

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

(A Subsidiary of New York State  
Urban Development Corporation)

Consolidated Financial Statements and  
Independent Auditors' Report

March 31, 2015 and 2014

TOSKI & Co., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Harlem Community Development  
Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Harlem Community Development Corporation and Subsidiaries ("HCDC") as of and for the years ended March 31, 2015 and 2014, and the related notes to consolidated financial statements, which collectively comprise HCDC's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to HCDC's preparation and fair presentation of the consolidated 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 HCDC'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the net position of Harlem Community Development Corporation and Subsidiaries as of March 31, 2015 and 2014, and the respective changes in net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board ("GASB") who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2015, on our consideration of HCDC'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 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 HCDC's internal control over financial reporting and compliance.

In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2015 on HCDC's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York. The purpose of that report is to provide an opinion as to the HCDC's compliance with investment guidelines contained therein. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering HCDC's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York  
June 12, 2015

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Management's Discussion and Analysis  
March 31, 2015 and 2014

This financial report presents our discussion and analysis of Harlem Community Development Corporation and Subsidiaries' ("HCDC") financial performance during the years ended March 31, 2015 and 2014. Please read it in conjunction with HCDC's consolidated financial statements.

**Overview**

HCDC, a subsidiary of New York State Urban Development Corporation ("UDC"), doing business as Empire State Development ("ESD"), was created in 1995 to promote the economic revitalization of the greater Harlem area, which includes the communities of East Harlem, Central Harlem, West Harlem and Washington Heights. Its service area in Manhattan is from 96<sup>th</sup> Street to 178<sup>th</sup> Street, from the Hudson River to the East/Harlem River.

The mission of HCDC is to formulate and implement a comprehensive program to revitalize the Harlem community. This includes, but is not limited to, the development and rehabilitation of residential, commercial and industrial properties, the administration of grants under a weatherization program and a tax credit program for the development and financing of low-income housing. HCDC has targeted projects that contribute to the redevelopment of vacant or underutilized commercial and retail property with the goal of attractive new businesses, retaining and growing existing businesses and creating employment opportunities for Harlem residents. Projects are developed in partnership with UDC/ESD, state and city agencies, multiple not-for-profits, private businesses and community-based organizations.

HCDC also seeks to empower local businesses and entrepreneurs so that they can more fully participate in new and ongoing business opportunities. This goal is achieved by:

- Providing information and technical assistance to small businesses and community-based organizations to assist them in planning, development and management of their own economic development projects;
- Fostering the involvement of community-based organizations in major projects being undertaken in Harlem by private developers, particularly where ESD/New York State assistance has been requested; and
- Facilitating the community's access to New York State's resources and programs, including financial assistance and skills training.

HCDC has established three (3) primary departments to effectively implements its work, which are Business Services, Community Development and the Weatherization Assistance Program.

HARLEM COMMUNITY DEVELOPMENT  
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Management's Discussion and Analysis, Continued

Business Services and economic development continue to be HCDC's primary focus, complementing ESD's efforts in the areas of business attraction and retention, entrepreneurial assistance, NYS M/WBE Certification, marketing and promoting of tourism, arts, culture, dining and entertainment in Upper Manhattan. The department is a valuable resource for individuals and businesses in need of the many services provided by New York State. HCDC continues to help fund, provide project management, and serve as advisors on major Harlem-based development projects.

HCDC continues to foster community development and engage the community by providing loans, grants and technical assistance to facilitate the development, marketing and leasing of affordable housing, mixed-used facilities and community development projects. HCDC also supports various other community initiatives, programs and events, workforce development programs and initiatives, provides one-on-one U.S. Department of Housing and Urban Development ("HUD") certified housing counseling services, and co-sponsors home buyer education and financial literacy workshops and seminars.

Weatherization Assistance Program ("WAP"): HCDC continues to maximize benefits available through its Weatherization Assistance Program to promote the health, safety and well-being of Upper Manhattan-based low-income residents to multi-family rental and co-operative buildings.

WAP is funded through a grant from the U.S. Department of Energy and overseen by NYS Homes and Community Renewal. It plays an important role in the preservation of hundreds of low-income housing units annually by improving their energy efficiency and residents' quality of life.

