Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

As of June 30, 2011 and 2010

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Harlem Children's Zone, Inc. and Subsidiaries:

We have audited the accompanying consolidated statements of financial position of Harlem Children's Zone and Subsidiaries (collectively, the "Organization") as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011 and 2010 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the Organization's basic consolidated financial statements as of and for the years ended June 30, 2011 and 2010 taken as a whole. The accompanying supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
May 3, 2012

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of June 30, 2011 and 2010

ASSETS		2011		2010
CURRENT ASSETS				
Cash and cash equivalents	$	18,898,332	$	13,568,404
Grants and contributions receivable		54,574,426		2,646,055
Other receivables		5,196		205,453
Prepaid expenses		744,056		781,713
Total current assets		74,222,010		17,201,625
Grants and contributions receivable		76,904,199		290,833
Investments		149,987,927		131,922,081
Security deposits		521,363		398,512
Property and equipment, net		59,631,822		43,083,509
Total assets	$	361,267,321	$	192,896,560
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$	7,713,128	$	4,005,969
Deferred compensation payable		996,430		929,254
Due to related party - 457(f) plan		646,830		751,694
Total current liabilities		9,356,388		5,686,917
Deferred compensation payable, net of current portion		3,770,831		3,747,206
Due to related party - 457(f) plan, net of current portion		5,625,234		3,639,870
Other liabilities		25,760,854		-
Total liabilities	$	44,513,307	$	13,073,993
NET ASSETS				
Unrestricted:				
Board-designated		140,613,742		131,922,081
Property and equipment		59,631,822		43,083,509
Undesignated		(5,197,704)		3,291,977
Total unrestricted		195,047,860		178,297,567
Temporarily restricted		121,706,154		1,525,000
Total net assets		316,754,014		179,822,567
Total liabilities and net assets	$	361,267,321	$	192,896,560

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statement of Activities
For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Grants and contributions	$ 69,119,839	$ 124,690,162	$ 193,810,001
Government grants	10,134,793	-	10,134,793
Special event, net of expenses totaling $337,460	6,311,467	-	6,311,467
Interest income	203,243	-	203,243
Other income	107,377	-	107,377
Gain on investments, net	7,161,292	-	7,161,292
	93,038,011	124,690,162	217,728,173
Net assets released from restrictions:			
Purpose restrictions satisfied	3,734,008	(3,734,008)	-
Time restrictions satisfied	775,000	(775,000)	-
Total revenues	97,547,019	120,181,154	217,728,173
EXPENSES			
Program services:			
Harlem Children's Zone	58,008,944	-	58,008,944
Preventive services	5,437,809	-	5,437,809
Beacon and after school services	7,854,771	-	7,854,771
Head Start Program	1,831,592	-	1,831,592
Total program services	73,133,116	-	73,133,116
Supporting services:			
Management and general	6,003,547	-	6,003,547
Fundraising	1,660,063	-	1,660,063
Total supporting services	7,663,610	-	7,663,610
Total expenses	80,796,726	-	80,796,726
Changes in net assets	16,750,293	120,181,154	136,931,447
Net assets, beginning of year	178,297,567	1,525,000	179,822,567
Net assets, end of year	$ 195,047,860	$ 121,706,154	$ 316,754,014

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statement of Activities
For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Grants and contributions	$ 36,315,799	$ 17,940,293	$ 54,256,092
Government grants	9,787,205	-	9,787,205
Special event, net of expensese totaling $318,062	7,320,626	-	7,320,626
Interest income	94,642	-	94,642
Other income	1,355,315	-	1,355,315
Loss on investments, net	(4,115,585)	-	(4,115,585)
	50,758,002	17,940,293	68,698,295
Net assets released from restrictions:			
Purpose restrictions satisfied	10,880,293	(10,880,293)	-
Time restrictions satisfied	11,185,000	(11,185,000)	-
Total revenues	72,823,295	(4,125,000)	68,698,295
EXPENSES			
Program services:			
Harlem Children's Zone	48,770,127	-	48,770,127
Preventive services	6,688,507	-	6,688,507
Beacon and after school services	8,038,477	-	8,038,477
Head Start Program	1,751,533	-	1,751,533
Total program services	65,248,644	-	65,248,644
Supporting services:			
Management and general	4,158,402	-	4,158,402
Fundraising	1,691,439	-	1,691,439
Total supporting services	5,849,841	-	5,849,841
Total expenses	71,098,485	-	71,098,485
Changes in net assets	1,724,810	(4,125,000)	(2,400,190)
Net assets, beginning of year	176,572,757	5,650,000	182,222,757
Net assets, end of year	$ 178,297,567	$ 1,525,000	$ 179,822,567

