

Consolidated Financial Statements
Together with Report of Independent
Certified Public Accountants

Harlem Children's Zone, Inc. and Subsidiaries

As of June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Grant Thornton LLP

New York, New York
January 27, 2021

Harlem Children's Zone, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30,

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,033,508	\$ 11,356,213
Contributions receivable	26,664,712	8,336,775
Government grants receivable	1,928,876	3,526,705
Other receivables	2,587,632	474,279
Prepaid expenses	902,658	1,002,727
Total current assets	41,117,386	24,696,699
Contributions receivable, net of current portion	68,512,496	25,820,675
Investments	510,460,317	485,782,346
Security deposits	1,133,923	728,762
Property and equipment, net	122,290,944	125,573,438
Total assets	\$ 743,515,066	\$ 662,601,920
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 12,749,541	\$ 12,326,958
Refundable advances	21,992,099	4,500,000
Deferred compensation payable	1,013,140	1,125,162
Due to related party - deferred compensation plans	1,860,541	2,657,121
Grant payable - contributed space	1,831,979	1,831,979
Total current liabilities	39,447,300	22,441,220
Deferred compensation payable, net of current portion	4,313,956	4,541,488
Due to related parties - deferred compensation plans, net of current portion	7,330,819	8,527,055
Grant payable - contributed space, net of current portion	60,455,309	62,287,288
Total liabilities	111,547,384	97,797,051
Commitments and contingencies		
NET ASSETS		
Net assets without donor restrictions:		
Board-designated	473,615,461	445,976,481
Undesignated	43,287,989	69,041,263
Total net assets without donor restrictions	516,903,450	515,017,744
Net assets with donor restrictions	115,064,232	49,787,125
Total net assets	631,967,682	564,804,869
Total liabilities and net assets	\$ 743,515,066	\$ 662,601,920

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

Harlem Children's Zone, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
REVENUE AND SUPPORT			
Private grants and contributions	\$ 47,272,890	\$ 77,215,104	\$ 124,487,994
Government grants	9,721,306	-	9,721,306
Rental income from affiliates	1,985,243	-	1,985,243
Interest income	241,622	-	241,622
Other income	146,262	-	146,262
Gain on investments, net	24,730,631	-	24,730,631
	<u>84,097,954</u>	<u>77,215,104</u>	<u>161,313,058</u>
Net assets released from restrictions	<u>11,937,997</u>	<u>(11,937,997)</u>	<u>-</u>
Total operating revenues and support	<u>96,035,951</u>	<u>65,277,107</u>	<u>161,313,058</u>
EXPENSES			
Program services:			
Early childhood	11,385,181	-	11,385,181
In-school and afterschool programs	43,078,828	-	43,078,828
College programs	9,448,592	-	9,448,592
Preventive services	7,922,700	-	7,922,700
Other community services	10,285,275	-	10,285,275
Total program services	<u>82,120,576</u>	<u>-</u>	<u>82,120,576</u>
Supporting services:			
Management and general	9,928,741	-	9,928,741
Fundraising	2,100,928	-	2,100,928
Total supporting services	<u>12,029,669</u>	<u>-</u>	<u>12,029,669</u>
Total expenses	<u>94,150,245</u>	<u>-</u>	<u>94,150,245</u>
Change in net assets	<u>1,885,706</u>	<u>65,277,107</u>	<u>67,162,813</u>
Net assets, beginning of year	<u>515,017,744</u>	<u>49,787,125</u>	<u>564,804,869</u>
Net assets, end of year	<u>\$ 516,903,450</u>	<u>\$ 115,064,232</u>	<u>\$ 631,967,682</u>

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

Harlem Children's Zone, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Without Donor Restriction	With Donor Restriction	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
	<u>78,102,614</u>	<u>36,261,567</u>	<u>114,364,181</u>
Net assets released from restrictions	<u>2,460,116</u>	<u>(2,460,116)</u>	<u>-</u>
Total operating revenues and support	<u>80,562,730</u>	<u>33,801,451</u>	<u>114,364,181</u>
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	<u>88,809,297</u>	<u>-</u>	<u>88,809,297</u>
Supporting services:			
Management and general	9,572,583	-	9,572,583
Fundraising	2,116,766	-	2,116,766
Total supporting services	<u>11,689,349</u>	<u>-</u>	<u>11,689,349</u>
Total expenses	<u>100,498,646</u>	<u>-</u>	<u>100,498,646</u>
Change in net assets	<u>(19,935,916)</u>	<u>33,801,451</u>	<u>13,865,535</u>
Net assets, beginning of year	<u>534,953,660</u>	<u>15,985,674</u>	<u>550,939,334</u>
Net assets, end of year	<u>\$ 515,017,744</u>	<u>\$ 49,787,125</u>	<u>\$ 564,804,869</u>

