

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

**Report of Independent Auditors
on Financial Statements
For the Years Ended June 30, 2007 and 2006**

HARLEM CHILDREN'S ZONE
PROMISE ACADEMY CHARTER SCHOOL
June 30, 2007 and 2006

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
The Harlem Children's Zone Promise Academy Charter School

We have audited the accompanying statements of financial position of The Harlem Children's Zone Promise Academy Charter School ("the School") as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School'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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the School's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements, referred to above, present fairly, in all material respects, the financial position of The Harlem Children's Zone Promise Academy Charter School at June 30, 2007 and 2006, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report, dated October 24, 2007, on our consideration of the School's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

October 24, 2007

HARLEM CHILDREN'S ZONE
PROMISE ACADEMY CHARTER SCHOOL
 Statements of Financial Position
 June 30,

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash	\$ -	\$ 738,756
Grants receivable	84,154	218,856
Prepaid expenses	12,833	9,748
Property and equipment, net	<u>236,094</u>	<u>236,244</u>
Total Assets	<u><u>\$ 333,081</u></u>	<u><u>\$ 1,203,604</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Cash overdraft	\$ 60,454	\$ -
Accounts payable and accrued expenses	268,472	264,142
Due to HCZ Promise Academy II	102,424	431,217
Due to HCZ	<u>30,340</u>	<u>-</u>
Total Liabilities	461,691	695,359
Net Assets:		
Unrestricted	<u>(128,609)</u>	<u>508,245</u>
Total Liabilities and Net Assets	<u><u>\$ 333,081</u></u>	<u><u>\$ 1,203,604</u></u>

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

HARLEM CHILDREN'S ZONE
PROMISE ACADEMY CHARTER SCHOOL
Statements of Activities
For the years ended June 30,

	2007	2006
REVENUES AND SUPPORT		
Pupil enrollment	\$ 5,436,684	\$ 3,614,422
Federal and State funding	212,965	515,019
Contributions	15,010	15,135
Food service	194,345	58,206
Other Income	4,110	-
In-kind support	2,735,094	1,727,422
Total revenues	8,598,208	5,930,204
EXPENSES		
Salaries and fringe benefits	7,407,379	4,965,278
Insurance	-	20,000
Consulting fees	310,767	168,584
Administrative	187,797	127,658
Printing and supplies	737,206	355,449
Training and development	322,047	51,029
Trips and transportation	117,362	36,654
Food and related costs	37,180	24,762
Uniforms	4,126	17,201
Stipends	-	2,780
Occupancy	39,599	27,538
Depreciation	67,783	52,683
Other	3,814	77,572
Total expenses	9,235,061	5,927,188
Change in net assets	(636,854)	3,016
Net assets, at beginning of year	508,245	505,229
Net assets, at end of year	\$ (128,609)	\$ 508,245

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

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

Statements of Cash Flows
For the years ended June 30,

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (636,854)	\$ 3,016
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	67,783	52,683
Decrease (increase) in grants receivable	134,702	(28,122)
Increase in prepaid expenses	(3,085)	(9,748)
Increase in accounts payable	4,330	246,188
(Decrease) increase in due to HCZ Promise Academy Charter School II	(328,793)	431,217
Increase (decrease) in due to HCZ	30,340	(4,251)
Net cash (used in) provided by operating activities	(731,577)	690,983
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment, representing cash used in investing activities	(67,633)	(107,448)
CASH FLOWS FROM FINANCING ACTIVITIES		
Overdraft facility, representing net cash provided by (used in) financing activities	60,454	(2,141)
Net (decrease) increase in cash	(738,756)	581,395
Cash and cash equivalents, beginning of year	738,756	157,361
Cash and cash equivalents, end of year	\$ -	\$ 738,756

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

HARLEM CHILDREN'S ZONE
PROMISE ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2007 and 2006

NOTE 1 ORGANIZATION

The Harlem Children's Zone Promise Academy Charter School (the "School") is a public charter school that is open to all New York City public school children via a lottery. Opening in 2004, 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 need of children from birth through college and, as part of that mission, it also works to strengthen families and the surrounding community.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations.

