Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

HARLEM CHILDREN’S ZONE, INC. AND SUBSIDIARIES

As of June 30, 2019 and 2018

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 (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
January 10, 2020

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,356,213	$ 15,512,977
Contributions receivable	8,336,775	2,276,505
Government grants receivable	3,526,705	3,385,828
Other receivables	474,279	439,352
Prepaid expenses	1,002,727	952,578
Total current assets	24,696,699	22,567,240
Contributions receivable, net of current portion	25,820,675	1,197,671
Investments	485,782,346	500,421,176
Security deposits	728,762	728,762
Property and equipment, net	125,573,438	124,715,442
Total assets	$ 662,601,920	$ 649,630,291
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 12,326,958	$ 11,457,461
Refundable advance	4,500,000	5,500,000
Deferred compensation payable	1,125,162	1,140,740
Due to related party - deferred compensation plans	2,657,121	2,528,045
Grant payable - contributed space	1,831,979	1,831,979
Total current liabilities	22,441,220	22,458,225
Deferred compensation payable, net of current portion	4,541,488	5,182,967
Due to related parties - deferred compensation plans, net of current portion	8,527,055	6,930,498
Grant payable - contributed space, net of current portion	62,287,288	64,119,267
Total liabilities	97,797,051	98,690,957
Commitments and contingencies		
NET ASSETS		
Net assets without donor restrictions:		
Board-designated	445,976,481	460,350,822
Undesignated	69,041,263	74,602,838
Total net assets without donor restrictions	515,017,744	534,953,660
Net assets with donor restrictions	49,787,125	15,985,674
Total net assets	564,804,869	550,939,334
Total liabilities and net assets	$ 662,601,920	$ 649,630,291

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Private grants and contributions	$ 60,258,425	$ 36,261,567	$ 96,519,992
Government grants	9,862,624	-	9,862,624
Special event, net of expenses totaling $350,133	7,493,287	-	7,493,287
Interest income	12,417	-	12,417
Other income	292,022	-	292,022
Gain on investments, net	183,839	-	183,839
	78,102,614	36,261,567	114,364,181
Net assets released from restrictions	2,460,116	(2,460,116)	-
Total operating revenues	80,562,730	33,801,451	114,364,181
EXPENSES			
Program services:			
Early childhood	13,602,606	-	13,602,606
In-school and afterschool programs	52,946,270	-	52,946,270
College programs	9,884,252	-	9,884,252
Preventive services	7,642,918	-	7,642,918
Other community services	4,733,251	-	4,733,251
Total program services	88,809,297	-	88,809,297
Supporting services:			
Management and general	9,572,583	-	9,572,583
Fundraising	2,116,766	-	2,116,766
Total supporting services	11,689,349	-	11,689,349
Total operating expenses	100,498,646	-	100,498,646
Change in net assets	(19,935,916)	33,801,451	13,865,535
Net assets, beginning of year	534,953,660	15,985,674	550,939,334
Net assets, end of year	$ 515,017,744	$ 49,787,125	$ 564,804,869

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, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Private grants and contributions	$ 49,088,105	$ 2,769,109	$ 51,857,214
Government grants	11,367,337	-	11,367,337
Special event, net of expenses totaling $345,419	10,819,322	-	10,819,322
Interest income	23,921	-	23,921
Other income	894,060	-	894,060
Gain on investments, net	45,883,885	671,377	46,555,262
	118,076,630	3,440,486	121,517,116
Net assets released from restrictions	5,174,763	(5,174,763)	-
Total operating revenues	123,251,393	(1,734,277)	121,517,116
EXPENSES			
Program services:			
Early childhood	12,918,956	-	12,918,956
In-school and afterschool programs	53,813,473	-	53,813,473
College programs	11,375,504	-	11,375,504
Preventive services	7,567,878	-	7,567,878
Other community services	3,789,219	-	3,789,219
Total program services	89,465,030	-	89,465,030
Supporting services:			
Management and general	8,453,465	-	8,453,465
Fundraising	1,954,443	-	1,954,443
Total supporting services	10,407,908	-	10,407,908
Total operating expenses	99,872,938	-	99,872,938
Change in net assets	23,378,455	(1,734,277)	21,644,178
Net assets, beginning of year	511,575,205	17,719,951	529,295,156
Net assets, end of year	$ 534,953,660	$ 15,985,674	$ 550,939,334

