

I. SCHOOL INFORMATION AND COVER PAGE

Created Friday, August 01, 2014

Page 1

1. SCHOOL NAME

(Select School name from dropdown menu; BEDS # appears first)

310500860886 HARLEM CHLDRN ZONE ACADEMY II

2. CHARTER AUTHORIZER

NYCDOE-Authorized Charter School

3. DISTRICT / CSD OF LOCATION

NYC CSD 5

4. SCHOOL INFORMATION

PRIMARY ADDRESS	PHONE NUMBER	FAX NUMBER	EMAIL ADDRESS
35 East 125th Street, New York, NY 10035	212-360-3255		

4a. PHONE CONTACT NUMBER FOR AFTER HOURS EMERGENCIES

Contact Name	Sharleen Morris
Title	Director of Student Services
Emergency Phone Number (###-###-####)	

5. SCHOOL WEB ADDRESS (URL)

www.hczpromise.org

6. DATE OF INITIAL CHARTER

2005-04-01 00:00:00

7. DATE FIRST OPENED FOR INSTRUCTION

2005-09-01 00:00:00

8. TOTAL NUMBER OF STUDENTS ENROLLED IN 2013-14 (as reported on BEDS Day)

(as reported on BEDS Day)

9. GRADES SERVED IN SCHOOL YEAR 2013-14

Check all that apply

 K

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 9**10. DOES THE SCHOOL CONTRACT WITH A CHARTER OR EDUCATIONAL MANAGEMENT ORGANIZATION?**

Yes/No	Name of CMO/EMO
No	

11. FACILITIES

Will the School maintain or operate multiple sites?

Yes, 2 sites

12. SCHOOL SITES

Please list the sites where the school will operate in 2014-15.

	Physical Address	Phone Number	District/CS D	Grades Served at Site	School at Full Capacity at Site	Facilities Agreement
Site 1 (same as primary site)	35 East 125th Street, New York, NY 10035	212-360-3255	CSD 5	7-9	No	Own
Site 2	2005 Madison Avenue, New York, NY 10035	646-437-1481	CSD 5	K-6	Yes	DOE space

12a. Please provide the contact information for Site 1 (same as the primary site).

	Name	Work Phone	Alternate Phone	Email Address
School Leader	Kevin Dougherty	[REDACTED]		[REDACTED]
Operational Leader	Sharleen Morris	[REDACTED]	[REDACTED]	[REDACTED]

12b. Please provide the contact information for Site 2.

	Name	Work Phone	Alternate Phone	Email Address
School Leader	Sheryl Ragland	[REDACTED]		[REDACTED]
Operational Leader	Sharleen Morris	[REDACTED]	[REDACTED]	[REDACTED]

13. Are the School sites co-located?

Yes

13a. Please list the terms of your current co-location.

	Date School will leave current co-location	Is school working with NYCDOE to expand into current space?	If so, list year expansion will occur.	Is school working with NYCDOE to move to separate space?	If so, list the proposed space and year planned for move	School at Full Capacity at Site
Site 1 (primary site)	Not co-located					
Site 2	n/a	No		No		Yes

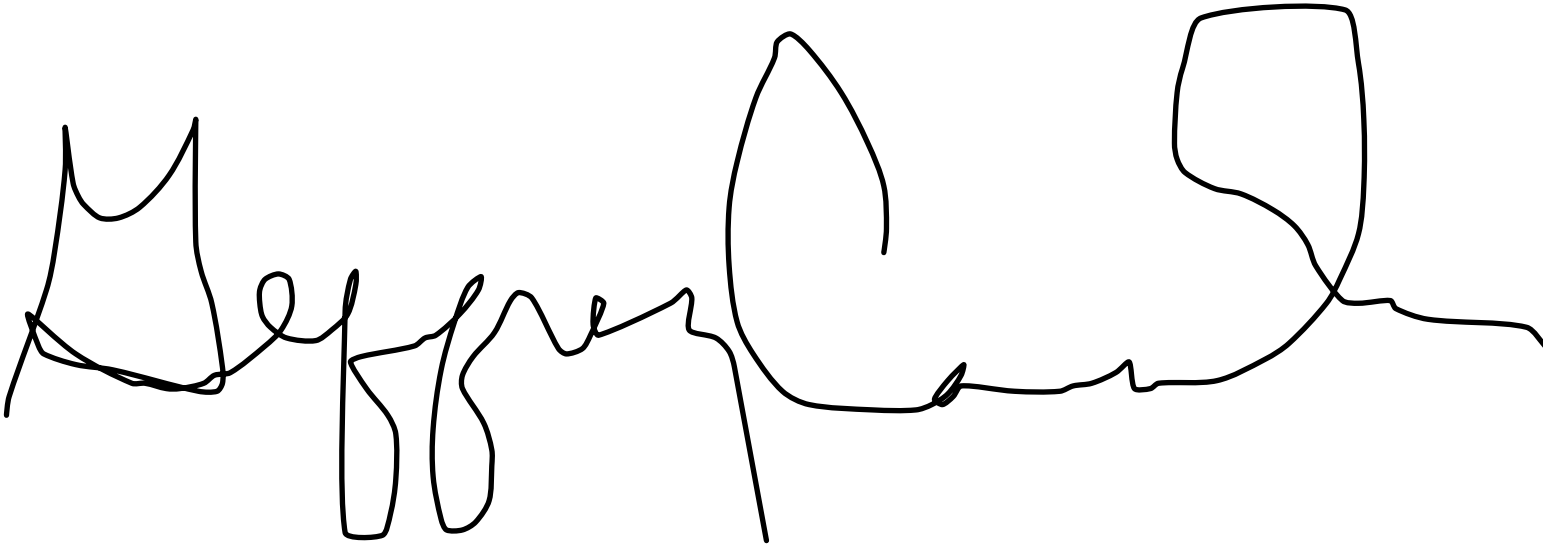
14. Were there any revisions to the school's charter during the 2013-2014 school year? (Please include both those that required authorizer approval and those that did not require authorizer approval).

No

16. Our signatures below attest that all of the information contained herein is truthful and accurate and that this charter school is in compliance with all aspects of its charter, and with all pertinent Federal, State, and local laws, regulations, and rules. We understand that if any information in any part of this report is found to have been deliberately misrepresented, that will constitute grounds for the revocation of our charter. Check YES if you agree and use the mouse on your PC or the stylus on your mobile device to sign your name).

• Yes

Signature, Head of Charter School

A handwritten signature in black ink, appearing to read "Meghan S. [unclear]". The signature is fluid and cursive, with a large, prominent "S" at the end.

Signature, President of the Board of Trustees

A handwritten signature in black ink, appearing to read "Meghan S. [unclear]". The signature is fluid and cursive, with a large, prominent "S" at the end.

Thank you.