Financial Statement Presentation

The School is required to report its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Net Assets

The net assets of the School have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the School.

Temporarily Restricted Net Assets

The class of net assets that is subject to donor-imposed stipulations and that may be fulfilled by action of the School to meet the stipulations or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets

The class of net assets which is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School, except with the consent of the donor.

HARLEM CHILDREN'S ZONE
PROMISE ACADEMY CHARTER SCHOOL
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and Equipment

Property and equipment are valued at cost less accumulated depreciation. Normal replacement and maintenance costs are charged to earnings as incurred, and major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss for the period is recognized. The School capitalizes assets with cost of \$500 and over. Depreciation is calculated on a straight line basis and is based on the estimated useful lives of the assets as follows:

	Useful Life (Years)
Furniture, fixtures and equipment	5

Revenue Recognition

The School records contributions of cash and other assets as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The School records contributions as restricted support if they are received with donor stipulations that limit their use through purpose or time restrictions. When a restriction expires, that is, when a stipulated time restriction ends 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. All contributions received for the years ended June 30, 2007 and 2006 were unrestricted.

Government Contracts

Federal, state and other grant awards received for specific purposes are recognized as support to the extent of the related expenses incurred. The unexpended funds are reported as contract advances.

Contributions In-Kind

In-kind contributions are stated at fair value.

Tax Status

The School is exempt from Federal income tax under Section 501(c)(3) of the United States Internal Revenue Code.

HARLEM CHILDREN'S ZONE
PROMISE ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2007 and 2006

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Estimates

The preparation of 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, 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.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated, based upon management's estimates, on a direct/indirect cost basis, among the operational and management activities. Included in operating costs are certain allocated management and general administration expenses.

NOTE 3 CASH

The School maintains all of its cash in a New York bank. The accounts in the bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000, which is the maximum allowed by law. The School's management monitors the balance in excess of FDIC coverage to limit any exposure to loss.

HARLEM CHILDREN'S ZONE
PROMISE ACADEMY CHARTER SCHOOL
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 4 PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES

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

The grant amounts received and receivable from government agencies and included as revenue in the statement of activities consist of the following as of June 30, 2007 and 2006:

	2007		2006	
	Revenues	Receivable	Revenues	Receivable
City of New York (Pupil enrollment)	\$ 5,489,401	\$ -	\$ 3,614,422	\$ -
Grant				-
Title I	124,690	23,973	132,023	93,283
Title II	32,023	2,321	2,205	-
Title IV	1,097	-	399	-
Title V	2,438	89	388	-
Public Charter School Program	-	-	-	113,895
Department of Youth and Community Development	-	-	85,203	-
Facility Financing Grant	-	-	233,433	-
Food Service	-	-	61,368	11,678
State of New York	194,345	57,771	-	-
State of New York - Implementation	-	-	-	-
Total grants from government sources	<u>\$ 5,843,994</u>	<u>\$ 84,154</u>	<u>\$ 4,129,441</u>	<u>\$ 218,856</u>

In addition, the School also receives funding in the form of private and corporate contributions. The amounts received for the years ended June 30, 2007 and 2006 were \$15,010 and \$15,135, respectively.

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

Notes to Financial Statements

June 30, 2007 and 2006

NOTE 5 FIXED ASSETS

At June 30, 2007 and 2006, a summary of fixed assets consisted of the following:

	<u>2007</u>	<u>2006</u>
Computer equipment	\$ 3,160	\$ 3,160
Furniture and fixtures	367,846	300,212
	<u>371,006</u>	<u>303,372</u>
Less: accumulated depreciation	<u>134,912</u>	<u>67,128</u>
Total	<u>\$ 236,094</u>	<u>\$ 236,244</u>

Depreciation expense for the years ended June 30, 2007 and 2006 amounted to \$67,783 and \$52,683, respectively.

NOTE 6 PROFIT SHARING PLAN

The School maintains a noncontributory profit sharing plan for all eligible employees. Employees become eligible once they have reached age twenty-one and have completed one year of service. Employees participating in the plan will be fully vested after completing six years of service. Contributions made to the plan are discretionary. For the years ended June 30, 2007 and 2006, contributions made to the Plan amounted to \$94,806 and \$69,034, respectively.

