Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

HARLEM CHILDREN'S ZONE, INC. AND AFFILIATE

As of June 30, 2010

HARLEM CHILDREN'S ZONE, INC. AND AFFILIATE

TABLE OF CONTENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated statement of financial position of Harlem Children's Zone and Affiliate ("HCZ") as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of HCZ's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HCZ's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HCZ as of June 30, 2010 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on HCZ's basic consolidated financial statements as of and for the year ended June 30, 2010 taken as a whole. The supplementary information, included on page 15, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
May 16, 2011

HARLEM CHILDREN'S ZONE, INC. AND AFFILIATE
Consolidated Statement of Financial Position
As of June 30, 2010

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 13,568,404
Grants and contributions receivable (Note 5)	2,646,055
Other receivables	205,453
Prepaid expenses	781,713
Total current assets	17,201,625
Grants and contributions receivable (Note 5)	290,833
Investments (Note 6)	131,922,081
Security deposits	398,512
Property and equipment, net (Note 7)	43,083,509
Total assets	$ 192,896,560
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 4,005,969
Deferred compensation payable (Note 10)	4,676,460
Due to related party (Note 13)	4,391,564
Total liabilities	13,073,993
Commitments and contingencies (Note 12)	
NET ASSETS (Notes 3 and 11)	
Unrestricted	
Board-designated	131,922,081
Property and equipment	43,083,509
Undesignated	3,291,977
Total unrestricted	178,297,567
Temporarily restricted	1,525,000
Total net assets	179,822,567
Total liabilities and net assets	$ 192,896,560

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

HARLEM CHILDREN'S ZONE, INC. AND AFFILIATE
Consolidated Statement of Activities
For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
Public support:			
Grants and contributions	$ 36,315,799	$ 17,940,293	$ 54,256,092
Government grants	9,787,205	-	9,787,205
Special event	7,320,626	-	7,320,626
Interest income	94,642	-	94,642
Other income	1,355,315	-	1,355,315
Loss on investments, net	(4,115,585)	-	(4,115,585)
	50,758,002	17,940,293	68,698,295
Net assets released from restrictions:			
Purpose restrictions satisfied	10,880,293	(10,880,293)	-
Time restrictions satisfied	11,185,000	(11,185,000)	-
Total public support and revenue	72,823,295	(4,125,000)	68,698,295
EXPENSES			
Program services:			
Harlem Children's Zone	48,770,127	-	48,770,127
Preventive services	6,688,507	-	6,688,507
Beacon and after school services	8,038,477	-	8,038,477
Head Start Program	1,751,533	-	1,751,533
Total program services	65,248,644	-	65,248,644
Supporting services:			
Management and general	4,158,402	-	4,158,402
Fundraising	1,691,439	-	1,691,439
Total supporting services	5,849,841	-	5,849,841
Total expenses	71,098,485	-	71,098,485
Changes in net assets	1,724,810	(4,125,000)	(2,400,190)
Net assets, beginning of year, as previously reported	184,338,442	5,650,000	189,988,442
Prior period adjustment (Note 3)	(7,765,685)	-	(7,765,685)
Net assets, beginning of year, as restated	176,572,757	5,650,000	182,222,757
Net assets, end of year	$ 178,297,567	$ 1,525,000	$ 179,822,567

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

HARLEM CHILDREN'S ZONE, INC. AND AFFILIATE
Consolidated Statement of Cash Flows
For the year ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	$ (2,400,190)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,507,630
Net realized and unrealized gain on investments	(87,669)
Write-off of investments	4,203,254
Decrease in grants and contributions receivable	4,225,962
Increase in other receivables	(196,597)
Increase in prepaid expenses	(181,424)
Increase in accounts payable and accrued expenses	496,732
Increase in deferred compensation payable	469,899
Increase in due to related party	1,729,440
Net cash provided by operating activities	9,767,037
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(1,156,447)
Purchases of investments	(17,576,750)
Sales of investments	6,105,234
Security deposits paid	(52,827)
Net cash used in investing activities	(12,680,790)
Decrease in cash and cash equivalents	(2,913,753)
Cash and cash equivalents, beginning of year	16,482,157
Cash and cash equivalents, end of year	$ 13,568,404

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

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 15 centers serve 23,500 children and adults, including 10,500 at-risk children. 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" or the "Affiliate") is an affiliate of HCZ, its sole member. Rheedlen was organized in the State of New York in June 2000 under Section 203 of the Limited Liability Company Law of the State of New York to acquire, own, and operate real property. Rheedlen is the owner of real property that is used by HCZ.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In June 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105 was issued, which established the FASB Accounting Standards Codification as the source of authoritative U.S. generally accepted accounting principles. HCZ has applied this guidance in the preparation of HCZ's consolidated financial statements as of and for the year ended June 30, 2010.

