based government contracts is recognized when reimbursable costs are incurred under the terms of the contracts. Contract payments in excess of qualified cost are accounted for as contract advances, if any.

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Income Taxes

The Organization recognizes the tax effects from an uncertain tax position in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. Management has determined that there are no uncertain tax positions within its consolidated financial statements.

The Organization is exempt from federal income taxation by virtue of being an organization described in Section 501(c)(3) of the Internal Revenue Code. Nevertheless, the Organization may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Internal Revenue Code. The tax years ended June 30, 2012, 2013, 2014 and 2015 are still open to audit for both federal and state purposes.

Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the current year's presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the 2015 consolidated financial statements.

3. CONCENTRATION OF CREDIT RISK

The Organization maintains cash and cash equivalent balances in financial institutions, which from time to time exceed the amount insured by the Federal Depository Insurance Corporation and subject the Organization to credit risk. The Organization monitors this risk on a regular basis and does not anticipate any losses with respect to these balances.

4. LINE OF CREDIT

HCZ has a $4,000,000 commercial line of credit (on demand) with a major bank, which matures on August 1, 2016. This line is collateralized by HCZ's unrestricted assets. There were no drawings on the line of credit during the years ended June 30, 2015 or June 30, 2014. The terms of the credit agreement state that drawings are subject to interest at the 30-days LIBOR Rate plus 0.945%.

5. GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Grants and contributions receivable at June 30, 2015 and 2014 were due as follows:

	2015	2014
Less than one year	$ 15,177,944	$ 40,897,408
Provision for bad debt	-	(100,000)
	15,177,944	40,797,408
One to four years	4,870,000	10,235,000
Present value discount	(273,928)	(564,455)
	4,596,072	9,670,545
Total	$ 19,774,016	$ 50,467,953

Contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted interest rate assigned in the year the pledge originates and ranged from 1.20% - 2.88% during fiscal 2015 and 2014.

6. INVESTMENTS

Investments held at June 30, 2015 and 2014 were in limited partnership hedge funds with a fair value of $403,513,124 and $300,336,401, respectively. These investments were exposed to various risks. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term. These changes could materially affect the amounts reported in the consolidated financial statements.

The Organization intends to maintain a portion of the investments as a reserve for capital expansion and for investment income intended to supplement operations to be determined by the Board of Trustees (the "Board").

Realized and unrealized gains, net of investment management fees of $9,314,424 and $8,176,665 for the years ended June 30, 2015 and 2014 were $57,731,545 and $44,094,290, respectively.

The following table summarizes the fair values of HCZ's assets as of June 30, 2015 and 2014:

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Limited Partnerships, at fair value (a)	$ -	$ 205,564,131	$ 197,948,993	$ 403,513,124

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Limited Partnerships, at fair value (a)	$ -	$ 139,989,485	$ 160,346,916	$ 300,336,401

(a) This category includes investments in multiple limited partnerships which represent various investment approaches. Some of the fund managers are focused primarily on long/short equity investments while others are operated for the purpose of trading predominantly in commodity interests. In some cases, managers may also invest a portion of the assets in securities for which there is no ready market such as private or restricted securities. In general, the goal of these funds is to achieve significant risk adjusted returns over time.

The following table represents a reconciliation of Level 3 assets measured at fair value for the years ended June 30, 2015 and 2014.

	2015	**2014**
Balance, beginning of year	$ 160,346,916	$ 117,419,890
Realized and unrealized gains	24,732,471	34,323,334
Management and performance fees	(6,997,963)	(6,680,286)
Purchases	20,000,000	22,117,895
Sales	(132,431)	(6,833,917)
Balance, end of year	$ 197,948,993	$ 160,346,916

The Organization uses the NAV per share or its equivalent to determine the fair value of the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following tables list the non-marketable limited partnership alternative investments by major category as of June 30, 2015 and 2014:

2015

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Level 2	$ 205,564,131	6	$ -	Quarterly	30 to 90 days. In addition to the Notice Period, firms may hold back a portion of the redemption proceeds until completion of the investment firm's audit at the end of its fiscal year.
Level 3	$ 197,948,993	6	$ -	Quarterly/Semi-annually Some fund investments are subject to lockup periods that have not yet expired. In addition, some funds have investments in private companies that cannot be liquidated in the near term.	30 to 90 days. In addition to the Notice Period, firms may hold back a portion of the redemption proceeds until completion of the investment firm's audit at the end of its fiscal year.

