

Financial Statements and Reports of
Independent Certified Public
Accountants

Harlem Children's Zone
Promise Academy II Charter School

June 30, 2023 and 2022

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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**Opinion**

We have audited the financial statements of Harlem Children's Zone Promise Academy II Charter School (the "School"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2023 and 2022, 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.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 School 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.

Emphasis of matter

As discussed in Note 2 to the financial statements, as of July 1, 2022, the School adopted FASB ASC 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for one year after the date the 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 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 and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with US GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 School'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School'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.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2023 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.

Grant Thornton LLP

New York, New York
November 1, 2023

Harlem Children's Zone Promise Academy II Charter School

STATEMENTS OF FINANCIAL POSITION

June 30,

| | 2023 | 2022 |
|---|---------------|---------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 314,541 | \$ 6,717,508 |
| Restricted cash | 70,881 | 70,867 |
| Government grants and contracts receivable | 7,005,941 | 2,028,920 |
| Due from related parties | 307,674 | - |
| Due from Harlem Children's Zone - deferred compensation plans | 985,222 | 1,991,000 |
| Property and equipment, net | 285,486 | 89,415 |
| Right-of-use lease assets - finance | 56,001,536 | - |
| Right-of-use lease assets - operating | 2,209,149 | - |
| Other assets | 318,066 | 705,400 |
| Total assets | \$ 67,498,496 | \$ 11,603,110 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,864,944 | \$ 2,591,200 |
| Finance lease liabilities, net | 56,880,588 | - |
| Operating lease liabilities, net | 2,242,445 | - |
| Due to related parties | - | 2,715,730 |
| Deferred compensation payable | 2,176,900 | 2,692,656 |
| Total liabilities | 64,164,877 | 7,999,586 |
| Contingencies | | |
| Net assets - without donor restrictions | 3,333,619 | 3,603,524 |
| Total liabilities and net assets | \$ 67,498,496 | \$ 11,603,110 |

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

Harlem Children’s Zone Promise Academy II Charter School

STATEMENTS OF ACTIVITIES

Years ended June 30,

| | 2023 | 2022 |
|--------------------------------------|---------------|---------------|
| Revenue and support | | |
| Revenue: | | |
| Government grants and contracts | \$ 25,894,831 | \$ 22,709,356 |
| Other income | 1,778 | - |
| | 25,896,609 | 22,709,356 |
| Support: | | |
| Contributions: | | |
| Related parties | 1,452,255 | 1,482,957 |
| Others | 500,000 | 1,250,000 |
| Contributions in-kind: | | |
| Related parties | 1,133,781 | 598,340 |
| Others | 716,296 | 1,725,516 |
| | 3,802,332 | 5,056,813 |
| Total support | 3,802,332 | 5,056,813 |
| Total revenue and support | 29,698,941 | 27,766,169 |
| Expenses | | |
| Program services: | | |
| Regular education | 24,267,943 | 23,050,606 |
| Special education | 4,228,129 | 4,128,011 |
| | 28,496,072 | 27,178,617 |
| Total program services | 28,496,072 | 27,178,617 |
| Management and general | 1,472,774 | 1,229,535 |
| Total expenses | 29,968,846 | 28,408,152 |
| CHANGE IN NET ASSETS | (269,905) | (641,983) |
| Net assets, beginning of year | 3,603,524 | 4,245,507 |
| Net assets, end of year | \$ 3,333,619 | \$ 3,603,524 |

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

Harlem Children's Zone Promise Academy II Charter School

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2023

| | Regular Education | Special Education | Management and General | Total |
|--|----------------------|----------------------|---------------------------|----------------------|
| Salaries | \$ 11,836,069 | \$ 2,062,162 | \$ 777,831 | \$ 14,676,062 |
| Payroll taxes | 984,403 | 171,510 | 64,692 | 1,220,605 |
| Employee benefits | 1,876,004 | 326,850 | 123,285 | 2,326,139 |
| Retirement plan contribution | 253,877 | 44,232 | 16,684 | 314,793 |
| Total personnel services | 14,950,353 | 2,604,754 | 982,492 | 18,537,599 |
| Admissions | 17,103 | 2,980 | 1,124 | 21,207 |
| Classroom supplies | 272,423 | 47,464 | - | 319,887 |
| Contracted services | 1,142,057 | 198,977 | 75,053 | 1,416,087 |
| Depreciation | 29,194 | 5,086 | 1,919 | 36,199 |
| Equipment rental and maintenance | 98,794 | 17,213 | 6,492 | 122,499 |
| Food | 1,136,145 | 197,947 | - | 1,334,092 |
| Insurance | 254,339 | 44,313 | 16,714 | 315,366 |
| Occupancy | 4,951,763 | 862,731 | 325,415 | 6,139,909 |
| Office supplies and furniture | 188,816 | 32,897 | 12,408 | 234,121 |
| Printing, publications, and memberships | 60,270 | 10,501 | 3,961 | 74,732 |
| Software and hardware | 332,072 | 57,856 | 21,823 | 411,751 |
| Special client services and incentives | 149,612 | 26,066 | - | 175,678 |
| Staff travel | 12,818 | 2,233 | 842 | 15,893 |
| Student travel | 180,245 | 31,403 | - | 211,648 |
| Telecommunications | 65,628 | 11,434 | 4,313 | 81,375 |
| Training | 234,884 | 40,923 | 15,436 | 291,243 |
| Uniforms | 118,664 | 20,674 | - | 139,338 |
| Miscellaneous | 72,763 | 12,677 | 4,782 | 90,222 |
| Total other than personnel services | 9,317,590 | 1,623,375 | 490,282 | 11,431,247 |
| Total expenses | \$ 24,267,943 | \$ 4,228,129 | \$ 1,472,774 | \$ 29,968,846 |

