Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

As of June 30, 2017 and 2016

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, 2017 and 2016, 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 the Organization as of June 30, 2017 and 2016, 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, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

New York, New York
December 21, 2017

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of June 30, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,060,740	$ 15,068,525
Grants and contributions receivable	7,908,450	7,352,717
Other receivables	61,996	1,450
Prepaid expenses	1,079,896	811,316
Total current assets	20,111,082	23,234,008
Grants and contributions receivable, net of current portion	2,303,082	3,961,501
Investments	475,957,289	420,094,255
Security deposits	728,762	724,611
Property and equipment, net	127,877,616	129,203,092
Total assets	$ 626,977,831	$ 577,217,467
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 7,595,495	$ 7,292,566
Refundable advance	7,500,000	7,500,000
Deferred compensation payable	1,074,503	1,057,108
Due to related party - 457(f) plan	1,092,338	1,057,287
Grant payable - contributed space	1,831,979	1,831,979
Total current liabilities	19,094,315	18,738,940
Deferred compensation payable, net of current portion	4,609,923	4,591,236
Due to related party - 457(f) plan, net of current portion	8,027,191	9,277,351
Grant payable - contributed space, net of current portion	65,951,246	67,783,225
Total liabilities	97,682,675	100,390,752
Commitments and contingencies		
NET ASSETS		
Unrestricted:		
Board-designated	433,232,348	398,314,120
Undesignated	78,342,857	57,139,663
Total unrestricted	511,575,205	455,453,783
Temporarily restricted	13,079,989	16,732,970
Permanently restricted	4,639,962	4,639,962
Total net assets	529,295,156	476,826,715
Total liabilities and net assets	$ 626,977,831	$ 577,217,467

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
OPERATING REVENUES				
Grants and contributions	$ 94,999,633	$ 5,425,237	$ -	$ 100,424,870
Government grants	11,491,594	-	-	11,491,594
Special event, net of expenses totaling $443,019	9,940,271	-	-	9,940,271
Interest income	11,213	-	-	11,213
Other income	861,196	-	-	861,196
Gain (loss) on investments, net	30,509,517	(64,989)	-	30,444,528
	147,813,424	5,360,248	-	153,173,672
Net assets released from restrictions	9,013,229	(9,013,229)	-	-
Total operating revenues	156,826,653	(3,652,981)	-	153,173,672
OPERATING EXPENSES				
Program services:				
Early childhood	12,357,816	-	-	12,357,816
In-school and afterschool programs	44,079,930	-	-	44,079,930
College programs	14,572,952	-	-	14,572,952
Preventive services	7,093,466	-	-	7,093,466
Other community services	12,435,703	-	-	12,435,703
Total program services	90,539,867	-	-	90,539,867
Supporting services:				
Management and general	9,705,596	-	-	9,705,596
Fundraising	1,843,293	-	-	1,843,293
Total supporting services	11,548,889	-	-	11,548,889
Total operating expenses	102,088,756	-	-	102,088,756
NON-OPERATING ACTIVITIES				
Other income - 457(f) plan	1,383,525	-	-	1,383,525
Change in net assets	56,121,422	(3,652,981)	-	52,468,441
Net assets, beginning of year	455,453,783	16,732,970	4,639,962	476,826,715
Net assets, end of year	$ 511,575,205	$ 13,079,989	$ 4,639,962	$ 529,295,156

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	(17,446,503)	(55,320)	-	(17,501,823)
	61,530,523	11,033,667	1,001,000	73,565,190
Net assets released from restrictions	14,269,315	(14,269,315)	-	-
Total operating revenues	75,799,838	(3,235,648)	1,001,000	73,565,190
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	13,225,561	-	-	13,225,561
Total program services	86,036,311	-	-	86,036,311
Supporting services:				
Management and general	9,863,982	-	-	9,863,982
Fundraising	1,834,374	-	-	1,834,374
Total supporting services	11,698,356	-	-	11,698,356
Total operating expenses	97,734,667	-	-	97,734,667
NON-OPERATING ACTIVITIES				
Other income - 457(f) plan	3,994,683	-	-	3,994,683
Change in net assets	(17,940,146)	(3,235,648)	1,001,000	(20,174,794)
Net assets, beginning of year	473,393,929	19,968,618	3,638,962	497,001,509
Net assets, end of year	$ 455,453,783	$ 16,732,970	$ 4,639,962	$ 476,826,715

