

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

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

For the years ended June 30, 2018 and 2017

# HARLEM CHILDREN'S ZONE PROMISE ACADEMY II CHARTER SCHOOL

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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**

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, 2018 and 2017, and the related statements of activities 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 School as of June 30, 2018 and 2017, 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.

**Supplementary information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses for the years ended June 30, 2018 and 2017 are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 30, 2018, 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 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 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

October 30, 2018

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY II CHARTER SCHOOL**  
Statements of Financial Position  
As of June 30, 2018 and 2017

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<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 135,107	\$ 225,907
Restricted cash	70,774	70,739
Contributions receivable	625,000	-
Government grants and contracts receivable	918,332	782,866
Due from related parties	93,676	-
Due from <i>Harlem Children's Zone</i> - 457(f) plan	3,767,870	3,616,446
Property and equipment, net	5,166	16,362
Other assets	<u>61,270</u>	<u>97,101</u>
Total assets	<u>\$ 5,677,195</u>	<u>\$ 4,809,421</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,629,111	\$ 1,438,216
Due to related parties	-	23,138
457(f) plan liability	<u>2,967,079</u>	<u>2,632,732</u>
Total liabilities	<u>4,596,190</u>	<u>4,094,086</u>
 <b>CONTINGENCIES</b>		
NET ASSETS - unrestricted	<u>1,081,005</u>	<u>715,335</u>
Total liabilities and net assets	<u>\$ 5,677,195</u>	<u>\$ 4,809,421</u>

*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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>REVENUE AND SUPPORT</b>		
Revenue:		
Government grants and contracts	\$ 17,720,651	\$ 16,409,783
Other income	<u>3,045</u>	<u>51,857</u>
Total revenue	<u>17,723,696</u>	<u>16,461,640</u>
Support:		
Contributions:		
Related parties	4,047,684	5,641,773
Others	1,264,511	66,174
Contributed space and services:		
Related parties	491,635	371,858
Others	<u>1,774,764</u>	<u>1,790,154</u>
Total support	<u>7,578,594</u>	<u>7,869,959</u>
Total revenue and support	<u>25,302,290</u>	<u>24,331,599</u>
<b>EXPENSES</b>		
Program services:		
Regular education	20,779,062	20,482,635
Special education	<u>3,116,716</u>	<u>2,670,038</u>
Total program services	23,895,778	23,152,673
Management and general	<u>1,040,842</u>	<u>1,073,043</u>
Total expenses	<u>24,936,620</u>	<u>24,225,716</u>
Change in net assets	<u>365,670</u>	<u>105,883</u>
Net assets, beginning of year	<u>715,335</u>	<u>609,452</u>
Net assets, end of year	<u>\$ 1,081,005</u>	<u>\$ 715,335</u>

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

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY II CHARTER SCHOOL**  
**Statements of Cash Flows**  
**For the years ended June 30, 2018 and 2017**

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	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 365,670	\$ 105,883
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,196	41,816
Changes in assets and liabilities:		
Increase in contributions receivable	(625,000)	-
Increase in government grants and contracts receivable	(135,466)	(301,668)
Increase in due from related party	(93,676)	-
(Increase) decrease in due from <i>Harlem Children's Zone</i> - 457(f) plan	(151,424)	387,659
Decrease in other assets	35,831	2,199
Increase (decrease) in accounts payable and accrued expenses	190,895	(126,292)
Decrease in due to related party	(23,138)	(1,069,512)
Increase (decrease) in 457(f) plan liability	<u>334,347</u>	<u>(665,214)</u>
Net cash used in operating activities	<u>(90,765)</u>	<u>(1,625,129)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in restricted cash	<u>(35)</u>	<u>(35)</u>
Net cash used in investing activities	<u>(35)</u>	<u>(35)</u>
Net decrease in cash and cash equivalents	(90,800)	(1,625,164)
Cash and cash equivalents, beginning of year	<u>225,907</u>	<u>1,851,071</u>
Cash and cash equivalents, end of year	<u>\$ 135,107</u>	<u>\$ 225,907</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, 2018 and 2017**

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**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.

**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 financial statement presentation conforms with US GAAP for non-profit organizations, which requires that the School report information regarding its financial position and changes in net assets according to three classes of net assets, as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of the School.

Temporarily restricted net assets

Net assets which include resources that have been limited by donor-imposed stipulations that either expire with the passage of time and/or can be fulfilled by the actions of the School pursuant to those stipulations. At June 30, 2018 and 2017, the School did not possess any temporarily restricted net assets.