The work of WAP is expanding to include more sustainable energy initiatives. This is being done by seeking new sources of revenue, including new funding from Federal and State agencies and through the implementation of a fee-based structure for certain services provided. A pilot solar project featuring a training component was introduced this year. Once operational, it will serve as a model that can be expanded to other buildings within Upper Manhattan.

HCDC continues to be a catalyst for sustainable economic development and community revitalization. Examples of ongoing initiatives during fiscal 2015 are: the Community Initiatives Program, Community and Economic Revitalization Support Program, the Victoria Redevelopment project, the Urban League Empowerment Center project, small business seminars and workshops and HUD counseling.

HARLEM COMMUNITY DEVELOPMENT  
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Management's Discussion and Analysis, Continued

A summarized statement of HCDC's assets, liabilities and net position at March 31, 2015 and 2014 is as follows:

<u>Summary of Consolidated Statements of Net Position</u>		
<b>Assets</b>	<u>2015</u>	<u>2014</u>
<b>Current assets:</b>		
Cash and equivalents, includes restricted amounts of \$2,686,680 in 2015 and \$4,147,513 in 2014	\$ 3,710,692	4,349,796
Short-term investments	2,064,949	914,991
Revolving loans and grants receivable	622,485	503,615
Prepaid expenses and other receivables	88,553	48,226
Due from NYS Urban Development Corporation	303,148	335,112
Total current assets	6,789,827	6,151,740
<b>Non-current assets:</b>		
Property and equipment, net	88	501
Investment in property	672,012	672,012
Total assets	7,461,927	6,824,253
<b>Liabilities - total liabilities</b>	3,424,622	3,091,672
<b>Deferred inflows of resources - unearned income</b>	1,120,550	1,071,001
<b>Net position:</b>		
Restricted	928,942	1,403,444
Investment in capital assets	88	501
Unrestricted	1,987,725	1,257,635
Total net position	\$ 2,916,755	2,661,580

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis, Continued

The statement of HCDC's revenue, expenses and changes in net position for the years ended March 31, 2015 and 2014 is as follows:

The Statements of Revenue,  
Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating revenue:		
Support from NYS Urban Development Corporation	\$ 1,304,528	1,156,523
Grant income (Weatherization Program)	920,066	1,108,796
Other income	<u>755,872</u>	<u>386,235</u>
Total operating revenue	<u>2,980,466</u>	<u>2,651,554</u>
Operating expenses:		
Grant expenses (Weatherization Program)	920,066	1,188,747
Other grant expense	523,809	444,287
General and administrative	<u>1,304,940</u>	<u>1,162,400</u>
Total operating expenses	<u>2,748,815</u>	<u>2,795,434</u>
Operating income (loss)	231,651	(143,880)
Non-operating revenue	<u>23,524</u>	<u>24,272</u>
Change in net position	255,175	(119,608)
Net position at beginning of year	<u>2,661,580</u>	<u>2,781,188</u>
Net position at end of year	<u>\$ 2,916,755</u>	<u>2,661,580</u>

**Financial Highlights**

**Liquidity and Capitalization**

The Corporation's activities are primarily funded by ESD and grants from Federal and State agencies. The operations of HCDC are dependent on this continued funding.

HCDC's assets approximated \$7.46 million and \$6.82 million at March 31, 2015 and 2014, respectively. The increase of \$.64 million was primarily due to the increase in short-term investments and grants receivable related to the Weatherization Program of \$1.16 million and \$.12 million, respectively. These increases were offset by a decrease of \$.64 in cash related to the Special Program Fund and Housing Development Fund that was transferred to short-term investments.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis, Continued

HCDC's total liabilities approximated \$3.42 million and \$3.09 million at March 31, 2015 and 2014 respectively. The increase of \$.33 million was primarily due to \$.57 million of additional deposits to cover expenses related to the Columbia University Manhattanville project and a \$.1 million settlement of litigation. This increase was offset by a decrease of \$.18 million in liabilities related to the Victoria Theatre and Columbia Manhattanville projects for incurred expenses and \$.16 million attributed to an adjustment for landlord contributions as required under the Weatherization program.

**Change in Net Position**

The change in net position for the year ended March 31, 2015 was \$.25 million compared to (\$0.12) million for the year ended March 31, 2014. The increase was primarily due to an increase in short-term investments and activity in the Weatherization program.

