

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

Harlem Children's Zone, Inc. and Subsidiaries

June 30, 2022 and 2021

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated statements of financial position	5
Consolidated statements of activities	6
Consolidated statements of functional expenses	8
Consolidated statements of cash flows	10
Notes to consolidated financial statements	11

GRANT THORNTON LLP

757 Third Ave., 9th Floor
New York, NY 10017-2013

D +1 212 599 0100

F +1 212 370 4520

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Opinion

We have audited the consolidated financial statements of Harlem Children's Zone, Inc. and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, 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.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable

assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

New York, New York
March 6, 2023

Harlem Children's Zone, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30,

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 35,595,994	\$ 1,916,767
Contributions receivable	37,847,319	33,625,719
Government grants receivable	1,220,745	1,660,748
Other receivables	803,771	422,449
Prepaid expenses	<u>2,546,637</u>	<u>1,279,676</u>
Total current assets	78,014,466	38,905,359
Contributions receivable, net of current portion	33,053,255	46,005,609
Investments	717,828,282	765,082,181
Security deposits	746,713	1,144,473
Property and equipment, net	<u>116,219,250</u>	<u>119,850,690</u>
Total assets	<u>\$ 945,861,966</u>	<u>\$ 970,988,312</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,634,206	\$ 13,609,058
Refundable advances	1,590,777	2,730,000
Deferred compensation payable	910,021	779,729
Due to related party - deferred compensation plans	2,309,841	2,830,958
Grant payable - contributed space	<u>1,831,979</u>	<u>1,831,979</u>
Total current liabilities	14,276,824	21,781,724
Deferred compensation payable, net of current portion	3,998,110	3,875,705
Due to related parties - deferred compensation plans, net of current portion	7,094,315	8,694,779
Grant payable - contributed space, net of current portion	<u>56,791,351</u>	<u>58,623,330</u>
Total liabilities	<u>82,160,600</u>	<u>92,975,538</u>
Commitments and contingencies		
Net assets		
Net assets without donor restrictions		
Board-designated	662,102,960	710,153,144
Undesignated	<u>104,363,841</u>	<u>61,836,339</u>
Total net assets without donor restrictions	766,466,801	771,989,483
Net assets with donor restrictions	<u>97,234,565</u>	<u>106,023,291</u>
Total net assets	<u>863,701,366</u>	<u>878,012,774</u>
Total liabilities and net assets	<u>\$ 945,861,966</u>	<u>\$ 970,988,312</u>