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 136,931,447	$ (2,400,190)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,480,100	1,507,630
Net realized and unrealized gain on investments	(7,161,292)	(87,669)
Write-off of investments	-	4,203,254
(Increase) decrease in grants and contributions receivable	(128,541,737)	4,225,962
Decrease (increase) in other receivables	200,257	(196,597)
Decrease (increase) in prepaid expenses	37,657	(181,424)
Increase in accounts payable and accrued expenses	3,707,159	496,732
Increase in deferred compensation payable	90,801	469,899
Increase in due to related party	1,880,500	1,729,440
Increase in other liabilities	25,760,854	-
Net cash provided by operating activities	34,385,746	9,767,037
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(18,028,413)	(1,156,447)
Purchases of investments	(117,972,750)	(17,576,750)
Sales of investments	107,068,196	6,105,234
Security deposits paid	(122,851)	(52,827)
Net cash used in investing activities	(29,055,818)	(12,680,790)
Increase (decrease) in cash and cash equivalents	5,329,928	(2,913,753)
Cash and cash equivalents, beginning of year	13,568,404	16,482,157
Cash and cash equivalents, end of year	$ 18,898,332	$ 13,568,404

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

1. ORGANIZATION

Harlem Children's Zone, Inc. ("HCZ"), founded in 1970, is a pioneer non-profit community-based organization that works to enhance the quality of life for children and families in some of New York City's most devastated neighborhoods. Formerly known as Rheedlen Centers for Children and Families, HCZ's 15 centers serve 22,286 children and adults, including 10,883 at-risk children. The emphasis of HCZ's work is not just on education, social services, and recreation, but also on rebuilding the very fabric of community life.

The Internal Revenue Service determined HCZ to be a publicly supported organization, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Rheedlen 125th Street, LLC ("Rheedlen") and HCZ Promise LLC ("HCZ Promise") are subsidiaries of HCZ, their sole member.

Rheedlen and HCZ Promise (the "Subsidiaries") were organized in the State of New York in June 2000 and April 2010 respectively, under Section 203 of the Limited Liability Company Law of the State of New York to acquire, own, and operate real property. Rheedlen and HCZ Promise are the owners of real property that is currently used by HCZ.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statement presentation conforms with accounting principles generally accepted in the United States of America for non-profit organizations, which require that HCZ and Subsidiaries (collectively, the "Organization") report information regarding their consolidated 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 Organization.

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 and removed by the actions of the Organization pursuant to those stipulations are considered temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

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, 2011 and 2010, the Organization did not possess any permanently restricted net assets.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Organization. Material intercompany transactions and balances have been eliminated in consolidation.

Functional Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the accompanying consolidated statement of activities, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management allocates the direct costs of its operations to its programs and services based upon the percentage of direct labor costs charged to each program and supporting services by the Organization staff.

Cash and Cash Equivalents

The Organization 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.

Allowance for Doubtful Accounts

The carrying value of grants and contributions receivable are reduced by an appropriate allowance for uncollectible accounts, and therefore approximates net realizable value. The Organization determines its allowance by considering a number of factors, including the length of time receivables are past due, the Organization's previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. Receivables outstanding longer than the payment terms are considered past due. The Organization writes off accounts receivables when they become uncollectible, and payments subsequently received on such receivables are recorded as income in the period received.