Appendix A: Progress Toward Goals

Created Friday, August 01, 2014

Updated Friday, October 31, 2014

Page 1

Charter School Name: 310500860886 HARLEM CHLDRN ZONE ACADEMY II

1. NEW YORK STATE REPORT CARD

Provide a direct URL or web link to the most recent New York State School Report Card for the charter school (See <https://reportcards.nysed.gov/>).

(Charter schools completing year one will not yet have a School Report Card or link to one. Please type "URL is not available" in the space provided).

<http://data.nysed.gov/reportcard.php?year=2013&instid=800000058981>

2. APPENDIX A: PROGRESS TOWARD CHARTER GOALS

2a. ACADEMIC STUDENT PERFORMANCE GOALS

If the results are not available by August 1st, please list the goals and explain this in the "progress toward goal attainment" column. This task will reopen for the school to update and finalize by the November 1, 2014 due date.

2013-14 Progress Toward Attainment of Academic Goals

	Academic Student Performance Goal	Measure Used to Evaluate Progress	2013-2014 Progress Toward Attainment	If Not Met, Describe Efforts to be Taken
Academic Goal 1	Each year, the School will have an annual average student attendance rate of at least 95% as calculated by ATS.	Average daily attendance figures in ATS	Promise Academy II had an annual average attendance rate of 94%	We have developed a committee with the support of our non-profit partner, the Harlem Children's Zone, to provide early intervention for students who are displaying early warning indicators, such as chronic absenteeism. Interventions such as a private busing service to the Bronx, engaging a partner organization aimed at reducing asthma-related absences, and home visits by family workers will continue to support our efforts to reach our attendance goal.
Academic Goal 2	Each year, 95% of all students enrolled on the last day of the school year who do not move out of district will return the following September.	Student enrollment figures in ATS	95% (630/663) of students enrolled on the last day of school and who did not move out of the district returned in September	

Academic Goal 3	Each year, student enrollment will be within 15% of full enrollment as defined in the school's contract. This will be measured each year by an analysis of student enrollment figures in ATS.	Student enrollment figures in A	Student enrollment was 89.5% of full enrollment (671/750 students enrolled)	
Academic Goal 4	Each year, 75 percent of students in grades 3—8 who have been enrolled at the school on BEDS day for at least two consecutive years will perform at or above Level 3 on the NYS ELA exams.	New York State English Language Arts Exam	27.8% of students enrolled for at least two consecutive years performed at Level 3 or above on the NY State ELA exam.	Under the leadership of a new superintendent, our schools are creating new opportunities for our teachers to learn from each other. We hold PD half-days every Friday, so our ELA department will be able to meet with the ELA teachers at our sister school, Promise Academy II, to share best practices. We are also making visits to charter schools who performed exceptionally on the NYS ELA Exam in order to translate methods for success back to our classrooms.
Academic Goal 5	Each year, 75 percent of students in grades 3—8 who have been enrolled at the school on BEDS day for at least two consecutive years will perform at or above Level 3 on the NYS Math exams.	New York State Mathematics Exam	45.4% of students enrolled for at least two consecutive years performed at Level 3 or above on the NY State Math exam.	
Academic Goal 6	Each year, 75 percent of students in grades 4 and 8 who have been enrolled at the school on BEDS day for at least two consecutive years will perform at or above Level 3 on the NYS Science exams.	New York State Science Exam	93.9% of Promise Academy II students in grade 4, who have been enrolled for two consecutive years, performed at a level 3 or above on the NY State Science Exam. 81.1% of Promise Academy II students in grade 8, who have been enrolled for two consecutive years, performed at a level 3 or above on the NY State Science Exam.	
Academic Goal 7	Each year, 75 percent of students in grades 5 and 8 who have been enrolled at the school	New York State did not administer a Social Studies Exam during the 2012-2013 school year	N/A	

on BEDS day for at least two consecutive years will perform at or above Level 3 on the NYS Social Studies exams.

Academic Goal 8	For each year of the charter, grade-level cohorts of the same students (i.e. students who were continuously enrolled in the school at least two years on BEDS day) will reduce the gap between the percent at or above Level 3 on the previous year's State ELA exam and 90 percent at or above Level 3 on the current year's State ELA exam. In the event that the number of students scoring above proficiency in a grade level cohort exceeded 90 percent on the previous year's ELA exam, Harlem Children's Zone Promise Academy II will demonstrate growth (from proficient to advanced) in the current year.	New York State English Language Arts Exam	In 2012-2013, 24.6% of Promise II students who had been in the school for 2 years or more were proficient on the ELA exam. In 2013-2014, 27.8% of students were proficient. The growth did reduce the gap with 90%.
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2a1. Do have more academic goals to add?

Yes

2013-14 Progress Toward Attainment of Academic Goals

Academic Student Performance Goal	Measure Used to Evaluate Progress	2013-2014 Progress Toward Attainment	If Not Met, Describe Efforts to be Taken
Academic Goal 9	For each year of the charter, grade-level cohorts of the same students (i.e. students who were continuously enrolled in the school at least two years on BEDS day) will reduce the gap between the percent at or above Level 3 on the previous year's State Math exam and 90 percent at or above Level 3 on the current year's State Math exam. In the event that the number of students scoring above proficiency in a grade level cohort exceeded 90 percent on the previous year's	New York State Mathematics Exam	In 2012-2013, 35.0% of Promise II students who had been in the school for 2 years or more were proficient on the math exam. In 2013-2014, 45.4% of students were proficient. The growth did reduce the gap with 90%.

	Math exam, Harlem Children’s Zone Promise Academy II will demonstrate growth (from proficient to advanced) in the current year.		
Academic Goal 10	Each year, the school will earn a score sufficient to place it in the 75th percentile of all schools on the citywide Progress Report.	New York City Department of Education 2013-2013 Progress Report	Progress reports are not yet available
Academic Goal 11	Each year, the school will earn a score sufficient to place it in the 75th percentile of all schools on the “Performance” section of the citywide Progress Report.	New York City Department of Education 2013-2014 Progress Report	Progress reports are not yet available
Academic Goal 12	Each year, the school will earn a score sufficient to place it in the 75th percentile of all schools on the “Progress” section of the citywide Progress Report.	New York City Department of Education 2013-2014 Progress Report	Progress reports are not yet available
Academic Goal 13	Each year, the school will be deemed “In Good Standing” on the NYS Report Card.	New York City Department of Education 2013-2014 Progress Report	Good Standing
Academic Goal 14	Each year, parents will express satisfaction with the school’s program, based on the NYCDOE Learning Environment Survey in which the school will receive scores of 7.5 or higher in each of the four survey domains: Academic Expectations, Communication, Engagement, and Safety and Respect. The school will only have met this goal if 50% or more parents participate in the survey.	New York City Department of Education 2013-2014 Learning Environment Survey	These metrics are no longer available from the survey reports.
Academic Goal 15	Each year, teachers will express satisfaction with school leadership and professional development opportunities as determined by the teacher section of the NYCDOE Learning Environment Survey in which the school will receive scores of 7.5 or higher in each of the four survey domains: Academic Expectations, Communication,	New York City Department of Education 2013-2014 Learning Environment Survey	These metrics are no longer available from the survey reports.