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, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Private grants and contributions	\$ 75,605,670	\$ 46,495,415	\$ 122,101,085
Contributions in-kind	1,019,234	-	1,019,234
Government grants	3,816,867	-	3,816,867
Special event, net of expenses totaling \$181,280	7,880,132	-	7,880,132
Rental income from affiliates	2,106,144	-	2,106,144
Other income	44,544	-	44,544
Loss on investments, net	<u>(55,856,243)</u>	<u>-</u>	<u>(55,856,243)</u>
	34,616,348	46,495,415	81,111,763
Net assets released from restrictions	<u>55,284,141</u>	<u>(55,284,141)</u>	<u>-</u>
Total operating revenues and support	89,900,489	(8,788,726)	81,111,763
Expenses			
Program services			
Early childhood	9,334,942	-	9,334,942
In-school and afterschool programs	43,038,526	-	43,038,526
College programs	10,929,081	-	10,929,081
Preventive services	2,540,692	-	2,540,692
Other community services	<u>14,748,648</u>	<u>-</u>	<u>14,748,648</u>
Total program services	80,591,889	-	80,591,889
Supporting services			
Management and general	12,801,669	-	12,801,669
Fundraising	<u>2,029,613</u>	<u>-</u>	<u>2,029,613</u>
Total supporting services	<u>14,831,282</u>	<u>-</u>	<u>14,831,282</u>
Total expenses	<u>95,423,171</u>	<u>-</u>	<u>95,423,171</u>
CHANGE IN NET ASSETS	(5,522,682)	(8,788,726)	(14,311,408)
Net assets, beginning of year	<u>771,989,483</u>	<u>106,023,291</u>	<u>878,012,774</u>
Net assets, end of year	<u>\$ 766,466,801</u>	<u>\$ 97,234,565</u>	<u>\$ 863,701,366</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, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Private grants and contributions	\$ 54,673,370	\$ 57,755,037	\$ 112,428,407
Contributions in-kind	3,328,157	-	3,328,157
Government grants	4,359,602	-	4,359,602
Special event, net of expenses totaling \$565,071	52,776,209	-	52,776,209
Rental income from affiliates	2,044,800	-	2,044,800
Other income	120,928	-	120,928
Gain on investments, net	180,076,704	-	180,076,704
	<u>297,379,770</u>	<u>57,755,037</u>	<u>355,134,807</u>
Net assets released from restrictions	<u>66,795,978</u>	<u>(66,795,978)</u>	<u>-</u>
Total operating revenues and support	364,175,748	(9,040,941)	355,134,807
Expenses			
Program services			
Early childhood	9,381,497	-	9,381,497
In-school and afterschool programs	36,158,640	-	36,158,640
College programs	7,214,881	-	7,214,881
Preventive services	3,335,840	-	3,335,840
Other community services	41,781,821	-	41,781,821
Total program services	97,872,679	-	97,872,679
Supporting services			
Management and general	9,450,116	-	9,450,116
Fundraising	1,766,920	-	1,766,920
Total supporting services	<u>11,217,036</u>	<u>-</u>	<u>11,217,036</u>
Total expenses	<u>109,089,715</u>	<u>-</u>	<u>109,089,715</u>
CHANGE IN NET ASSETS	255,086,033	(9,040,941)	246,045,092
Net assets, beginning of year	<u>516,903,450</u>	<u>115,064,232</u>	<u>631,967,682</u>
Net assets, end of year	<u>\$ 771,989,483</u>	<u>\$ 106,023,291</u>	<u>\$ 878,012,774</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, 2022

