

Financial Statements Together with
Reports of Independent Certified Public
Accountants

**Harlem Children's Zone Promise Academy II
Charter School**

June 30, 2020 and 2019

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GRANT THORNTON LLP

757 Third Avenue
New York, NY 20017

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 Promise Academy II Charter School:

Report on the financial statements

We have audited the accompanying financial statements of the Harlem Children's Zone Promise Academy II Charter School (the "School"), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 the Harlem Children's Zone Promise Academy II Charter School as of June 30, 2020 and 2019, 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 matters

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 30, 2020, 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, 2020

Harlem Children's Zone Promise Academy II Charter School

STATEMENTS OF FINANCIAL POSITION

As of June 30,

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 5,208,432	\$ 2,493,450
Restricted cash	70,839	70,810
Contributions receivable	625,000	-
Government grants and contracts receivable	407,951	450,237
Due from related parties	435,148	616,509
Due from Harlem Children's Zone - deferred compensation plans	2,450,254	3,435,022
Property and equipment, net	28,328	25,327
Other assets	122,094	37,034
	<hr/>	<hr/>
Total assets	\$ 9,348,046	\$ 7,128,389
	<hr/>	<hr/>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,761,726	\$ 2,170,313
Deferred compensation payable	2,139,599	2,387,822
	<hr/>	<hr/>
Total liabilities	4,901,325	4,558,135
	<hr/>	<hr/>
CONTINGENCIES		
NET ASSETS - without donor restrictions	4,446,721	2,570,254
	<hr/>	<hr/>
Total liabilities and net assets	\$ 9,348,046	\$ 7,128,389
	<hr/>	<hr/>

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

Harlem Children's Zone Promise Academy II Charter School

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
Revenue:		
Government grants and contracts	\$ 21,931,958	\$ 19,355,367
Other income	58,566	6,447
Total revenue	<u>21,990,524</u>	<u>19,361,814</u>
Support:		
Contributions:		
Related parties	2,166,961	4,034,006
Others	1,355,825	1,325,963
Contributed space and services:		
Related parties	584,019	514,522
Others	1,677,481	1,677,481
Total support	<u>5,784,286</u>	<u>7,551,972</u>
Total revenue and support	<u>27,774,810</u>	<u>26,913,786</u>
EXPENSES		
Program services:		
Regular education	21,024,560	20,911,825
Special education	3,774,641	3,410,571
Total program services	<u>24,799,201</u>	<u>24,322,396</u>
Management and general	1,099,142	1,102,141
Total expenses	<u>25,898,343</u>	<u>25,424,537</u>
Change in net assets	<u>1,876,467</u>	<u>1,489,249</u>
Net assets, beginning of year	<u>2,570,254</u>	<u>1,081,005</u>
Net assets, end of year	<u><u>\$ 4,446,721</u></u>	<u><u>\$ 2,570,254</u></u>

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

Harlem Children's Zone Promise Academy II Charter School

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020

	Regular Education	Special Education	Management and General	Total
Salaries	\$ 11,396,494	\$ 2,046,068	\$ 633,420	\$ 14,075,982
Payroll taxes	953,167	171,127	52,977	1,177,271
Employee benefits	1,923,877	345,403	106,929	2,376,209
Retirement plan contribution	266,865	47,912	14,832	329,609
Total personnel services	<u>14,540,403</u>	<u>2,610,510</u>	<u>808,158</u>	<u>17,959,071</u>
Admissions	54,133	9,719	3,009	66,861
Classroom supplies	257,979	46,316	-	304,295
Contracted services	709,202	127,327	39,418	875,947
Depreciation	2,542	456	141	3,139
Equipment rental and maintenance	94,773	17,015	5,268	117,056
Food	678,580	121,829	-	800,409
Insurance	119,725	21,495	6,654	147,874
Occupancy	3,594,741	645,381	199,796	4,439,918
Office supplies and furniture	172,479	30,966	9,586	213,031
Printing, publications, and memberships	42,111	7,560	2,341	52,012
Software and hardware	255,774	45,920	14,216	315,910
Special client services & incentives	114,006	20,468	-	134,474
Staff travel	3,662	657	204	4,523
Student travel	112,841	20,259	-	133,100
Telecommunications	46,186	8,292	2,567	57,045
Training	106,715	19,159	5,931	131,805
Uniforms	85,362	15,325	-	100,687
Miscellaneous	33,346	5,987	1,853	41,186
Total other than personnel services	<u>6,484,157</u>	<u>1,164,131</u>	<u>290,984</u>	<u>7,939,272</u>
Total expenses	<u><u>\$ 21,024,560</u></u>	<u><u>\$ 3,774,641</u></u>	<u><u>\$ 1,099,142</u></u>	<u><u>\$ 25,898,343</u></u>