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

Harlem Children's Zone, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2020

	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	\$ 6,326,378	\$ 21,360,492	\$ 4,624,196	\$ 5,186,972	\$ 4,263,249	\$ 41,761,287	\$ 4,383,698	\$ 1,452,534	\$ 47,597,519
Payroll taxes	544,987	1,885,941	409,249	427,379	349,546	3,617,102	312,082	119,258	4,048,442
Employee benefits	1,059,376	2,649,892	695,855	911,820	666,650	5,983,593	620,492	311,475	6,915,560
Retirement plan contribution	227,635	491,652	127,216	168,560	122,419	1,137,482	130,500	53,073	1,321,055
Total personnel services	8,158,376	26,387,977	5,856,516	6,694,731	5,401,864	52,499,464	5,446,772	1,936,340	59,882,576
Admissions	12,085	512,317	15,616	1,050	53,850	594,918	12,894	330	608,142
Client travel	29,179	654,957	73,691	8,167	41,106	807,100	24,468	173	831,741
Contracted services	310,789	2,693,344	234,628	274,239	1,513,547	5,026,547	633,042	37,848	5,697,437
Depreciation	191,271	989,673	212,978	72,789	289,515	1,756,226	894,195	-	2,650,421
Education supplies	80,640	341,290	6,169	5,538	113,171	546,808	6,580	690	554,078
Equipment rental and maintenance	120,400	527,410	50,561	39,688	185,785	923,844	149,406	9,415	1,082,665
Food	238,111	714,631	57,937	21,835	324,169	1,356,683	43,525	7,602	1,407,810
Grant expense	-	2,121,081	-	-	-	2,121,081	-	-	2,121,081
Insurance	-	-	-	-	-	-	571,266	-	571,266
Occupancy	1,796,002	3,356,087	588,742	547,703	934,216	7,222,750	1,058,256	767	8,281,773
Office supplies	67,103	88,309	36,211	11,601	45,731	248,955	25,880	2,660	277,495
Payroll processing	39,142	202,526	43,584	14,895	59,246	359,393	182,988	-	542,381
Printing, publications, and memberships	19,468	115,377	10,495	15,876	14,748	175,964	28,391	50,957	255,312
Promise Academy deferred compensation plans	-	1,888,103	-	-	-	1,888,103	-	-	1,888,103
Software and hardware	56,808	289,678	119,864	18,990	167,728	653,068	217,049	10,696	880,813
Special client services and incentives	84,386	436,138	1,738,230	69,290	649,676	2,977,720	27,986	7,722	3,013,428
Staff advertising	-	-	-	-	-	-	231,202	-	231,202
Staff travel	12,156	50,936	32,026	22,531	21,135	138,784	29,138	950	168,872
Stipends	-	969,067	280,194	-	305,743	1,555,004	-	-	1,555,004
Telecommunications	98,776	326,268	40,681	91,827	100,714	658,266	91,992	2,823	753,081
Training	32,209	179,646	23,064	8,500	38,619	282,038	73,813	488	356,339
Uniforms	21,905	177,024	17,389	2,001	23,114	241,433	24,584	478	266,495
Miscellaneous	16,375	56,989	10,016	1,449	1,598	86,427	155,314	30,989	272,730
Total other than personnel	3,226,805	16,690,851	3,592,076	1,227,969	4,883,411	29,621,112	4,481,969	164,588	34,267,669
Total expenses	\$ 11,385,181	\$ 43,078,828	\$ 9,448,592	\$ 7,922,700	\$ 10,285,275	\$ 82,120,576	\$ 9,928,741	\$ 2,100,928	\$ 94,150,245

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

Harlem Children's Zone, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
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	<u>9,394,790</u>	<u>32,349,368</u>	<u>5,866,377</u>	<u>6,323,525</u>	<u>2,868,678</u>	<u>56,802,738</u>	<u>4,799,376</u>	<u>1,963,729</u>	<u>63,565,843</u>
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	<u>4,207,816</u>	<u>20,596,902</u>	<u>4,017,875</u>	<u>1,319,393</u>	<u>1,864,573</u>	<u>32,006,559</u>	<u>4,773,207</u>	<u>153,037</u>	<u>36,932,803</u>
Total expenses	<u>\$ 13,602,606</u>	<u>\$ 52,946,270</u>	<u>\$ 9,884,252</u>	<u>\$ 7,642,918</u>	<u>\$ 4,733,251</u>	<u>\$ 88,809,297</u>	<u>\$ 9,572,583</u>	<u>\$ 2,116,766</u>	<u>\$ 100,498,646</u>