Engagement, and Safety and Respect. The school will only have met this goal if 50% or more teachers participate in the survey.

Academic Goal 16	For grades 5 and higher, each year, students will express satisfaction with the school as determined by the teacher section of the NYCDOE Learning Environment Survey in which the school will receive scores of 7.5 or higher in each of the four survey domains: Academic Expectations, Communication, Engagement, and Safety and Respect. The school will only have met this goal if 50% or more of students enrolled participate in the survey.	New York City Department of Education 2013-2014 Learning Environment Survey	These metrics are no longer available from the survey reports.
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2a2. Do have more academic goals to add?

Yes

2013-14 Progress Toward Attainment of Academic Goals

Academic Student Performance Goal	Measure Used to Evaluate Progress	2013-14 Progress Toward Attainment	If Not Met, Describe Efforts to be Taken
Academic Goal 17	Each year, 75% of students enrolled in grades 9-12 will accumulate 10 or more credits towards graduation. The school will report this each September by submitting a report of student credit accumulation from the previous school year for purposes of the NYCDOE Progress Report.	Credit records	79% of Promise Academy II High School students earned 10 or more credits.
Academic Goal 18	Each year, beginning in 2016-2017, 75 percent of the cohort will have scored at least 65 on the New York State Regents examinations in ELA.	English Regents Scores	Not yet applicable because Promise II only had first year high school students.
Academic Goal 19	Each year, beginning in 2016-2017, 75 percent of the first cohort will have scored at least 65 on the New York State Regents examinations in Math.	Math Regents Exam Scores	Not yet applicable because Promise II only had first year high school students.
Academic Goal 20	Each year, beginning in 2016-2017, 75 percent of the initial cohort will have scored at least 65 on the New York State Regents examinations in Science (Living Environment, Chemistry, or other).	Science Regents Exam Scores	Not yet applicable because Promise II only had first year high school students.

Academic Goal 21	Each year, at least 75% of each student cohort (as defined by NYSED) graduates within five years.	Graduation Rates	Not yet applicable because Promise II only had first year high school students.
Academic Goal 22	Each year, the school will earn a score sufficient to place it in the 75th percentile of all schools on the citywide Progress Report.	NYC Progress Reports	Progress Reports are not yet available.
Academic Goal 23	Each year, the school will earn a score sufficient to place it in the 75th percentile of all high schools in credit accumulation as measured by the citywide Progress Report.	NYC Progress Reports	Progress Reports are not yet available.

2b. ORGANIZATIONAL GOALS

2013-14 Progress Toward Attainment of Organizational Goals

	Organizational Goal	Measure Used to Evaluate Progress	2013-14 Progress Toward Attainment	If Not Met, Describe Efforts to be Taken
Org Goal 1	Each year, the school will comply with all applicable laws, rules, regulations and contract terms including, but not limited to, the New York Charter Schools Act, the New York Freedom of Information Law, the New York Open Meetings Law, the federal Individuals with Disabilities Education Act, and federal Family Educational Rights and Privacy Act.		Goal was met.	
Org Goal 2	As reflected in the Board minutes, the Superintendent or Principals will present Program reports that outline enrollment, attendance, discharge status, IEP, and ELL numbers as well as any available testing results at every Board of Trustees meeting. The Superintendent or Chief Financial Officer will present an up-to-date Financial Report as well.		Goal was met.	
Org Goal 3	95% of the members of the Board of Trustees will be active members of a subcommittee of the Board.		Goal was met.	

2b.1 Do you have more organizational goals to add?

No

2c. FINANCIAL GOALS

2013-14 Progress Toward Attainment of Financial Goals

	Financial Goals	Measure Used to Evaluate Progress	2013-2014 Progress Toward Attainment	If Not Met, Describe Efforts to be Taken
Financial Goal 1	Upon completion of the each school year the school will undergo an independent financial audit that will result in an unqualified opinion and no major findings.		Goal was met.	
Financial Goal 2	Each year, the school will operate on a balanced budget and maintain a stable cash flow.		Goal was met.	

Appendix I: Teacher and Administrator Attrition

Created Friday, August 01, 2014

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Charter School Name: 310500860886 HARLEM CHLDRN ZONE ACADEMY II

Instructions for completing the Teacher and Administrator Attrition Tables
ALL charter schools should provide, for teachers and administrators only, the full time equivalent (FTE) of staff on June 30, 2013, the FTE for added staff from July 1, 2013 through June 30, 2014, and the FTE for any departed staff from July 1, 2013 through June 30, 2014 using the two tables provided.

2013-14 Teacher Attrition Table

FTE Teachers on June 30, 2013	FTE Teachers Additions 7/1/13 – 6/30/14	FTE Teacher Departures 7/1/13 – 6/30/14
74	49	35

2013-14 Administrator Position Attrition Table

FTE Administrator Positions On 6/30/2013	FTE Administrator Additions 7/1/13 – 6/30/14	FTE Administrator Departures 7/1/13 – 6/30/14
9	4	2

Thank you

Appendix J: Uncertified Teachers

Created Friday, August 01, 2014

Updated Monday, August 04, 2014

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Charter School Name: 310500860886 HARLEM CHLDRN ZONE ACADEMY II

Note Definition of FTE:

Full-time equivalent employees equal the number of employees on full-time schedules plus the number of employees on part-time schedules converted to a full-time basis. The number of full-time equivalent employees in each industry is the product of the total number of employees and the ratio of average weekly hours per employee for all employees to average weekly hours per employee on full-time schedules. An industry's full-time equivalent employment will be less than the number of its employees on full- and part-time schedules, unless it has no part-time employees (U.S. Commerce--Bureau of Economic Analysis at: http://www.bea.gov/faq/index.cfm?faq_id=368#sthash.8Rbj89kq.dpuf)

How many UNCERTIFIED Full-Time Equivalent Teachers were employed in the charter school as of last day of school in 2013-14?