	Program Services					Total	Supporting Services		Total
	Early Childhood	In-School and Afterschool Programs	College Programs	Preventive Services	Other Community Services		Management and General	Fundraising	
Salaries	\$ 4,572,407	\$ 18,542,840	\$ 5,552,352	\$ 1,702,537	\$ 4,984,564	\$ 35,354,700	\$ 4,387,134	\$ 1,410,753	\$ 41,152,587
Payroll taxes	351,466	1,592,327	460,019	131,851	354,185	2,889,848	260,562	90,534	3,240,944
Employee benefits	1,048,090	3,040,438	1,104,932	422,388	1,586,380	7,202,228	1,096,406	322,146	8,620,780
Retirement plan contribution	137,844	361,755	146,300	56,811	153,942	856,652	23,024	55,258	934,934
Total personnel services	6,109,807	23,537,360	7,263,603	2,313,587	7,079,071	46,303,428	5,767,126	1,878,691	53,949,245
Admissions	1,009	354,045	10,409	58	6,297	371,818	5,523	982	378,323
Client travel	1,627	405,689	73,312	10	8,990	489,628	941	-	490,569
Contracted services	466,034	3,112,081	430,319	18,120	3,379,920	7,406,474	1,699,764	67,811	9,174,049
Depreciation	147,398	891,258	167,523	10,379	350,521	1,567,079	994,216	-	2,561,295
Education supplies	148,499	829,783	53,650	3,400	88,087	1,123,419	31,402	5,836	1,160,657
Equipment rental and maintenance	53,029	307,454	48,859	13,895	120,256	543,493	111,620	4,742	659,855
Food	212,534	1,052,837	83,941	3,114	164,846	1,517,272	34,503	4,632	1,556,407
Grant expense	-	2,141,938	-	-	735,000	2,876,938	-	-	2,876,938
Insurance	-	-	-	-	-	-	1,041,715	-	1,041,715
Occupancy	1,772,886	4,503,781	545,264	87,523	1,972,605	8,882,059	1,601,486	1,596	10,485,141
Office supplies	48,517	134,556	25,763	1,735	36,808	247,379	20,833	3,440	271,652
Payroll processing	28,396	171,699	32,273	2,000	67,527	301,895	191,533	-	493,428
Printing, publications, and memberships	14,647	110,294	30,793	771	94,194	250,699	31,836	24,792	307,327
Promise Academy deferred compensation plans	-	1,885,217	-	-	-	1,885,217	-	-	1,885,217
Software and hardware	115,369	871,540	106,376	10,745	295,631	1,399,661	483,337	13,646	1,896,644
Special client services and incentives	75,777	763,496	1,286,673	19,699	75,020	2,220,665	71,633	7,876	2,300,174
Staff advertising	-	1,149	-	-	-	1,149	337,789	-	338,938
Staff travel	3,341	78,841	38,171	357	87,564	208,274	19,587	1,040	228,901
Stipends	25,975	1,152,534	607,768	1	29	1,786,307	83	-	1,786,390
Telecommunications	72,353	285,818	73,121	42,016	100,536	573,844	226,955	3,435	804,234
Training	17,541	93,613	23,611	6,240	44,934	185,939	60,958	9,039	255,936
Uniforms	11,238	305,200	14,294	163	19,667	350,562	15,634	-	366,196
Miscellaneous	8,965	48,343	13,358	6,879	21,145	98,690	53,195	2,055	153,940
Total other than personnel	3,225,135	19,501,166	3,665,478	227,105	7,669,577	34,288,461	7,034,543	150,922	41,473,926
Total expenses	\$ 9,334,942	\$ 43,038,526	\$ 10,929,081	\$ 2,540,692	\$ 14,748,648	\$ 80,591,889	\$ 12,801,669	\$ 2,029,613	\$ 95,423,171