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statement of Functional Expenses
For the year ended June 30, 2019

	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	$ 7,081,691	$ 25,712,548	$ 4,484,225	$ 4,744,790	$ 2,183,537	$ 44,206,791	$ 3,833,431	$ 1,489,903	$ 49,530,125
Payroll taxes	654,017	2,439,677	427,389	418,120	204,047	4,143,250	276,215	118,204	4,537,669
Employee benefits	1,419,883	3,681,225	835,577	1,014,387	420,115	7,371,187	589,109	312,239	8,272,535
Retirement plan contribution	239,199	515,918	119,186	146,228	60,979	1,081,510	100,621	43,383	1,225,514
Total personnel services	9,394,790	32,349,368	5,866,377	6,323,525	2,868,678	56,802,738	4,799,376	1,963,729	63,565,843
Admissions	15,905	796,567	32,928	2,068	3,650	851,118	18,514	-	869,632
Client travel	39,621	868,606	121,659	9,509	3,801	1,043,196	16,928	2,000	1,062,124
Contracted services	897,678	3,413,042	682,483	144,684	671,782	5,809,669	936,469	45,786	6,791,924
Depreciation	202,836	1,023,854	193,721	63,601	89,739	1,573,751	777,718	-	2,351,469
Education supplies	95,987	468,114	19,001	4,197	70,095	657,394	12,324	589	670,307
Equipment rental and maintenance	148,444	605,591	73,252	38,348	138,736	1,004,371	158,592	9,523	1,172,486
Food	379,032	1,033,788	121,684	18,951	41,875	1,595,330	39,723	4,365	1,639,418
Grant expense	-	2,317,875	-	-	-	2,317,875	-	-	2,317,875
Insurance	-	-	-	-	-	-	628,876	-	628,876
Occupancy	1,880,270	3,615,132	637,370	774,073	567,410	7,474,255	888,800	125	8,363,180
Office supplies	71,570	135,563	25,871	18,526	15,770	267,300	30,026	3,415	300,741
Payroll processing	35,211	177,735	33,629	11,041	15,578	273,194	135,007	-	408,201
Printing, publications, and memberships	33,294	127,456	33,043	31,753	12,034	237,580	34,619	17,863	290,062
Promise Academy deferred compensation plans	-	2,312,577	-	-	-	2,312,577	-	-	2,312,577
Software and hardware	104,528	438,779	85,934	23,794	57,562	710,597	257,693	24,345	992,635
Special client services and incentives	117,175	809,098	1,572,987	56,169	31,300	2,586,729	23,739	14,566	2,625,034
Staff advertising	-	-	-	-	-	-	184,506	-	184,506
Staff travel	18,773	76,736	53,564	26,617	32,450	208,140	36,450	1,046	245,636
Stipends	-	1,412,010	202,912	-	21,557	1,636,479	-	-	1,636,479
Telecommunications	108,108	421,360	72,462	76,861	49,465	728,256	207,255	3,870	939,381
Training	34,856	237,329	33,727	11,492	24,012	341,416	97,108	249	438,773
Uniforms	19,458	277,078	13,151	2,294	16,731	328,712	28,057	-	356,769
Miscellaneous	5,070	28,612	8,497	5,415	1,026	48,620	260,803	25,295	334,718
Total other than personnel	4,207,816	20,596,902	4,017,875	1,319,393	1,864,573	32,006,559	4,773,207	153,037	36,932,803
Total expenses	$ 13,602,606	$ 52,946,270	$ 9,884,252	$ 7,642,918	$ 4,733,251	$ 88,809,297	$ 9,572,583	$ 2,116,766	$ 100,498,646