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 Rheedlen report information regarding their consolidated financial position and changes in net assets according to three classes of net assets, as follows:

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

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

<u>Permanently restricted net assets</u>
Net assets which include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors. At June 30, 2010, HCZ did not possess any permanently restricted net assets.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of HCZ and Affiliate. Material intercompany transactions and balances have been eliminated in consolidation.

Functional Expenses

The costs of providing the various programs and other activities of HCZ and Affiliate have been summarized on a functional basis in the accompanying consolidated statement 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 HCZ staff.

Cash and Cash Equivalents

HCZ 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.

Allowance for Doubtful Accounts

A provision for estimated uncollectible accounts is based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

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 statement 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.

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
Building improvements	31.5 years
Buildings	40 years

Contributions

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

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires (i.e., when a stipulated time restriction ends and/or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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) 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

HCZ adopted ASC 740-10, FIN 48 as of July 1, 2009. ASC 740-10 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. HCZ is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ending 2006, 2007 and 2008 are still open to audit for both federal and state purposes. The adoption of ASC 740-10 did not have a material impact on HCZ's consolidated financial statements.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, Improving Disclosures about Fair Value Measurements. This amends ASC 820, Fair Value Measurements and Disclosures, to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. These disclosures will be effective for HCZ for fiscal 2011. In addition, this guidance requires a separate presentation of purchases and sales in the Level 3 asset reconciliation which will be effective for HCZ for fiscal 2011. The adoption of this guidance in subsequent years is not expected to have a material effect on HCZ's consolidated financial statements.

3. PRIOR PERIOD ADJUSTMENTS

Management determined that HCZ's consolidated financial statements as of June 30, 2009 contained the following errors: (1) an understatement of deferred compensation payable of $4,206,561 relating to the amounts owed to HCZ employees who are included within HCZ's 457(f) plan (Note 10), (2) an understatement of due to related parties of $2,662,124 relating to the amounts owed to related parties (Promise Academy Charter Schools) that are included within HCZ's 457(f) plan (Note 13), (3) an understatement of accounts payable and accrued expenses of $634,000 relating to a bonus accrual, and (4) an understatement of accounts payable and accrued expenses of $263,000 relating to the straight-lining of lease payments. Unrestricted net assets as of July 1, 2009, have been reduced by $7,765,685 to correct the aggregate effect of the errors, of which $1,023,561 related to a reduction of the changes in net assets for the fiscal year ended June 30, 2009.

4. CONCENTRATION OF CREDIT RISK

HCZ and Affiliate 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 HCZ and Affiliate to credit risk. However, HCZ and Affiliate monitor this risk on a regular basis.

5. GRANTS AND CONTRIBUTIONS RECEIVABLE

Contributions that are expected to be collected within one year are recorded at net realizable value. 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 1.2% applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue.

Grants and contributions receivable at June 30, 2010 were collectible as follows:

Less than one year	$ 2,646,055
More than one year (net of present value discount of $3,490)	290,833
Total	$ 2,936,888

6. INVESTMENTS

Investments held at June 30, 2010 were in limited partnership hedge funds with a fair value of $131,922,081 and were all considered Level 3 investments in the fair value hierarchy. 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.

HCZ intends to maintain the investments as a reserve for capital expansion to be determined by the Board of Trustees (the "Board").

The Financial Accounting Standards Board ("FASB") issued Topic 820 under the FASB Accounting Standards Codification which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard 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.

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 I include listed equities held in the name of HCZ, and exclude listed equities and other securities held indirectly through commingled funds. HCZ did not hold any Level 1 investments at June 30, 2010.

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 reporting date, and fair value is determined through the use of models or other valuation methodologies. HCZ did not hold any Level 2 investments at June 30, 2010.

Level 3 - Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset 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.

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 HCZ. HCZ 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 HCZ's perceived risk of that instrument.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include hedge funds, private equity and real estate investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for these securities, HCZ uses one or more valuation techniques (e.g., the market approach, the income approach or the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

In September 2009, the FASB issued FASB Accounting Standards Update No. 2009-12, Investment in Certain Entities That Calculate Net Asset Value per Share ("ASU 2009-12"). ASU 2009-12 (formerly FAS 157-g) amended FASB Statement No. 157, Fair Value Measurements, added disclosures, and provided guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share ("NAV") to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accountants ("AICPA") Guide - Investment Companies in arriving at their reported NAV. All Level 3 investments of HCZ follow the AICPA Guide. HCZ adopted ASU 2009-12 effective July 1, 2009. The adoption of this guidance did not have a material effect on HCZ's consolidated financial statements.

