

Financial Statements and Supplementary  
Information Together with  
Reports of Independent Certified Public Accountants

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**

For the years ended June 30, 2019 and 2018

# HARLEM CHILDREN'S ZONE PROMISE ACADEMY CHARTER SCHOOL

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To The Board of Trustees of  
**Harlem Children's Zone Promise Academy Charter School:**

**Report on the financial statements**

We have audited the accompanying financial statements of Harlem Children's Zone Promise Academy Charter School (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the 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 School'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Harlem Children's Zone Promise Academy Charter School as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other reporting required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 30, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



New York, New York  
October 30, 2019

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
Statements of Financial Position  
As of June 30, 2019 and 2018

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ASSETS	<u>2019</u>	<u>2018</u>
Cash	\$ 1,698,363	\$ 304,283
Restricted cash	70,790	70,755
Contributions receivable	-	625,000
Government grants and contracts receivable	473,384	1,031,194
Due from related parties	1,628,337	2,229,609
Due from Harlem Children's Zone - deferred compensation plans	7,749,154	5,690,673
Property and equipment, net	-	1,029
Other assets	108,927	64,248
Contribution receivable - contributed space	<u>64,119,267</u>	<u>65,951,246</u>
Total assets	<u>\$ 75,848,222</u>	<u>\$ 75,968,037</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 2,318,437	\$ 2,027,148
Deferred compensation payable	<u>4,016,486</u>	<u>4,205,622</u>
Total liabilities	<u>6,334,923</u>	<u>6,232,770</u>
 <b>CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Without donor restrictions	5,394,032	3,784,021
With donor restrictions	<u>64,119,267</u>	<u>65,951,246</u>
Total net assets	<u>69,513,299</u>	<u>69,735,267</u>
Total liabilities and net assets	<u>\$ 75,848,222</u>	<u>\$ 75,968,037</u>

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

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
**Statement of Activities**  
**For the year ended June 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
Revenue:			
Government grants and contracts	\$ 20,706,115	\$ -	\$ 20,706,115
Other income	11,080	-	11,080
Total revenue	<u>20,717,195</u>	<u>-</u>	<u>20,717,195</u>
Support:			
Contributions:			
Related parties	2,522,898	-	2,522,898
Others	1,347,168	-	1,347,168
Contributed services - related party	490,714	-	490,714
Total support	<u>4,360,780</u>	<u>-</u>	<u>4,360,780</u>
Net assets released from restrictions	<u>1,831,979</u>	<u>(1,831,979)</u>	<u>-</u>
Total revenue and support	<u>26,909,954</u>	<u>(1,831,979)</u>	<u>25,077,975</u>
<b>EXPENSES</b>			
Program services:			
Regular education	20,737,303	-	20,737,303
Special education	3,479,855	-	3,479,855
Total program services	24,217,158	-	24,217,158
Management and general	1,082,785	-	1,082,785
Total expenses	<u>25,299,943</u>	<u>-</u>	<u>25,299,943</u>
Change in net assets	1,610,011	(1,831,979)	(221,968)
Net assets, beginning of year	<u>3,784,021</u>	<u>65,951,246</u>	<u>69,735,267</u>
Net assets, end of year	<u>\$ 5,394,032</u>	<u>\$ 64,119,267</u>	<u>\$ 69,513,299</u>

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

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
**Statement of Activities**  
**For the year ended June 30, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE AND SUPPORT</b>			
Revenue:			
Government grants and contracts	\$ 19,961,649	\$ -	\$ 19,961,649
Other income	10,964	-	10,964
Total revenue	<u>19,972,613</u>	<u>-</u>	<u>19,972,613</u>
Support:			
Contributions:			
Related parties	2,282,201	-	2,282,201
Others	1,265,720	-	1,265,720
Contributed services - related party	529,733	-	529,733
Total support	<u>4,077,654</u>	<u>-</u>	<u>4,077,654</u>
Net assets released from restrictions	<u>1,831,979</u>	<u>(1,831,979)</u>	<u>-</u>
Total revenue and support	<u>25,882,246</u>	<u>(1,831,979)</u>	<u>24,050,267</u>
<b>EXPENSES</b>			
Program services:			
Regular education	20,498,115	-	20,498,115
Special education	3,277,656	-	3,277,656
Total program services	<u>23,775,771</u>	<u>-</u>	<u>23,775,771</u>
Management and general	<u>1,011,147</u>	<u>-</u>	<u>1,011,147</u>
Total expenses	<u>24,786,918</u>	<u>-</u>	<u>24,786,918</u>
Change in net assets	1,095,328	(1,831,979)	(736,651)
Net assets, beginning of year	<u>2,688,693</u>	<u>67,783,225</u>	<u>70,471,918</u>
Net assets, end of year	<u>\$ 3,784,021</u>	<u>\$ 65,951,246</u>	<u>\$ 69,735,267</u>

