Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

As of June 30, 2013 and 2012

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

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Audit • Tax • Advisory

Grant Thornton LLP
666 Third Avenue, 13th Floor
New York, NY 10017-4011

T 212.599.0100
F 212.370.4520
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012 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
February 13, 2014

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of June 30, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 27,887,841	$ 18,538,132
Grants and contributions receivable, net	41,212,814	52,503,853
Other receivables	1,285,341	14,710,698
Prepaid expenses	1,031,869	1,069,411
Total current assets	71,417,865	86,822,094
Grants and contributions receivable, net	38,597,753	83,344,155
Investments	243,670,175	176,894,542
Security deposits	624,212	582,624
Property and equipment, net	132,658,465	107,958,320
Total assets	$ 486,968,470	$ 455,601,735
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 6,928,243	$ 8,563,125
Deferred compensation payable	1,100,220	918,866
Due to related party - 457(f) plan	1,041,259	994,341
Total current liabilities	9,069,722	10,476,332
Deferred compensation payable, net of current portion	5,120,933	4,239,751
Due to related party - 457(f) plan, net of current portion	7,966,037	5,752,903
Other liabilities	87,677,625	66,528,562
Total liabilities	109,834,317	86,997,548
NET ASSETS		
Unrestricted:		
Board-designated	226,904,995	163,618,071
Undesignated	55,583,188	66,529,162
Total unrestricted	282,488,183	230,147,233
Temporarily restricted	93,008,008	136,835,792
Permanently restricted	1,637,962	1,621,162
Total net assets	377,134,153	368,604,187
Total liabilities and net assets	$ 486,968,470	$ 455,601,735

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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
REVENUES				
Grants and contributions	$ 38,121,764	$ 3,189,474	$ 16,800	$ 41,328,038
Government grants	9,831,292	-	-	9,831,292
Special event, net of expenses totaling $355,700	7,426,857	-	-	7,426,857
Interest income	45,825	-	-	45,825
Other income	1,665,380	-	-	1,665,380
Gain on investments, net	36,361,193	319,604	-	36,680,797
	93,452,311	3,509,078	16,800	96,978,189
Net assets released from restrictions	47,336,862	(47,336,862)	-	-
Total revenues	140,789,173	(43,827,784)	16,800	96,978,189
EXPENSES				
Program services:				
Harlem Children's Zone	60,205,347	-	-	60,205,347
Preventive services	5,797,511	-	-	5,797,511
Beacon and after school services	8,260,319	-	-	8,260,319
Head Start Program	1,857,386	-	-	1,857,386
Total program services	76,120,563	-	-	76,120,563
Supporting services:				
Management and general	8,383,923	-	-	8,383,923
Fundraising	1,138,131	-	-	1,138,131
Total supporting services	9,522,054	-	-	9,522,054
Total expenses	85,642,617	-	-	85,642,617
Change in net assets from operating activities	55,146,556	(43,827,784)	16,800	11,335,572
NON-OPERATING ACTIVITIES				
Depreciation expense (Note 7)	2,805,606	-	-	2,805,606
Change in net assets	52,340,950	(43,827,784)	16,800	8,529,966
Net assets, beginning of year	230,147,233	136,835,792	1,621,162	368,604,187
Net assets, end of year	$ 282,488,183	$ 93,008,008	$ 1,637,962	$ 377,134,153