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 52,468,441	$ (20,174,794)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, net	2,599,016	2,768,129
(Gain) loss on investments, net	(30,444,528)	17,501,823
Changes in assets and liabilities		
Decrease (increase) in assets held for deferred compensation - 457(f) plan	108,861	(780,286)
Decrease in grants and contributions receivable, net	1,102,686	8,459,798
(Increase) decrease in other receivables	(60,546)	833,993
(Increase) decrease in prepaid expenses	(268,580)	163,309
Increase (decrease) in accounts payable and accrued expenses	302,929	(1,270,088)
Increase in refundable advance	-	7,500,000
Increase (decrease) in deferred compensation payable	36,082	(1,521,055)
Decrease in due to related party - 457(f) plan	(1,215,109)	(1,158,221)
Net cash provided by operating activities	24,629,252	12,322,608
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,105,521)	(2,143,036)
Purchases of investments	(46,220,225)	(51,590,915)
Sales of investments	41,667,647	23,709,257
Change in cash held for investments	(20,974,787)	19,687,428
Security deposits (paid) refunded	(4,151)	1,801
Net cash used in investing activities	(28,637,037)	(10,335,465)
(Decrease) increase in cash and cash equivalents	(4,007,785)	1,987,143
Cash and cash equivalents, beginning of year	15,068,525	13,081,382
Cash and cash equivalents, end of year	$ 11,060,740	$ 15,068,525

The accompanying notes are an integral part of these consolidated financial 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 13,447 children and 14,126 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 are currently used by HCZ.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

Principles of Consolidation

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

Functional Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the accompanying consolidated statements of activities, which includes all operating expenses incurred 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. In addition to limited partnerships, the investment balance presented includes cash held as part of the Organization's investing strategies. Realized and unrealized gains and losses on investments are included in the accompanying consolidated 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 other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no observable pricing. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

The Organization follows guidance on measuring the fair value of alternative investments, which offers investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV"). Under this practical expedient, entities are permitted to use NAV without adjustment for certain 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. Additionally, investments measured using the NAV practical expedient are exempt 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 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.

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:

Asset Category	Estimated Useful Life
Automobiles	5 years
Computer software	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

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 a refundable advance on the accompanying consolidated statements 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.

Grant Expense

The Organization records grant expense as grants are approved and the related conditions on which they depend are satisfied.

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

HCZ 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 only be recognized in the consolidated financial statements 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 federal 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. HCZ has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated business income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. HCZ has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. In addition, HCZ has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

3. CONCENTRATIONS

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.

For the years ended June 30, 2017 and 2016, approximately 40% and 22%, respectively, of the Organization's grants and contributions revenues were received from one donor.

4. LINE OF CREDIT

During the year ended June 30, 2017, HCZ increased the limit on its existing commercial line of credit (on demand) with a major bank from $4,000,000 to $20,000,000. This line is collateralized by HCZ's unrestricted net assets. There were no drawings on the line of credit during the years ended June 30, 2017 or June 30, 2016. Drawings were subject to interest at a rate of 30-days LIBOR plus 0.945% through July 18, 2016. Effective July 19, 2016, drawings were subject to an interest rate of 30-days LIBOR plus 1.457% and effective February 22, 2017, drawings are subject to an interest rate of 30-days LIBOR plus 2.122% through February 22, 2019, the expiration date.

5. GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Grants and contributions receivable at June 30, 2017 and 2016 were due as follows:

	2017	2016
Less than one year	$ 7,908,450	$ 7,352,717
One to three years	2,474,973	4,300,000
Present value discount	(171,891)	(338,499)
	2,303,082	3,961,501
Total	$ 10,211,532	$ 11,314,218

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 2.39% to 3.08% at June 30, 2017 and 2016.

6. REFUNDABLE ADVANCE

The Organization received a $7,500,000 advance payment towards a conditional contribution in each of the years ended June 30, 2017 and 2016. These gifts are conditioned upon incurring costs towards the Organization's program initiatives within these respective periods, and as such has been recorded as a refundable advance in the accompanying consolidated statements of financial position.

7. INVESTMENTS

Investments held at June 30, 2017 and 2016 were in limited partnerships with a fair value of $449,561,490 and $414,673,245, respectively. These investments were exposed to various risks. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term. These changes could materially affect the amounts reported in the consolidated financial statements.

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

Realized and unrealized gains (losses), net of investment management and performance fees of $5,788,572 and $583,352 for the years ended June 30, 2017 and 2016 were $30,444,528 and $(17,501,823), respectively.

The following table summarizes the fair values of HCZ's investments as of June 30, 2017 and 2016:

	2017	2016
Cash held for investments	$ 26,395,799	$ 5,421,010
Limited partnerships, at fair value [(a)]	449,561,490	414,673,245
Total	$ 475,957,289	$ 420,094,255

(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.

In accordance with the Organization's policy and relevant accounting guidance, investments measured at fair value using NAV per share as a practical expedient are not categorized in the fair value hierarchy. As of June 30, 2017 and 2016, the Organization had no financial instruments that were required to be leveled.