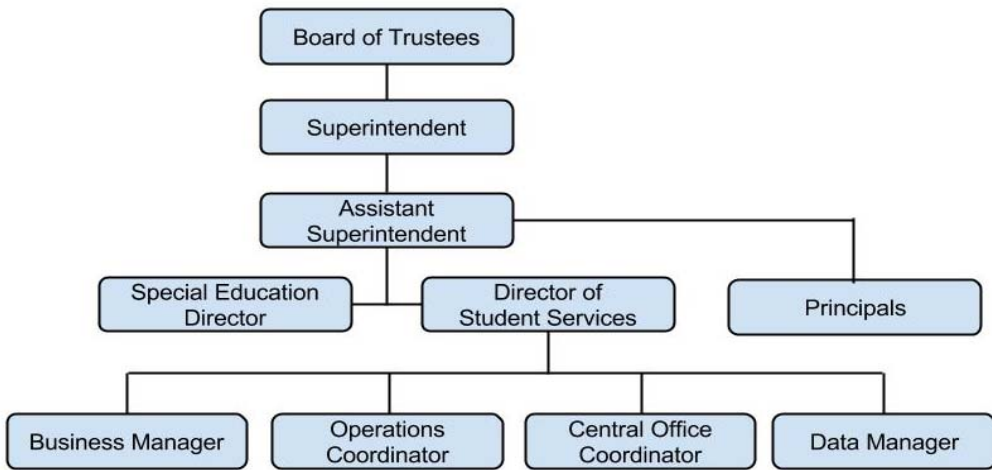
For each applicable category (i-iv), input the relevant full time equivalent (FTE) count of teachers.

	FTE
(i) uncertified teachers with at least three years of elementary, middle or secondary classroom teaching experience	3
(ii) tenured or tenure track college faculty	0
Total FTE (Sum of all Uncertified Teaching Staff)	3

How many CERTIFIED Full-Time Equivalent Teachers were employed in the charter school as of the last day of school in 2013-14?

51

Thank you.



Appendix B: Total Expenditures and Administrative Expenditures per Child

Created Friday, August 01, 2014

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Charter School Name: 310500860886 HARLEM CHLDRN ZONE ACADEMY II

B. Financial Information

This information is required of ALL charter schools. Provide the following measures of fiscal performance of the charter school in Appendix B (Total Expenditures and Administrative Expenditures Per Child):

1. Total Expenditures Per Child

To calculate 'Total Expenditures per Child' take total expenditures (from the unaudited 2013-14 Schedule of Functional Expenses) and divide by the count of students you reported on of BEDS Day. (Integers Only. No dollar signs or commas).

1. Total Expenditures Per Child Line 1: Total Expenditures	10624809
1. Total Expenditures Per Child Line 2: BEDS Day Pupil Count	651
1. Total Expenditures Per Child Line 3: Divide Line 1 by Line 2	16321

2. Administrative Expenditures per Child

To calculate 'Administrative Expenditures per Child' take the relevant portion from the 'personnel services cost' row and the 'management and general' column (from the unaudited 2013-14 Schedule of Functional Expenses) and divide by the BEDS per pupil count. The relevant portion that must be included in this calculation is defined as follows:

Administrative Expenditures: Administration and management of the charter school includes the activities and personnel of the offices of the chief school officers, the treasurer, the finance or business offices, the purchasing unit, the employee personnel offices, the records management offices, or a public information and services offices. It also includes those administrative and management services provided by other organizations or corporations on behalf of the charter school for which the charter school pays a fee or other compensation.

Please note the following:

Do not include the FTE of personnel dedicated to administration of the instructional programs.

Do not include Employee Benefit costs or expenditures in the above calculations.

A template for the Schedule of Functional Expenses is provided on page 21 of the 2012 Annual Report Guidelines to assist schools identify the categories of expenses needed to compute the two per pupil calculations. This template does not need to be completed or submitted on August 1st as it will be submitted November 1st as part of the audited financial statements. Therefore schools should use unaudited amounts for these per pupil calculations. (See the 2013-14 Annual Report Guidelines in "Resources" area of your portal task page).

To calculate 'Administrative Expenditures per Child' take the relevant portion from the 'personnel services cost' row and the 'management and general' column (from the 2013-14 Schedule of Functional Expenses) and divide by the count of students as of BEDS Day. (Integers Only. No dollar signs or commas).

To calculate 'Administrative Expenditures per Child' take the relevant portion from the 'personnel services cost' row and the 'management and general' column (from the 2013-14 Schedule of Functional Expenses) and divide by the count of students as of BEDS Day. (Integers Only. No dollar signs or commas). Line 1: Relevant Personnel Services Cost (Row)	433782
To calculate 'Administrative Expenditures per Child' take the relevant portion from the 'personnel services cost' row and the 'management and general' column (from the 2013-14 Schedule of Functional Expenses) and divide by the count of students as of BEDS Day. (Integers Only. No dollar signs or commas). Line 2: Management and General Cost (Column)	47501
To calculate 'Administrative Expenditures per Child' take the relevant portion from the 'personnel services cost' row and the 'management and general' column (from the 2013-14 Schedule of Functional Expenses) and divide by the count of students as of BEDS Day. (Integers Only. No dollar signs or commas). Line 3: Sum of Line 1 and Line 2	481283
To calculate 'Administrative Expenditures per Child' take the relevant portion from the 'personnel services cost' row and the 'management and general' column (from the 2013-14 Schedule of Functional Expenses) and divide by the count of students as of BEDS Day. (Integers Only. No dollar signs or commas). Line 4: BEDS Day Pupil Count	651
To calculate 'Administrative Expenditures per Child' take the relevant portion from the 'personnel services cost' row and the 'management and general' column (from the 2013-14 Schedule of Functional Expenses) and divide by the count of students as of BEDS Day. (Integers Only. No dollar signs or commas). Line 5: Divide Line 3 by the BEDS Day Pupil Count	739

Thank you.

Audited Financial Statement Checklist

Created Saturday, November 01, 2014

Page 1

Charter School Name:

1. Please check each item that is included in the 2013-14 Audited Financial Statement submitted for your charter school.

	Yes/No
Audited Financial Statements (including report on compliance and report on internal control over financial reporting)	Yes
Single Audit (if applicable)	No
CSP Agreed Upon Procedures (if applicable)	No
Management Letter	No
Report on Extracurricular Student Activity Accounts (if applicable)	No
Corrective Action Plans for any Findings	No

2. Please indicated if there is a finding(s) noted in any of the following sections of your charter school's 2013-14 Audited Financial Statement.

	Yes/No
Report on Compliance	No
Report on Internal Control over Financial Reporting	No
Single Audit	No
CSP Agreed Upon Procedures Report	No
Management Letter	No

Thank you.