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, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
REVENUES				
Grants and contributions	$ 56,505,045	$ 60,760,587	$ 1,621,162	$ 118,886,794
Government grants	9,189,345	-	-	9,189,345
Special event, net of expenses totaling $270,363	5,115,661	-	-	5,115,661
Interest income	52,748	-	-	52,748
Other income	672,573	-	-	672,573
Gain on investments, net	8,642,545	-	-	8,642,545
	80,177,917	60,760,587	1,621,162	142,559,666
Net assets released from restrictions	45,630,949	(45,630,949)	-	-
Total revenues	125,808,866	15,129,638	1,621,162	142,559,666
EXPENSES				
Program services:				
Harlem Children's Zone	65,001,852	-	-	65,001,852
Preventive services	5,241,733	-	-	5,241,733
Beacon and after school services	9,526,713	-	-	9,526,713
Head Start Program	1,901,895	-	-	1,901,895
Total program services	81,672,193	-	-	81,672,193
Supporting services:				
Management and general	7,684,817	-	-	7,684,817
Fundraising	1,352,483	-	-	1,352,483
Total supporting services	9,037,300	-	-	9,037,300
Total expenses	90,709,493	-	-	90,709,493
Changes in net assets from operating activities	35,099,373	15,129,638	1,621,162	51,850,173
Net assets, beginning of year	195,047,860	121,706,154	-	316,754,014
Net assets, end of year	$ 230,147,233	$ 136,835,792	$ 1,621,162	$ 368,604,187

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, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 8,529,966	$ 51,850,173
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,618,734	1,520,322
Provision for bad debt	100,000	-
Net realized and unrealized gain on investments	(36,680,797)	(8,642,545)
Increase in assets held for deferred compensation - 457(f) plan	(2,249,107)	-
Decrease (increase) in grants and contributions receivable	55,937,441	(4,369,383)
Decrease (increase) in other receivables	13,425,357	(14,705,502)
Decrease (increase) in prepaid expenses	37,542	(325,355)
(Decrease) increase in accounts payable and accrued expenses	(1,634,882)	849,997
Increase in deferred compensation payable	1,062,536	391,356
Increase in due to related party - 457(f) Plan	2,260,052	475,180
Increase in other liabilities	21,149,063	40,767,708
Net cash provided by operating activities	66,555,905	67,811,951
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(29,318,879)	(49,846,820)
Purchases of investments	(33,058,025)	(39,422,043)
Sales of investments	5,212,296	21,157,973
Security deposits paid	(41,588)	(61,261)
Net cash used in investing activities	(57,206,196)	(68,172,151)
Increase (decrease) in cash and cash equivalents	9,349,709	(360,200)
Cash and cash equivalents, beginning of year	18,538,132	18,898,332
Cash and cash equivalents, end of year	$ 27,887,841	$ 18,538,132

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 12,300 children and 12,400 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 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.

The accompanying 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 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.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

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
Leasehold improvements	5 - 31.5 years
Building improvements	31.5 years
Buildings	40 years

Contributions and Special Events

Contribution and special event revenues, both cash and in-kind, are recorded 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. Temporarily restricted contributions are 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.

Government Contracts

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

Contributions in-Kind

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.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can be recognized 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 Code. The tax years ending June 30, 2010, 2011, and 2012 are still open to audit for both federal and state purposes.

3. CONCENTRATION OF CREDIT RISK

The Organization maintain 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 had a $2,000,000 commercial line of credit (on demand) with a major bank, which matured on August 10, 2013. This line was subsequently renewed for $4,000,000 and extended to mature on July 9, 2014. This line is collateralized by HCZ's unrestricted assets. There were no drawings on the line of credit during the years ending June 30, 2013 or June 30, 2012. The terms of the credit agreement state that future drawings, if any, will be subject to interest at the 30-days LIBOR Rate plus 1.55%.

5. GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Grants and contributions receivable at June 30, 2013 and 2012 were due as follows

	2013	2012
Less than one year	$ 41,312,814	$ 52,503,853
One to five years	39,778,832	87,494,211
Present value discount	(1,181,079)	(4,150,056)
Provision for bad debt	(100,000)	-
Total	$ 79,810,567	$ 135,848,008

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 of 2.66% and 2.39% for the years ended June 30, 2013 and 2012.

6. INVESTMENTS

Investments held at June 30, 2013 and 2012 were in limited partnership hedge funds with a fair value of $243,670,175 and $176,894,542, 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.

As of June 30, 2013, there were no redemptions or distributions in transit. As of June 30, 2012, the investment balance of $176,894,542 includes $4,000,000 of cash held for investment representing cash disbursed to an investment fund that had not yet been credited to HCZ's capital account in that fund.