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

For the year ended June 30, 2018

	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	$ 7,097,784	$ 26,561,789	$ 5,100,751	$ 4,457,120	$ 1,924,866	$ 45,142,310	$ 3,301,510	$ 1,364,838	$ 49,808,658
Payroll taxes	666,494	2,528,816	461,259	394,842	184,167	4,235,578	267,612	108,765	4,611,955
Employee benefits	1,391,191	3,518,034	929,465	981,540	365,575	7,185,805	500,622	293,622	7,980,049
Retirement plan contribution	249,861	570,377	151,039	154,115	58,788	1,184,180	87,796	47,262	1,319,238
Total personnel services	9,405,330	33,179,016	6,642,514	5,987,617	2,533,396	57,747,873	4,157,540	1,814,487	63,719,900
Admissions	18,738	867,921	32,743	1,510	5,243	926,155	12,408	260	938,823
Client travel	43,424	933,606	108,931	7,063	10,990	1,104,014	5,367	987	1,110,368
Contracted services	356,791	3,123,912	844,029	265,752	493,103	5,083,587	942,831	27,597	6,054,015
Depreciation	170,798	1,007,318	229,868	85,502	57,714	1,551,200	745,185	-	2,296,385
Education supplies	120,722	415,936	20,099	6,870	4,901	568,528	7,200	475	576,203
Equipment rental and maintenance	133,461	464,188	60,872	49,160	87,420	795,101	104,295	9,568	908,964
Food	353,041	1,102,451	97,241	22,323	29,267	1,604,323	34,571	8,533	1,647,427
Grant expense	-	2,430,772	-	-	-	2,430,772	-	-	2,430,772
Insurance	-	-	-	-	-	-	436,086	-	436,086
Occupancy	1,764,787	3,985,846	718,480	726,452	315,757	7,511,322	922,440	-	8,433,762
Office supplies	83,574	143,418	18,679	20,931	16,112	282,714	13,533	311	296,558
Payroll processing	32,375	190,940	43,572	16,207	10,940	294,034	141,253	-	435,287
Printing, publications, and memberships	32,075	163,741	25,800	18,911	8,139	248,666	42,829	23,056	314,551
Promise Academy deferred compensation plans	-	1,108,177	-	-	-	1,108,177	-	-	1,108,177
Software and hardware	74,204	527,642	294,065	28,940	32,281	957,132	249,027	33,361	1,239,520
Special client services and incentives	111,415	1,112,553	1,552,971	61,029	29,205	2,867,173	38,528	15,593	2,921,294
Staff advertising	-	-	-	-	-	-	177,883	-	177,883
Staff travel	24,478	134,537	63,807	33,612	21,546	277,980	61,091	1,259	340,330
Stipends	585	1,813,551	463,461	293	67,452	2,345,342	2,552	-	2,347,894
Telecommunications	133,611	545,035	105,476	74,769	31,836	890,727	214,615	4,709	1,110,051
Training	24,801	194,312	26,681	12,829	18,097	276,720	59,000	595	336,315
Uniforms	27,464	254,613	16,874	2,530	15,164	316,645	22,052	-	338,697
Miscellaneous	7,282	113,988	9,341	145,578	656	276,845	63,179	13,652	353,676
Total other than personnel	3,513,626	20,634,457	4,732,990	1,580,261	1,255,823	31,717,157	4,295,925	139,956	36,153,038
Total expenses	$ 12,918,956	$ 53,813,473	$ 11,375,504	$ 7,567,878	$ 3,789,219	$ 89,465,030	$ 8,453,465	$ 1,954,443	$ 99,872,938