Investments

Investments are held in limited partnerships and are carried at fair value as determined by the respective general partners. Realized and unrealized gains and losses on investments are included in the accompanying statement of activities as increases or decreases in the unrestricted class of net assets, unless donor or relevant laws place temporary or permanent restrictions on these gains and losses. Dividends and interest are recognized as earned.

Fair Value of Financial Instruments

The carrying amounts of cash, receivables, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities approximate fair value due to the short-term maturity of these financial instruments.

Fair Value Measurements

The Organization follows guidance which establishes a framework for measuring fair value, expands disclosures about fair value measurements and provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The guidance also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date. Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments in Level 1 include listed equities held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.

Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies. Also included in Level 2 are investments using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at NAV at the statement of financial position date or in the near term, which the Organization has determined to be within ninety days.

Level 3 - Pricing inputs are unobservable for the assets or liability and includes situations where there is little, if any, market activity for the assets or liability. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

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

Asset Category	Estimated Useful Life
Automobiles	5 years
Equipment	5 years
Furniture	7 years
Building improvements	31.5 years
Buildings	40 years

Contributions

Contributions, both cash and in-kind, are recorded in the period received as unrestricted, temporarily restricted or permanently restricted revenue depending upon the existence or absence of donor-imposed stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Contributions to be received after one year are discounted at an appropriate discount rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any.

Government Contracts

Revenue from cost reimbursement-based government contracts is recognized when reimbursable costs are incurred under the terms of the contracts. Revenue from performance-based government contracts is recognized when performance objectives pursuant to the contract have been accomplished. Contract payments in excess of qualified cost or performance are accounted for as contract advances, if any.

Contributions in-Kind

Donated materials, equipment, and services are reflected as in-kind contributions (revenues and expenses) at their estimated fair value at the date of receipt.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Income Taxes

The Organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can be recognized 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 Organization is exempt from federal income taxation by virtue of being an organization described in Section 501(c)(3) of the Internal Revenue Code. Nevertheless, the Organization may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ending June 30, 2008, 2009, 2010 and 2011 are still open to audit for both federal and state purposes. Management has determined that there are no uncertain tax positions within its consolidated financial statements.

3. CONCENTRATION OF CREDIT RISK

The Organization maintain cash and cash equivalent balances in financial institutions, which from time to time exceed the amount insured by the Federal Depository Insurance Corporation and subject the Organization to credit risk. However, the Organization monitors this risk on a regular basis and does not anticipate any losses with respect to these balances.

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable at June 30, 2011 and 2010 were collectible as follows:

	2011	2010
Less than one year	$ 54,574,426	$ 2,646,055
More than one year (net of present value discount of $3,392,314 and $3,490, respectively)	76,904,199	290,833
Total	$ 131,478,625	$ 2,936,888

Contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted interest rate of 2.41% and 1.20% for the years ended June 30, 2011 and 2010.

5. INVESTMENTS

Investments held at June 30, 2011 and 2010 were in limited partnership hedge funds with a fair value of $149,987,927 and $131,922,081, respectively. These investments were exposed to various risks. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term. These changes could materially affect the amounts reported in the consolidated financial statements.

The Organization intends to maintain the investments as a reserve for capital expansion and for investment income intended to supplement operations to be determined by the Board of Trustees (the "Board").

As of June 30, 2011 and 2010, all of the Organization's investments are classified within Level 3, and as such have significant unobservable inputs, as they trade infrequently or not at all.

