

Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

As of June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015 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.

The image shows a handwritten signature in cursive script that reads "Grant Thornton LLP". The signature is written in black ink and is positioned above the typed name and date.

New York, New York
December 22, 2016

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,489,535	\$ 38,189,820
Grants and contributions receivable, net	7,352,717	15,177,944
Other receivables	1,450	835,443
Prepaid expenses	<u>811,316</u>	<u>974,625</u>
Total current assets	28,655,018	55,177,832
Grants and contributions receivable, net	3,961,501	4,596,072
Investments	414,673,245	403,513,124
Security deposits	724,611	726,412
Property and equipment, net	<u>129,203,092</u>	<u>131,660,164</u>
Total assets	<u>\$ 577,217,467</u>	<u>\$ 595,673,604</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 7,292,566	\$ 8,562,654
Refundable advance	7,500,000	-
Deferred compensation payable	1,057,108	1,404,223
Due to related party - 457(f) plan	1,057,287	2,371,756
Grant payable - contributed space	<u>1,831,979</u>	<u>1,831,979</u>
Total current liabilities	18,738,940	14,170,612
Deferred compensation payable, net of current portion	4,591,236	5,765,176
Due to related party - 457(f) plan, net of current portion	9,277,351	9,121,103
Grant payable - contributed space, net of current portion	<u>67,783,225</u>	<u>69,615,204</u>
Total liabilities	<u>100,390,752</u>	<u>98,672,095</u>
Commitments and contingencies		
NET ASSETS		
Unrestricted:		
Board-designated	398,314,120	382,575,791
Undesignated	<u>57,139,663</u>	<u>90,818,138</u>
Total unrestricted	455,453,783	473,393,929
Temporarily restricted	16,732,970	19,968,618
Permanently restricted	<u>4,639,962</u>	<u>3,638,962</u>
Total net assets	<u>476,826,715</u>	<u>497,001,509</u>
Total liabilities and net assets	<u>\$ 577,217,467</u>	<u>\$ 595,673,604</u>

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statement of Activities
For the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES				
OPERATING REVENUES				
Grants and contributions	\$ 55,380,553	\$ 11,088,987	\$ 1,001,000	\$ 67,470,540
Government grants	11,450,098	-	-	11,450,098
Special event, net of expenses totaling \$386,138	8,482,462	-	-	8,482,462
Interest income	30,694	-	-	30,694
Rental income from affiliates	1,721,177	-	-	1,721,177
Other income	1,912,042	-	-	1,912,042
Loss on investments, net	<u>(17,446,503)</u>	<u>(55,320)</u>	<u>-</u>	<u>(17,501,823)</u>
	61,530,523	11,033,667	1,001,000	73,565,190
Net assets released from restrictions	<u>14,269,315</u>	<u>(14,269,315)</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>75,799,838</u>	<u>(3,235,648)</u>	<u>1,001,000</u>	<u>73,565,190</u>
OPERATING EXPENSES				
Program services:				
Early childhood	12,039,913	-	-	12,039,913
In-school and afterschool programs	41,976,459	-	-	41,976,459
College programs	11,633,668	-	-	11,633,668
Preventive services	7,160,710	-	-	7,160,710
Other community services	<u>13,225,561</u>	<u>-</u>	<u>-</u>	<u>13,225,561</u>
Total program services	86,036,311	-	-	86,036,311
Supporting services:				
Management and general	9,863,982	-	-	9,863,982
Fundraising	<u>1,834,374</u>	<u>-</u>	<u>-</u>	<u>1,834,374</u>
Total supporting services	<u>11,698,356</u>	<u>-</u>	<u>-</u>	<u>11,698,356</u>
Total operating expenses	<u>97,734,667</u>	<u>-</u>	<u>-</u>	<u>97,734,667</u>
NON-OPERATING ACTIVITIES				
Other income - 457(f) plan	<u>3,994,683</u>	<u>-</u>	<u>-</u>	<u>3,994,683</u>
Change in net assets	<u>(17,940,146)</u>	<u>(3,235,648)</u>	<u>1,001,000</u>	<u>(20,174,794)</u>
Net assets, beginning of year	<u>473,393,929</u>	<u>19,968,618</u>	<u>3,638,962</u>	<u>497,001,509</u>
Net assets, end of year	<u>\$ 455,453,783</u>	<u>\$ 16,732,970</u>	<u>\$ 4,639,962</u>	<u>\$ 476,826,715</u>