2014

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Level 2	$ 139,989,485	5	$ -	Quarterly	30 to 90 days. In addition to the Notice Period, firms may hold back a portion of the redemption proceeds until completion of the investment firm's audit at the end of its fiscal year.
Level 3	$ 160,346,916	4	$ 57,276	Quarterly/Semi-annually Some fund investments are subject to lockup periods that have not yet expired. In addition, some funds have investments in private companies that cannot be liquidated in the near term.	30 to 90 days. In addition to the Notice Period, firms may hold back a portion of the redemption proceeds until completion of the investment firm's audit at the end of its fiscal year.

7. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Property used in operations:		
Automobiles	$ 102,266	$ 102,266
Equipment	3,928,519	3,729,270
Furniture	1,830,228	1,812,089
Computer Software	189,061	142,186
Leasehold improvements	8,185,838	8,084,278
Building improvements	680,167	255,908
Land	6,800,000	6,800,000
Buildings	134,860,028	134,747,592
Construction in progress	166,600	-
	156,742,707	155,673,589
Less: accumulated depreciation and amortization	(25,082,543)	(20,817,365)
	$ 131,660,164	$ 134,856,224

Gross depreciation expense for 2015 and 2014 was $4,258,032 and $4,214,294, respectively. However, for fiscal 2015 depreciation expense was offset by $1,831,979 representing the annual amortization of the contributed space (see Note 12).

8. PROFIT-SHARING PLAN

The Organization maintains a non-contributory profit-sharing plan for all eligible employees. Employees become eligible once they have reached age 21 and have completed one year of service. Employees participating in the plan become fully vested after completing six years of service. The Organization makes discretionary contributions to the plan, which for the years ended June 30, 2015 and 2014 totaled $798,126 and $815,255, respectively.

9. 457(F) PLAN

The Organization maintains a 457(f) plan for certain eligible employees. Employees become eligible to participate in this plan based solely at the discretion of HCZ's Board of Trustees. The amounts contributed by the Organization vest after 5 years from the date of the initial contribution. At June 30, 2015 and 2014, the total liability relating to this plan was $7,169,399 and $6,330,807, respectively. The total expense recorded within the consolidated statements of activities totaled $1,129,250 and $1,136,750 for the years ended June 30, 2015 and 2014, respectively.

10. NET ASSETS AND ENDOWMENTS

The Organization's endowment consists of both donor-restricted endowment funds established for a variety of purposes and funds designated by the Board of Trustees to function as quasi-endowments. The Board designated an expansion and emergency reserve in prior years. The reserve is funded with the investments held which are described in note 6 and the return on those investments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

On September 17, 2010, New York State passed the New York State Prudent Management of Institutional Funds Act ("NYPMIFA"), its version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). All not-for-profit organizations formed in New York must apply this law. The Organization classifies donor-restricted endowment funds as permanently restricted net assets, unless otherwise stipulated by the donor: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Board considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the endowment funds
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- Where appropriate, alternatives to expenditure of the endowment funds and the possible effects on the Organization
- The investment policies of the Organization.

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. There were no such deficiencies as of June 30, 2015 and 2014.

Return Objectives, Risk Parameters and Strategies Employed for Achieving Objectives

As approved by the Board of Trustees, endowment assets are invested in a manner that is intended to produce returns that exceed the price and yield returns of appropriate benchmarks without putting the assets at imprudent risk.