The following tables list the non-marketable limited partnership alternative investments measured at fair value using NAV per share as a practical expedient as of June 30, 2017 and 2016:

2017

Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
$ 449,561,490	13	$ -	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.

2016

Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
$ 414,673,245	14	$ -	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, 2017 and 2016 consisted of the following:

	2017	2016
Property used in operations:		
Automobiles	$ 139,304	$ 102,266
Buildings	138,037,430	134,792,612
Building improvements	1,361,311	891,858
Computer software	189,061	189,061
Construction in progress	-	1,239,293
Equipment	4,546,272	4,257,102
Furniture	1,882,714	1,850,571
Land	6,800,000	6,800,000
Leasehold improvements	9,035,170	8,762,980
	161,991,262	158,885,743
Less: accumulated depreciation	(34,113,646)	(29,682,651)
	$ 127,877,616	$ 129,203,092

Gross depreciation expense for 2017 and 2016 totaled $4,430,995 and $4,600,108, respectively. However, for fiscal 2017 and 2016 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, 2017 and 2016 totaled $700,795 and $1,042,100, 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. At June 30, 2017 and 2016, the total liability relating to this plan, net of forfeiture allowance of $399,316 and $236,004, respectively, was $5,684,426 and $5,648,344, respectively. The total expense recorded within the consolidated statements of activities totaled $1,524,438 and $1,419,996 for the years ended June 30, 2017 and 2016, 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 began 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 $1,383,525 and $3,994,683 for fiscal years 2017 and 2016, 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 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 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, 2017 and 2016.

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, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted (endowment)	$ -	$ 846,445	$ 4,639,962	$ 5,486,407
Board designated (quasi)	433,232,348	-	-	433,232,348
Total	$ 433,232,348	$ 846,445	$ 4,639,962	$ 438,718,755

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted (endowment)	$ -	$ 1,077,329	$ 4,639,962	$ 5,717,291
Board designated (quasi)	398,314,120	-	-	398,314,120
Total	$ 398,314,120	$ 1,077,329	$ 4,639,962	$ 404,031,411

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 398,314,120	$ 1,077,329	$ 4,639,962	$ 404,031,411
Net appreciation (depreciation) (realized and unrealized)	30,447,220	(64,989)	-	30,382,231
Transfers in	4,471,008	-	-	4,471,008
Appropriation of endowment assets for expenditure	-	(165,895)	-	(165,895)
Endowment net assets, end of year	$ 433,232,348	$ 846,445	$ 4,639,962	$ 438,718,755

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	$ 398,314,120	$ 1,077,329	$ 4,639,962	$ 404,031,411

Temporarily and Permanently Restricted

Net assets released from restriction for the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Purpose restriction satisfied	$ 3,469,184	$ 4,614,316
Time restriction satisfied	5,544,045	9,654,999
Total net assets released from restrictions	$ 9,013,229	$ 14,269,315

Restricted net assets available for various programs as of June 30, 2017 and 2016 were as follows:

	2017	2016
Geoffrey Canada Scholarship Fund	$ 6,817,230	$ 6,092,847
Other temporary purpose restrictions	982,759	1,536,078
Temporary time restrictions	5,280,000	9,104,045
Total temporary restrictions	13,079,989	16,732,970
Permanent restrictions	4,639,962	4,639,962
	$ 17,719,951	$ 21,372,932

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, 2017, minimum future annual rental obligations under the terms of these leases are as follows:

Year	
2018	$ 3,033,268
2019	2,849,306
2020	2,490,418
2021	2,038,123
2022	809,478
Thereafter	2,677,897
	$ 13,898,490

Rent expense for the years ended June 30, 2017 and 2016 totaled $3,789,861 and $3,525,320, 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 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, 2017, 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, 2017 and 2016, money invested in limited partnerships that are managed by members of the Board totaled $240,522,673 and $233,920,639, respectively. HCZ was charged management and performance fees, net of $3,415,911 and $(111,020) for the years ended June 30, 2017 and 2016, 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 $1,784,492 and $1,797,039 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 amounted to $2,604,168 and $878,270, respectively. In addition, HCZ provided the PACS with grants totaling $5,218,250 and $5,302,650 in fiscal 2017 and 2016, 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, 2017 and 2016 was $9,119,529 and $10,334,638, 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 accompanying consolidated statements of activities for the annual subsidy to cover the cost totaled $2,103,141 and $1,680,162 for the years ended June 30, 2017 and 2016, respectively.

Grant Expense - Contributed Space

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

Although title was transferred to the DOE during fiscal 2015 upon 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. The total capitalized cost of the School Project was $85,808,527 and is classified as buildings, within property and equipment. 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 each of the years ended June 30, 2017 and June 30, 2016, 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.

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 in rent revenue from School II during fiscal 2016, which is included in rental income on the accompanying consolidated statement of activities. During fiscal 2017, the Organization forgave the amount due from School II for use of the space during the year ($1,772,813).