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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
Rental income from affiliates	1,671,046	-	-	1,671,046
Other income	2,151,493	-	-	2,151,493
Gain on investments, net	56,996,706	734,839	-	57,731,545
	<u>152,931,520</u>	<u>103,253,334</u>	<u>501,000</u>	<u>256,685,854</u>
Net assets released from restrictions	<u>144,694,681</u>	<u>(144,694,681)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>297,626,201</u>	<u>(41,441,347)</u>	<u>501,000</u>	<u>256,685,854</u>
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	<u>10,896,578</u>	<u>-</u>	<u>-</u>	<u>10,896,578</u>
Total operating expenses	<u>91,759,852</u>	<u>-</u>	<u>-</u>	<u>91,759,852</u>
NON-OPERATING ACTIVITIES				
Grant expense - contributed space	<u>73,279,162</u>	<u>-</u>	<u>-</u>	<u>73,279,162</u>
Total expenses	<u>165,039,014</u>	<u>-</u>	<u>-</u>	<u>165,039,014</u>
Change in net assets	<u>132,587,187</u>	<u>(41,441,347)</u>	<u>501,000</u>	<u>91,646,840</u>
Net assets, beginning of year	<u>340,806,742</u>	<u>61,409,965</u>	<u>3,137,962</u>	<u>405,354,669</u>
Net assets, end of year	<u>\$ 473,393,929</u>	<u>\$ 19,968,618</u>	<u>\$ 3,638,962</u>	<u>\$ 497,001,509</u>

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (20,174,794)	\$ 91,646,840
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,600,108	4,258,032
Provision for bad debt	-	(100,000)
Loss (gain) on investments, net	17,501,823	(57,731,545)
Changes in assets and liabilities		
Increase in assets held for deferred compensation - 457(f) plan	(780,286)	(4,388,449)
Decrease in grants and contributions receivable, net	8,459,798	30,793,937
Decrease in other receivables	833,993	287,000
Decrease (increase) in prepaid expenses	163,309	(214,518)
(Decrease) increase in accounts payable and accrued expenses	(1,270,088)	535,295
Increase in refundable advance	7,500,000	-
(Decrease) increase in deferred compensation payable	(1,521,055)	838,592
(Decrease) increase in due to related party - 457(f) plan	(1,158,221)	945,025
Decrease in other liabilities	-	(91,628,237)
(Decrease) increase in grant payable - contributed space	(1,831,979)	71,447,183
	<u>12,322,608</u>	<u>46,689,155</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,143,036)	(1,061,972)
Purchases of investments	(51,590,915)	(48,626,750)
Sales of investments	23,709,257	7,570,021
Security deposits refunded (paid)	1,801	(96,765)
	<u>(30,022,893)</u>	<u>(42,215,466)</u>
Net cash used in investing activities		
(Decrease) increase in cash and cash equivalents	(17,700,285)	4,473,689
Cash and cash equivalents, beginning of year	<u>38,189,820</u>	<u>33,716,131</u>
Cash and cash equivalents, end of year	<u>\$ 20,489,535</u>	<u>\$ 38,189,820</u>

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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 12,500 children and 12,500 adults. The emphasis of HCZ's work is not just on education, social services, and health and wellness, 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 ("IRC").

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 is an owner and HCZ Promise is a lease holder of real properties 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:

Unrestricted net assets

Net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of the Organization.

Temporarily restricted net assets

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.

Permanently restricted net assets

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.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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 during 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 original maturities 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.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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 \$5,000 and with depreciable lives greater than one year are carried at cost, net of accumulated 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:

<u>Asset Category</u>	<u>Estimated Useful Life</u>
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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Contributions and Special Events

The Organization records contribution revenue when an unconditional promise to give is received from a donor. 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. Unconditional promises to give that are expected to be received after one year are discounted to present value using an appropriate discount rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met. Conditional contributions received in advance of meeting the associated conditions are recorded as refundable advances on the statement of financial position. 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 IRC. Nevertheless, the Organization may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. The tax years ended June 30, 2013, 2014, 2015 and 2016 are still open to audit for both federal and state purposes.