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

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2019**

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	<b>Regular Education</b>	<b>Special Education</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 11,965,874	\$ 2,007,951	\$ 689,160	\$ 14,662,985
Payroll taxes	996,460	167,212	57,390	1,221,062
Employee benefits	1,855,134	311,303	106,844	2,273,281
Retirement plan contribution	<u>292,914</u>	<u>49,153</u>	<u>16,870</u>	<u>358,937</u>
Total personnel services	<u>15,110,382</u>	<u>2,535,619</u>	<u>870,264</u>	<u>18,516,265</u>
Admissions	67,854	11,386	3,908	83,148
Classroom supplies	233,547	39,191	-	272,738
Contracted services	795,342	133,464	45,807	974,613
Depreciation	840	141	48	1,029
Equipment rental and maintenance	160,391	26,915	9,238	196,544
Food	1,092,498	183,328	-	1,275,826
Insurance	65,194	10,940	3,755	79,889
Occupancy	1,943,457	326,125	111,931	2,381,513
Office supplies and furniture	207,513	34,822	11,951	254,286
Printing, publications, and memberships	33,722	5,659	1,942	41,323
Software and hardware	190,213	31,919	10,955	233,087
Special client services & incentives	345,123	57,914	-	403,037
Staff travel	21,596	3,624	1,244	26,464
Student travel	165,228	27,726	-	192,954
Telecommunications	46,946	7,878	2,704	57,528
Training	126,150	21,169	7,265	154,584
Uniforms	100,470	16,860	-	117,330
Miscellaneous	<u>30,837</u>	<u>5,175</u>	<u>1,773</u>	<u>37,785</u>
Total other than personnel services	<u>5,626,921</u>	<u>944,236</u>	<u>212,521</u>	<u>6,783,678</u>
Total expenses	<u>\$ 20,737,303</u>	<u>\$ 3,479,855</u>	<u>\$ 1,082,785</u>	<u>\$ 25,299,943</u>

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



**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2018**

	<b>Regular Education</b>	<b>Special Education</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 11,471,576	\$ 1,834,310	\$ 626,979	\$ 13,932,865
Payroll taxes	1,027,568	164,308	56,162	1,248,038
Employee benefits	2,004,498	320,520	109,556	2,434,574
Retirement plan contribution	<u>291,863</u>	<u>46,669</u>	<u>15,952</u>	<u>354,484</u>
Total personnel services	<u>14,795,505</u>	<u>2,365,807</u>	<u>808,649</u>	<u>17,969,961</u>
Admissions	42,027	6,720	2,297	51,044
Classroom supplies	127,946	20,459	-	148,405
Contracted services	702,586	112,344	38,400	853,330
Depreciation	3,441	550	188	4,179
Equipment rental and maintenance	172,209	27,536	9,412	209,157
Food	1,002,920	160,367	-	1,163,287
Insurance	92,734	14,828	5,068	112,630
Occupancy	2,004,047	320,448	109,531	2,434,026
Office supplies and furniture	211,533	33,824	11,561	256,918
Printing, publications, and memberships	62,887	10,056	3,437	76,380
Software and hardware	185,845	29,717	10,157	225,719
Special client services & incentives	481,563	77,002	-	558,565
Staff travel	18,002	2,879	984	21,865
Student travel	284,616	45,510	-	330,126
Telecommunications	41,866	6,694	2,288	50,848
Training	136,117	21,765	7,439	165,321
Uniforms	100,495	16,069	-	116,564
Miscellaneous	<u>31,776</u>	<u>5,081</u>	<u>1,736</u>	<u>38,593</u>
Total other than personnel services	<u>5,702,610</u>	<u>911,849</u>	<u>202,498</u>	<u>6,816,957</u>
Total expenses	<u>\$ 20,498,115</u>	<u>\$ 3,277,656</u>	<u>\$ 1,011,147</u>	<u>\$ 24,786,918</u>