Permanently restricted net assets

Net assets which include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors. At June 30, 2018 and 2017, the School did not possess any permanently restricted net assets.

**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.



**HARLEM CHILDREN'S ZONE  
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**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 unrestricted net assets 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 unrestricted, temporarily restricted or permanently restricted support, 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), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**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, 2018 and 2017, no allowance for doubtful accounts was required.

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PROMISE ACADEMY II CHARTER SCHOOL**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**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, 2018 or 2017.

**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.

**Reclassifications**

Certain items in the 2017 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 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.

**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.

**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

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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, 2018 and 2017:

	2018		2017	
	Revenues	Receivable	Revenues	Receivable
City of New York (Pupil enrollment)	\$ 15,695,574	\$ 354,840	\$ 14,976,895	\$ 430,067
City of New York (Other)	668,624	-	348,520	-
Outside the City of New York (Pupil enrollment)	17,794	17,794	-	-
Title I	444,440	293,000	337,565	163,976
Title II	150,448	110,595	12,713	7,334
E-Rate	97,191	25,387	102,587	55,480
Food service - Federal and State of New York	<u>646,580</u>	<u>116,716</u>	<u>631,503</u>	<u>126,009</u>
Total grants and contracts from government sources	<u>\$ 17,720,651</u>	<u>\$ 918,332</u>	<u>\$ 16,409,783</u>	<u>\$ 782,866</u>

**6. PROPERTY AND EQUIPMENT**

At June 30, 2018 and 2017, property and equipment consisted of the following:

	2018	2017
Equipment	\$ 227,022	\$ 227,022
Leasehold improvements	34,634	34,634
Furniture and fixtures	<u>41,997</u>	<u>41,997</u>
	303,653	303,653
Less: Accumulated depreciation	<u>(298,487)</u>	<u>(287,291)</u>
Total	<u>\$ 5,166</u>	<u>\$ 16,362</u>

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to \$11,196 and \$41,816, respectively.

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY II CHARTER SCHOOL**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**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, 2018 and 2017, contributions made to the Plan amounted to \$307,183 and \$118,499, respectively.

**8. RELATED-PARTY TRANSACTIONS**

**Contributions**

*457(f) Plan*

HCZ maintains a discretionary 457(f) plan for certain eligible employees of the School. Employees become eligible to participate in this plan based solely at the discretion of the School's Board of Trustees. Prior to the fiscal year ended June 30, 2017, amounts contributed to the plan became vested five years after the date of the initial contribution for all eligible employees. Beginning July 1, 2016, the vesting periods became bifurcated between teachers and administrative staff, such that amounts contributed to the plan now vest three and five years after the date of the initial contribution for eligible teachers and administrative staff, respectively. Amounts contributed to the plan 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 2018 and 2017, HCZ provided a net subsidy of \$876,940 and \$827,910, respectively, for contributions to the 457(f) plan. These amounts are recorded as contributions – related parties and a corresponding expense on the accompanying statements of activities. The cumulative amount due from HCZ relating to the 457(f) plan totaled \$3,767,870 and \$3,616,446 at June 30, 2018 and 2017, respectively. The cumulative amount due to eligible employees totaled \$2,967,079 and \$2,632,732 at June 30, 2018 and 2017, 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, 2018, due from related parties totaled \$93,676, while, at June 30, 2017, due to related parties totaled \$23,138, pertaining to these related party transactions.

HCZ also provided the School with grants in the amounts of \$3,170,219 and \$4,813,863 in fiscal 2018 and 2017, respectively, which are included in contributions – related parties on the accompanying statements of activities.

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY II CHARTER SCHOOL**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**Contributed Space and Services**

HCZ provides the School with certain services at no cost. For the years ended June 30, 2018 and 2017, the School recognized revenues and corresponding expenses for services of \$491,635 and \$371,858, respectively.

The School also recognized revenues and corresponding expenses for contributed space and utilities from the DOE for the years ended June 30, 2018 and 2017 of \$1,774,764 and \$1,790,154, respectively.

**Rent**

During fiscal 2016, the School entered into a five year lease agreement with HCZ for the School's use of the space located at 35 East 125<sup>th</sup> St, New York, NY, a property owned by HCZ. Pursuant to the terms of this lease, the School incurred approximately \$1,786,000 in rent expense during both fiscal 2018 and 2017.

As of June 30, 2018, the minimum future annual rental obligation under the terms of this lease is \$1,937,200 for fiscal year 2019.

**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.

**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.

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY II CHARTER SCHOOL**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**11. SUBSEQUENT EVENTS**

The School evaluated its June 30, 2018 financial statements for subsequent events through October 30, 2018, 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.