The Organization intends to maintain 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 $5,552,311 and $2,691,896 respectively, for the years ended June 30, 2013 and 2012 were $36,680,797 and $8,642,545.

The following table summarizes the fair values of HCZ's assets as of June 30, 2013 and 2012:

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Limited Partnerships, at fair value (a)	$ -	$ 126,250,285	$ 117,419,890	$ 243,670,175

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Limited Partnerships, at fair value (a)	$ -	$ 97,304,396	$ 75,590,146	$ 172,894,542
Cash held for investment				4,000,000
Total investments				$ 176,894,542

(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 for Level 3 assets measured at fair value for the years ending June 30, 2013 and 2012.

	2013	2012
Balance, beginning of year	$ 75,590,146	$ 71,766,639
Realized and unrealized gains	23,191,812	5,527,992
Management and performance fees	(4,840,625)	(2,399,404)
Purchases	24,000,000	1,115,012
Sales	(521,443)	(420,093)
Balance, end of year	$ 117,419,890	$ 75,590,146

The Organization uses the Net Asset Value per share or its equivalent ("NAV") 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, 2013 and 2012:

2013

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Level 2	$ 126,250,285	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	$ 117,419,890	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.

2012

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Level 2	$ 97,304,396	4	$ -	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	$ 75,590,146	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, 2013 and 2012 consisted of the following:

	2013	2012
Property used in operations:		
Automobiles	$ 102,266	$ 102,266
Equipment	3,146,851	2,545,716
Furniture	924,348	911,798
Leasehold improvements	8,037,656	7,714,579
Building improvements	166,978	166,978
Land	6,800,000	6,800,000
Buildings	48,939,066	48,938,594
Construction in progress (Note 13)	81,144,371	52,762,726
	149,261,536	119,942,657
Less: accumulated depreciation and amortization	(16,603,071)	(11,984,337)
	$ 132,658,465	$ 107,958,320

Depreciation and amortization expenses for 2013 and 2012 were $4,618,734 and $1,520,322, respectively.

Included in the amount noted above for 2013 is additional depreciation expense of approximately $2.8 million recorded by the Organization following an analysis and a correction of an error in the estimated useful lives of certain leasehold improvements.

8. CONSULTING AND PROFESSIONAL FEES

The Organization paid fees to individuals and other agencies for administrative services as well as providing services to children, including a mentor program, arts and health workshops, and program documentation. The total amounts paid for these services for the years ended June 30, 2013 and 2012 were $3,972,585 and $3,338,634 and are included in consulting and professional fees.

9. 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, 2013 and 2012 totaled $779,141 and $826,993, respectively.

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. The amounts contributed by the Organization vest after 5 years from the date of the initial contribution. At June 30, 2013 and 2012, the total liability relating to this plan was $6,221,153 and $5,158,617, respectively. The total expense recorded within the consolidated statements of activities totaled $1,153,025 and $803,922 for the years ended June 30, 2013 and 2012, respectively.

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 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.

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. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled $236,994 as of June 30, 2012. These deficiencies resulted primarily from unfavorable market fluctuations. There were no such deficiencies as of June 30, 2013.

The Organization classifies as permanently restricted net assets (a) the original value of the 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 fund. 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.

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 table summarizes endowment net asset composition by type of fund as of June 30, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted (endowment)	$ -	$ 294,604	$ 1,637,962	$ 1,932,566
Board designated (quasi)	226,904,995	-	-	226,904,995
Total	$ 226,904,995	$ 294,604	$ 1,637,962	$ 228,837,561

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted (endowment)	$ (236,994)	$ -	$ 1,621,162	$ 1,384,168
Board designated (quasi)	163,618,071	-	-	163,618,071
Total	$ 163,381,077	$ -	$ 1,621,162	$ 165,002,239