New Accounting Pronouncement

In May 2015, FASB issued guidance that exempts investments measured using the NAV practical expedient from categorization within the fair value hierarchy and related disclosures. Instead, entities are required to separately disclose the required information for assets measured using the NAV practical expedient. Entities are also required to show the carrying amount of investments measured using the NAV

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

practical expedient as a reconciling item between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the face of the financial statements. The guidance requires retrospective application and is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Organization did not early adopt the new accounting pronouncement and does not believe it will have a material impact on the financial statements.

Reclassifications

Certain reclassifications have been made to the 2015 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 2016 consolidated financial statements.

3. CONCENTRATION OF CREDIT RISK

The Organization maintains cash and cash equivalent balances in financial institutions, which 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 the respect to these balances.

4. LINE OF CREDIT

HCZ has a \$4,000,000 commercial line of credit (on demand) with a major bank. This line is collateralized by HCZ's unrestricted assets. There were no drawings on the line of credit during the years ended June 30, 2016 or June 30, 2015. Drawings were subject to interest at the 30-days LIBOR Rate plus 0.945% through July 18, 2016. On July 19, 2016, the line of credit was renewed and the interest rate was changed to 30-days LIBOR plus 1.457%. The line of credit expires on January 18, 2018.

5. GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Grants and contributions receivable at June 30, 2016 and 2015 were due as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 7,352,717	\$ 15,177,944
One to four years	4,300,000	4,870,000
Present value discount	<u>(338,499)</u>	<u>(273,928)</u>
	<u>3,961,501</u>	<u>4,596,072</u>
Total	<u>\$ 11,314,218</u>	<u>\$ 19,774,016</u>

Unconditional 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 2.88% - 3.08% at June 30, 2016 and 2015.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

6. REFUNDABLE ADVANCE

The Organization received a \$7,500,000 advance payment towards a conditional contribution. The gift is conditioned upon incurring costs towards the Organization's fiscal 2017 program initiatives, and as such has been recorded as a refundable advance in the accompanying consolidated statement of financial position.

7. INVESTMENTS

Investments held at June 30, 2016 and 2015 were in limited partnerships with a fair value of \$414,673,245 and \$403,513,124, 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 (losses) gains, net of investment management and performance fees of \$583,352 and \$9,314,424 for the years ended June 30, 2016 and 2015 were \$(17,501,823) and \$57,731,545, respectively.

The following tables summarize the fair values of HCZ's assets as of June 30, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
Limited Partnerships, at fair value (a)	<u>\$ -</u>	<u>\$ 239,240,143</u>	<u>\$ 175,433,102</u>	<u>\$ 414,673,245</u>
	2015			
	Level 1	Level 2	Level 3	Total
Limited Partnerships, at fair value (a)	<u>\$ -</u>	<u>\$ 205,564,131</u>	<u>\$ 197,948,993</u>	<u>\$ 403,513,124</u>

(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.

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The following table represents a reconciliation of Level 3 assets measured at fair value for the years ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 197,948,993	\$ 160,346,916
Transfers from level 3 to level 2	(23,197,799)	-
Realized and unrealized (losses) gains	(18,895,078)	24,732,471
Management and performance fees	(219,547)	(6,997,963)
Purchases	20,000,000	20,000,000
Sales	(203,467)	(132,431)
Balance, end of year	<u>\$ 175,433,102</u>	<u>\$ 197,948,993</u>

During fiscal 2016, \$23,197,799 of investments were transferred from level 3 to level 2 due to the expiration of lock up periods.

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, 2016 and 2015:

<u>2016</u>					
	<u>Fair Value</u>	<u>Number of Funds</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Level 2	\$ 239,240,143	9	\$ -	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	\$ 175,433,102	5	\$ -	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.

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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.

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Property used in operations:		
Automobiles	\$ 102,266	\$ 102,266
Buildings	134,792,612	134,860,028
Building improvements	891,858	680,167
Computer software	189,061	189,061
Construction in progress	1,239,293	166,600
Equipment	4,257,102	3,928,519
Furniture	1,850,571	1,830,228
Land	6,800,000	6,800,000
Leasehold improvements	8,762,980	8,185,838
	<u>158,885,743</u>	<u>156,742,707</u>
Less: accumulated depreciation	<u>(29,682,651)</u>	<u>(25,082,543)</u>
	<u>\$ 129,203,092</u>	<u>\$ 131,660,164</u>

Gross depreciation expense for 2016 and 2015 totaled \$4,600,108 and \$4,258,032, respectively. However, for fiscal 2016 and 2015 depreciation expense was offset by \$1,831,979 representing the annual amortization of the contributed space (see Note 13).