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 13,865,535	$ 21,644,178
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,351,469	2,296,385
Gain on investments, net (excluding contributed management fees of $1,724,692 and $1,907,312, respectively)	(1,908,531)	(48,462,574)
Changes in assets and liabilities		
Decrease (increase) in assets held for deferred compensation plans	909,717	(2,486,651)
(Increase) decrease in contributions receivable, net	(30,683,274)	2,925,586
(Increase) decrease in government grants receivable	(140,877)	425,942
Increase in other receivables	(34,927)	(377,356)
(Increase) decrease in prepaid expenses	(50,149)	127,318
Increase in accounts payable and accrued expenses	869,497	3,861,966
Decrease in refundable advance	(1,000,000)	(2,000,000)
(Decrease) increase in deferred compensation payable	(657,057)	639,281
Increase in due to related parties - deferred compensation plans	1,725,633	339,014
Net cash used in operating activities	(14,752,964)	(21,066,911)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5,041,444)	(966,190)
Purchases of investments	(78,541,756)	(16,169,473)
Sales of investments	93,478,331	27,620,076
Change in cash held for investments	701,069	15,034,735
Net cash provided by investing activities	10,596,200	25,519,148
(Decrease) increase in cash and cash equivalents	(4,156,764)	4,452,237
Cash and cash equivalents, beginning of year	15,512,977	11,060,740
Cash and cash equivalents, end of year	$ 11,356,213	$ 15,512,977

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 various programs serve 13,230 children and 13,379 adults during fiscal year 2019. 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"), HCZ Promise LLC ("HCZ Promise"), and 168 Titicus Rd. LLC 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 accompanying consolidated financial statements of HCZ and Subsidiaries (collectively, the "Organization") have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as "net assets without donor restrictions" and "net assets with donor restrictions";
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information regarding liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

For the year ended June 30, 2019, the Organization adopted the relevant provisions of ASU 2016-14 and similarly revised the presentation of its fiscal 2018 financial statements to align with the new reporting presentation.

The Organization classifies its net assets in the following categories:

Net Assets Without Donor Restrictions
Net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of HCZ. Net assets without donor restrictions may also be designated for specific purposes by the Organization's Board of Trustees or may be limited by legal requirements or contractual agreements with outside parties.

Net Assets With Donor Restrictions
Represent net assets which are subject to donor-imposed restrictions whose use is restricted by time and/or purpose. Net assets with donor restrictions are subject to donor-imposed restrictions that require the Organization to use or expend the gifts as specified, based on purpose or passage of time. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, such net assets are reclassified to net assets without donor restrictions and reported on the consolidated statement of activities as net assets released from restrictions.

Contributions with donor-imposed restrictions whose restrictions are met during the same fiscal year in which the contribution was recognized are presented as contribution revenues without donor restrictions on the accompanying consolidated statements of activities.

Net assets with donor restrictions also includes the corpus of gifts, which must be maintained in perpetuity, but allow for the expenditure of net investment income and gains earned on the corpus for either specified or unspecified purposes in accordance with donor stipulations.

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 on an equitable basis based on either financial or non-financial data, such as 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 net assets without donor restrictions, unless donor or relevant laws place restrictions on these gains and losses. Dividends and interest are recognized as earned.

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 consolidated 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 revenue with donor restrictions or without donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 consolidated 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.

Reclassifications

Certain information in the fiscal 2018 consolidated financial statements have been reclassified to conform to the fiscal 2019 presentation. There were no changes in total assets, liabilities, or changes in net assets as reflected in the 2018 consolidated financial statements.

3. CONCENTRATIONS

The Organization maintains cash and cash equivalent balances in financial institutions, which exceed the amount insured by the Federal Deposit 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.

Of the Organization's total private grants and contributions revenue, approximately 64% was provided by four donors and 20% was provided by one donor for the years ended June 30, 2019 and 2018, respectively. Of the Organization's total contributions receivable, approximately 79% was due from three donors and 85% was due from three donors as of June 30, 2019 and 2018, respectively.

4. LINE OF CREDIT

As of June 30, 2019 and 2018, HCZ had a $20,000,000 commercial line of credit (on demand) with a major bank. This line is collateralized by HCZ's net assets without donor restrictions. There were no drawings on the line of credit during the years ended June 30, 2019 or 2018. Drawings were subject to interest at a rate of 30-days LIBOR plus 2.122% through February 22, 2019. Effective February 23, 2019, drawings were subject to an interest rate of 30-days LIBOR plus 1.052% through February 22, 2021, the expiration date.

5. GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30, 2019 and 2018 were due as follows:

	2019	2018
Less than one year	$ 8,336,775	$ 2,276,505
One to five years	29,600,000	1,275,000
Present value discount	(3,779,325)	(77,329)
One to five years, net of discount	25,820,675	1,197,671
Total	$ 34,157,450	$ 3,474,176

Government grants receivable at June 30, 2019 and 2018, all of which were due in less than one year, were $3,526,705 and $3,385,828, respectively.

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 2.71% and 4.65% at June 30, 2019 and 2018, respectively.

The Organization has $86,500,000 of conditional pledges from three donors as of June 30, 2019. Of these conditional pledges, $3,500,000 have a donor-imposed restriction for use in HCZ's health and wellness initiatives and the remainder are for general operating support. These pledges are primarily conditioned upon the donors' continued satisfaction with programmatic results and milestones.

6. REFUNDABLE ADVANCE

The Organization received advance payments towards conditional contributions in the amounts of $4,500,000 and $5,500,000 for the years ended June 30, 2019 and 2018, respectively. These gifts are conditioned upon incurring costs towards the Organization's program initiatives, and as such have been recorded as a refundable advance in the accompanying consolidated statements of financial position.

7. INVESTMENTS

The following table summarizes the fair values of HCZ's investments as of June 30, 2019 and 2018:

	2019	2018
Cash held for investments	$ 10,659,994	$ 11,361,063
Limited partnerships, at fair value [(a)]	458,049,794	429,465,113
Investments in transit [(b)]	17,072,558	59,595,000
Total	$ 485,782,346	$ 500,421,176

(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.

(b) Investments in transit pertain to remittances made to limited partnership funds prior to June 30 of the respective fiscal year with subscriptions beginning after fiscal year-end as well as liquidations of limited partnership investments prior to the respective fiscal year-end from which the proceeds were received subsequent to year-end.

Investments measured at NAV at June 30, 2019 and 2018 were in limited partnerships with a fair value of $458,049,794 and $429,465,113, 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.

Realized and unrealized gains, net of investment management and performance fees (including those contributed) of $8,163,646 and $7,841,901 for the years ended June 30, 2019 and 2018 were $183,839 and $46,555,262, respectively.

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.

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, 2019 and 2018:

2019

Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
$ 458,049,794	14	$ 54,489	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 180 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.

2018				
Fair Value	**Number of Funds**	**Unfunded Commitments**	**Redemption Frequency (if Currently Eligible)**	**Redemption Notice Period**
$ 429,465,113	15	$ 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 180 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, 2019 and 2018 consisted of the following:

	2019	2018
Property used in operations:		
Automobiles	$ 139,304	$ 139,304
Buildings	130,681,423	130,681,423
Building improvements	2,042,177	1,546,811
Computer software	206,624	206,624
Equipment	4,771,858	4,593,177
Furniture	1,893,568	1,882,714
Land	14,156,007	14,156,007
Leasehold improvements	14,099,693	9,743,151
	167,990,654	162,949,211
Less: accumulated depreciation	(42,417,216)	(38,233,769)
	$ 125,573,438	$ 124,715,442

Gross depreciation expense for 2019 and 2018 totaled $4,183,448 and $4,111,882, respectively. However, for fiscal 2019 and 2018 depreciation expense was offset by $1,831,979 representing the annual amortization of the contributed space (see Note 14).

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, 2019 and 2018 totaled $1,225,514 and $1,319,238, 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, 2019 and 2018, the total liability relating to this plan, net of forfeiture allowance of $606,541 and $581,009, respectively, was $5,666,650 and $6,323,707, respectively. The total expense recorded within the consolidated statements of activities totaled $1,619,817 and $1,678,057 for the years ended June 30, 2019 and 2018, 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. HCZ reduces 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.