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 163,381,077	$ -	$ 1,621,162	$ 165,002,239
Contributions	-	-	16,800	16,800
Net appreciation (realized and unrealized)	36,581,943	319,604	-	36,901,547
Transfers in	26,941,975		-	26,941,975
Appropriation of endowment assets for expenditure	-	(25,000)	-	(25,000)
Endowment net assets, end of year	$ 226,904,995	$ 294,604	$ 1,637,962	$ 228,837,561

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 140,613,742	$ -	$ -	$ 140,613,742
Contributions	-	-	1,621,162	1,621,162
Net appreciation (realized and unrealized)	8,560,198	-	-	8,560,198
Transfers in	14,207,137	-	-	14,207,137
Endowment net assets, end of year	$ 163,381,077	$ -	$ 1,621,162	$ 165,002,239

Temporarily and Permanently Restricted

Net assets released from restriction for the years ended June 30, 2013 and 2012 were as follows:

	2013	2012
Purpose restriction satisfied	$ 6,018,597	$ -
Timing restriction satisfied	41,318,265	45,630,949
Total net assets released from restrictions	$ 47,336,862	$ 45,630,949

Restricted net assets available for various programs as of June 30, 2013 and 2012 were as follows:

	2013	2012
Temporary purpose restrictions	$ 16,342,750	$ 20,718,597
Temporary time restrictions	76,665,258	116,117,195
Total temporary restrictions	93,008,008	136,835,792
Permanent restrictions	1,637,962	1,621,162
	$ 94,645,970	$ 138,456,954

The income from permanently restricted net assets is restricted for providing partial college scholarships to graduating Promise Academy 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, 2013, minimum future annual rental obligations under the terms of these leases are as follows:

Year	
2014	$ 2,925,631
2015	2,568,389
2016	2,394,850
2017	1,673,106
2018	969,713
Thereafter	2,131,760
	$ 12,663,449

Rent expense for the years ended June 30, 2013 and 2012 was $3,128,267 and $3,030,432, 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. The building is occupied by the HCZ Promise Academy Charter Schools, HCZ, and the Children's Health Fund ("CHF"), an unrelated party. CHF holds a 10-year lease agreement with Rheedlen which expires on December 31, 2015, for the use of clinic space in exchange for medical services it provides to the students of Promise Academy 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, 2013, 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, 2013, and 2012, money invested in limited partnerships and managed by members of the Board totaled $33,188,386 and $31,579,708, 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 a commitment letter 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. These services include financial management, social, library, technology, fundraising, public relations, and teaching assistance services. In addition, HCZ committed to provide Promise Academy I with the use of space in its premises located at 35 East 125th Street, New York, NY. As of July 1, 2009, Promise Academy I renewed its charter for an additional five year term and HCZ renewed its commitment to the School to provide the same level of services through August 2014. As of April 15, 2010, Promise Academy II renewed its charter for an additional five year term and HCZ renewed its commitment to the School to provide the same level of services through March 2015. 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 services provided to the PACS for the years ended June 30, 2013 and 2012 amounted to $7,641,345 and $8,737,032, respectively.

457(f) Plan

The Organization includes, within its 457(f) plan, employees of the Promise Academy Charter Schools and provides PACS with an annual subsidy to cover this cost. PACS are two high-quality charter schools affiliated with the Organization. The amount due to PACS at June 30, 2013 and 2012 was $9,007,296 and $6,747,244, respectively. The total expense recorded within the consolidated statements of activities for the annual subsidy to cover the cost totaled $1,905,000 and $1,130,118 for the years ended June 30, 2013 and 2012, respectively.

New Building Construction

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 will be transferred to the New York City Department of Education (the "DOE") and leased back to the Organization. Although the lease will be between the Organization and the DOE, the lease agreement will designate the Promise Academy Charter School (the "School") as the initial user of the premises.

The Organization is accounting for this arrangement as an agency transaction on behalf of the School, the SCA and the DOE. As such, the Organization is capitalizing the full cost of construction and recording 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 financial statements.