The following tables summarize endowment net asset composition by type of fund as of June 30, 2015 and 2014:

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted (endowment)	$ -	$ 1,245,817	$ 3,638,962	$ 4,884,779
Board designated (quasi)	382,575,791	-	-	382,575,791
Total	$ 382,575,791	$ 1,245,817	$ 3,638,962	$ 387,460,570

	2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted (endowment)	$ -	$ 568,476	$ 3,137,962	$ 3,706,438
Board designated (quasi)	283,606,631	-	-	283,606,631
Total	$ 283,606,631	$ 568,476	$ 3,137,962	$ 287,313,069

Changes in endowment net assets for the years ended June 30, 2015 and 2014 are as follows:

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 283,606,631	$ 568,476	$ 3,137,962	$ 287,313,069
Contributions	-	-	501,000	501,000
Net appreciation (realized and unrealized)	57,595,910	734,839	-	58,330,749
Transfers in	41,373,250	-	-	41,373,250
Appropriation of endowment assets for expenditure	-	(57,498)	-	(57,498)
Endowment net assets, end of year	$ 382,575,791	$ 1,245,817	$ 3,638,962	$ 387,460,570

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 226,904,995	$ 294,604	$ 1,637,962	$ 228,837,561
Contributions	-	-	1,500,000	1,500,000
Net appreciation (realized and unrealized)	43,991,897	315,224	-	44,307,121
Transfers in	12,709,739	-	-	12,709,739
Appropriation of endowment assets expenditure	-	(41,352)	-	(41,352)
Endowment net assets, end of year	$ 283,606,631	$ 568,476	$ 3,137,962	$ 287,313,069

Temporarily and Permanently Restricted

Net assets released from restriction for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014
Purpose restriction satisfied	$ 106,426,225	$ 8,109,078
Timing restriction satisfied	38,268,456	32,521,091
Total net assets released from restrictions	$ 144,694,681	$ 40,630,169

Restricted net assets available for various programs as of June 30, 2015 and 2014 were as follows:

	2015	2014
Temporary purpose restrictions	$ 6,209,574	$ 9,382,465
Temporary time restrictions	13,759,044	52,027,500
Total temporary restrictions	19,968,618	61,409,965
Permanent restrictions	3,638,962	3,137,962
	$ 23,607,580	$ 64,547,927

The income from permanently restricted net assets is restricted for providing partial college scholarships to graduating Promise Academy students.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Organization leases space and equipment at various locations for its programs and administrative activities under non-cancellable operating leases expiring through October 2026.

As of June 30, 2015, minimum future annual rental obligations under the terms of these leases are as follows:

Year	
2016	$ 2,900,219
2017	2,065,894
2018	1,490,690
2019	1,240,532
2020	1,222,893
Thereafter	3,197,976
	$ 12,118,204

Rent expense for the years ended June 30, 2015 and 2014 was $3,529,712 and $3,045,515, respectively.

Government Agency Audits

Cost reimbursable grants applicable to various programs conducted for and on behalf of New York State and City governmental agencies are subject to adjustments, if any, based on the results of audits by these agencies. The management of the Organization is of the opinion that the results of any such audits would not have a material effect on the accompanying consolidated financial statements.

Lease Agreement with the Children's Health Fund

Rheedlen is the landlord of the building at 35 East 125th Street. This building is occupied by HCZ and the HCZ Promise Academy II Charter School ("Promise Academy II"), and the Children's Health Fund ("CHF"), an unrelated party, also occupied space in this building during fiscal 2014. CHF held a 10-year lease agreement with Rheedlen that was terminated effective October 1, 2013, for the use of clinic space in exchange for medical services it provided to the students of Promise Academy II and the clients of HCZ.

Litigation

Various legal proceedings and claims are pending against the Organization. Although the Organization's liability with respect to such matters cannot be ascertained at June 30, 2015, in the opinion of management and its legal counsel, the ultimate liability, if any, from all pending legal proceedings and claims will not materially affect the Organization's financial position or the results of its operations.

12. RELATED-PARTY TRANSACTIONS

As of June 30, 2015, and 2014, money invested in limited partnerships and managed by members of the Board totaled $152,499,270 and $109,429,199, respectively. Such members received no compensation for their services. In addition, the Organization receives a significant amount of contributions from members of the Board.