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, 2014 and 2013

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 Harlem Children’s Zone Promise Academy II Charter School (the “School”), which comprise the statements of financial position as of June 30, 2014 and 2013, 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 Harlem Children’s Zone Promise Academy II Charter School as of June 30, 2014 and 2013, 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 Schedule of Functional Expenses for the years ended June 30, 2014 and 2013 is presented for purposes of additional analysis and is 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 31, 2014, 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 31, 2014

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL**
Statements of Financial Position
As of June 30, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Cash	\$ 5,966,881	\$ 5,933,503
Restricted cash	70,588	70,505
Government grants and contracts receivable	223,180	395,983
Due from related parties	70,360	82,017
Due from Harlem Children's Zone - 457(f) plan	3,888,453	3,228,415
Property and equipment, net	128,349	187,785
Other assets	<u>6,540</u>	<u>49,140</u>
Total assets	<u>\$ 10,354,351</u>	<u>\$ 9,947,348</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,344,030	\$ 981,171
457(f) plan liability	<u>3,428,973</u>	<u>3,100,155</u>
Total liabilities	<u>4,773,003</u>	<u>4,081,326</u>
 CONTINGENCIES		
NET ASSETS - unrestricted	<u>5,581,348</u>	<u>5,866,022</u>
Total liabilities and net assets	<u>\$ 10,354,351</u>	<u>\$ 9,947,348</u>

The accompanying notes are an integral part of these statements.

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL**
Statements of Activities
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
SUPPORT AND REVENUE		
Support:		
In-kind contributions	\$ 3,123,354	\$ 2,770,140
Subsidy from Harlem Children's Zone for 457(f) plan	<u>681,000</u>	<u>601,500</u>
Total support	<u>3,804,354</u>	<u>3,371,640</u>
Revenue:		
Government grants and contracts	10,312,681	9,000,399
Other income	<u>15,444</u>	<u>14,327</u>
Total revenue	<u>10,328,125</u>	<u>9,014,726</u>
 Total support and revenue	 <u>14,132,479</u>	 <u>12,386,366</u>
EXPENSES		
Program services:		
Regular education	11,655,382	8,955,568
Special education	<u>1,906,251</u>	<u>1,373,240</u>
Total program services	13,561,633	10,328,808
 Management and general	 <u>855,520</u>	 <u>649,192</u>
Total expenses	<u>14,417,153</u>	<u>10,978,000</u>
 Change in net assets	 <u>(284,674)</u>	 <u>1,408,366</u>
Net assets, beginning of year	<u>5,866,022</u>	<u>4,457,656</u>
Net assets, end of year	<u>\$ 5,581,348</u>	<u>\$ 5,866,022</u>

The accompanying notes are an integral part of these statements.

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL**
Statements of Cash Flows
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (284,674)	\$ 1,408,366
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	89,596	49,326
Changes in assets and liabilities:		
Decrease (increase) in government grants and contracts receivable	172,803	(38,146)
Decrease in due from related party	11,657	(80,616)
Increase in due from Harlem Children's Zone - 457(f) plan	(660,038)	(884,310)
Decrease (increase) in other assets	42,600	(13,211)
Increase in accounts payable and accrued expenses	362,859	46,252
Increase in 457(f) plan liability	<u>328,818</u>	<u>812,882</u>
Net cash provided by operating activities	<u>63,621</u>	<u>1,300,543</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(30,160)</u>	<u>(153,090)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in restricted cash	<u>(83)</u>	<u>(106)</u>
Net increase in cash	33,378	1,147,347
Cash, beginning of year	<u>5,933,503</u>	<u>4,786,156</u>
Cash, end of year	<u>\$ 5,966,881</u>	<u>\$ 5,933,503</u>

The accompanying notes are an integral part of these statements.

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL**
Notes to Financial Statements
June 30, 2014 and 2013

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"), 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 accounting principles generally accepted in the United States of America for non-profit organizations, which require 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, 2014 and 2013, 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, 2014 and 2013, the School did not possess any permanently restricted net assets.

Property and Equipment

Property and equipment purchased for a value greater than \$1,000 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.

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL**
Notes to Financial Statements
June 30, 2014 and 2013

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

Revenue is recorded on the accrual basis of accounting. The School derives its revenue principally from the New York State and New York City governments, through the New York City Department of Education Office of Charter Schools, based on pupil enrollment for regular and special education, with the balance from contributions, subsidies and US Federal government grants.

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. Amounts received in advance are reported as deferred revenue.

Revenue from other grants and contracts is recognized as the related expenses are incurred in accordance with the terms of the respective grant or contract agreement. Amounts received in advance are reported as deferred revenues.

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. Temporarily restricted contributions are recorded as unrestricted contributions if the restriction is met in the same reporting period.

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.

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL**
Notes to Financial Statements
June 30, 2014 and 2013

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. Management determined that there are no uncertain tax positions within its financial statements.

The School is exempt from federal income taxation by virtue of being an organizations described in section 501(c)(3) of the Internal Revenue Code. Nevertheless, the School may be subject to tax on any income deemed unrelated to its exempt purpose, unless that income is otherwise excluded by the code. The tax years ending June 30, 2011, 2012, 2013, and 2014 are still open to audit for both federal and state purposes.

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.

3. CASH

The School maintains cash balances in financial institutions, which from time to time exceed the amount insured by the Federal Deposit 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 August 4, 2008, with the NYCDOE, the School is required to set up an escrow of at least \$70,000. In the event of termination of the Charter, whether prematurely or otherwise, the School shall establish and follow procedures consistent with those required by Section 2851(2)(t) of the New York State Education Law in its use of the escrow.

5. PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES

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

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL**
Notes to Financial Statements
June 30, 2014 and 2013

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, 2014 and 2013:

	2014		2013	
	Revenues	Receivable	Revenues	Receivable
City of New York (Pupil enrollment)	\$ 9,588,558	\$ 25,323	\$ 8,239,059	\$ -
Title I	204,249	53,135	265,295	40,677
Title II	6,289	629	22,241	3,557
E-Rate	115,918	106,029	203,344	25,208
Food service - State of New York	397,667	38,064	270,460	326,541
Total grants and contracts from government sources	\$ 10,312,681	\$ 223,180	\$ 9,000,399	\$ 395,983

6. PROPERTY AND EQUIPMENT

At June 30, 2014 and 2013, property and equipment consisted of the following:

	2014	2013
Computer equipment	\$ 337,781	\$ 307,621
Leasehold improvements	34,634	34,634
Furniture and fixtures	181,500	181,500
	553,915	523,755
Less: accumulated depreciation	(425,566)	(335,970)
Total	\$ 128,349	\$ 187,785

Depreciation expense for the years ended June 30, 2014 and 2013 amounted to \$89,596 and \$49,326, respectively.

7. PROFIT-SHARING PLAN

The School maintains the Vanguard Profit Sharing Plan (the "Plan") with Vanguard Fiduciary Trust Company 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, 2014 and 2013, contributions made to the Plan amounted to \$130,559 and \$117,017, respectively.

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL**
Notes to Financial Statements
June 30, 2014 and 2013

8. RELATED-PARTY TRANSACTIONS

457(f) Plan

HCZ maintains a 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. The amounts contributed vest five years after the date of the initial contribution and will then be paid to eligible employees when vested. Forfeitures of the plan are allocated to the remaining eligible employees at the discretion of management. 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 2014 and 2013, HCZ provided a net subsidy of \$681,000 and \$601,500 for the fiscal 2014 and 2013 contributions to the 457(f) plan. The cumulative amount due from HCZ relating to the 457(f) plan was \$3,888,453 and \$3,228,415 at June 30, 2014 and 2013, which will then be settled with the eligible employees when they become vested or represents reimbursements of amounts already paid by the School in advance of receiving the funds from HCZ. The cumulative amount due from the School to eligible employees was \$3,428,973 and \$3,100,155 at June 30, 2014 and 2013, respectively.