Construction in progress for the School Project at June 30, 2013 and 2012 was $81,144,371 and $52,762,726, respectively. Other liabilities arising from the School Project at June 30, 2013 and 2012, representing SCA and donor funding, were $87,677,625 and $66,528,562.

Upon the transfer and execution of the leases, the Organization will derecognize the capitalized cost of construction of the School and the corresponding liability pertaining to SCA and donor funding, and record a right of use asset and contribution income for the fair value of the lease from DOE. In addition the Organization will record grant expense and a right of use liability for the fair value of the lease between the Organization and the School.

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 School Project that do not add value to the School Project and are therefore not being capitalized as construction in progress by the Organization. At June 30, 2013 and 2012, the Organization was owed $983,722 and $2,671,032, respectively, in reimbursements from NYCHA, which has been included in other receivables.

14. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 13, 2014, 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, 2013

	Program Services					Supporting Services		
	Harlem Children's Zone	Preventive Services	Beacon and After School Services	Head Start Program	Total	Management and General	Fundraising	Total
Salaries	$ 33,251,217	$ 3,446,237	$ 5,507,860	$ 950,549	$ 43,155,863	$ 2,013,002	$ 823,927	$ 45,992,792
Payroll taxes	3,611,742	331,026	606,877	95,276	4,644,921	207,043	63,319	4,915,283
Employee benefits	5,036,851	849,685	577,829	283,542	6,747,907	271,749	102,240	7,121,896
Retirement plan contribution	466,961	51,566	74,587	19,840	612,954	153,118	13,069	779,141
Total personnel services	42,366,771	4,678,514	6,767,153	1,349,207	55,161,645	2,644,912	1,002,555	58,809,112
Admissions	398,015	16,490	84,243	4,999	503,747	13,963	460	518,170
Automobile	-	-	-	-	-	16,541	-	16,541
Bad debt	-	-	-	-	-	100,000	-	100,000
Bank fees	-	-	-	-	-	7,601	-	7,601
Client travel	1,034,350	12,813	58,921	12,448	1,118,532	1,910	200	1,120,642
Consulting and professional fees	1,932,589	240,411	26,850	24,332	2,224,182	1,728,490	19,914	3,972,586
Depreciation	1,098,115	103,665	147,200	33,731	1,382,711	407,229	23,188	1,813,128
Education supplies	413,379	193	41,131	14,824	469,527	48,539	17	518,083
Equipment rental and maintenance	476,981	27,699	55,053	15,973	575,706	114,979	-	690,685
Food	2,069,622	5,884	118,662	89,202	2,283,370	47,768	5,166	2,336,304
Fundraising costs	-	-	-	-	-	-	2,248	2,248
Insurance	198,275	18,718	26,578	6,091	249,662	73,528	4,187	327,377
Occupancy	3,407,916	465,959	249,421	256,565	4,379,861	1,089,909	-	5,469,770
Office supplies	450,334	11,727	20,940	5,269	488,270	47,070	280	535,620
Payroll processing	352,028	33,232	47,189	10,814	443,263	130,546	7,434	581,243
Postage	1,684	504	32	129	2,349	31,182	3,455	36,986
Printing, publications, and memberships	103,962	7,251	12,184	9,068	132,465	112,905	11,233	256,603
Software	237,428	1,734	1,624	2,045	242,831	107,567	25,196	375,594
Special client services/incentives	1,179,416	72,789	23,205	7,359	1,282,769	12,949	-	1,295,718
Promise Academy incentive provision	1,905,000	-	-	-	1,905,000	-	-	1,905,000
Staff travel	136,255	41,633	5,585	1,959	185,432	42,928	16,673	245,033
Stipends	1,554,879	-	533,901	-	2,088,780	-	-	2,088,780
Investment management fees (contributed services)	-	-	-	-	-	931,378	-	931,378
Telephone	180,107	49,133	30,634	5,558	265,432	287,860	5,059	558,351
Training	230,805	7,519	608	5,853	244,785	32,301	-	277,086
Miscellaneous	477,436	1,643	9,205	1,960	490,244	351,868	10,866	852,978
Total other than personnel	17,838,576	1,118,997	1,493,166	508,179	20,958,918	5,739,011	135,576	26,833,505
Total expenses	$ 60,205,347	$ 5,797,511	$ 8,260,319	$ 1,857,386	$ 76,120,563	$ 8,383,923	$ 1,138,131	$ 85,642,617