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, 2021

	Program Services					Total	Supporting Services		
	Early Childhood	In-School and Afterschool Programs	College Programs	Preventive Services	Other Community Services		Management and General	Fundraising	Total
Salaries	\$ 5,241,919	\$ 18,434,958	\$ 3,995,177	\$ 2,394,385	\$ 5,102,700	\$ 35,169,139	\$ 4,772,351	\$ 1,261,796	\$ 41,203,286
Payroll taxes	443,082	1,670,691	342,518	211,620	355,196	3,023,107	364,182	99,947	3,487,236
Employee benefits	892,830	2,383,122	649,779	418,194	2,411,359	6,755,284	837,953	228,225	7,821,462
Retirement plan contribution	146,798	386,456	106,875	66,069	135,394	841,592	135,649	35,315	1,012,556
Total personnel services	6,724,629	22,875,227	5,094,349	3,090,268	8,004,649	45,789,122	6,110,135	1,625,283	53,524,540
Admissions	323	97,039	738	-	6,753	104,853	1,648	-	106,501
Client travel	-	71,993	-	-	242	72,235	-	-	72,235
Contracted services	191,582	1,580,194	121,733	11,066	3,103,672	5,008,247	398,916	12,125	5,419,288
Depreciation	103,408	517,000	82,533	9,562	1,314,642	2,027,145	531,256	-	2,558,401
Education supplies	90,491	981,241	2,451	3,159	147,299	1,224,641	12,036	-	1,236,677
Equipment rental and maintenance	93,859	135,809	19,837	22,270	157,314	429,089	43,667	4,810	477,566
Food	106,578	576,528	9,039	853	216,594	909,592	936	1,518	912,046
Grant expense	-	1,652,188	-	-	18,972,065	20,624,253	-	-	20,624,253
Insurance	-	-	-	-	-	-	801,083	-	801,083
Occupancy	1,679,648	2,226,618	302,845	100,131	3,481,893	7,791,135	629,755	-	8,420,890
Office supplies	65,202	74,032	3,429	1,383	171,682	315,728	11,705	1,296	328,729
Payroll processing	22,795	113,964	18,193	2,108	289,790	446,850	116,278	-	563,128
Printing, publications, and memberships	16,945	55,269	4,325	392	28,182	105,113	8,830	20,866	134,809
Promise Academy deferred compensation plans	-	2,322,511	-	-	-	2,322,511	-	-	2,322,511
Software and hardware	53,710	292,923	34,320	6,804	2,732,199	3,119,956	183,185	25,729	3,328,870
Special client services and incentives	79,518	611,636	1,038,281	14,771	2,561,987	4,306,193	37,760	718	4,344,671
Staff advertising	-	-	-	-	-	-	265,584	-	265,584
Staff travel	142	4,509	138	537	2,003	7,329	725	366	8,420
Stipends	37,021	1,344,994	413,744	-	249,951	2,045,710	-	-	2,045,710
Telecommunications	76,453	182,437	32,822	68,137	227,213	587,062	76,059	2,975	666,096
Training	28,334	109,871	18,473	4,143	93,230	254,051	27,532	-	281,583
Uniforms	9,672	309,235	8,114	-	16,796	343,817	4,039	-	347,856
Miscellaneous	1,187	23,422	9,517	256	3,665	38,047	188,987	71,234	298,268
Total other than personnel	2,656,868	13,283,413	2,120,532	245,572	33,777,172	52,083,557	3,339,981	141,637	55,565,175
Total expenses	\$ 9,381,497	\$ 36,158,640	\$ 7,214,881	\$ 3,335,840	\$ 41,781,821	\$ 97,872,679	\$ 9,450,116	\$ 1,766,920	\$ 109,089,715

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

Harlem Children's Zone, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (14,311,408)	\$ 246,045,092
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,561,295	2,558,401
Loss (gain) on investments, net (excluding contributed management fees of \$972,632 and \$1,284,549, respectively)	54,883,611	(181,361,253)
Contributions restricted for endowment	-	(6,205,140)
Changes in assets and liabilities:		
Decrease (increase) in assets held for deferred compensation plans	1,416,606	(2,247,011)
Decrease in contributions receivable, net	8,730,754	15,545,879
Decrease in government grants receivable	440,003	268,128
(Increase) decrease in other receivables	(381,322)	2,165,164
Increase in prepaid expenses	(1,266,961)	(377,018)
Decrease (increase) in security deposits	397,760	(10,550)
(Decrease) increase in accounts payable and accrued expenses	(5,974,852)	859,518
Decrease in refundable advance	(1,139,223)	(19,262,099)
Increase (decrease) in deferred compensation payable	252,697	(671,662)
(Decrease) increase in due to related parties - deferred compensation plans	(2,121,581)	2,334,375
	43,487,379	59,641,824
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	(761,834)	(1,946,376)
Purchases of investments	(78,166,240)	(107,036,070)
Sales of investments	122,684,654	60,422,919
Change in cash held for investments	(53,564,732)	(24,404,178)
	(9,808,152)	(72,963,705)
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	-	6,205,140
	-	6,205,140
Net cash provided by financing activities		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	33,679,227	(7,116,741)
Cash and cash equivalents, beginning of year	1,916,767	9,033,508
Cash and cash equivalents, end of year	\$ 35,595,994	\$ 1,916,767

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, 2022 and 2021

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 over 20,000 children and adults annually. 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

While proper precautions in line with federal, state and local medical guidelines were observed, HCZ's programming returned to an in-person schedule for the fiscal year ending June 30, 2022. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. External factors, including the continued evolution of the virus and its variants, the shape of the global economic recovery, and the related impact on potential funding 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 ("U.S. 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 the Organization. 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, 2022 and 2021

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, 2022 and 2021

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.
- 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, 2022 and 2021

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 in accordance with guidance 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.