In-Kind Support

Pursuant to the terms of a commitment letter between HCZ and the School, HCZ, as the School's Institutional Partner, committed to provide the School, certain services at no cost at least through March 2015. These services include financial management, social, library, technology, fundraising, public relations, and teaching assistance services. The Commitment to the School can be cancelled by either party with one year's notice.

HCZ's in-kind services for the years ended June 30, 2014 and 2013 amounted to \$3,123,354 and \$2,770,140, respectively. These amounts included personnel service costs for the years ended June 30, 2014 and 2013, of \$1,459,902 and \$2,265,996, and non-personnel service costs of \$1,663,452 and \$504,144, respectively.

Other

Certain expenses, primarily administration costs, may be shared amongst the Charter School, HCZ and the Promise Academy Charter School and amounts may also be received on behalf of another of these entities. Additionally, the Charter School may be reimbursed for certain expenses, primarily personnel service costs, by HCZ, for which the reimbursed expenses are treated as an in-kind contribution from HCZ. At June 30, 2014, amounts due from related parties were \$70,360, pertaining to these transactions.

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 is responsible for certain operations of the School and donates its services. If this relationship were to change or cease, such change 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
June 30, 2014 and 2013

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 may be involved in various legal actions from time to time arising in the normal course of business. In the opinion of management, there are no matters outstanding that would have a material adverse effect on the financial statements of the School.

11. SUBSEQUENT EVENTS

The School evaluated its June 30, 2014 financial statements for subsequent events through October 31, 2014, 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
Supplementary Schedule of Functional Expenses
For the year ended June 30, 2014**

	Regular Education	Special Education	Management and General	Total
Salaries	\$ 7,185,800	\$ 1,175,245	\$ 635,639	\$ 8,996,684
Payroll taxes	604,055	98,794	36,992	739,841
Employee benefits	1,217,435	199,113	74,555	1,491,103
Retirement plan contribution	<u>106,597</u>	<u>17,434</u>	<u>6,528</u>	<u>130,559</u>
Total personnel services	<u>9,113,887</u>	<u>1,490,586</u>	<u>753,714</u>	<u>11,358,187</u>
Admissions	58,086	9,500	3,557	71,143
Classroom supplies	153,110	25,041	955	179,106
Consultants and professional fees	84,634	13,842	5,183	103,659
Depreciation	73,152	11,964	4,480	89,596
Equipment rental and maintenance	76,719	12,548	4,698	93,965
Food	585,306	95,727	-	681,033
Insurance	45,958	7,516	2,816	56,290
Occupancy	804,479	131,575	49,269	985,323
Office supplies and furniture	83,070	13,586	5,087	101,743
Payroll processing	10,865	1,777	665	13,307
Printing, publications, and memberships	25,070	4,100	1,535	30,705
Software/software maintenance	60,570	9,906	3,709	74,185
Special services/incentives	42,214	6,904	-	49,118
Staff travel	18,577	3,038	1,138	22,753
Student travel	86,817	14,199	-	101,016
Telephone and internet	155,998	25,514	9,553	191,065
Training	142,600	23,322	8,733	174,655
Uniforms	27,234	4,454	-	31,688
Miscellaneous	<u>7,036</u>	<u>1,152</u>	<u>428</u>	<u>8,616</u>
Total other than personnel services	<u>2,541,495</u>	<u>415,665</u>	<u>101,806</u>	<u>3,058,966</u>
Total expenses	<u>\$ 11,655,382</u>	<u>\$ 1,906,251</u>	<u>\$ 855,520</u>	<u>\$ 14,417,153</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
Supplementary Schedule of Functional Expenses
For the year ended June 30, 2013**

	<u>Regular Education</u>	<u>Special Education</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 6,061,301	\$ 929,435	\$ 518,479	\$ 7,509,215
Payroll taxes	508,336	77,948	30,857	617,141
Employee benefits	1,015,442	155,707	61,639	1,232,788
Retirement plan contribution	<u>96,386</u>	<u>14,780</u>	<u>5,851</u>	<u>117,017</u>
Total personnel services	<u>7,681,465</u>	<u>1,177,870</u>	<u>616,826</u>	<u>9,476,161</u>
Admissions	38,222	5,861	2,320	46,403
Classroom supplies	195,463	29,972	1,079	226,514
Consultants and professional fees	31,412	4,817	1,909	38,138
Depreciation	40,632	6,230	2,464	49,326
Equipment rental and maintenance	112,509	17,252	6,830	136,591
Food	430,528	66,017	-	496,545
Insurance	35,954	5,513	2,183	43,650
Occupancy	33,084	5,073	2,008	40,165
Office supplies and furniture	33,304	5,107	2,022	40,433
Payroll processing	7,449	1,142	452	9,043
Printing, publications, and memberships	34,758	5,330	2,110	42,198
Software/software maintenance	26,825	4,113	1,628	32,566
Special services/incentives	39,812	6,105	-	45,917
Staff travel	10,463	1,604	635	12,702
Student travel	69,564	10,667	-	80,231
Telephone and internet	63,184	9,689	3,835	76,708
Training	38,725	5,938	2,351	47,014
Uniforms	23,278	3,569	-	26,847
Miscellaneous	<u>8,937</u>	<u>1,371</u>	<u>540</u>	<u>10,848</u>
Total other than personnel services	<u>1,274,103</u>	<u>195,370</u>	<u>32,366</u>	<u>1,501,839</u>
Total expenses	<u>\$ 8,955,568</u>	<u>\$ 1,373,240</u>	<u>\$ 649,192</u>	<u>\$ 10,978,000</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, 2014, 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 31, 2014.

Internal control over financial reporting

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

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

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

Grant Thornton LLP

New York, New York
October 31, 2014

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014**

None noted

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL
Schedule of Prior Year (Fiscal 2013) Audit Findings and Corrective Action Plan
For the year ended June 30, 2014**

FINDING NO. 2013-01 – INTERNAL CONTROLS OVER FINANCIAL REPORTING (MATERIAL WEAKNESS)

Criteria:

Government Auditing Standards require an auditee to design and implement an internal control environment to achieve effective and efficient operations; reliability of financial reporting; and compliance with applicable laws and regulations. The control environment sets the tone of an organization, which influences the control consciousness of its people. The key factors impacting the control environment include, among other things, management's philosophy and operating style, organizational structure, assignment of authority and responsibility and policies and practices with respect to human resources.