As of June 30, 2017, minimum future rental income to be received under the terms of this lease is as follows:

Year	
2018	$ 1,825,997
2019	1,880,777
	$ 3,706,774

14. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 21, 2017, 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, 2017

	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	$ 6,861,484	$ 19,310,842	$ 7,169,793	$ 4,366,783	$ 6,870,670	$ 44,579,572	$ 3,208,786	$ 1,303,197	$ 49,091,555
Payroll taxes	640,564	1,928,519	679,700	383,503	660,528	4,292,814	219,177	94,884	4,606,875
Employee benefits	1,460,003	2,396,731	1,317,362	1,015,894	1,216,234	7,406,224	516,757	304,905	8,227,886
Retirement plan contribution	147,507	193,591	100,353	76,282	94,968	612,701	70,455	17,639	700,795
Total personnel services	9,109,558	23,829,683	9,267,208	5,842,462	8,842,400	56,891,311	4,015,175	1,720,625	62,627,111
Admissions	15,992	709,127	485,153	762	29,035	1,240,069	9,914	-	1,249,983
Automobile	-	-	-	-	-	-	11,078	-	11,078
Bank fees	-	-	-	-	-	-	41,338	-	41,338
Client travel	34,442	574,310	217,786	7,256	269,691	1,103,485	5,756	25	1,109,266
Consulting and professional fees	246,629	1,333,824	444,744	263,796	1,096,419	3,385,412	698,834	40,996	4,125,242
Depreciation, net	163,228	1,107,218	266,683	62,864	180,612	1,780,605	818,411	-	2,599,016
Education supplies	93,494	328,866	67,211	4,640	82,512	576,723	26,807	84	603,614
Equipment rental and maintenance	111,195	333,028	98,586	29,413	112,206	684,428	77,083	8,219	769,730
Food	357,224	802,843	173,866	9,817	198,129	1,541,879	28,806	5,855	1,576,540
Fundraising costs	-	-	-	-	60	60	165,978	-	166,038
Grant expense	-	5,218,250	-	-	-	5,218,250	-	-	5,218,250
Insurance	-	-	-	-	-	-	385,417	-	385,417
Investment management fees (contributed services)	-	-	-	-	-	-	1,784,492	-	1,784,492
Occupancy	1,720,260	3,441,469	818,434	653,051	565,456	7,198,670	820,959	249	8,019,878
Office supplies	51,160	153,244	44,297	13,473	358,994	621,168	21,603	90	642,861
Payroll processing	27,342	185,465	44,671	10,530	30,254	298,262	137,089	-	435,351
Postage	1,362	9,161	5,894	571	1,494	18,482	6,072	2,455	27,009
Printing, publications, and memberships	29,551	83,205	18,324	5,197	144,581	280,858	21,057	26,220	328,135
Promise Academy incentive provision (457(f) plan)	-	2,103,141	-	-	-	2,103,141	-	-	2,103,141
Software and hardware	64,453	371,456	294,052	16,382	169,199	915,542	211,986	21,789	1,149,317
Special client services/incentives	125,711	433,953	1,522,068	49,991	127,220	2,258,943	33,598	8,774	2,301,315
Staff travel	23,090	92,100	59,239	35,865	21,560	231,854	31,449	1,604	264,907
Stipends	-	1,988,014	442,642	-	18,185	2,448,841	91	-	2,448,932
Telephone	109,274	356,914	133,756	66,680	78,977	745,601	125,240	5,253	876,094
Training	38,982	262,057	116,993	13,612	45,154	476,798	149,447	1,055	627,300
Uniforms	19,389	232,108	24,663	1,379	43,057	320,596	17,951	-	338,547
Miscellaneous	15,480	130,494	26,682	5,725	20,508	198,889	59,965	-	258,854
Total other than personnel	3,248,258	20,250,247	5,305,744	1,251,004	3,593,303	33,648,556	5,690,421	122,668	39,461,645
Total expenses	$ 12,357,816	$ 44,079,930	$ 14,572,952	$ 7,093,466	$ 12,435,703	$ 90,539,867	$ 9,705,596	$ 1,843,293	$ 102,088,756

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, 2016

	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	$ 6,376,964	$ 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	8,520,980	23,058,837	8,614,802	5,901,870	9,801,958	55,898,447	3,585,204	1,723,628	61,207,279
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 (457(f) plan)	-	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	3,518,933	18,917,622	3,018,866	1,258,840	3,423,603	30,137,864	6,278,778	110,746	36,527,388
Total expenses	$ 12,039,913	$ 41,976,459	$ 11,633,668	$ 7,160,710	$ 13,225,561	$ 86,036,311	$ 9,863,982	$ 1,834,374	$ 97,734,667

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