The following is a rollforward of HCZ's Level 3 investments for the year ended June 30, 2010:

Beginning balance as of June 30, 2009	$ 124,566,150
Change in unrealized gains	89,506
Realized loss	(1,837)
Write-off of investment	(4,203,254)
Net purchases/issuances	11,471,516
Ending balance as of June 30, 2010	$ 131,922,081

Marketable and non-marketable alternative investments at June 30, 2010, consisted of the following:

	Number of Funds	Fair Value
Alternative investments:		
Non-marketable alternative investments:		
Limited Partnerships (a)	6	$ 131,922,081

(a) This category includes investments in a limited partnership that invests primarily in international equity securities. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

HCZ uses the NAV to determine the fair value of all 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. Per ASU 2009-12, the following table lists investments by major category:

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Limited partnerships	$ 131,922,081	$ -	Quarterly/ Semi-annually	15 to 30 days

During 2009, Ariel Fund Limited, in which HCZ is an investor, was placed into receivership by the Supreme Court of the State of New York. Investments of Ariel Fund Limited included Bernard L. Madoff Investment Securities, which was estimated at approximately 20% to 30% of Ariel Fund Limited's investments. As a result, HCZ wrote off $3,516,355 of its investment related to Ariel Fund Limited, leaving a balance of $5,666,000 as of June 30, 2009. During fiscal 2010, HCZ wrote off an additional $4,203,254 , bringing the balance of this investment to $1,462,746 as of June 30, 2010. A payment equal to this balance was subsequently received in fiscal 2011.

Investment Return

Components of investment return representing total return on investments and interest-bearing cash and cash equivalents for the year ended June 30, 2010 are as follows:

Realized losses, net	$ (1,837)
Loss on Ariel fund investment	(4,203,254)
Realized investment losses	(4,205,091)
Unrealized appreciation	89,506
Total investment loss	$ (4,115,585)

7. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2010 consisted of the following:

Property used in operations:	
Automobiles	$ 66,075
Equipment	2,400,719
Furniture	726,232
Leasehold improvements	7,294,941
Buildings	41,579,457
	52,067,424
Less: accumulated depreciation and amortization	(8,983,915)
	$ 43,083,509

Depreciation and amortization expenses for 2010 were $1,507,630.

8. CONSULTING AND PROFESSIONAL FEES

HCZ and Affiliate paid fees to individuals and other agencies for providing services to children, including a mentor program, arts and health workshops, and program documentation. The total amounts paid for these services for the year ended June 30, 2010 were $2,190,416, which is included in consulting and professional fees.

9. PROFIT-SHARING PLAN

HCZ 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. HCZ makes discretionary contributions to the plan, which for the year ended June 30, 2010 were $779,519.

10. 457(F) PLAN

HCZ 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 HCZ vest after 5 years from the date of the initial contribution. At June 30, 2010, the total liability relating to this plan was $4,676,460.

11. NET ASSETS AND ENDOWMENTS

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, or as designated by the Board of Trustees.

Board-Designated

The Board established a capital 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.

Temporarily Restricted

Temporarily restricted net assets were available for the following purposes or periods:

Purpose restrictions	$ 1,025,000
Time restrictions	500,000
	$ 1,525,000

HCZ's endowment assets consist of Board-designated funds that HCZ holds at the discretion of the Board of Trustees. HCZ classifies net assets as (1) the original value of Board-designated funds and (2) accumulations of investment appreciation/depreciation retained in the fund.

The changes in unrestricted board designated net assets for the year ended June 30, 2010 were as follows:

Endowment net assets, beginning of the year	$ 124,566,150
Net investment gain	87,669
Investment write-off	(4,203,254)
Purchases, issuances	11,471,516
Endowment net assets, end of year	$ 131,922,081

12. COMMITMENTS AND CONTINGENCIES

Lease Commitment

HCZ leases space and equipment at various locations for its programs and administrative activities under non-cancellable operating leases expiring through May 2018.

As of June 30, 2010, minimum future annual rental obligations under the terms of these leases are as follows:

Year	
2011	$ 1,889,072
2012	1,754,579
2013	1,675,117
2014	1,532,357
Thereafter	4,409,313
	$ 11,260,438

Rent expense for the year ended June 30, 2010 was $2,139,788.

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 HCZ 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 Promise Acadmies, 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 HCZ. Although HCZ's liability with respect to such matters cannot be ascertained at June 30, 2010, 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 HCZ's financial position or the results of its operations.

13. RELATED-PARTY TRANSACTIONS

A significant portion of the limited partnerships that HCZ has invested in are managed by members of the Board, who receive no compensation for their services. In addition, HCZ receives a significant amount of contributions from members of the Board.

HCZ includes, within its 457(f) plan, employees of the Promise Academy Charter Schools ("PACS") and provides PACS with an annual subsidy to cover this cost. PACS are two high-quality charter schools affiliated with HCZ. The amount due to PACS at June 30, 2010 was $4,391,564.