9. RETIREMENT PLAN

The Organization maintains a non-contributory retirement 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, 2016 and 2015 totaled \$1,042,100 and \$887,809, respectively.

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10. 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. At June 30, 2016 and 2015, the total liability relating to this plan, net of forfeiture allowance of \$236,004 and \$97,500, respectively, was \$5,648,344 and \$7,169,399, respectively. The total expense recorded within the consolidated statements of activities totaled \$1,419,996 and \$1,129,250 for the years ended June 30, 2016 and 2015, respectively.

The amounts contributed by the Organization vest after 5 years from the date of the initial contribution and will then be paid to eligible employees when vested. Terminated employees become vested immediately at the date of their termination. However, if a participating employee leaves voluntarily, their cumulative unvested contributions previously made by HCZ on their behalf and the associated earnings or losses thereon are considered forfeited. Historically, HCZ has not adjusted the annual contribution expense related to the plan for such anticipated forfeitures, as any forfeited amounts could be re-allocated to other plan participants at the Board's discretion in accordance with the Plan document. During fiscal 2016, HCZ has begun to reduce the current year contribution expense by the estimated forfeiture amount, as this is HCZ's best estimate of future growth fund obligations. HCZ used historical forfeiture experience in order to determine an appropriate rate upon which to calculate this estimate. Additionally, all forfeited balances for previous years' unvested contribution totals and associated earnings or losses thereon were removed from the liability balance and accordingly HCZ reduced the previous liability and recorded other income in the amount of \$3,994,683.

11. 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 reserve is funded with the investments held which are described in Note 7 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

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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, 2016 and 2015.

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, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted (endowment)	\$ -	\$ 1,077,329	\$ 4,639,962	\$ 5,717,291
Board designated (quasi)	<u>398,314,120</u>	<u>-</u>	<u>-</u>	<u>398,314,120</u>
Total	<u>\$ 398,314,120</u>	<u>\$ 1,077,329</u>	<u>\$ 4,639,962</u>	<u>\$ 404,031,411</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted (endowment)	\$ -	\$ 1,245,817	\$ 3,638,962	\$ 4,884,779
Board designated (quasi)	<u>382,575,791</u>	<u>-</u>	<u>-</u>	<u>382,575,791</u>
Total	<u>\$ 382,575,791</u>	<u>\$ 1,245,817</u>	<u>\$ 3,638,962</u>	<u>\$ 387,460,570</u>

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Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 382,575,791	\$ 1,245,817	\$ 3,638,962	\$ 387,460,570
Contributions	-	-	1,001,000	1,001,000
Net depreciation (realized and unrealized)	(17,422,956)	(55,320)	-	(17,478,276)
Transfers in	33,161,285	-	-	33,161,285
Appropriation of endowment assets for expenditure	-	(113,168)	-	(113,168)
Endowment net assets, end of year	<u>\$ 398,314,120</u>	<u>\$ 1,077,329</u>	<u>\$ 4,639,962</u>	<u>\$ 404,031,411</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>\$ 382,575,791</u>	<u>\$ 1,245,817</u>	<u>\$ 3,638,962</u>	<u>\$ 387,460,570</u>

Temporarily and Permanently Restricted

Net assets released from restriction for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Purpose restriction satisfied	\$ 4,614,316	\$ 106,426,225
Time restriction satisfied	<u>9,654,999</u>	<u>38,268,456</u>
Total net assets released from restrictions	<u>\$ 14,269,315</u>	<u>\$ 144,694,681</u>

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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Restricted net assets available for various programs as of June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Temporary purpose restrictions	\$ 7,628,925	\$ 6,209,574
Temporary time restrictions	<u>9,104,045</u>	<u>13,759,044</u>
Total temporary restrictions	16,732,970	19,968,618
 Permanent restrictions	 <u>4,639,962</u>	 <u>3,638,962</u>
	<u>\$ 21,372,932</u>	<u>\$ 23,607,580</u>

The income from permanently restricted net assets is restricted to providing college scholarships to graduating HCZ students.