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. Revenues and expenses related to special events are recognized upon occurrence of the respective event.

Contributions In-Kind

Donated materials, equipment, and services are recognized (revenues and expenses, or assets, if capitalizable) at their estimated fair value at the date of receipt and are reflected as contributions in-kind in the accompanying consolidated statements of activities. The estimated fair value of professional services is provided by the service provider, who estimates the fair value based on the date, time, and market in which each service is rendered. The fair value of donated goods is estimated based on the purchase price for equivalent goods in an arms-length transaction.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Contributions in-kind recognized during the years ended June 30, 2022 and 2021 consisted of the following:

	2022	2021
Investment management services	\$ 972,632	\$ 1,284,549
Computer equipment and software	5,000	2,018,608
Other professional services	16,602	-
Food and clothing	25,000	25,000
Total	\$ 1,019,234	\$ 3,328,157

Contributions in-kind for the years ended June 30, 2022 and 2021 did not carry any donor-imposed restrictions and were utilized in the course of operations during the respective fiscal years.

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

Upon making grants, the Organization evaluates whether the transfer of assets is (1) a grant or (2) an exchange transaction in which the Organization is receiving commensurate value in return for the resources transferred. If the transfer of assets is determined to be a grant, the Organization evaluates whether the grant is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the recipient is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of the Organization's obligation to transfer assets.

Grant expense is recognized at the time of grant commitment, provided that the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense in the period in which the grantee meets the terms of the conditions, as acknowledged by the Organization.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. 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

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 61% was provided by three donors and 40% was provided by three donors for the years ended June 30, 2022 and 2021, respectively. Of the Organization's total contributions receivable, approximately 35% was due from four donors and 71% was due from three donors as of June 30, 2022 and 2021, respectively.

NOTE 4 - LINE OF CREDIT

As of June 30, 2022, and 2021, 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, 2022 or 2021. Drawings were subject to an interest rate of 30-days LIBOR plus 1.141% until April 22, 2022 when the agreement was extended and amended to set interest at 30-days SOFR plus 2.277% through April 22, 2023, the expiration date.

NOTE 5 - GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30, 2022 and 2021 were due as follows:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 37,847,319	\$ 33,625,719
One to five years	34,446,659	48,723,522
Present value discount	<u>(1,393,404)</u>	<u>(2,717,913)</u>
One to five years, net of discount	<u>33,053,255</u>	<u>46,005,609</u>
Total	<u>\$ 70,900,574</u>	<u>\$ 79,631,328</u>

Government grants receivable at June 30, 2022 and 2021, all of which were due in less than one year, were \$1,220,745 and \$1,660,748, 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 2.19% to 4.65% at June 30, 2022 and 2021.

Harlem Children’s Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

The Organization has \$12,760,000 of conditional pledges from seven donors as of June 30, 2022, 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 \$1,590,777 and \$2,730,000 for the years ended June 30, 2022 and 2021, 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.

NOTE 6 - INVESTMENTS

The following table summarizes the fair values of HCZ’s investments as of June 30, 2022 and 2021:

	2022	2021
Cash and cash equivalents held for investments	\$ 83,617,495	\$ 30,052,763
Limited partnerships, at fair value ^(a)	627,609,489	717,649,965
Investments in transit ^(b)	6,601,298	17,379,453
Total	\$ 717,828,282	\$ 765,082,181

^(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, 2022 and 2021 were in limited partnerships with a fair value of \$627,609,489 and \$717,649,965, 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 (losses) gains, net of investment management and performance fees (including those contributed) of \$10,795,045 and \$46,723,973 for the years ended June 30, 2022 and 2021 were (\$55,856,243) and \$180,076,704, 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, 2022 and 2021

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, 2022 and 2021:

2022				
Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<u>\$ 627,609,489</u>	27	<u>\$ -</u>	Quarterly/semi-annually	30 to 180 days.
			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.	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.
2021				
Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<u>\$ 717,649,965</u>	19	<u>\$ 52,105</u>	Quarterly/semi-annually	30 to 180 days.
			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.	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.