Commitment to the Promise Academy Charter Schools

Pursuant to the terms of commitment letters between HCZ and the Promise Academy Charter Schools ("PACS"), HCZ, as the PACS' Institutional Partner, committed to provide the PACS certain services at no cost at least through June 2019. PACS are two high-quality charter schools affiliated with the Organization. These services include financial management, social, library, technology, fundraising, public relations, and teaching assistance services. The commitments to the PACS can be cancelled by either party with one year's notice. HCZ has not cancelled the commitment and is not aware of either of the schools opting to cancel the commitment.

HCZ's contributed space and services provided to the PACS for the years ended June 30, 2015 and 2014 amounted to $2,446,207 and $7,742,836, respectively. In addition, HCZ provided the PACS with grants totaling $2,500,000 in fiscal 2015, which were paid to the PACS subsequent to June 30, 2015. This grant expense is included within program services on the accompanying statement of activities, and the grant payable is included within accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

457(f) Plan

The Organization includes, within its 457(f) plan, employees of PACS and provides PACS with an annual subsidy to cover this cost. The amount due to PACS at June 30, 2015 and 2014 was $11,492,859 and $10,547,834, respectively, and is included within due to related party – 457(f) plan on the accompanying consolidated statements of financial position. The total expense recorded within the consolidated statements of activities for the annual subsidy to cover the cost totaled $1,897,500 and $1,584,000 for the years ended June 30, 2015 and 2014, respectively.

Grant Expense – Contributed Space

During the year ended June 30, 2011, the Organization entered into agreements for the construction of a new charter school (the "School Project"). The agreements provided that the New York School Construction Authority (the "SCA") contribute up to $60,000,000 towards the School Project, with the estimated balance of approximately $40,000,000, to be contributed by the Organization or other donors. Upon completion of construction and issuance of the certificate of occupancy, title to the School Project was transferred to the New York City Department of Education (the "DOE") and leased back to the Organization, and portions of the premises sub-leased to the Promise Academy I Charter School ("School I") in fiscal 2015. The lease agreement designates the Organization and School I as the initial users of the premises.

Due to the uncertainty of the ultimate beneficiary of the School Project until the final execution of the lease agreements, the Organization had accounted for this arrangement as an agency transaction on behalf of School I, the SCA and the DOE until the agreements were executed. As such, the Organization capitalized the full cost of construction and recorded any payments received or due from the SCA as well as any donor pledges that were restricted for the School Project as other liabilities on the consolidated financial statements. Construction of the building was completed during fiscal 2014 and the Organization and School I began utilizing the premises, however the respective leases were not executed until August 7, 2014.

The total cost of the School Project was $85,808,527 and was classified as buildings, within property and equipment as of June 30, 2014. Other liabilities arising from the School Project at June 30, 2014, representing SCA and donor funding, were $91,628,237.

Upon transfer of title to the DOE during fiscal 2015 and the execution of the lease agreements, the Organization, which was deemed to be the primary beneficiary of the School Project through control of the building by way of a 99 year lease, retained the capitalized cost of the building and derecognized the other liabilities into contribution income. Additionally, the Organization recorded a grant expense and grant payable to School I for $73,279,162, which represents the imputed fair value of the space contributed to School I under the sub-lease. The sub-lease is for a period of 99 years, however, the payable is being amortized over the 40 year useful life of the building by reducing the Organization's depreciation expense. For the year ended June 30, 2015, total amortization amounted to $1,831,979. Under the terms of the sub-lease, School I is not required to pay any consideration for use of the space.

As part of the agreement, the New York City Housing Authority (NYCHA) agreed to reimburse the Organization for certain site, street, and land transfer costs around the construction site of the School Project that do not add value to the School Project and are therefore not being capitalized by the Organization. At June 30, 2015 and 2014, the Organization was owed $254,902 and $606,391, respectively, in reimbursements from NYCHA, which has been included in other receivables.

Rent Revenue

During fiscal 2015, the Organization entered into a five year lease agreement with Promise Academy II Charter School ("School II") for School II's use of the space located at 35 East 125th St, New York, NY, a property owned by the Organization. Pursuant to the terms of this lease, the Organization received $1,671,000 in rent revenue from School II during fiscal 2015, which is included in other income on the accompanying consolidated statement of activities.

13. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 7, 2015, which is the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Schedule of Functional Expenses
For the year ended June 30, 2015

	Program Services						Supporting Services		
	Early Childhood	In School and Afterschool Programs	College Programs	Preventive Services	Other Community Services	Total	Management and General	Fundraising	Total
Salaries	$ 6,531,198	$ 22,170,211	$ 4,357,632	$ 3,705,269	$ 6,443,553	$ 43,207,863	$ 2,973,396	$ 1,126,323	$ 47,307,582
Payroll taxes	661,201	2,431,826	470,166	350,658	638,639	4,552,490	175,084	91,424	4,818,998
Employee benefits	1,152,042	2,619,804	624,841	762,954	908,193	6,067,834	437,822	232,978	6,738,634
Retirement plan contribution	145,877	311,209	62,336	55,091	91,349	665,862	201,604	20,343	887,809
Total personnel services	8,490,318	27,533,050	5,514,975	4,873,972	8,081,734	54,494,049	3,787,906	1,471,068	59,753,023
Admissions	14,295	626,270	22,654	10,795	21,535	695,549	2,783	750	699,082
Automobile	1,279	5,848	666	625	1,537	9,955	5,974	-	15,929
Bad debt	-	-	-	-	-	-	50,359	-	50,359
Bank fees	-	-	-	-	-	-	33,855	-	33,855
Client travel	50,423	536,839	115,109	12,319	470,647	1,185,337	9,932	5,220	1,200,489
Consulting and professional fees	286,142	995,933	104,395	607,071	1,245,378	3,238,919	879,329	38,229	4,156,477
Depreciation, net	194,736	890,687	101,463	95,215	234,058	1,516,159	909,894	-	2,426,053
Education supplies	111,878	199,987	4,713	2,072	120,269	438,919	9,165	373	448,457
Equipment rental and maintenance	125,057	339,668	25,312	39,460	100,264	629,761	114,555	1,667	745,983
Food	397,427	480,203	54,720	14,908	277,771	1,225,029	18,607	1,770	1,245,406
Fundraising costs	-	-	-	-	-	-	-	71,158	71,158
Grant expense	-	2,500,000	-	-	-	2,500,000	-	-	2,500,000
Insurance	37,242	170,337	19,404	18,209	44,762	289,954	174,011	-	463,965
Investment management fees (contributed services)	-	-	-	-	-	-	1,540,875	-	1,540,875
Occupancy	1,629,004	2,989,861	306,075	615,674	548,764	6,089,378	910,049	-	6,999,427
Office supplies	43,382	141,589	24,206	9,604	317,213	535,994	24,852	2,183	563,029
Payroll processing	46,149	197,247	22,469	21,086	51,833	338,784	201,501	-	540,285
Postage	2,314	11,538	1,583	1,224	2,494	19,153	9,633	1,839	30,625
Printing, publications, and memberships	28,543	69,503	7,024	7,253	42,880	155,203	26,701	18,866	200,770
Promise Academy incentive provision	-	1,897,500	-	-	-	1,897,500	-	-	1,897,500
Software and hardware	90,365	238,144	98,936	21,061	53,053	501,559	201,258	30,495	733,312
Special client services/incentives	147,071	257,664	654,071	46,751	122,876	1,228,433	35,683	8,743	1,272,859
Staff travel	24,710	74,012	23,434	39,891	13,074	175,121	27,489	2,559	205,169
Stipends	179	2,104,341	132,257	-	5,998	2,242,775	-	-	2,242,775
Telephone	96,408	285,275	16,170	69,312	51,310	518,475	93,892	7,232	619,599
Training	12,308	123,155	8,835	8,685	31,449	184,432	35,553	-	219,985
Miscellaneous	47,961	355,341	21,155	14,779	313,600	752,836	129,935	635	883,406
Total other than personnel	3,386,873	15,490,942	1,764,651	1,655,994	4,070,765	26,369,225	5,445,885	191,719	32,006,829
Total expenses	$ 11,877,191	$ 43,023,992	$ 7,279,626	$ 6,529,966	$ 12,152,499	$ 80,863,274	$ 9,233,791	$ 1,662,787	$ 91,759,852