The following is a rollforward of the Organization's Level 3 investments for the year ended June 30, 2011 and 2010:

Beginning balance as of June 30, 2009	$ 124,566,150
Unrealized gains	89,506
Realized loss	(1,837)
Write-off of investment	(4,203,254)
Purchases	17,576,750
Sales	(6,105,234)
Ending balance as of June 30, 2010	131,922,081
Unrealized gains	1,750,372
Realized gain	5,410,920
Purchases	117,972,750
Sales	(107,068,196)
Ending balance as of June 30, 2011	$ 149,987,927

The Organization investments at June 30, 2011 and 2010, consisted of the following:

	2011		2010	
	Number of Funds	**Fair Value**	**Number of Funds**	**Fair Value**
Alternative investments:				
Non-marketable alternative investments:				
Limited Partnerships (a)	7	$ 149,987,927	6	$ 131,922,081

(a) This category includes investments in multiple limited partnerships which represent various investment approaches. Some of the fund managers are focused primarily on long/short equity investments while others are operated for the purpose of trading predominantly in commodity interests. In some cases, managers may also invest a portion of the assets in securities for which there is no ready market such as private or restricted securities. In general, the goal of these funds is to achieve significant risk adjusted returns over time.

The following table lists investments by major category:

	Fair Value	**Unfunded Commitments**	**Redemption Frequency (if currently eligible)**	**Redemption Notice Period**
Limited partnerships	$ 149,987,927	$ -	Quarterly/Semi-annually. Some fund investments are subject to lockup periods that have not yet expired. In addition, some funds have investments in private companies that cannot be liquidated in the near term.	30 to 90 days. In addition to the Notice Period, firms may hold back a portion of the redemption proceeds until completion of the investment firm's audit at the end of its fiscal year.

Investment Return

Components of investment return representing total return on investments and interest-bearing cash and cash equivalents for the year ended June 30, 2011 and 2010 are as follows:

	2011	2010
Realized gains (losses), net	$ 5,410,920	$ (1,837)
Loss on Ariel fund investment	-	(4,203,254)
Realized investment gains (losses)	5,410,920	(4,205,091)
Unrealized appreciation	1,750,372	89,506
Total investment gain (loss)	$ 7,161,292	$ (4,115,585)

6. PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2011 and 2010 consisted of the following:

	2011	2010
Property used in operations:		
Automobiles	$ 102,266	$ 66,075
Equipment	2,479,431	2,400,719
Furniture	910,223	726,232
Leasehold improvements	7,193,520	7,294,941
Buildings	48,935,464	41,579,457
Construction in progress	10,474,933	-
	70,095,837	52,067,424
Less: accumulated depreciation and amortization	(10,464,015)	(8,983,915)
	$ 59,631,822	$ 43,083,509

Depreciation and amortization expenses for 2011 and 2010 were $1,480,100 and $1,507,630, respectively.

7. CONSULTING AND PROFESSIONAL FEES

The Organization paid fees to individuals and other agencies for providing services to children, including a mentor program, arts and health workshops, and program documentation. The total amounts paid for these services for the years ended June 30, 2011 and 2010 were $2,877,280 and $2,190,416, which is included in consulting and professional fees.

8. PROFIT-SHARING PLAN

The Organization maintains a non-contributory profit-sharing plan for all eligible employees. Employees become eligible once they have reached age 21 and have completed one year of service. Employees participating in the plan become fully vested after completing six years of service. The Organization makes discretionary contributions to the plan, which for the years ended June 30, 2011 and 2010 were $802,906 and $779,519, respectively.

9. 457(F) PLAN

The Organization maintains a 457(f) plan for certain eligible employees. Employees become eligible to participate in this plan based solely at the discretion of HCZ's Board of Trustees. The amounts contributed by the Organization vest after 5 years from the date of the initial contribution. At June 30, 2011 and 2010, the total liability relating to this plan was $4,767,261 and $4,676,460, respectively. The total expense recorded within the consolidated statement of activities totaled $929,238 and $1,197,855 for the years ended June 30, 2011 and 2010, respectively.

10. NET ASSETS AND ENDOWMENTS

The Organization adopted the provisions of "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds". This standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), passed by the State of New York in September 2010, and also requires additional disclosures about endowments.

The Organization's endowment consists of funds designated by the Board of Trustees to function as endowments (quasi-endowments). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that exceed the price and yield returns of appropriate benchmarks without putting the assets at imprudent risk.