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, at June 30, 2022 and 2021 consisted of the following:

	2022	2021
Property used in operations:		
Automobiles	\$ 227,739	\$ 227,739
Buildings	130,681,424	130,681,424
Building improvements	2,547,297	2,478,717
Computer software	220,835	206,624
Equipment	5,552,538	5,397,074
Furniture	2,138,021	1,893,568
Land	14,156,007	14,156,007
Leasehold improvements	16,374,911	16,095,785
	<u>171,898,772</u>	<u>171,136,938</u>
Less: accumulated depreciation	<u>(55,679,522)</u>	<u>(51,286,248)</u>
	<u>\$ 116,219,250</u>	<u>\$ 119,850,690</u>

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Gross depreciation expense for 2022 and 2021 totaled \$4,393,274 and \$4,390,380, respectively. However, for fiscal 2022 and 2021 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, 2022 and 2021 totaled \$934,935 and \$1,012,556, 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, 2022 and 2021, the total liability relating to this plan, net of forfeiture allowance of \$497,549 and \$633,669, respectively, was \$4,908,131 and \$4,655,434, respectively. The total expense recorded within the consolidated statements of activities totaled \$1,408,821 and \$1,248,852 for the years ended June 30, 2022 and 2021, respectively.

The amounts contributed by the Organization vest after five 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, 2022 and 2021

NOTE 10 - NET ASSETS

The Organization's net assets with donor restrictions as of June 30, 2022 and 2021 were as follows:

	2022	2021
Purpose restrictions:		
Wealth Builds	\$ 25,530,671	\$ -
Geoffrey Canada Scholarship Fund	4,867,814	5,197,103
Pandemic response and remote learning	-	12,175,749
Other scholarship and collegiate funds	4,164,275	4,003,435
Healthy Harlem	5,396,179	-
Other purpose restrictions	119,263	1,614,151
	40,078,202	22,990,438
Time restrictions	44,269,921	70,597,170
Endowment funds, and associated earnings thereon subject to the Organization's appropriation and satisfaction of donor restrictions:		
Original corpus	10,845,102	10,845,102
Accumulated unspent earnings	2,041,340	1,590,581
Total net assets with donor restrictions	\$ 97,234,565	\$ 106,023,291

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, 2022 and 2021 were as follows:

	2022	2021
Purpose restriction satisfied	\$ 24,782,639	\$ 37,182,423
Time restriction satisfied	30,501,502	29,613,555
Total net assets released from restrictions	\$ 55,284,141	\$ 66,795,978

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.

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

Harlem Children’s Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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, 2022 and 2021.

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.

The following tables summarize endowment net asset composition by type of fund as of June 30, 2022 and 2021:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted (endowment)	\$ -	\$ 12,886,442	\$ 12,886,442
Board designated (quasi)	662,102,960	-	662,102,960
Total	\$ 662,102,960	\$ 12,886,442	\$ 674,989,402

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted (endowment)	\$ -	\$ 12,435,683	\$ 12,435,683
Board designated (quasi)	710,153,144	-	710,153,144
Total	\$ 710,153,144	\$ 12,435,683	\$ 722,588,827

Changes in endowment net assets for the years ended June 30, 2022 and 2021 are as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 710,153,144	\$ 12,435,683	\$ 722,588,827
Net (depreciation) appreciation	(57,096,466)	625,013	(56,471,453)
Transfers in/(out), net	9,046,282	-	9,046,282
Appropriation of endowment assets for expenditure	-	(174,254)	(174,254)
Endowment net assets, end of year	\$ 662,102,960	\$ 12,886,442	\$ 674,989,402