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

Harlem Children's Zone, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 67,162,813	\$ 13,865,535
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	2,650,421	2,351,469
Gain on investments, net (excluding contributed management fees of \$1,338,735 and \$1,724,692, respectively)	(26,069,366)	(1,908,531)
Changes in assets and liabilities		
Decrease in assets held for deferred compensation plans	4,272,349	909,717
Increase in contributions receivable, net	(61,019,758)	(30,683,274)
Decrease (increase) in government grants receivable	1,597,829	(140,877)
Increase in other receivables	(2,113,353)	(34,927)
Decrease (increase) in prepaid expenses	100,069	(50,149)
Increase in security deposits	(405,161)	-
Increase in accounts payable and accrued expenses	422,583	869,497
Increase (decrease) in refundable advance	17,492,099	(1,000,000)
Decrease in deferred compensation payable	(339,554)	(657,057)
(Decrease) increase in due to related parties - deferred compensation plans	(1,992,816)	1,725,633
Net cash provided by (used in) operating activities	1,758,155	(14,752,964)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,199,906)	(5,041,444)
Purchases of investments	(18,215,711)	(78,541,756)
Sales of investments	8,250,789	93,478,331
Change in cash held for investments	7,083,968	701,069
Net cash (used in) provided by investing activities	(4,080,860)	10,596,200
Decrease in cash and cash equivalents	(2,322,705)	(4,156,764)
Cash and cash equivalents, beginning of year	11,356,213	15,512,977
Cash and cash equivalents, end of year	\$ 9,033,508	\$ 11,356,213

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

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 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 11,723 children and 10,743 adults during fiscal year 2020. 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.

Pandemic Implications

In March 2020, the World Health Organization officially declared COVID-19, a disease caused by the novel coronavirus, a pandemic. This caused many local and national governments, including New York State, to impose restrictions on business operations, travel and public gatherings. The outbreak has adversely impacted the level of economic activity around the world and disrupted normal business activity in every sector of the economy.

As a result of the pandemic, in mid-March 2020, the Organization moved to virtual program services for the remainder of the fiscal year. The Organization also postponed its annual fundraising event, which was scheduled for April 2020, to September 2020 and held it virtually (refer to Note 5 for further details). In order to mitigate the impact of the pandemic, for fiscal year 2021, the Organization has primarily operated its programs remotely. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. External factors, including the duration and intensity of the pandemic, the shape of the economic recovery and its impact on potential government funding, as well as timing and widespread adoption of vaccines, could have an impact on the Organization's future operating and programmatic results.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The 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").

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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 statements 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 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 all 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 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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 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.

Interest income is 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; and
- 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 consolidated 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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Leasehold improvements are amortized based on the lesser of the estimated useful life or remaining lease term. Property and equipment used in operations are depreciated over their estimated useful lives using the straight-line method, as follows:

<u>Asset Category</u>	<u>Estimated Useful Life</u>
Automobiles	5 years
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 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 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.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. For recipients, the effective date of the amendments is for annual periods beginning after December 15, 2018. The adoption of ASU 2018-08 during the year ended June 30, 2020 did not have a material impact on the Organization's consolidated financial statements.

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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Income Taxes

The Organization 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.

The Organization 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 IRC. The Organization 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. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. In addition, the Organization has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

NOTE 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 79% was provided by two donors and 64% was provided by four donors for the years ended June 30, 2020 and 2019, respectively. Of the Organization's total contributions receivable, approximately 71% was due from two donors and 79% was due from three donors as of June 30, 2020 and 2019, respectively.

NOTE 4 - LINE OF CREDIT

As of June 30, 2020 and 2019, the Organization had a \$20,000,000 commercial line of credit (on demand) with a major bank. This line is collateralized by the Organization's net assets without donor restrictions. There were no drawings on the line of credit during the years ended June 30, 2020 or 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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 5 - GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30, 2020 and 2019 were due as follows:

	2020	2019
Less than one year	\$ 26,664,712	\$ 8,336,775
One to five years	74,179,307	29,600,000
Present value discount	(5,666,811)	(3,779,325)
One to five years, net of discount	68,512,496	25,820,675
Total	\$ 95,177,208	\$ 34,157,450

Government grants receivable at June 30, 2020 and 2019, all of which were due in less than one year, were \$1,928,876 and \$3,526,705, 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 2.90% and 4.65% at June 30, 2020 and 2019.