14. SUBSEQUENT EVENTS

HCZ has evaluated subsequent events through May 16, 2011, which is the date the financial statements were available to be issued.

In September 2010, HCZ received a multi-year grant of $20,000,000 for a capital campaign to construct a new building. The building is intended to improve the educational prospects for the children in the public housing projects.

In September 2010, the State of New York passed legislation for the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). This act will replace the Uniform Management of Institutional Funds Act ("UMIFA"). UPMIFA states that assets should be invested prudently in diversified investments seeking both growth and income. It eliminates the "historic dollar value" approach of UMIFA and provides guidance that eliminates the need for a floor on spending. Specifically, UPMIFA states that an organization "may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines to be prudent for uses, benefits, purposes and duration for which the endowment fund is established." HCZ will need to apply the provisions of UPMIFA in fiscal 2011.

On November 1, 2010, HCZ fully redeemed its investment in the "No Margin Fund." The redemption occurred in two installments. On November 1, 2010, HCZ received $98,962,000 and on November 29, 2010, HCZ received $4,125,716 for a total redemption of $103,087,716. These funds were invested in the No Margin Fund Limited Partnership which held investments in equities, warrants, bonds, and other fixed-income securities.

SUPPLEMENTARY INFORMATION

HARLEM CHILDREN'S ZONE, INC. AND AFFILIATE
Consolidated Schedule of Functional Expenses
For the year ended June 30, 2010

	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	$ 25,601,111	$ 3,977,426	$ 5,142,132	$ 814,152	$ 35,534,821	$ 1,040,896	$ 1,241,964	$ 37,817,681
Payroll taxes	2,639,152	334,090	517,874	75,218	3,566,334	98,367	86,992	3,751,693
Employee benefits	3,922,541	896,784	540,066	188,265	5,547,656	161,826	99,334	5,808,816
Retirement plan contribution	485,740	107,540	97,039	14,718	705,037	27,988	46,494	779,519
Total personnel services	32,648,544	5,315,840	6,297,111	1,092,353	45,353,848	1,329,077	1,474,784	48,157,709
Admissions	271,458	5,713	72,866	3,850	353,887	-	-	353,887
Automobile	3,886	633	750	130	5,399	333	-	5,732
Bank fees	750	75	144	17	986	28,138	-	29,124
Client travel	350,483	15,785	63,320	14,737	444,325	-	-	444,325
Consulting and professional fees	1,256,756	189,254	40,070	126,535	1,612,615	566,885	10,916	2,190,416
Depreciation	1,022,099	166,418	197,138	34,197	1,419,852	41,608	46,170	1,507,630
Education supplies	509,246	1,962	33,824	31,525	576,557	-	-	576,557
Equipment rental and maintenance	531,115	56,911	79,873	25,465	693,364	275,035	-	968,399
Food	1,864,073	13,393	97,188	88,289	2,062,943	4,327	1,241	2,068,511
Fundraising costs	-	-	-	-	-	-	1,032	1,032
Insurance	118,942	19,366	22,941	3,980	165,229	4,842	5,373	175,444
Occupancy	2,377,416	426,592	213,444	210,451	3,227,903	793,158	-	4,021,061
Office supplies	340,851	30,749	54,605	14,635	440,840	102,921	1,315	545,076
Payroll processing	7,490	-	-	2,154	9,644	309,137	-	318,781
Postage	15,552	2,859	1,832	109	20,352	28,430	5,606	54,388
Printing, publications, and memberships	124,156	10,896	8,011	1,309	144,372	99,235	17,737	261,344
Software	159,054	3,403	-	1,680	164,137	121,317	2,481	287,935
Special client services/incentives	1,131,578	25,813	27,512	1,743	1,186,646	-	-	1,186,646
PA incentive provision	1,729,440	-	-	-	1,729,440	-	-	1,729,440
Staff travel	44,065	39,063	7,176	1,875	92,179	45,015	25,566	162,760
Stipends	1,545,700	-	415,803	-	1,961,503	-	-	1,961,503
Investment management fees (contributed services)	1,750,757	285,058	337,678	58,577	2,432,070	71,272	79,084	2,582,426
Telephone	236,683	57,069	38,531	8,682	340,965	114,244	8,548	463,757
Training	218,733	14,557	13,853	22,617	269,760	26,765	195	296,720
Miscellaneous	511,300	7,098	14,807	6,623	539,828	196,663	11,391	747,882
Total other than personnel	16,121,583	1,372,667	1,741,366	659,180	19,894,796	2,829,325	216,655	22,940,776
Total expenses	$ 48,770,127	$ 6,688,507	$ 8,038,477	$ 1,751,533	$ 65,248,644	$ 4,158,402	$ 1,691,439	$ 71,098,485

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