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

Harlem Children's Zone Promise Academy II Charter School

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2022

| | Regular Education | Special Education | Management and General | Total |
|--|------------------------------|------------------------------|-----------------------------------|----------------------|
| Salaries | \$ 11,559,144 | \$ 2,070,066 | \$ 657,174 | \$ 14,286,384 |
| Payroll taxes | 943,882 | 169,035 | 53,663 | 1,166,580 |
| Employee benefits | 3,122,169 | 559,133 | 177,505 | 3,858,807 |
| Retirement plan contribution | 254,700 | 45,613 | 14,480 | 314,793 |
| Total personnel services | 15,879,895 | 2,843,847 | 902,822 | 19,626,564 |
| Admissions | 22,452 | 4,021 | 1,276 | 27,749 |
| Classroom supplies | 159,916 | 28,638 | - | 188,554 |
| Contracted services | 929,648 | 166,486 | 52,853 | 1,148,987 |
| Depreciation | 8,194 | 1,467 | 466 | 10,127 |
| Equipment rental and maintenance | 74,991 | 13,430 | 4,263 | 92,684 |
| Food | 839,382 | 150,320 | - | 989,702 |
| Insurance | 126,627 | 22,677 | 7,199 | 156,503 |
| Occupancy | 3,673,775 | 657,917 | 208,866 | 4,540,558 |
| Office supplies and furniture | 131,043 | 23,468 | 7,450 | 161,961 |
| Printing, publications, and memberships | 37,231 | 6,667 | 2,117 | 46,015 |
| Software and hardware | 581,808 | 104,193 | 33,078 | 719,079 |
| Special client services and incentives | 219,014 | 39,222 | - | 258,236 |
| Staff travel | 1,672 | 300 | 95 | 2,067 |
| Student travel | 107,154 | 19,190 | - | 126,344 |
| Telecommunications | 90,654 | 16,235 | 5,154 | 112,043 |
| Training | 57,513 | 10,300 | 3,270 | 71,083 |
| Uniforms | 98,635 | 17,664 | - | 116,299 |
| Miscellaneous | 11,002 | 1,969 | 626 | 13,597 |
| Total other than personnel services | 7,170,711 | 1,284,164 | 326,713 | 8,781,588 |
| Total expenses | \$ 23,050,606 | \$ 4,128,011 | \$ 1,229,535 | \$ 28,408,152 |

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

Harlem Children's Zone Promise Academy II Charter School

STATEMENTS OF CASH FLOWS

Years ended June 30,

| | 2023 | 2022 |
|---|---------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (269,905) | \$ (641,983) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 36,199 | 10,127 |
| Lease amortization | 1,014,187 | - |
| Changes in assets and liabilities: | | |
| Increase in government grants and contracts receivable | (4,977,021) | (1,364,407) |
| (Increase) decrease in due to/from related parties | (3,023,404) | 3,556,062 |
| Decrease in due from Harlem Children's Zone - deferred compensation plans | 1,005,778 | 1,299,068 |
| Decrease (increase) in other assets | 387,334 | (592,480) |
| Increase (decrease) in accounts payable and accrued expenses | 273,744 | (196,550) |
| Decrease in deferred compensation payable | (515,756) | (337,496) |
| Decrease in refundable advance | - | (500,000) |
| | (6,068,844) | 1,232,342 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (232,270) | (74,516) |
| Cash flows from financing activities: | | |
| Principal payments made under finance leases | (101,839) | - |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | (6,402,953) | 1,157,826 |
| Cash and cash equivalents and restricted cash, beginning of year | 6,788,375 | 5,630,549 |
| Cash and cash equivalents and restricted cash, end of year | \$ 385,422 | \$ 6,788,375 |
| Supplemental disclosure of cash flow information: | | |
| Finance lease right-of-use assets obtained in exchange for lease liabilities | \$ 56,982,427 | \$ - |

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, 2023 and 2022

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.