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 473,615,461	\$ 5,646,369	\$ 479,261,830
Net appreciation (realized and unrealized)	172,489,885	584,174	173,074,059
Transfers in/(out), net	64,047,798	-	64,047,798
Contributions	-	6,205,140	6,205,140
Endowment net assets, end of year	\$ 710,153,144	\$ 12,435,683	\$ 722,588,827

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, 2022 and 2021

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, 2022, minimum future annual rental obligations under the terms of these leases are as follows:

<u>Years</u>	
2023	\$ 5,778,699
2024	5,951,711
2025	4,688,003
2026	3,356,032
2027	2,391,238
Thereafter	<u>5,028,726</u>
	<u>\$ 27,194,409</u>

Rent expense for the years ended June 30, 2022 and 2021 totaled \$5,285,664 and \$3,897,606, 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. Under the terms of the lease, if the construction of the premises was not substantially completed by January 1, 2024, the Organization would have the ability to cancel the lease with written notice to the landlord. As of June 30, 2022, construction was not substantially completed and as such, the Organization was not yet liable for the future payments due under the terms of the lease, therefore, those amounts are not reflected within the future lease commitments shown above. In November 2022, construction of the premises was completed, and the Organization took possession of the space. The Organization has an option to purchase the charter school space after year 15 of the agreement.

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 five-year lease agreements (with the Subsidiaries) beginning in March 2017 for Promise Academy I and May 2016 for Promise Academy II. The lease agreements for both schools were extended through June 30, 2023.

Harlem Children's Zone, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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, 2022, 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, 2022 and 2021, investment funds managed by members of the Board totaled \$179,053,177 and \$179,549,628, respectively. HCZ was charged management and performance fees, net, of \$975,213 and \$3,337,136 for the years ended June 30, 2022 and 2021, 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 \$972,632 and \$1,284,549 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021 amounted to \$2,794,167 and \$3,068,266, respectively. In addition, HCZ provided the PACS with grants totaling \$2,141,938 and \$1,652,188 in fiscal 2022 and 2021, 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, 2022 and 2021 was \$9,404,156 and \$11,525,737, 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 \$1,885,217 and \$2,322,511 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021

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 Promise Academy 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, 2022 and 2021, 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 years ended June 30, 2022 and 2021 amounted to \$2,106,144 and \$2,044,800, respectively.

As of June 30, 2022, the minimum future rental income to be received under the terms of this lease is as follows:

<u>Years</u>	
2023	\$ 2,169,328
2024	<u>2,234,408</u>
	<u>\$ 4,403,736</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, 2022 and 2021

The Organization's financial assets available within one year of June 30, 2022 and 2021 for general expenditure are as follows:

	2022	2021
Cash and cash equivalents	\$ 35,595,994	\$ 1,916,767
Contributions receivable, current portion	37,847,319	33,625,719
Government grants receivable	1,220,745	1,660,748
Other receivables	803,771	422,449
Investments	717,828,282	765,082,181
Financial assets	793,296,111	802,707,864
Less those unavailable for general expenditure within one year due to contractual, board or donor-imposed restrictions:		
Endowment funds	(12,886,442)	(12,435,683)
Investments held for deferred compensation plans	(13,604,896)	(16,181,170)
Board-designated quasi endowment	(662,102,960)	(710,153,144)
Other donor-restricted funds	(33,053,255)	(47,082,000)
	(721,647,553)	(785,851,997)
Board approved endowment fund appropriation for the following year	30,500,000	30,500,000
Financial assets available to meet general expenditures within one year	\$ 102,148,558	\$ 47,355,867

NOTE 15 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 6, 2023, which is the date the consolidated financial statements were available to be issued. There are no subsequent events that require recognition or disclosure in the consolidated financial statements, other than the matter that is disclosed in Note 12.