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

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
**Statements of Cash Flows**  
**For the years ended June 30, 2019 and 2018**

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	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (221,968)	\$ (736,651)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,029	4,179
Change in contribution receivable - contributed space	1,831,979	1,831,979
Changes in assets and liabilities:		
Decrease (increase) in private contributions and grants receivable	625,000	(625,000)
Decrease (increase) in government grants and contracts receivable	557,810	(104,273)
Decrease (increase) in due from related parties	601,272	(1,237,431)
Increase in due from Harlem Children's Zone - deferred compensation plans	(2,058,481)	(187,590)
(Increase) decrease in other assets	(44,679)	61,573
Increase in accounts payable and accrued expenses	291,289	211,625
(Decrease) increase in deferred compensation payable	<u>(189,136)</u>	<u>500,460</u>
Net cash provided by (used in) operating activities	<u>1,394,115</u>	<u>(281,129)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in restricted cash	<u>(35)</u>	<u>(35)</u>
Net increase (decrease) in cash	1,394,080	(281,164)
Cash, beginning of year	<u>304,283</u>	<u>585,447</u>
Cash, end of year	<u>\$ 1,698,363</u>	<u>\$ 304,283</u>

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

# HARLEM CHILDREN'S ZONE PROMISE ACADEMY CHARTER SCHOOL

## Notes to Financial Statements

June 30, 2019 and 2018

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### 1. NATURE OF OPERATIONS

Harlem Children's Zone Promise Academy Charter School (the "School") is a public charter school that is open to all New York City public school children via a lottery. Opened in 2004, the School features small class sizes, an extended day and year, high expectations, and access to an extended support system through its Institutional Partner, Harlem Children's Zone, Inc. ("HCZ").

HCZ is a not-for-profit organization that offers a wide array of education and social programs to the children and families of Harlem. Created in 1970 as a truancy prevention agency (then called "Rheedlen Centers for Children and Families"), HCZ has expanded its services to address the needs of children from birth through college, and as part of that mission, it also works to strengthen families and the surrounding community.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

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

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

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

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
Notes to Financial Statements  
June 30, 2019 and 2018

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The School 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 School.

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 School 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 statement of activities as net assets released from restrictions.

Net assets with donor restrictions also includes the corpus of gifts, which must be maintained in perpetuity, but allows for the expenditure of net investment income and gains earned on the corpus for either specified or unspecified purposes in accordance with donor stipulations. At June 30, 2019 and 2018, the School did not possess any funds required to be maintained in perpetuity.

**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 depreciation. Significant additions or improvements extending asset lives are capitalized; normal maintenance and repair costs are expensed as incurred. Leasehold improvements are amortized based on the lesser of the estimated useful life or remaining lease term.

Property and equipment used in operations are depreciated over their estimated useful lives using the straight-line method, as follows:

	<u>Useful Life (Years)</u>
Furniture, fixtures, and equipment	5
Leasehold improvements	5 - 31.5

**Revenue**

The School derives its revenue principally from the New York State and New York City governments, through the New York City Department of Education (“DOE”) Office of Charter Schools, based on pupil enrollment for regular and special education. The balance of the revenue and support is derived from contributions and other government grants and contracts.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by explicit donor-imposed restrictions. Revenues based on pupil enrollment are recognized over the period earned. Revenue from grants and contracts is recognized as the related expenses are incurred, or

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

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services performed, in accordance with the terms of the respective grant or contract agreement. Amounts received in advance are reported as deferred revenue.

The School records contributions of cash and other assets when an unconditional promise to give such assets is received from a donor. Contributions are recorded at the fair market value of the assets received and are classified as either support without donor restrictions or with donor restrictions, depending on whether the donor has imposed a restriction on the use of such assets. When a donor restriction expires (i.e., when a stipulated time restriction ends and/or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**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. As of June 30, 2019 and 2018, no allowance for doubtful accounts was required.

**Accounting for Income Taxes**

The School recognizes the tax effects from an uncertain tax position in the financial statements only if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The School is exempt from federal income tax under Internal Revenue Code (“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 School has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated 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 School has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements for the years ended June 30, 2019 or 2018.