As of June 30, 2011 and 2010, the Organization did not have any donor restricted endowment funds.

Board-Designated

The Board established an expansion and emergency reserve in prior years. The reserve is funded with the investments held which are described in Note 5 and the return on those investments.

The Organization's endowment assets consist of Board-designated funds that the Organization holds at the discretion of the Board of Trustees. The Organization classifies net assets as (1) the original value of Board-designated funds and (2) accumulations of investment appreciation/depreciation retained in the fund.

The changes in unrestricted board designated net assets for the year ended June 30, 2011 and 2010 were as follows:

	2011	2010
Endowment net assets, beginning of the year	$ 131,922,081	$ 117,907,892
Net investment gain	6,886,368	122,419
Investment write-off	-	(4,203,254)
Transfers in	1,805,293	18,095,024
Endowment net assets, end of year	$ 140,613,742	$ 131,922,081

Temporarily Restricted

Temporarily restricted net assets were available for the following purposes or periods:

	2011	2010
Purpose restrictions	$ -	$ 1,025,000
Time restrictions	121,706,154	500,000
	$ 121,706,154	$ 1,525,000

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Organization leases space and equipment at various locations for its programs and administrative activities under non-cancellable operating leases expiring through May 2021.

As of June 30, 2011, minimum future annual rental obligations under the terms of these leases are as follows:

Year	
2012	$ 2,591,184
2013	2,548,910
2014	2,426,044
2015	2,159,248
2016	2,033,326
Thereafter	3,112,163
	$ 14,870,875

Rent expense for the years ended June 30, 2011 and 2010 was $2,354,332 and $2,139,788, respectively.

Government Agency Audits

Cost reimbursable grants applicable to various programs conducted for and on behalf of New York State and City governmental agencies are subject to adjustments, if any, based on the results of audits by these agencies. The management of the Organization is of the opinion that the results of any such audits would not have a material effect on the accompanying consolidated financial statements.

Lease Agreement with the Children's Health Fund

Rheedlen is the landlord of the building at 35 East 125th Street. The building is occupied by the HCZ Promise Academy Charter Schools, HCZ, and the Children's Health Fund ("CHF"), an unrelated party. CHF holds a 10-year lease agreement with Rheedlen which expires on December 31, 2015, for the use of clinic space in exchange for medical services it provides to the students of Promise Academy and the clients of HCZ.

Litigation

Various legal proceedings and claims are pending against the Organization. Although the Organization's liability with respect to such matters cannot be ascertained at June 30, 2011, in the opinion of management and its legal counsel, the ultimate liability, if any, from all pending legal proceedings and claims will not materially affect the Organization's financial position or the results of its operations.

12. RELATED-PARTY TRANSACTIONS

In the prior year, a significant portion of the money invested in limited partnerships was managed by members of the Board, who received no compensation for their services. As of June 30, 2011, a small portion of the money invested in limited partnerships was managed by members of the Board, who received no compensation for their services. In addition, the Organization receives a significant amount of contributions from members of the Board.

457(f) Plan

The Organization includes, within its 457(f) plan, employees of the Promise Academy Charter Schools ("PACS") and provides PACS with an annual subsidy to cover this cost. PACS are two high-quality charter schools affiliated with the Organization. The amount due to PACS at June 30, 2011 and 2010 was $6,272,064 and $4,391,564, respectively. The total expense recorded within the consolidated statement of activities totaled $1,885,500 and $1,729,440 for the years ended June 30, 2011 and 2010, respectively.

New Building Construction

During the year ended June 30, 2011, the Organization entered into agreements for the construction of a new charter school (the "School Project"). The agreements provided that the New York School Construction Authority (the "SCA") contribute up to $60,000,000 towards the School Project, with the estimated balance of approximately $40,000,000, to be contributed by the Organization or other donors. Upon completion of construction and issuance of the certificate of occupancy, title to the School Project will be transferred to the New York City Department of Education (the "DOE") and leased back to the Organization. Although the lease will be between the Organization and the DOE, the lease agreement will designate the Promise Academy Charter School (the "School") as the initial user of the premises.