12. 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, 2016, minimum future annual rental obligations under the terms of these leases are as follows:

<u>Year</u>	
2017	\$ 3,130,952
2018	2,570,114
2019	2,367,320
2020	1,988,796
2021	1,516,025
Thereafter	<u>3,425,738</u>
	<u>\$ 14,998,945</u>

Rent expense for the years ended June 30, 2016 and 2015 totaled \$ 3,525,320 and \$3,529,712, 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.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Lease Agreement with a Healthcare Provider

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 an unrelated healthcare provider. The healthcare provider held a 5-year lease agreement with Rheedlen beginning in May 2016, for the use of clinic space in exchange for medical services it provides 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, 2016, 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.

13. RELATED-PARTY TRANSACTIONS

As of June 30, 2016 and 2015, money invested in limited partnerships that are managed by members of the Board totaled \$233,920,639 and \$247,048,411, respectively. HCZ was charged management and performance fees, net of \$(111,020) and \$3,102,966 for the years ended June 30, 2016 and 2015, respectively, for their services. One of the limited partnership investment funds provided investment management services to HCZ at no cost. These contributed services were valued at \$1,797,039 and \$1,540,875 for the years ended June 30, 2016 and 2015, respectively, and are included in grants and contributions, and management and general expenses on the accompanying consolidated statements of activities. In addition, the Organization receives a significant amount of contributions from members of the Board.

Promise Academy Charter Schools

HCZ provided the Promise Academy Charter Schools ("PACS"), as the PACS' Institutional Partner, certain services at no cost. PACS are two high-quality charter schools affiliated with the Organization. These services include financial management, social, technology, fundraising, public relations, and teaching assistance services.

HCZ's contributed space and services provided to the PACS for the years ended June 30, 2016 and 2015 amounted to \$2,555,751 and \$2,446,207, respectively. In addition, HCZ provided the PACS with grants totaling \$5,302,650 and \$2,500,000 in fiscal 2016 and 2015, respectively. 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, 2016 and 2015 was \$10,334,638 and \$11,492,859, 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 \$1,680,162 and \$1,897,500 for the years ended June 30, 2016 and 2015, respectively.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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 years ended June 30, 2016 and 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, 2016 and 2015, the Organization was owed \$0 and \$254,902, respectively, in reimbursements from NYCHA, which has been included in other receivables.

Rental Income from affiliates

Rental income from property leases is recognized over the corresponding lease term as earned. 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, New York, a property owned by the Organization. Pursuant to the terms of this lease, the Organization received \$1,721,177 and \$1,671,000 in rent revenue from School II during fiscal 2016 and 2015, respectively, which is included in rental income on the accompanying consolidated statement of activities.

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
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As of June 30, 2016, minimum future rental income to be received under the terms of this lease is as follows:

<u>Year</u>	
2017	\$ 1,772,813
2018	1,825,997
2019	<u>1,880,777</u>
	<u>\$ 5,479,587</u>

14. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 22, 2016, 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, 2016