11. NET ASSETS

The Organization's net assets with donor restrictions as of June 30, 2019 and 2018 were as follows:

	2019	2018
Purpose restrictions:		
Geoffrey Canada Scholarship Fund	$ 6,149,640	$ 6,620,902
Other scholarship and collegiate funds	2,064,654	45,381
Health and wellness initiatives	1,432,710	-
Other purpose restrictions	526,967	745,417
	10,173,971	7,411,700
Time restrictions	33,846,650	2,741,505
Endowment funds, and associated earnings thereon subject to the Organization's appropriation and satisfaction of donor restrictions:		
Original corpus	4,639,962	4,639,962
Accumulated unspent earnings	1,126,542	1,192,507
Total net assets with donor restrictions	$ 49,787,125	$ 15,985,674

The income from donor-restricted endowment funds is restricted to providing college scholarships to graduating HCZ students.

Net assets released from restriction for the years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Purpose restriction satisfied	$ 818,955	$ 2,394,763
Time restriction satisfied	1,641,161	2,780,000
Total net assets released from restrictions	$ 2,460,116	$ 5,174,763

12. 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 a quasi-endowment. Transfers in/(out) of the quasi-endowment represent board designated additions and appropriations to the endowment funds for board approved uses of the funds in operations or for other purposes.

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 net assets with donor restrictions, 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 includes the accumulated unspent earnings on the donor-restricted endowment funds that remains within net assets with donor restrictions 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; and
- 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, 2019 and 2018.

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 Organization maintains a portion of the investments as a reserve for capital expansion and to generate investment income intended to supplement operations as determined by the Board of Trustees (the "Board"). These funds are presented as Board-designated or quasi-endowment funds.

The following tables summarize endowment net asset composition by type of fund as of June 30, 2019 and 2018:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor restricted (endowment)	$ -	$ 5,766,504	$ 5,766,504
Board designated (quasi)	445,976,481	-	445,976,481
Total	$ 445,976,481	$ 5,766,504	$ 451,742,985

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor restricted (endowment)	$ -	$ 5,832,469	$ 5,832,469
Board designated (quasi)	460,350,822	-	460,350,822
Total	$ 460,350,822	$ 5,832,469	$ 466,183,291

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 460,350,822	$ 5,832,469	$ 466,183,291
Net appreciation (realized and unrealized)	866,151	-	866,151
Transfers in/(out), net	(15,240,492)	-	(15,240,492)
Appropriation of endowment assets for expenditure	-	(65,965)	(65,965)
Endowment net assets, end of year	$ 445,976,481	$ 5,766,504	$ 451,742,985

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 433,232,348	$ 5,486,407	$ 438,718,755
Net appreciation (realized and unrealized)	45,676,411	671,377	46,347,788
Transfers in/(out), net	(18,557,937)	-	(18,557,937)
Appropriation of endowment assets for expenditure	-	(325,315)	(325,315)
Endowment net assets, end of year	$ 460,350,822	$ 5,832,469	$ 466,183,291

Net appreciation on endowment investments reported in the charts above excludes in-kind investment management fees.

13. 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 August 2032.

As of June 30, 2019, minimum future annual rental obligations under the terms of these leases are as follows:

Year	
2020	$ 3,220,948
2021	3,240,938
2022	2,120,065
2023	1,746,480
2024	1,773,936
Thereafter	9,656,668
	$ 21,759,035

Rent expense for the years ended June 30, 2019 and 2018 totaled $4,255,026 and $3,974,580, 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 Agreements with a Healthcare Provider

HCZ Promise and Rheedlen are the landlords of the buildings at 245 West 129th Street and 35 East 125th Street, respectively. The building on 129th Street is occupied by HCZ and the HCZ Promise Academy I Charter School ("Promise Academy I"), and the building on 125th Street is occupied by HCZ and the HCZ Promise Academy II Charter School ("Promise Academy II"). Each of these locations is also occupied by an unrelated healthcare provider for the use of clinic space within these buildings in exchange for medical services it provides to the students of Promise Academy I and Promise Academy II. This healthcare provider holds 5-year lease agreements (with HCZ Promise and Rheedlen, respectively) beginning in March 2017 for Promise Academy I and May 2016 for Promise Academy II.