The Organization is accounting for this arrangement as an agency transaction on behalf of the School as the School will be the ultimate beneficiary of the School Project. As such, the Organization is capitalizing the full cost of construction and recording any payments received or due from the SCA as well as any donor pledges that were restricted for the School Project as other liabilities on the financial statements. Upon the transfer and execution of the leases, the Organization will derecognized the capitalized cost of construction of the School and the corresponding liability pertaining to SCA and donor funding, and recorded a grant expense for the portion of the School Project funded by the Organization.

13. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 3, 2012, which is the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Schedule of Functional Expenses
For the year ended June 30, 2011

	Program Services					Supporting Services		
	Harlem Children's Zone	Preventive Services	Beacon and After School Services	Head Start Program	Total	Management and General	Fundraising	Total
Salaries	$ 31,866,321	$ 3,199,101	$ 5,219,650	$ 879,817	$ 41,164,889	$ 958,760	$ 1,196,508	$ 43,320,157
Payroll taxes	3,506,175	302,066	590,881	85,268	4,484,390	103,766	70,352	4,658,508
Employee benefits	4,805,932	847,160	590,313	223,376	6,466,781	151,691	123,346	6,741,818
Retirement plan contribution	563,033	73,076	92,305	21,856	750,270	21,931	30,705	802,906
Total personnel services	40,741,461	4,421,403	6,493,149	1,210,317	52,866,330	1,236,148	1,420,911	55,523,389
Admissions	390,248	10,713	74,385	10,723	486,069	-	-	486,069
Automobile	-	-	-	-	-	7,367	-	7,367
Bank fees	15,406	1,532	2,251	420	19,609	3,557	-	23,166
Client travel	655,253	14,314	56,169	12,942	738,678	-	-	738,678
Consulting and professional fees	2,341,144	198,638	72,732	159,094	2,771,608	76,304	29,367	2,877,279
Depreciation	1,004,244	27,249	39,750	9,235	1,080,478	390,137	9,485	1,480,100
Education supplies	557,174	1,060	34,707	9,897	602,838	-	112	602,950
Equipment rental and maintenance	761,850	75,561	83,737	40,580	961,728	416,296	2,537	1,380,561
Food	1,940,889	10,441	96,078	92,329	2,139,737	36,746	3,350	2,179,833
Fundraising costs	-	-	-	-	-	-	4,955	4,955
Insurance	135,082	13,039	18,992	4,410	171,523	28,954	4,533	205,010
Occupancy	2,411,670	443,424	223,606	212,194	3,290,894	867,879	-	4,158,773
Office supplies	366,446	35,311	43,845	14,642	460,244	96,676	698	557,618
Payroll processing	259,693	27,231	39,990	9,562	336,476	63,200	-	399,676
Postage	23,731	2,654	3,230	644	30,259	4,844	1,491	36,594
Printing, publications, and memberships	115,425	9,440	3,644	17,072	145,581	91,700	10,283	247,564
Software	174,656	15,645	6,720	1,868	198,889	9,482	100,683	309,054
Special client services/incentives	1,270,687	20,126	23,534	1,084	1,315,431	-	1,324	1,316,755
Promise Academy incentive provision	1,885,500	-	-	-	1,885,500	-	-	1,885,500
Staff travel	83,056	31,701	3,787	1,074	119,618	55,300	35,299	210,217
Stipends	1,991,380	-	457,976	-	2,449,356	-	-	2,449,356
Investment management fees (contributed services)	-	-	-	-	-	2,350,182	-	2,350,182
Telephone	350,123	56,689	45,949	9,013	461,774	21,752	9,357	492,883
Training	299,225	10,984	15,257	11,437	336,903	30,811	485	368,199
Miscellaneous	234,601	10,654	15,283	3,055	263,593	216,212	25,193	504,998
Total other than personnel	17,267,483	1,016,406	1,361,622	621,275	20,266,786	4,767,399	239,152	25,273,337
Total expenses	$ 58,008,944	$ 5,437,809	$ 7,854,771	$ 1,831,592	$ 73,133,116	$ 6,003,547	$ 1,660,063	$ 80,796,726