**Estimates**

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

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

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**Reclassifications**

Certain items in the 2018 financial statements have been reclassified to conform to the current year presentation. These reclassifications did not have any effect on total assets, liabilities, net assets, revenues or expenses.

**3. CASH**

The School maintains cash balances in financial institutions, which generally exceed the amount insured by the Federal Depository Insurance Corporation (“FDIC”) and subject the School to credit risk. The School monitors this risk on a regular basis and has not experienced, nor does it anticipate, nonperformance by any of these financial institutions.

**4. RESTRICTED CASH**

Pursuant to an addendum to the Charter Agreement dated May 14, 2014, with the DOE, the School is required to set up an escrow of at least \$70,000. In the event of termination of the Charter, whether prematurely or otherwise, the School shall establish and follow procedures consistent with those required by Section 2851(2)(t) of the New York State Education Law in its use of the escrow.

**5. PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES**

Under the School’s Charter Agreement and the Charter Schools Act, the School is entitled to receive funding from state and federal sources that are available to public schools. These funds include New York City pupil enrollment funds, federal food subsidies, and Title I and Title II funds. The calculation of the amounts to be paid to the School under these programs is determined by the State and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
Notes to Financial Statements  
June 30, 2019 and 2018

The amounts received and receivable from government agencies and included as revenue in the financial statements consisted of the following as of and for the years ended June 30, 2019 and 2018:

	2019		2018	
	Revenues	Receivable	Revenues	Receivable
City of New York (Pupil enrollment)	\$ 19,168,386	\$ -	\$ 18,338,938	\$ 408,275
Outside the City of New York				
(Pupil enrollment)	49,762	18,548	38,943	38,943
Title I	553,409	197,841	516,104	325,989
Title II	121,895	21,543	125,745	90,544
Title IV	39,731	31,785		
E-rate	17,712	-	144,746	15,343
Food Service - Federal and State of New York	755,220	203,667	797,173	152,100
Total government grants and contracts	<u>\$ 20,706,115</u>	<u>\$ 473,384</u>	<u>\$ 19,961,649</u>	<u>\$ 1,031,194</u>

**6. PROPERTY AND EQUIPMENT, NET**

At June 30, 2019 and 2018, property and equipment consisted of the following:

	2019	2018
Equipment	\$ 348,297	\$ 348,297
Furniture and fixtures	19,577	19,577
	<u>367,874</u>	<u>367,874</u>
Less: accumulated depreciation	<u>(367,874)</u>	<u>(366,845)</u>
Total	<u>\$ -</u>	<u>\$ 1,029</u>

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to \$1,029 and \$4,179, respectively.

**7. RETIREMENT PLAN**

The School maintains the Alerus Tax Deferred Annuity Plan (the "Plan") with Alerus Retirement Solutions for all eligible employees. The Plan is non-contributory and employees become eligible once they have reached age 21 and have completed one year of service. Employees participating in the Plan will be fully vested after completing six years of service. Employer contributions made to the Plan are discretionary. For the years ended June 30, 2019 and 2018, contributions made to the Plan amounted to \$358,937 and \$354,484, respectively.

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY CHARTER SCHOOL**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

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**8. RELATED-PARTY TRANSACTIONS**

**Contributions**

*Deferred compensation plans*

HCZ maintains a discretionary 457(f) plan and a Supplemental Bonus Plan for Teachers (effective January 1, 2016) for certain eligible employees of the School. Employees become eligible to participate in these plans based solely at the discretion of the School's Board of Trustees. The amounts contributed to the 457(f) plan and the Supplemental Bonus Plan for Teachers become vested five and three years, respectively, after the date of the initial contribution for all eligible employees. Amounts contributed to these plans are paid to eligible employees when vested. Terminated employees become vested immediately at the date of their termination. HCZ provides the School with an annual subsidy to cover this cost by contributing to a HCZ investment account. During fiscal 2019 and 2018, HCZ provided a net subsidy of \$1,380,123 and \$1,195,126, respectively, for contributions to these plans. These amounts are recorded within contributions – related parties and a corresponding expense on the accompanying statements of activities. The cumulative amount due from HCZ relating to these plans totaled \$7,749,154 and \$5,690,673 at June 30, 2019 and 2018, respectively. The cumulative amount due to eligible employees totaled \$4,016,486 and \$4,205,622 at June 30, 2019 and 2018, respectively. Amounts due from HCZ in excess of amounts due to eligible employees represents reimbursements of amounts already paid by the School in advance of receiving the funds from HCZ.