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 (“U.S. 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.

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, 2023 and 2022, 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 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.

Harlem Children’s Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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:

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

The School follows 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 School received a conditional contribution in the amount of \$3,000,000 during the year ended June 30, 2021. This gift was conditioned upon the satisfaction of certain milestones and other requirements stipulated within the related agreement. The School recognized revenue under this agreement in the amount of \$500,000 and \$1,250,000 during the years ended June 30, 2023 and 2022, respectively. The

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

remaining \$1,250,000 of conditional support related to this pledge will be recognized as revenue as the milestones and other requirements stipulated within the agreement are satisfied.

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, 2023 and 2022, no allowance for doubtful accounts was required. Receivables as of June 30, 2023 and 2022 are expected to be collected within one year.

Contributions In-Kind

The School receives certain nonfinancial assets that meet the criteria established by U.S. GAAP for recognition as contributions. Such contributions, which are primarily professional services, space and utilities, are recognized at fair value within contributions in-kind in the statements of activities with corresponding amounts recorded within expenses as they were utilized during the same fiscal year. During the years ended June 30, 2023 and 2022, the School received donations of books and software with a fair value of \$87,241 and \$48,035, respectively, which were utilized in operations during those fiscal years. The School also recognized revenues and corresponding expenses for contributed space and utilities from the DOE for the years ended June 30, 2023 and 2022 of \$629,055 and \$1,677,481 respectively. These revenues are reflected as contributions in-kind - other on the accompanying statements of activities. The fair value of contributed books and software was determined based upon the purchase price to acquire equivalent goods in similar markets. Contributed space and utilities are valued at their estimated fair values based on current rates for the use of similar space and associated utilities. Contributions in-kind received from related parties are detailed in Note 8. Contributions in-kind received during the years ended June 30, 2023 and 2022 did not carry any donor-imposed restrictions.

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, 2023 or 2022.

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Estimates

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

Adopted Accounting Pronouncement (Change in Accounting Principle)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use ("ROU") asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided an optional transition method for applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, (i.e., the comparatives under Accounting Standards Codification ("ASC") 840 option).

The School adopted Topic 842 on July 1, 2022 (the effective date), using the comparatives approach under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The School similarly elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date.

The School determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The School determines these assets are leased because the School has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because the School determines it does not have the right to control and direct the use of the identified asset. The School's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, the School separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office space. The School has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The School determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The School has made a policy election to use a risk-free rate per U.S. Treasury instrument for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The portion of payments on operating lease liabilities related to interest, along with the amortization of the related ROU, is recognized as occupancy expense. This occupancy expense is recognized on a straight-line basis over the term of the lease. The portion of payments on finance lease liabilities related to interest and the amortization of the ROU assets under finance leases are reflected within occupancy expense on the accompanying statement of functional expenses.

The lease term may include options to extend or to terminate the lease that the School is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The School has elected not to record leases with an initial term of 12 months or less on its statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$4,334,382 and \$4,335,241, respectively. The School was not obligated under any finance leases as of July 1, 2022. The standard did not significantly affect the School's changes in net assets or cash flows.

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 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 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.

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.

Harlem Children’s Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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, 2023 and 2022:

| | 2023 | | 2022 | |
|--|----------------------|---------------------|----------------------|---------------------|
| | Revenues | Receivable | Revenues | Receivable |
| Per Pupil Funding | \$ 19,040,395 | \$ 132,662 | \$ 19,582,568 | \$ 117,322 |
| Employee Retention Credit | 2,526,810 | 2,526,810 | - | - |
| Title I | 372,283 | 121,141 | 450,819 | 322,418 |
| Title II | 34,681 | 10,912 | 55,555 | 43,872 |
| Title IV | 33,937 | 8,163 | 34,018 | 8,197 |
| E-Rate | | | - | - |
| ESSER | 2,528,208 | 3,660,612 | 1,621,439 | 1,132,397 |
| Food service - Federal and State of New York | 1,002,167 | 259,530 | 917,360 | 404,714 |
| ARP Homeless | - | - | 4,954 | - |
| Emergency Connectivity Fund | 306,400 | 286,111 | 42,643 | - |
| Charter School Remote learning | 49,950 | - | - | - |
| Total government grants and contracts | \$ 25,894,831 | \$ 7,005,941 | \$ 22,709,356 | \$ 2,028,920 |

NOTE 6 - PROPERTY AND EQUIPMENT

At June 30, 2023 and 2022, property and equipment consisted of the following:

| | 2023 | 2022 |
|--------------------------------|-------------------|------------------|
| Equipment | \$ 340,758 | \$ 235,830 |
| Leasehold improvements | 70,212 | 57,733 |
| Furniture and fixtures | 129,339 | 116,514 |
| Construction in progress | 102,036 | - |
| | 642,345 | 410,077 |
| Less: accumulated depreciation | (356,859) | (320,662) |
| Total | \$ 285,486 | \$ 89,415 |

Depreciation expense for the years ended June 30, 2023 and 2022 amounted to \$36,199 and \$10,127, 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

Harlem Children's Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

vested after completing six years of service. Employer contributions made to the Plan are discretionary. For the years ended June 30, 2023 and 2022, contributions made to the Plan amounted to \$314,793 each year.