The Organization has \$112,250,000 of conditional pledges from five donors as of June 30, 2020, all of which are for general operating support. These pledges are primarily conditioned upon the donors' continued satisfaction with programmatic results and milestones as well as the raising of matching contributions.

The Organization received advance payments towards conditional contributions in the amounts of \$13,500,000 and \$4,500,000 for the years ended June 30, 2020 and 2019, respectively. These gifts are conditioned upon the satisfaction of certain milestones and other requirements stipulated within the related agreements, and as such have been recorded as refundable advances in the accompanying consolidated statements of financial position. The Organization also received advance payments totaling approximately \$8,500,000 towards its annual fundraising event which was held in September 2020. These amounts were conditioned upon the occurrence of the event and accordingly were recorded as refundable advances in the accompanying consolidated statement of financial position as of June 30, 2020.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 6 - INVESTMENTS

The following table summarizes the fair values of HCZ's investments as of June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents held for investments	\$ 5,648,585	\$ 10,659,994
Limited partnerships, at fair value ^(a)	489,811,732	458,049,794
Investments in transit ^(b)	15,000,000	17,072,558
Total	\$ 510,460,317	\$ 485,782,346

^(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, 2020 and 2019 were in limited partnerships with a fair value of \$489,811,732 and \$458,049,794, 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 \$12,544,413 and \$8,163,646 for the years ended June 30, 2020 and 2019 were \$24,730,631 and \$183,839, 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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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, 2020 and 2019:

2020				
Fair value	Number of funds	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
<u>\$ 489,811,732</u>	16	<u>\$ 54,489</u>	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.
2019				
Fair value	Number of funds	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
<u>\$ 458,049,794</u>	14	<u>\$ 54,489</u>	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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, at June 30, 2020 and 2019 consisted of the following:

	2020	2019
Property used in operations:		
Automobiles	\$ 139,304	\$ 139,304
Buildings	130,681,423	130,681,423
Building improvements	2,336,369	2,042,177
Computer software	206,624	206,624
Equipment	5,269,256	4,771,858
Furniture	1,893,568	1,893,568
Land	14,156,007	14,156,007
Leasehold improvements	14,270,137	14,099,693
Construction in progress	237,872	-
	169,190,560	167,990,654
Less: accumulated depreciation	(46,899,616)	(42,417,216)
	\$ 122,290,944	\$ 125,573,438

Gross depreciation expense for 2020 and 2019 totaled \$4,482,400 and \$4,183,448, respectively. However, for fiscal 2020 and 2019 depreciation expense was offset by \$1,831,979 representing the annual amortization of the contributed space (see Note 13).

NOTE 8 - 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, 2020 and 2019 totaled \$1,321,055 and \$1,225,514, respectively.

NOTE 9 - 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, 2020 and 2019, the total liability relating to this plan, net of forfeiture allowance of \$616,375 and \$606,541, respectively, was \$5,327,096 and \$5,666,650, respectively. The total expense recorded within the consolidated statements of activities totaled \$1,906,194 and \$1,619,817 for the years ended June 30, 2020 and 2019, 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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 10 - NET ASSETS

The Organization's net assets with donor restrictions as of June 30, 2020 and 2019 were as follows:

	2020	2019
Purpose restrictions:		
Geoffrey Canada Scholarship Fund	\$ 5,592,529	\$ 6,149,640
Pandemic response and remote learning	5,397,702	-
Other scholarship and collegiate funds	3,035,513	2,064,654
Health and wellness initiatives	333,333	1,432,710
Other purpose restrictions	240,012	526,967
	14,599,089	10,173,971
Time restrictions	94,818,774	33,846,650
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	1,006,407	1,126,542
Total net assets with donor restrictions	\$ 115,064,232	\$ 49,787,125

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, 2020 and 2019 were as follows:

	2020	2019
Purpose restriction satisfied	\$ 2,472,712	\$ 818,955
Time restriction satisfied	9,465,285	1,641,161
Total net assets released from restrictions	\$ 11,937,997	\$ 2,460,116

NOTE 11 - ENDOWMENTS

The Organization's endowment consists of both donor-restricted endowment funds established for the purpose of providing college scholarships to graduating HCZ students 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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 of Trustees (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, 2020 and 2019.