Condition, Context, Effect and Recommendation:

During our fiscal 2013 audit, we noted a material weakness in the internal control over financial reporting with regard to the School's journal entry process. We noted that the CFO, Assistant CFO, Controller and Senior Accountants all had the ability to prepare and post journal entries. Additionally, while the School's policies and procedures call for the CFO to review journal entries, our review of the journal entry documentation did not indicate that an approval process was performed. We also noted that many reversing journal entries were made to correct prior entries made during the year. The above findings indicate that there is both a lack of segregation of duties, as well as a lack of internal controls over the journal entry process. We recommend that a formal journal entry process be implemented that will address the segregation of duties as well as the review process.

FINDING NO. 2013-02 – INTERNAL CONTROLS OVER FINANCIAL REPORTING (SIGNIFICANT DEFICIENCY)

Criteria:

Government Auditing Standards require an auditee to design and implement an internal control environment to achieve effective and efficient operations; reliability of financial reporting; and compliance with applicable laws and regulations. The control environment sets the tone of an organization, which influences the control consciousness of its people. The key factors impacting the control environment include, among other things, management's philosophy and operating style, organizational structure, assignment of authority and responsibility and policies and practices with respect to human resources.

Condition, Context, Effect and Recommendation:

During our audit, we noted a significant deficiency in the internal control over financial reporting with regard to the following:

Accounting for 457(f) Plan

During our fiscal 2013 audit, we noted that the School does not retain adequate documentation or approval of the calculations performed for payments made to terminated employees and that the School does not have formal policies or procedures in place for the payments to terminated employees. We recommend that the school establish formal policies and procedures for deferred compensation payments made to employees, including formal documentation and approval for all payments.

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL
Schedule of Prior Year (Fiscal 2013) Audit Findings and Corrective Action Plan
For the year ended June 30, 2014**

Accounting for In-kind Contributions

During our fiscal 2013 audit, we noted that the School recorded an incorrect amount of in-kind revenue and expense for employer payroll taxes that were paid by HCZ for the School's employees. As a result, an audit adjustment was recorded for approximately \$14,000 to decrease in-kind contribution revenue and in-kind payroll tax expenses. We recommend that the School meet with personnel from HCZ on a monthly basis to capture, reconcile and record all of the in-kind contributions made by HCZ.

Accounting for Grant Revenues

During our fiscal 2013 audit, we noted that the School did not properly record all grant revenues earned during the fiscal year. As a result, an audit adjustment of approximately \$18,000 was recorded to increase the fiscal 2013 grant revenues and the grant receivable balance as of June 30, 2013. We recommend that the School periodically review grant agreements and applicable costs to ensure proper recording of revenue for cost reimbursements.

Bank Reconciliations

During our fiscal 2013 audit, we noted that the School did not complete bank reconciliations on a monthly basis for its payroll account. We recommend that the School complete bank reconciliations on a monthly basis going forward, in order to properly manage cash balances throughout the year.

Accounting Staff

Although HCZ hired a new controller during fiscal 2013, the position was not filled until the latter part of the year. As a result, as of year-end, the School had not implemented adequate monitoring controls and there were significant processes that were not supported by up-to-date written policies and procedures. We recommend that HCZ and the School ensure the personnel in the accounting/finance function are sufficiently qualified to meet the financial reporting needs of the organization. We also recommend that additional written policies, procedures and controls be implemented to ensure that accounts are analyzed and reconciled in a timely manner, that the general ledger is closed timely and that financial statements are accurately prepared.

Questioned Costs:

None noted.

Views of Responsible Officials and Planned Corrective Action:

Journal Entries

We agree that the ability to both prepare and post journals is not a proper segregation of duties; however, we note that there were no improper journal entries posted as a result. The staff size and skill sets that existed throughout most of the fiscal year were not conducive to establishing the requisite segregation of duties with regard to journal entries. During the second half of the year, a new CFO and Controller were added to the financial management team and, effective beginning fiscal 2014, we have implemented a procedure whereby each journal entry contains a cover sheet, requiring signoff by a preparer and a separate approver, generally the Controller – the CFO signs off of any journal entries prepared by the controller.

**HARLEM CHILDREN'S ZONE
PROMISE ACADEMY II CHARTER SCHOOL
Schedule of Prior Year (Fiscal 2013) Audit Findings and Corrective Action Plan
For the year ended June 30, 2014**

Accounting for 457(f) Plan

Though the payments made to terminated employees were based on account balances at the time of termination, we agree that not retaining a copy of such account balances was an inadequate control. Effective late in fiscal 2013, accounting for the 457(f) plan was transferred to the new Controller and, effective for fiscal 2014, we will retain a copy each month's file of employee account balances. We will also ensure each payment to employees is properly authorized and documented.

Accounting for In-kind Contributions

Beginning effective with fiscal 2014, we implemented weekly staff meetings of the financial and business office personnel for HCZ and the School to better ensure proper coordination of accounting and payment activities between HCZ and the School.

Accounting for Grant Revenues

Beginning effective with fiscal 2014 and upon implementation of the new staffing plan for Finance (see response to Accounting Staff), one individual will be assigned to oversee revenue accounting activities, including review of all cost applicable to grants to ensure proper revenue recognition.

Bank Reconciliations

We note that all reconciliations of the payroll bank accounts were completed prior to finalizing the audit, but that such reconciliations were not performed timely during fiscal 2013. We are in the process of adding accounting resources, with roles specifically assigned to prepare such reconciliations on a monthly basis.

Accounting Staff

As noted in prior comments, we added a new CFO and Controller in the second half of fiscal 2013. We have recently concluded a review of our staffing and are implementing a new staffing plan that will better define the roles and add resources to improve the internal control environment as well as the quality and timeliness of financial reporting, both internally and externally.

Fiscal 2014 Status:

The internal control findings over financial reporting noted during fiscal 2013 have been addressed by the School. No such findings were noted during our fiscal 2014 audit.