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, 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 2023 and 2022, HCZ provided a net subsidy of \$625,166 and \$630,627, 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 \$985,222 and \$1,991,000 at June 30, 2023 and 2022, respectively. The cumulative amount due to eligible employees totaled \$2,176,900 and \$2,692,656 at June 30, 2023 and 2022, 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, 2023 and 2022, due from (to) related parties totaled \$307,674 and \$(2,715,730), respectively, pertaining to these related party transactions.

HCZ also provided the School with grants in the amounts of \$827,089 and \$852,330 in fiscal 2023 and 2022, respectively, which are included within contributions - related parties on the accompanying statements of activities.

Contributed Space and Services

HCZ provides the School with certain space and services at no cost. For the years ended June 30, 2023 and 2022, the School recognized revenues and corresponding expenses for space and services of \$1,133,781 and \$598,340, respectively. Contributed services are valued and reported at their estimated fair value based on current rates for similar services. Contributed space is valued at its estimated fair value based on current rates for the use of similar space.

NOTE 9 - LEASES

The School has entered into lease commitments for charter school space in Harlem, New York. These lease agreements expire on various dates through June 2059.

Harlem Children’s Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The lease cost and other required information relevant to the lease commitments for the year ended June 30, 2023 are:

| | | |
|---|----|------------------|
| Lease cost | | |
| Operating lease cost | \$ | 2,216,376 |
| Finance lease cost | | |
| Amortization of right-of-use assets | | 980,891 |
| Interest on lease liabilities | | <u>1,105,070</u> |
| Total lease cost | \$ | <u>4,302,337</u> |
| Operating cash flows from operating leases | \$ | 2,183,621 |
| Operating cash flows from finance leases | | 1,105,070 |
| Financing cash flows from finance leases | | 101,839 |
| Right-of-use assets, obtained in exchange for new operating lease liabilities | | - |
| Right-of-use assets, obtained in exchange for new finance lease liabilities | | 56,982,427 |
| Weighted-average remaining lease term: | | |
| Operating leases | | 1.03 years |
| Finance leases | | 36.02 years |
| Weighted-average discount rate: | | |
| Operating leases | | 2.84% |
| Finance leases | | 3.11% |

Future minimum payments under the School’s operating leases are due as follows:

| | <u>Operating Leases</u> | <u>Finance Leases</u> |
|--|-----------------------------|---------------------------|
| 2024 | \$ 2,249,058 | \$ 1,939,562 |
| 2025 | 15,016 | 1,978,353 |
| 2026 | 8,886 | 2,017,920 |
| 2027 | - | 2,058,278 |
| 2028 | - | 2,099,444 |
| Thereafter | - | <u>90,752,720</u> |
| Total future undiscounted lease payments | 2,272,960 | 100,846,277 |
| Less: interest | <u>(30,515)</u> | <u>(43,965,689)</u> |
| Lease liabilities | <u>\$ 2,242,445</u> | <u>\$ 56,880,588</u> |

NOTE 10 - 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.

Harlem Children’s Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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 11 - 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 12 - 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.

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, 2023 for general expenditure are as follows:

| | |
|---|---------------------|
| Cash and cash equivalents | \$ 314,541 |
| Due from related parties | 307,674 |
| Government grants and contracts receivable | <u>7,005,941</u> |
| Financial assets available for general expenditures within one year | <u>\$ 7,628,156</u> |

Harlem Children’s Zone Promise Academy II Charter School

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The School’s financial assets available within one year of June 30, 2022 for general expenditure are as follows:

| | |
|---|---------------------|
| Cash and cash equivalents | \$ 6,717,508 |
| Government grants and contracts receivable | <u>2,028,920</u> |
| Financial assets available for general expenditures within one year | <u>\$ 8,746,428</u> |

NOTE 13 - SUBSEQUENT EVENTS

The School evaluated its June 30, 2023 financial statements for subsequent events through November 1, 2023, 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 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 (*Government Auditing Standards*), 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, 2023, 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 November 1, 2023.

Report on 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 the School's 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 internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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*.

Purpose of this report

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
November 1, 2023

Harlem Children's Zone Promise Academy II Charter School

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2023

None noted.