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, 2012

	Program Services					Supporting Services		
	Harlem Children's Zone	Preventive Services	Beacon and After School Services	Head Start Program	Total	Management and General	Fundraising	Total
Salaries	$ 37,338,676	$ 3,182,785	$ 6,304,522	$ 1,024,116	$ 47,850,099	$ 1,497,048	$ 956,077	$ 50,303,224
Payroll taxes	4,082,881	327,609	699,587	100,534	5,210,611	159,478	70,398	5,440,487
Employee benefits	5,117,525	736,382	604,656	246,057	6,704,620	222,838	118,450	7,045,908
Retirement plan contribution	520,726	47,517	85,134	15,337	668,714	129,668	28,611	826,993
Total personnel services	47,059,808	4,294,293	7,693,899	1,386,044	60,434,044	2,009,032	1,173,536	63,616,612
Admissions	446,166	12,889	99,172	8,983	567,210	2,591	-	569,801
Automobile	-	-	-	-	-	12,323	-	12,323
Bank fees	198	-	-	34	232	14,892	-	15,124
Client travel	959,871	17,182	57,101	13,061	1,047,215	7,662	-	1,054,877
Consulting and professional fees	1,482,696	126,586	60,140	37,917	1,707,339	1,618,869	12,426	3,338,634
Depreciation	1,049,023	91,219	152,032	30,406	1,322,680	167,236	30,406	1,520,322
Education supplies	498,779	5,006	25,905	10,032	539,722	24,195	1,161	565,078
Equipment rental and maintenance	511,507	26,252	78,932	9,959	626,650	197,945	2,319	826,914
Food	2,282,585	8,658	130,838	89,522	2,511,603	34,925	231	2,546,759
Fundraising costs	-	-	-	-	-	-	7,874	7,874
Insurance	160,796	13,982	23,304	4,661	202,743	25,634	4,661	233,038
Occupancy	3,530,038	438,499	238,836	256,841	4,464,214	1,106,345	-	5,570,559
Office supplies	505,314	18,646	22,631	5,511	552,102	75,570	3,227	630,899
Payroll processing	319,908	26,996	44,993	11,224	403,121	49,492	8,999	461,612
Postage	3,008	457	60	155	3,680	31,922	7,767	43,369
Printing, publications, and memberships	124,444	8,032	13,915	8,202	154,593	117,403	10,698	282,694
Software	120,035	5,243	4,880	2,621	132,779	197,363	15,385	345,527
Special client services/incentives	1,353,020	53,356	50,400	6,422	1,463,198	11,268	100	1,474,566
Promise Academy incentive provision	1,130,118	-	-	-	1,130,118	-	-	1,130,118
Staff travel	84,164	34,691	3,714	1,722	124,291	37,708	35,819	197,818
Stipends	2,655,291	-	762,969	-	3,418,260	-	-	3,418,260
Investment management fees (contributed services)	-	-	-	-	-	1,387,832	-	1,387,832
Telephone	235,795	55,080	35,864	7,679	334,418	197,879	8,193	540,490
Training	236,469	2,392	6,150	8,219	253,230	26,910	-	280,140
Miscellaneous	252,819	2,274	20,978	2,680	278,751	329,821	29,681	638,253
Total other than personnel	17,942,044	947,440	1,832,814	515,851	21,238,149	5,675,785	178,947	27,092,881
Total expenses	$ 65,001,852	$ 5,241,733	$ 9,526,713	$ 1,901,895	$ 81,672,193	$ 7,684,817	$ 1,352,483	$ 90,709,493

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