NOTE 7 IN-KIND SUPPORT

Pursuant to the terms of a commitment letter, dated and signed by HCZ and the School on September 30, 2003, HCZ, as the School's Institutional Partner, committed to provide the School, during the initial 5-year term of its charter, certain services at no cost, including financial management, social, library, technology, fundraising, public relations and teaching assistance services. In addition, HCZ committed to providing the School with the use of space in its premises located at 35 East 125th Street, New York, NY. Furthermore, HCZ's Trustees pledged its endowment to guarantee the funding of the Schools projected private contributions for the initial term of the charter.

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

Notes to Financial Statements

June 30, 2007 and 2006

NOTE 7 IN-KIND SUPPORT *(continued)*

In-kind services for the year ended June 30, 2007 consisted of personnel service costs and non-personnel service costs of \$2,557,554 and \$177,540, respectively. For the year ended June 30, 2006, in-kind services amounted to \$1,573,378 of personnel service costs and \$154,043 of non-personnel service costs.

NOTE 8 RELATED PARTY TRANSACTIONS

As of June 30, 2007 and 2006, \$102,424 and \$431,217, respectively, was due to the Harlem Children's Zone Promise Academy II, the sister school of the School.

As of June 30, 2007 the amount due to HCZ was \$30,320. There was nothing due to HCZ at June 30, 2006.

NOTE 9 CONCENTRATIONS OF RISK

As discussed in Note 7, HCZ is responsible for certain operations of the School and donates its services and space. If this relationship were to change or cease, such change could have a substantial effect on the School's ability to continue operations.

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 its ability to continue operations.

NOTE 10 CONTINGENCY

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 such audits of government contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

SUPPLEMENTAL SCHEDULE

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

Statement of Functional Expenses
For The Year Ended June 30, 2007
(with comparative totals for 2006)

	Program Services	Management & General	2007 Total	2006 Total
EXPENSES				
Salaries	\$ 5,219,166	\$ 611,314	\$ 5,830,480	\$ 3,690,043
Payroll Taxes	466,636	63,632	530,268	338,288
Employee benefits	837,606	114,220	951,826	539,197
Retirement plan contribution	94,806	-	94,806	75,511
Total Personnel Services	6,618,214	789,167	7,407,380	4,643,039
Admissions	50,029	-	50,029	6,351
Bank Fees		356	356	902
Client Travel	54,330	-	54,330	17,684
Consultants and professional fees	304,739	21,347	326,086	539,555
Depreciation Expenses			67,783	52,683
Classroom Supplies	575,647	-	575,647	245,822
Equipment rental and Maintenance	-	33,175	33,175	20,088
Food	37,414	-	37,414	24,762
Insurance				20,000
Occupancy		4,818	4,818	6,835
Office Supplies	74,506	10,160	84,666	49,679
Payroll Processing		38,358	38,358	7,527
Postage	7,084	966	8,050	22,150
Printing, Publications, and memberships	27,580	33,912	61,492	79,903
Software/Software Maintenance	48,203	876	49,078	76,639
Special Client Services/Incentives	26,496	-	26,496	29,418
Staff Travel	-	13,004	13,004	12,619
Telephone	27,310	-	27,310	22,300
Training	322,047	-	322,047	29,477
Uniforms	4,126	-	4,126	17,200
Miscellaneous	20,495	22,920	43,415	2,554
Total Other Than Personnel	1,580,006	179,892	1,827,681	1,284,149
Total Expenses	\$ 8,198,220	\$ 969,059	\$ 9,235,061	\$ 5,927,188

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
The Harlem Children's Zone Promise Academy Charter School II

We have audited the financial statements of Harlem Children's Zone Promise Academy Charter School (the "School") as of and for the years ended June 30, 2007 and 2006 and have issued our report thereon dated October 24, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the School in a separate letter dated October 30, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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 the 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management and State of New York awarding agencies, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

October 24, 2007