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

HARLEM CHILDREN'S ZONE, INC. AND SUBSIDIARIES
Consolidated Schedule of Functional Expenses
For the year ended June 30, 2010

	Program Services					Supporting Services		
	Harlem Children's Zone	Preventive Services	Beacon and After School Services	Head Start Program	Total	Management and General	Fundraising	Total
Salaries	$ 25,601,111	$ 3,977,426	$ 5,142,132	$ 814,152	$ 35,534,821	$ 1,040,896	$ 1,241,964	$ 37,817,681
Payroll taxes	2,639,152	334,090	517,874	75,218	3,566,334	98,367	86,992	3,751,693
Employee benefits	3,922,541	896,784	540,066	188,265	5,547,656	161,826	99,334	5,808,816
Retirement plan contribution	485,740	107,540	97,039	14,718	705,037	27,988	46,494	779,519
Total personnel services	32,648,544	5,315,840	6,297,111	1,092,353	45,353,848	1,329,077	1,474,784	48,157,709
Admissions	271,458	5,713	72,866	3,850	353,887	-	-	353,887
Automobile	3,886	633	750	130	5,399	333	-	5,732
Bank fees	750	75	144	17	986	28,138	-	29,124
Client travel	350,483	15,785	63,320	14,737	444,325	-	-	444,325
Consulting and professional fees	1,256,756	189,254	40,070	126,535	1,612,615	566,885	10,916	2,190,416
Depreciation	1,022,099	166,418	197,138	34,197	1,419,852	41,608	46,170	1,507,630
Education supplies	509,246	1,962	33,824	31,525	576,557	-	-	576,557
Equipment rental and maintenance	531,115	56,911	79,873	25,465	693,364	275,035	-	968,399
Food	1,864,073	13,393	97,188	88,289	2,062,943	4,327	1,241	2,068,511
Fundraising costs	-	-	-	-	-	-	1,032	1,032
Insurance	118,942	19,366	22,941	3,980	165,229	4,842	5,373	175,444
Occupancy	2,377,416	426,592	213,444	210,451	3,227,903	793,158	-	4,021,061
Office supplies	340,851	30,749	54,605	14,635	440,840	102,921	1,315	545,076
Payroll processing	7,490	-	-	2,154	9,644	309,137	-	318,781
Postage	15,552	2,859	1,832	109	20,352	28,430	5,606	54,388
Printing, publications, and memberships	124,156	10,896	8,011	1,309	144,372	99,235	17,737	261,344
Software	159,054	3,403	-	1,680	164,137	121,317	2,481	287,935
Special client services/incentives	1,131,578	25,813	27,512	1,743	1,186,646	-	-	1,186,646
Promise Academy incentive provision	1,729,440	-	-	-	1,729,440	-	-	1,729,440
Staff travel	44,065	39,063	7,176	1,875	92,179	45,015	25,566	162,760
Stipends	1,545,700	-	415,803	-	1,961,503	-	-	1,961,503
Investment management fees (contributed services)	1,750,757	285,058	337,678	58,577	2,432,070	71,272	79,084	2,582,426
Telephone	236,683	57,069	38,531	8,682	340,965	114,244	8,548	463,757
Training	218,733	14,557	13,853	22,617	269,760	26,765	195	296,720
Miscellaneous	511,300	7,098	14,807	6,623	539,828	196,663	11,391	747,882
Total other than personnel	16,121,583	1,372,667	1,741,366	659,180	19,894,796	2,829,325	216,655	22,940,776
Total expenses	$ 48,770,127	$ 6,688,507	$ 8,038,477	$ 1,751,533	$ 65,248,644	$ 4,158,402	$ 1,691,439	$ 71,098,485

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