	Program Services					Supporting Services			Total
	Early Childhood	In-School and Afterschool Programs	College Programs	Preventive Services	Other Community Services	Total	Management and General	Fundraising	
Salaries	\$ 6,376,964	\$ 18,458,975	\$ 6,600,037	\$ 4,378,175	\$ 7,746,972	\$ 43,561,123	\$ 2,845,600	\$ 1,289,056	\$ 47,695,779
Payroll taxes	622,577	1,961,091	656,462	410,727	771,683	4,422,540	222,918	102,186	4,747,644
Employee benefits	1,309,019	2,334,603	1,206,876	989,124	1,140,236	6,979,858	445,194	296,704	7,721,756
Retirement plan contribution	212,420	304,168	151,427	123,844	143,067	934,926	71,492	35,682	1,042,100
Total personnel services	<u>8,520,980</u>	<u>23,058,837</u>	<u>8,614,802</u>	<u>5,901,870</u>	<u>9,801,958</u>	<u>55,898,447</u>	<u>3,585,204</u>	<u>1,723,628</u>	<u>61,207,279</u>
Admissions	11,893	597,047	39,836	14,572	10,442	673,790	8,499	100	682,389
Automobile	-	-	-	-	-	-	38,285	-	38,285
Bank fees	-	821	-	-	-	821	22,104	-	22,925
Client travel	43,019	485,020	140,377	16,454	342,019	1,026,889	10,269	1,150	1,038,308
Consulting and professional fees	235,839	1,081,811	278,611	307,263	1,078,790	2,982,314	883,594	29,210	3,895,118
Depreciation, net	207,575	1,115,911	178,090	74,256	217,732	1,793,564	990,598	-	2,784,162
Education supplies	133,415	413,334	49,262	1,911	111,420	709,342	13,186	80	722,608
Equipment rental and maintenance	124,312	351,147	41,096	31,252	106,779	654,586	74,391	4,600	733,577
Food	299,560	544,524	115,034	6,202	191,297	1,156,617	28,376	973	1,185,966
Fundraising costs	-	-	-	(2,200)	60	(2,140)	135,745	-	133,605
Grant expense	-	5,302,650	-	-	120,680	5,423,330	-	-	5,423,330
Insurance	-	-	-	-	-	-	388,263	-	388,263
Investment management fees (contributed services)	-	-	-	-	-	-	1,797,039	-	1,797,039
Occupancy	1,833,343	3,211,749	559,929	622,138	568,431	6,795,590	992,312	-	7,787,902
Office supplies	56,926	259,444	53,250	8,351	231,128	609,099	39,970	921	649,990
Payroll processing	34,897	183,561	29,099	12,133	31,835	291,525	165,602	-	457,127
Postage	1,803	9,333	5,451	697	1,527	18,811	7,728	431	26,970
Printing, publications, and memberships	42,304	77,200	11,492	6,785	32,585	170,366	26,470	28,635	225,471
Promise Academy incentive provision	-	1,680,162	-	-	-	1,680,162	-	-	1,680,162
Software and hardware	152,103	569,434	386,715	24,962	76,215	1,209,429	339,647	32,285	1,581,361
Special client services/incentives	128,301	363,658	710,035	20,302	145,747	1,368,043	59,966	3,300	1,431,309
Staff travel	18,956	86,825	37,485	35,827	20,655	199,748	33,788	1,179	234,715
Stipends	166	1,857,601	281,172	59	13,181	2,152,179	811	-	2,152,990
Telephone	101,984	293,530	23,149	66,486	45,725	530,874	96,180	5,807	632,861
Training	71,552	141,812	53,781	7,331	36,065	310,541	89,522	184	400,247
Uniforms	14,262	204,706	12,543	779	31,530	263,820	10,629	-	274,449
Miscellaneous	6,723	86,342	12,459	3,280	9,760	118,564	25,804	1,891	146,259
Total other than personnel	<u>3,518,933</u>	<u>18,917,622</u>	<u>3,018,866</u>	<u>1,258,840</u>	<u>3,423,603</u>	<u>30,137,864</u>	<u>6,278,778</u>	<u>110,746</u>	<u>36,527,388</u>
Total expenses	<u>\$ 12,039,913</u>	<u>\$ 41,976,459</u>	<u>\$ 11,633,668</u>	<u>\$ 7,160,710</u>	<u>\$ 13,225,561</u>	<u>\$ 86,036,311</u>	<u>\$ 9,863,982</u>	<u>\$ 1,834,374</u>	<u>\$ 97,734,667</u>

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, 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	<u>8,490,318</u>	<u>27,533,050</u>	<u>5,514,975</u>	<u>4,873,972</u>	<u>8,081,734</u>	<u>54,494,049</u>	<u>3,787,906</u>	<u>1,471,068</u>	<u>59,753,023</u>
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 - Promise Academy	-	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	<u>3,386,873</u>	<u>15,490,942</u>	<u>1,764,651</u>	<u>1,655,994</u>	<u>4,070,765</u>	<u>26,369,225</u>	<u>5,445,885</u>	<u>191,719</u>	<u>32,006,829</u>
Total expenses	<u>\$ 11,877,191</u>	<u>\$ 43,023,992</u>	<u>\$ 7,279,626</u>	<u>\$ 6,529,966</u>	<u>\$ 12,152,499</u>	<u>\$ 80,863,274</u>	<u>\$ 9,233,791</u>	<u>\$ 1,662,787</u>	<u>\$ 91,759,852</u>

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