Harlem Children's Zone Promise Academy II Charter School

PROJECTED BUDGET FOR 2014-2015

PROJECTED BUDGET FOR 2014-2015							Assumptions
July 1, 2014 to June 30, 2015							DESCRIPTION OF ASSUMPTIONS - Please note assumptions when applicable
Please Note: The student enrollment data is entered below in the Enrollment Section beginning in row 155. This will populate the data in row 10.							
	REGULAR EDUCATION	SPECIAL EDUCATION	OTHER	FUNDRAISING	MANAGEMENT & GENERAL	TOTAL	
Total Revenue	14,495,870	-	-	-	-	14,495,870	
Total Expenses	14,495,870	-	-	-	-	14,495,870	
Net Income	0	-	-	-	-	0	
Actual Student Enrollment	662	115	-	-	-	-	
Total Paid Student Enrollment	777	-	-	-	-	777	
	PROGRAM SERVICES			SUPPORT SERVICES			
	REGULAR EDUCATION	SPECIAL EDUCATION	OTHER	FUNDRAISING	MANAGEMENT & GENERAL	TOTAL	
Janitorial	2,698	-	-	-	-	2,698	
Building and Land Rent / Lease	56,451	-	-	-	-	56,451	
Repairs & Maintenance	-	-	-	-	-	-	
Equipment / Furniture	-	-	-	-	-	-	
Security	-	-	-	-	-	-	
Utilities	8,712	-	-	-	-	8,712	
TOTAL FACILITY OPERATION & MAINTENANCE	67,861	-	-	-	-	67,861	
DEPRECIATION & AMORTIZATION	-	-	-	-	-	-	
DISSOLUTION ESCROW & RESERVES / CONTINGENCY	5,000	-	-	-	-	5,000	
TOTAL EXPENSES	14,495,870	-	-	-	-	14,495,870	
NET INCOME	0	-	-	-	-	0	
ENROLLMENT - *School Districts Are Linked To Above Entries*	REGULAR EDUCATION	SPECIAL EDUCATION	TOTAL ENROLLED				
District of Location	662	115	777				
School District 2 (Enter Name)			-				
School District 3 (Enter Name)			-				
School District 4 (Enter Name)			-				
School District 5 (Enter Name)			-				
TOTAL ENROLLMENT	662	115	777				
REVENUE PER PUPIL	21,897	-	-				
EXPENSES PER PUPIL	21,897	-	-				

Appendix E: Disclosure of Financial Interest Form

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An Appendix E: Disclosure of Financial Interest Form must be completed for each active Trustee who served on the charter school's Board of Trustees during the 2013-14 school year. Trustees are at times difficult to track down in the summer months. Trustees may complete and submit at their leisure (but before the deadline) their individual form at:

<http://fluidsurveys.com/surveys/vickie-smith/appendix-e-trustee-disclosure-form/>. Trustees may download and/or email their forms to you upon completion.

Trustees who are technologically advanced may complete the survey using their smartphones or other mobile devices by downloading the this bar code link to the survey <https://fluidsurveys.com/account/surveys/540612/publish/qrcode/>. (Make sure you have the bar code application reader on your phone).

If a Trustee is unable to complete the form by the deadline (i.e, out of the country), the school is responsible for submitting the information required on the form for that individual trustee.

Just send the links via email today to your Trustees requesting that they each complete their form as soon as possible.
Thank you.

Yes, each member of the school's Board of Trustees has received a link to the Disclosure of Financial Interest Form.

Yes

Thank you.

Appendix F: BOT Membership Table

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1. Current Board Member Information

	Full Name of Individual Trustees	Position on Board (Officer or Rep).	Voting Member	Area of Expertise &/or Additional Role	Terms Served & Length (include date of election and expiration)	Committee affiliations
1	Geoffrey Canada	Chair/President	Yes	CEO	2005, 4.5 terms, current term expires in 2015	Supervision and Evaluation, Student Achievement, Executive, and Finance
2	Kenneth Langone	Chair/President	Yes	Chairman	2005, 5 terms, current term expires in 2016	Executive
3	Mitch Kurz	Member	Yes		2010, 2 terms, current term expires in 2016	Supervision and Evaluation, Executive, and Finance
4	Stanley Druckenmiller	Member	Yes		2005, 5 terms, current term expires in 2016	
5	Denise Nash Fuller		Yes			
6	Arlene Gibson		Yes			
7	Willie Mae Lewis		Yes			
8	O'Donna-Hue Osbourne		Yes			

2. Total Number of Members Joining Board during the 2013-14 school year

(No response)

3. Total Number of Members Departing the Board during the 2013-14 school year

(No response)

4. According to the School's by-laws, what is the maximum number of trustees that may comprise the governing board?

17

5. How many times did the Board meet during the 2013-14 school year?

9

6. How many times will the Board meet during the 2014-15 school year?

10

Thank you.

Each year, HCZ Promise Academy II holds information sessions at the school to inform families and community members about the school and the admissions process. The sessions are publicized widely, through means such as flyers, mailings, local schools, community organizations, and local businesses. In addition, HCZ Promise Academy II, in coordination with Harlem Children Zone, takes full advantage of comprehensive resources for community outreach, including networking and information-sharing with the thousands of families that participate in or receive services from Harlem Children's Zone programs.

The Harlem Children's Zone does aggressive, door to door outreach to parents in the neighborhood for the Baby College, which is a nine-week series of Saturday parenting classes. Parents are eligible for Baby College if they are expecting or have a child under the age of 4. Parents who have participated in Baby College are actively recruited to participate in the Promise Academy lottery. The outreach workers that do recruitment for Baby College and Promise Academy speak multiple languages (including Spanish, French, and multiple West African dialects), outreach materials are available in multiple languages, we put up recruitment materials at local community groups that serve immigrant communities, and we offer our Baby College classes to parents in Spanish and French.

Families interested in enrolling a child at HCZ Promise Academy II are required to submit a completed application or reapplication form. The applications are made available at the school's information sessions and at the school. There are no fees associated with the filing of an application. The application process begins in January or February with information sessions and the distribution of applications. Applications must be submitted by a due date included in the application and outreach materials. If the school receives more applications than allotted spaces by the end of the first round of information sessions, then the school holds a public lottery to allocate available slots. If fewer applications than spaces available are received during this first round, those students who applied by the first round deadline are admitted to the school, and a second round of information sessions are held to allocate any remaining spaces and to establish a waiting list. Information sessions may be held and students may be added to the waiting list on a continuing basis.

Special Education and English Language Learners

With consideration to parents of children who require special education services, HCZ Promise Academy II uses several recruiting methods, including: (1) posting flyers and placing notices in local supermarkets, churches, community centers, and apartment complexes; (2) conducting open houses at after-school programs and youth centers; (3) visiting local organizations in surrounding neighborhoods; and (4) canvassing neighborhoods to further reach interested families. With the success of these measures, HCZ Promise Academy II expects attracts and retains a comparable or greater enrollment of students with disabilities as compared to the enrollment figures for students in its Community School District.

We hold our initial lottery for Promise Academy when children are three, two years before they would enter Kindergarten. In the two intervening years, families that win the lottery are encouraged to participate in our early childhood programs. This includes Three Year Old Journey an 18 week Saturday program designed to work with children and parents in activities to enhance the development of a growing three year old. At late three early four children attend a six week program called Get Ready for Pre-K to support the phase in process to Pre K. In September of a child's fourth year of life he/ she will attend a full year of intensive pre-kindergarten. HCZ's Harlem Gems pre-k is an all-day pre-kindergarten program that prepares children for kindergarten. Classes have a 4:1 child-to-adult ratio, teach English, Spanish and French, and runs from 8:00 AM to 6:00 PM.