**SUPPLEMENTARY INFORMATION**

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

	<u>Regular Education</u>	<u>Special Education</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 11,401,909	\$ 1,710,207	\$ 617,848	\$ 13,729,964
Payroll taxes	970,398	145,553	52,584	1,168,535
Employee benefits	1,814,457	272,156	98,322	2,184,935
Retirement plan contribution	<u>255,097</u>	<u>38,263</u>	<u>13,823</u>	<u>307,183</u>
Total personnel services	<u>14,441,861</u>	<u>2,166,179</u>	<u>782,577</u>	<u>17,390,617</u>
Admissions	59,580	8,937	3,229	71,746
Classroom supplies	112,190	16,828	-	129,018
Contracted services	409,382	61,404	22,184	492,970
Depreciation	9,156	1,499	541	11,196
Equipment rental and maintenance	119,509	17,925	6,476	143,910
Food	812,958	121,938	-	934,896
Hardware/software/software maintenance	112,034	16,804	6,071	134,909
Insurance	84,875	12,731	4,599	102,205
Occupancy	3,404,777	510,693	184,499	4,099,969
Office supplies and furniture	223,972	33,594	12,137	269,703
Printing, publications, and memberships	43,925	6,588	2,380	52,893
Special services/incentives	381,134	57,167	-	438,301
Staff travel	22,080	3,312	1,196	26,588
Student travel	199,156	29,872	-	229,028
Telephone and internet	80,169	12,025	4,344	96,538
Training	130,151	19,522	7,053	156,726
Uniforms	65,700	9,855	-	75,555
Miscellaneous	<u>66,453</u>	<u>9,843</u>	<u>3,556</u>	<u>79,852</u>
Total other than personnel services	<u>6,337,201</u>	<u>950,537</u>	<u>258,265</u>	<u>7,546,003</u>
Total expenses	<u>\$ 20,779,062</u>	<u>\$ 3,116,716</u>	<u>\$ 1,040,842</u>	<u>\$ 24,936,620</u>

*This schedule should be read in conjunction with the accompanying financial statements and notes thereto.*



**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY II CHARTER SCHOOL  
Schedule of Functional Expenses  
For the year ended June 30, 2017**

	<u>Regular Education</u>	<u>Special Education</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 11,366,467	\$ 1,481,688	\$ 647,806	\$ 13,495,961
Payroll taxes	933,028	121,626	53,176	1,107,830
Employee benefits	1,863,295	242,892	106,194	2,212,381
Retirement plan contribution	<u>99,801</u>	<u>13,010</u>	<u>5,688</u>	<u>118,499</u>
Total personnel services	<u>14,262,591</u>	<u>1,859,216</u>	<u>812,864</u>	<u>16,934,671</u>
Admissions	59,326	7,733	3,381	70,440
Classroom supplies	180,019	23,467	-	203,486
Contracted services	347,463	45,294	19,803	412,560
Depreciation	35,218	4,591	2,007	41,816
Equipment rental and maintenance	114,806	14,966	6,543	136,315
Food	865,396	112,810	-	978,206
Hardware/software/software maintenance	92,971	12,119	5,299	110,389
Insurance	55,958	7,295	3,189	66,442
Occupancy	3,386,097	441,398	192,983	4,020,478
Office supplies and furniture	77,235	10,068	4,402	91,705
Printing, publications, and memberships	46,923	6,117	2,674	55,714
Special services/incentives	323,732	42,200	-	365,932
Staff travel	9,529	1,242	543	11,314
Student travel	191,927	25,019	-	216,946
Telephone and internet	185,128	24,133	10,551	219,812
Training	121,801	15,878	6,942	144,621
Uniforms	93,846	12,233	-	106,079
Miscellaneous	<u>32,669</u>	<u>4,259</u>	<u>1,862</u>	<u>38,790</u>
Total other than personnel services	<u>6,220,044</u>	<u>810,822</u>	<u>260,179</u>	<u>7,291,045</u>
Total expenses	<u>\$ 20,482,635</u>	<u>\$ 2,670,038</u>	<u>\$ 1,073,043</u>	<u>\$ 24,225,716</u>

*This schedule should be read in conjunction with the accompanying financial statements and notes thereto.*

**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, 2018, 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, 2018.

**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.

The image shows a handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York  
October 30, 2018

**HARLEM CHILDREN'S ZONE  
PROMISE ACADEMY II CHARTER SCHOOL**  
Schedule of Findings and Questioned Costs  
For the year ended June 30, 2018

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None noted.