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

Consolidated Schedule of Functional Expenses

For the year ended June 30, 2014

	Program Services						Supporting Services		
	Early Childhood	In School and Afterschool Programs	College Programs	Preventive Services	Other Community Services	Total	Management and General	Fundraising	Total
Salaries	$ 6,837,037	$ 21,208,411	$ 3,603,748	$ 4,181,144	$ 6,797,594	$ 42,627,934	$ 2,060,698	$ 1,087,995	$ 45,776,627
Payroll taxes	758,081	2,411,594	415,073	413,117	699,178	4,697,043	188,513	88,936	4,974,492
Employee benefits	1,261,137	2,590,535	510,316	1,056,301	777,205	6,195,494	229,361	255,376	6,680,231
Retirement plan contribution	220,334	314,258	62,201	111,606	102,126	810,525	32,128	34,194	876,847
Total personnel services	9,076,589	26,524,798	4,591,338	5,762,168	8,376,103	54,330,996	2,510,700	1,466,501	58,308,197
Admissions	29,770	530,777	10,141	19,485	64,742	654,915	11,819	100	666,834
Automobile	1,645	7,608	692	618	2,170	12,733	7,840	-	20,573
Bad debt	-	-	-	-	-	-	309,332	-	309,332
Bank fees	-	-	-	-	-	-	20,765	-	20,765
Client travel	50,149	339,596	106,248	11,923	565,987	1,073,903	1,522	400	1,075,825
Consulting and professional fees	302,061	960,430	61,419	306,258	1,173,441	2,803,609	664,258	31,305	3,499,172
Depreciation	336,970	1,558,426	141,846	126,528	444,425	2,608,195	1,593,335	12,764	4,214,294
Education supplies	42,961	380,670	59,944	1,943	96,684	582,202	23,474	95	605,771
Equipment rental and maintenance	145,594	483,220	17,686	36,995	72,254	755,749	83,489	5,829	845,067
Food	412,865	1,835,133	46,589	10,651	280,648	2,585,886	29,573	1,585	2,617,044
Fundraising costs	-	-	-	-	-	-	-	319	319
Insurance	33,756	156,115	14,209	12,675	44,520	261,275	160,891	1,279	423,445
Investment management fees (contributed services)	-	-	-	-	-	-	1,128,215	-	1,128,215
Occupancy	1,616,995	2,898,990	245,314	536,028	518,446	5,815,773	697,973	-	6,513,746
Office supplies	56,507	185,917	6,710	10,026	359,573	618,733	21,185	1,830	641,748
Payroll processing	49,749	215,314	18,893	16,853	59,196	360,005	212,226	1,700	573,931
Postage	2,426	10,596	3,796	1,187	2,868	20,873	9,725	1,816	32,414
Printing, publications, and memberships	33,006	96,007	8,572	10,999	32,566	181,150	54,124	13,943	249,217
Promise Academy incentive provision	-	3,675,400	-	-	-	3,675,400	-	-	3,675,400
Software and hardware	89,226	279,386	32,375	22,235	93,788	517,010	263,330	29,153	809,493
Special client services/incentives	152,147	185,025	643,698	78,346	187,464	1,246,680	31,097	2,000	1,279,777
Staff travel	33,149	126,723	30,387	36,597	37,635	264,491	61,704	5,637	331,832
Stipends	1,699	1,906,150	6,686	60	748	1,915,343	125	-	1,915,468
Telephone	83,238	259,585	13,310	70,146	55,815	482,094	114,156	4,660	600,910
Training	27,964	71,627	2,455	8,103	112,323	222,472	18,913	-	241,385
Miscellaneous	42,735	235,510	21,588	13,719	471,126	784,678	158,030	1,998	944,706
Total other than personnel	3,544,612	16,398,205	1,492,558	1,331,375	4,676,419	27,443,169	5,677,101	116,413	33,236,683
Total expenses	$ 12,621,201	$ 42,923,003	$ 6,083,896	$ 7,093,543	$ 13,052,522	$ 81,774,165	$ 8,187,801	$ 1,582,914	$ 91,544,880

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.