Return Objectives, Risk Parameters and Strategies Employed for Achieving Objectives

As approved by the Board, 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. These funds are presented as Board-designated or quasi-endowment funds.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following tables summarize endowment net asset composition by type of fund as of June 30, 2020 and 2019:

	2020		
	Without donor restrictions	With donor restrictions	Total
Donor restricted (endowment)	\$ -	\$ 5,646,369	\$ 5,646,369
Board designated (quasi)	473,615,461	-	473,615,461
Total	\$ 473,615,461	\$ 5,646,369	\$ 479,261,830

	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

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	2020		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 445,976,481	\$ 5,766,504	\$ 451,742,985
Net appreciation (realized and unrealized)	25,052,776	-	25,052,776
Transfers in/(out), net	2,586,204	-	2,586,204
Appropriation of endowment assets for expenditure	-	(120,135)	(120,135)
Endowment net assets, end of year	\$ 473,615,461	\$ 5,646,369	\$ 479,261,830

	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

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

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 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 August 2032.

As of June 30, 2020, minimum future annual rental obligations under the terms of these leases are as follows:

<u>Year</u>	
2021	\$ 3,925,957
2022	2,827,766
2023	2,469,166
2024	2,548,153
2025	2,092,008
Thereafter	<u>7,803,980</u>
	<u>\$ 21,667,030</u>

Rent expense for the years ended June 30, 2020 and 2019 totaled \$4,118,084 and \$4,255,026, respectively.

In December 2020, the Organization entered into a lease agreement for charter school space with a term of 48 years and annual lease payments of approximately \$2.5 million in year one with escalations of two percent each year. Payments under the lease will commence upon completion of the premises by the landlord and the Organization taking possession, which is anticipated will not occur until June 2022 at the earliest. The Organization has an option to purchase the charter school space after year 15 of the agreement. Under the terms of the lease, if the construction of the premises is not substantially complete by January 1, 2024, the Organization may cancel the lease with written notice to the landlord.

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 the Subsidiaries) beginning in March 2017 for Promise Academy I and May 2016 for Promise Academy II.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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, 2020, 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.

NOTE 13 - RELATED-PARTY TRANSACTIONS

As of June 30, 2020 and 2019, investment funds managed by members of the Board totaled \$144,416,401 and \$162,565,334, respectively. HCZ was charged management and performance fees, net, of \$2,107,196 and \$1,006,919 for the years ended June 30, 2020 and 2019, 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 \$1,338,735 and \$1,724,692 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 amounted to \$2,791,983 and \$2,682,717, respectively. In addition, HCZ provided the PACS with grants totaling \$2,121,080 and \$2,317,875 in fiscal 2020 and 2019, respectively. This grant expense is included within program services on the accompanying consolidated statements 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, 2020 and 2019 was \$9,191,360 and \$11,184,176, 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 \$1,888,103 and \$2,312,577 for the years ended June 30, 2020 and 2019, 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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 sublease. The sublease 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, 2020 and 2019, total amortization amounted to \$1,831,979. Under the terms of the sublease, 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. Rental income recognized under the lease for the year ended June 30, 2020 amounted to \$2,107,985. As of June 30, 2020, the Organization has recognized a receivable due from School II related to the lease in the amount of \$1,654,369, which is reflected within other receivables on the accompanying 2020 consolidated statement of financial position. During the year ended June 30, 2019, the Organization gifted use of the space to School II totaling \$1,937,200.

As of June 30, 2020, the minimum future rental income to be received under the terms of this lease is as follows:

<u>Year</u>	
2021	\$ 2,044,800
2022	2,106,144
2023	2,169,328
2024	<u>2,234,408</u>
	<u>\$ 8,554,680</u>

NOTE 14 - 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.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Organization's financial assets available within one year of June 30, 2020 and 2019 for general expenditure are as follows:

	2020	2019
Cash and cash equivalents	\$ 9,033,508	\$ 11,356,213
Contributions receivable, current portion	26,664,712	8,336,775
Government grants receivable	1,928,876	3,526,705
Other receivables	2,587,632	474,279
Investments	510,460,317	485,782,346
Financial assets:	550,675,045	509,476,318
Less those unavailable for general expenditure within one year due to contractual, board or donor-imposed restrictions:		
Endowment funds	(5,646,369)	(5,766,504)
Investments held for deferred compensation plans	(14,518,456)	(16,850,826)
Board-designated quasi endowment	(473,615,461)	(445,976,481)
Other donor-restricted funds	(40,905,367)	(18,199,946)
	(534,685,653)	(486,793,757)
Board approved endowment fund appropriation for the following year	21,800,000	33,800,000
Financial assets available to meet general expenditures within one year	\$ 37,789,392	\$ 56,482,561

NOTE 15 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 27, 2021, which is the date the consolidated financial statements were available to be issued. No subsequent events, other than the event described in Note 12, require recognition or disclosure in the consolidated financial statements.