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, 2019, 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.

14. RELATED-PARTY TRANSACTIONS

As of June 30, 2019 and 2018, investment funds managed by members of the Board totaled $162,565,334 and $231,136,691, respectively. HCZ was charged management and performance fees, net, of $1,006,919 and $2,104,660 for the years ended June 30, 2019 and 2018, 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 $1,724,692 and $1,907,312 for the years ended June 30, 2019 and 2018, respectively, and are included in grants and contributions, and as a reduction of gain on investments on the accompanying consolidated statements of activities. In addition, the Organization receives a significant amount of contributions from members of the Board (Note 3).

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, and public relations.

HCZ's contributed space and services provided to the PACS for the years ended June 30, 2019 and 2018 amounted to $2,682,717 and $2,777,129, respectively. In addition, HCZ provided the PACS with grants totaling $2,317,875 and $2,430,772 in fiscal 2019 and 2018, respectively. This grant expense is included within program services on the accompanying consolidated statement of activities, and the grant payable is included within accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

Deferred Compensation Plans

Alongside the 457(f) deferred compensation plan maintained for its own employees, the Organization manages the 457(f) plan and Supplemental Bonus Plan for Teachers for employees of PACS and provides PACS with an annual subsidy to cover this cost. The amount due to PACS at June 30, 2019 and 2018 was $11,184,176 and $9,458,543, respectively, and is included within due to related parties - deferred compensation plans 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 $2,312,577 and $1,108,177 for the years ended June 30, 2019 and 2018, 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 ("Promise Academy I") in fiscal 2015. The lease agreement designates the Organization and Promise Academy 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 on the accompanying consolidated statements of financial position. 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 Promise Academy 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, 2019 and June 30, 2018, total amortization amounted to $1,831,979. Under the terms of the sub-lease, Promise Academy 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 2019, the Organization renewed 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. During fiscal years 2019 and 2018, the Organization gifted use of the space to School II ($1,937,200 and $1,825,997, respectively).

As of June 30, 2019, the minimum future rental income to be received under the terms of this lease is as follows:

Year	
2020	$ 1,985,243
2021	2,044,800
2022	2,106,144
2023	2,169,328
2024	2,234,408
	$ 10,539,923

15. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization closely monitors cash flows to ensure adequate resources are available at any given time to meet current and upcoming obligations. Strong emphasis on budget and treasury management is undertaken in an effort to anticipate organizational needs during both the short- and long-term. In doing so, the organization is able to avoid large idle cash balances that would otherwise represent an opportunity cost to the Organization. Balanced budgets are established and adhered to in order to maintain a prudent level of liquidity reserves throughout any given fiscal year.

Private grants and contributions as well as gains on investments represent the majority of funding for the Organization's operations, as such, the Organization puts considerable focus on revenue and investment management.

Finally, if significant unforeseen liquidity issues arise, the Organization could utilize its line of credit (Note 4) or its Board-designated quasi endowment to address potential shortfalls.

The Organization's financial assets available within one year of June 30, 2019 for general expenditure are as follows:

Cash and cash equivalents	$ 11,356,213	
Contributions receivable, current portion	8,336,775	
Government grants receivable	3,526,705	
Other receivables	474,279	
Investments	485,782,346	
Financial assets:		509,476,318
Less those unavailable for general expenditure within one year due to contractual, board or donor-imposed restrictions:		
Endowment funds	(5,766,504)	
Investments held for deferred compensation plans	(16,850,826)	
Board-designated quasi-endowment	(445,976,481)	
Other donor restricted funds	(18,199,946)	
		(486,793,757)
Board approved endowment fund appropriation for the following year		33,800,000
Financial assets available to meet general expenditures within one year		$ 56,482,561

16. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 10, 2020, which is the date the consolidated 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.