*Other*

Certain expenses are shared amongst the School, HCZ and Harlem Children's Zone Promise Academy II Charter School ("PA II"). Shared expenses primarily relate to prorated salaries and other expenses that are allocated amongst the School, HCZ and PA II. Amounts may also be received by the School on behalf of HCZ or PA II, and amounts may also be granted to the School from HCZ. At June 30, 2019 and 2018, due from related parties totaled \$1,628,337 and \$2,229,609, respectively, pertaining to these related party transactions.

HCZ also provided the School with grants in the amounts of \$1,142,775 and \$1,086,550 in fiscal 2019 and 2018, respectively, which are included in contributions – related parties on the accompanying statements of activities.

**Contributed Services**

HCZ provides the School with certain services at no cost. For the years ended June 30, 2019 and 2018, the School recognized revenues and corresponding expenses for contributed services of \$490,714 and \$529,733, respectively.

*Contribution receivable - contributed space*

During the fiscal year ended June 30, 2011, HCZ 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 HCZ or other donors. After completion of construction



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and issuance of the certificate of occupancy, title to the School Project was transferred to the DOE, leased back to HCZ, and portions of the premises sub-leased to the School. The lease agreement designates HCZ and the School as initial users of the premises.

Upon execution of the sublease agreement in fiscal 2015, the School recorded \$73,279,162 as a contribution receivable - contributed space, and recognized contribution revenue with donor restrictions, which represents the imputed fair value of the space under the lease. The receivable is being amortized to rent expense, and the related net assets with donor restrictions are released from restrictions, over the term of the lease. For each of the years ended June 30, 2019 and 2018, amortization expense totaled \$1,831,979. The sub-lease is for a period of 40 years and will expire in August 2054. Under the terms of the lease, the School is not required to pay any consideration for use of the space. Net assets with donor restrictions of \$64,119,267 and \$65,951,246 as of June 30, 2019 and 2018, respectively, represent the unamortized receivable pertaining to the sublease agreement.

**9. CONCENTRATION OF RISK**

The School is dependent on various government agencies for funding and is responsible for meeting the requirements of such agencies. If the School were to lose students or the related government funding, it could have a substantial effect on the School's ability to continue operations.

As discussed in Note 8, HCZ makes contributions to the School and donates services. If this relationship were to change or cease, such change could have a substantial effect on the School's ability to continue operations.

**10. CONTINGENCIES**

**Government Agency Audits**

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from any such audits of government contracts by government agencies is presently not determinable, it should not, in the opinion of management, have a material effect on the School's financial position or change in net assets. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

**Litigation**

The School, in the normal course of its operations, is a party to various legal proceedings and claims. While it is not feasible to predict the ultimate outcomes of such matters, management of the School is not aware of any claims or contingencies that would have a material adverse effect on the School's financial position or change in net assets.

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**11. LIQUIDITY AND AVAILABILITY OF RESOURCES**

The School 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 School is able to avoid large idle cash balances that would otherwise represent an opportunity cost to the School.

Government grant revenue represents the majority of funding received for School operations. As such, the School puts considerable focus on grants management to make certain that necessary funding is both calculated accurately and received timely.

Finally, if significant unforeseen liquidity issues arise, the School would seek funding and assistance from its Instructional Partner, Harlem Children's Zone, Inc., to address potential shortfalls, mitigate any operational issues that could result, and develop a long-term remedy.

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

Cash	\$ 1,698,363
Government grants and contracts receivable	473,384
Due from related parties	<u>1,628,337</u>
Financial assets available for general expenditures within one year	<u>\$ 3,800,084</u>

**12. SUBSEQUENT EVENTS**

The School evaluated its June 30, 2019 financial statements for subsequent events through October 30, 2019, the date the financial statements were available to be issued. The School is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of  
**Harlem Children's Zone Promise Academy Charter School:**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harlem Children's Zone Promise Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019.

### **Internal control over financial reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the School's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and other matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Intended purpose**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Grant Thornton LLP*

New York, New York  
October 30, 2019

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None noted.