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

Harlem Children's Zone Promise Academy II Charter School

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

	Regular Education	Special Education	Management and General	Total
Salaries	\$ 11,404,793	\$ 1,860,040	\$ 654,194	\$ 13,919,027
Payroll taxes	926,421	151,093	53,141	1,130,655
Employee benefits	1,730,807	282,282	99,281	2,112,370
Retirement plan contribution	239,048	38,987	13,712	291,747
Total personnel services	<u>14,301,069</u>	<u>2,332,402</u>	<u>820,328</u>	<u>17,453,799</u>
Admissions	95,974	15,653	5,505	117,132
Classroom supplies	235,601	38,425	-	274,026
Contracted services	656,373	107,050	37,650	801,073
Depreciation	4,593	749	265	5,607
Equipment rental and maintenance	111,595	18,200	6,401	136,196
Food	895,249	146,009	-	1,041,258
Insurance	65,121	10,621	3,735	79,477
Occupancy	3,302,671	538,642	189,446	4,030,759
Office supplies and furniture	197,788	32,258	11,345	241,391
Printing, publications, and memberships	36,238	5,910	2,079	44,227
Software and hardware	175,138	28,564	10,046	213,748
Special client services & incentives	335,654	54,743	-	390,397
Staff travel	25,547	4,167	1,465	31,179
Student travel	145,807	23,780	-	169,587
Telecommunications	48,998	7,991	2,811	59,800
Training	127,583	20,808	7,318	155,709
Uniforms	85,452	13,937	-	99,389
Miscellaneous	65,374	10,662	3,747	79,783
Total other than personnel services	<u>6,610,756</u>	<u>1,078,169</u>	<u>281,813</u>	<u>7,970,738</u>
Total expenses	<u><u>\$ 20,911,825</u></u>	<u><u>\$ 3,410,571</u></u>	<u><u>\$ 1,102,141</u></u>	<u><u>\$ 25,424,537</u></u>

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

Harlem Children's Zone Promise Academy II Charter School

STATEMENTS OF CASH FLOWS

For the years ended June 30,

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,876,467	\$ 1,489,249
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,139	5,607
Changes in assets and liabilities:		
(Increase) decrease in contributions and grants receivable	(625,000)	625,000
Decrease in government grants and contracts receivable	42,286	468,095
Decrease (increase) in due from related parties	181,361	(522,833)
Decrease in due from Harlem Children's Zone - deferred compensation plans	984,768	332,848
(Increase) decrease in other assets	(85,060)	24,236
Increase in accounts payable and accrued expenses	591,413	541,202
Decrease in deferred compensation payable	<u>(248,223)</u>	<u>(579,257)</u>
Net cash provided by operating activities	<u>2,721,151</u>	<u>2,384,147</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(6,140)</u>	<u>(25,768)</u>
Net increase in cash and cash equivalents and restricted cash	2,715,011	2,358,379
Cash and cash equivalents and restricted cash, beginning of year	<u>2,564,260</u>	<u>205,881</u>
Cash and cash equivalents and restricted cash, end of year	<u><u>\$ 5,279,271</u></u>	<u><u>\$ 2,564,260</u></u>

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

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - NATURE OF OPERATIONS

Harlem Children's Zone Promise Academy II 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 2005, 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.

Pandemic Implications

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

As a result of the pandemic, in mid-March 2020 the School moved to virtual instruction for the remainder of the school year. In order to mitigate the impact of the virus, for the 2020-2021 school year, the School has incorporated enhanced social distancing, use of personal protective equipment, testing, and a combination of remote and face-to-face instruction. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. External factors, including the duration and intensity of the pandemic, the shape of the economic recovery and its impact on potential government funding, as well as timing and widespread adoption of vaccines, could have an impact on the School's future operating and academic results.

NOTE 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").

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.

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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, 2020 and 2019, the School did not possess any net assets with donor restrictions.

Functional Expenses

The costs of providing the various programs and other activities of the School have been summarized on a functional basis in the accompanying statements of activities and functional expenses, 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 School staff.

Cash and Cash Equivalents

The School considers money market fund investments and all highly liquid debt instruments with a maturity of three months or less on the date of acquisition to be cash equivalents.

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:

	Useful Life (Years)
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 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), such net assets

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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

Receivables

Receivables contain some level of uncertainty surrounding timing and amount of 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, 2020 and 2019, 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 ending June 30, 2020 or 2019.

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 II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 3 - CASH AND CASH EQUIVALENTS

The School maintains cash and cash equivalent 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.

NOTE 4 - RESTRICTED CASH

Pursuant to an addendum to the Charter Agreement dated February 3, 2015, with the New York City Department of Education, 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.

NOTE 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.

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, 2020 and 2019:

	2020,		2019,	
	Revenues	Receivable	Revenues	Receivable
City of New York (Pupil enrollment)	\$ 17,629,592	\$ -	\$ 17,201,113	\$ -
City of New York (Other)	729,464	-	804,424	-
Outside the City of New York (Pupil enrollment)	87,326	90,558	31,766	16,159
CARES Act PPP	2,374,261	-	-	-
Title I	481,534	150,651	484,033	179,690
Title II	55,135	12,639	53,402	11,586
Title IV	37,057	25,641	35,141	28,113
E-Rate	-	-	25,472	-
Food service - Federal and State of New York	537,589	128,462	720,016	214,689
 Total government grants and contracts	 \$ 21,931,958	 \$ 407,951	 \$ 19,355,367	 \$ 450,237

In April 2020, the School was granted a loan (the "Loan") in the aggregate amount of \$2,705,375, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act. As management believes there is reasonable assurance that the School will meet the terms for forgiveness of

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

the loan, the loan was treated as a government grant whereby revenue will be recognized as the related qualifying expenses are incurred.

Funds from the Loan were only to be used for certain costs, such as payroll costs and occupancy expenses. The School used \$2,374,261 of the Loan amount for qualifying expenses during the year ended June 30, 2020. The School has determined that the criteria for forgiveness under the terms of the Loan were met for this portion of the Loan during the year ended June 30, 2020 and accordingly has recognized \$2,374,261 as revenue within government grants and contracts revenue on the accompanying statement of activities for the year ended June 30, 2020. The remaining balance of the Loan, \$331,114, is included within accounts payable and accrued expenses on the accompanying statement of financial position as of June 30, 2020.

NOTE 6 - PROPERTY AND EQUIPMENT

At June 30, 2020 and 2019, property and equipment consisted of the following:

	2020	2019
Equipment	\$ 235,830	\$ 235,830
Leasehold improvements	57,734	51,594
Furniture and fixtures	41,997	41,997
	<u>335,561</u>	<u>329,421</u>
Less: Accumulated depreciation	<u>(307,233)</u>	<u>(304,094)</u>
Total	<u>\$ 28,328</u>	<u>\$ 25,327</u>

Depreciation expense for the years ended June 30, 2020 and 2019 amounted to \$3,139 and \$5,607, respectively.

NOTE 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, 2020 and 2019, contributions made to the Plan amounted to \$329,609 and \$291,747, respectively.

NOTE 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,

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 2020 and 2019, HCZ provided a net subsidy of \$1,134,821 and \$932,456, respectively, for contributions to these plans. These amounts are recorded within contributions – related party and a corresponding expense on the accompanying statements of activities. The cumulative amount due from HCZ relating to these plans totaled \$2,450,254 and \$3,435,022 at June 30, 2020 and 2019, respectively. The cumulative amount due to eligible employees totaled \$2,139,599 and \$2,387,822 at June 30, 2020 and 2019, 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 Charter School ("PA I"). Shared expenses primarily relate to prorated salaries and other expenses that are allocated amongst the School, HCZ and PA I. Amounts may also be received by the School on behalf of HCZ or PA I, and amounts may also be granted to the School from HCZ. At June 30, 2020 and 2019, due from related parties totaled \$435,148 and \$616,509, respectively, pertaining to these related party transactions. HCZ also provided the School with grants in the amounts of \$1,032,140 and \$3,101,550 in fiscal 2020 and 2019, respectively, which are included within contributions - related parties on the accompanying statements of activities.

Contributed Space and Services

HCZ provides the School with certain services at no cost. For the years ended June 30, 2020 and 2019, the School recognized revenues and corresponding expenses for services of \$584,019 and \$514,522, respectively.

The School also recognized revenues and corresponding expenses for contributed space and utilities from the DOE for both years ended June 30, 2020 and 2019 of \$1,677,481.

Rent

During fiscal 2019, the School renewed a five-year lease agreement with HCZ for the School's use of the space located at 35 East 125th St, New York, NY, a property owned by HCZ. Pursuant to the terms of this lease, the School incurred approximately \$2,107,985 in rent expense during both fiscal 2020 and 2019.

As of June 30, 2020, the minimum future annual rental obligation under the terms of this lease are as follows:

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

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 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 a contribution 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.

NOTE 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.

NOTE 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.

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

Cash and cash equivalents	\$ 5,208,432
Contributions receivable	625,000
Government grants and contracts receivable	407,951
Due from related parties	<u>435,148</u>

Financial assets available for general expenditures within one year	<u><u>\$ 6,676,531</u></u>
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The School's financial assets available within one year of June 30, 2019 for general expenditure are as follows:

Cash and cash equivalents	\$ 2,493,450
Government grants and contracts receivable	450,237
Due from related parties	<u>616,509</u>

Financial assets available for general expenditures within one year	<u><u>\$ 3,560,196</u></u>
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NOTE 12 - SUBSEQUENT EVENTS

The School evaluated its June 30, 2020 financial statements for subsequent events through October 30, 2020, 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.

GRANT THORNTON LLP

757 Third Avenue, 9th Floor
New York, NY 10017

D +1 212 599 0100

F +1 212 370 4520

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 II 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 II Charter School (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities 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, 2020.

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") as a basis for designing 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 financial statements. 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.



New York, New York
October 30, 2020

Harlem Children's Zone Promise Academy II Charter School

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2020

None noted.