**Revenue**

Operating revenue for the year ended March 31, 2015 approximated \$2.98 million compared with \$2.65 million in fiscal 2014. This increase was primarily due to the receipt of: \$.53 million to offset legal fees for the Columbia University Manhattanville project and \$.15 million in support from NYS Urban Development Corporation, to cover an increase in legal fees and insurance. These increases were offset by incremental changes in the following areas: \$.19 million in grant income attributed to a lower budget for the Weatherization program and \$.16 million due to an adjustment in landlord contributions as required under the Weatherization program.

**Expenses**

Operating expenses for the year ended March 31, 2015 approximated \$2.75 million compared with \$2.80 million in fiscal 2014. The decrease was primarily due to a reduction in activity of \$.27 million in the Weatherization program, including material, labor and administrative expenses and \$.01 million in general and administrative expenses related to an insurance commission fee. These decreases were offset by an increase of \$.03 million in Community Initiatives Program expenses (other grant expense) and general and administrative expenses of \$.17 million in legal fees related to the Victoria Theatre litigation settlement and other matters, \$.01 million in insurance premiums and \$.02 million in personal services.

HARLEM COMMUNITY DEVELOPMENT  
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Management's Discussion and Analysis, Continued

**Request for Information**

This financial report is designed to provide a general overview of HCDC's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Chief Financial Officer, Empire State Development, 633 Third Avenue, New York, New York 10017.

CONSOLIDATED FINANCIAL STATEMENTS

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Net Position  
March 31, 2015 and 2014

<b>Assets</b>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and equivalents, includes restricted amounts of \$2,686,680 in 2015 and \$4,147,513 in 2014	\$ 3,710,692	4,349,796
Short-term investments	2,064,949	914,991
Loans receivable	-	297,500
Grants receivable	622,485	206,115
Prepaid expenses and other receivables	88,553	48,226
Due from NYS Urban Development Corporation	<u>303,148</u>	<u>335,112</u>
Total current assets	6,789,827	6,151,740
Property and equipment, net	88	501
Investment in property	<u>672,012</u>	<u>672,012</u>
Total assets	<u>7,461,927</u>	<u>6,824,253</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	879,676	928,072
Appropriation repayable	412,931	408,110
Other liabilities	<u>2,132,015</u>	<u>1,755,490</u>
Total current liabilities	<u>3,424,622</u>	<u>3,091,672</u>
<b>Deferred inflows of resources - unearned income</b>	<u>1,120,550</u>	<u>1,071,001</u>
Commitments and contingencies (note 11)	_____	_____
<b>Net position:</b>		
Restricted	928,942	1,403,444
Net investment in capital assets	88	501
Unrestricted	<u>1,987,725</u>	<u>1,257,635</u>
Total net position	<u>\$ 2,916,755</u>	<u>2,661,580</u>

See accompanying notes to consolidated financial statements.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Revenue, Expenses  
and Changes in Net Position  
Years ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue:		
Support from NYS Urban Development Corporation	\$ 1,304,528	1,156,523
Grant income (Weatherization Program)	920,066	1,108,796
Other income	<u>755,872</u>	<u>386,235</u>
Total operating revenue	<u>2,980,466</u>	<u>2,651,554</u>
Operating expenses:		
Grant expenses (Weatherization Program)	920,066	1,188,747
Other grant expense	523,809	444,287
General and administrative expenses	<u>1,304,940</u>	<u>1,162,400</u>
Total operating expenses	<u>2,748,815</u>	<u>2,795,434</u>
Operating income (loss)	231,651	(143,880)
Non-operating revenue - interest income	<u>23,524</u>	<u>24,272</u>
Change in net position	255,175	(119,608)
Net position at beginning of year	<u>2,661,580</u>	<u>2,781,188</u>
Net position at end of year	<u>\$ 2,916,755</u>	<u>2,661,580</u>

See accompanying notes to consolidated financial statements.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Years ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Grants received	\$ 503,696	1,330,573
Support received from NYS Urban Development Corporation	1,164,201	1,153,284
Miscellaneous cash received	755,872	386,235
Special project payments	154,925	411,365
Program payments	(1,076,539)	(1,128,828)
Grant payments	(523,809)	(444,287)
Payments for general and administrative expense	<u>(925,301)</u>	<u>(1,136,862)</u>
Net cash provided by operating activities	<u>53,045</u>	<u>571,480</u>
Cash flows from investing activities:		
Interest income	23,524	24,272
Loan awarded	297,500	-
Interest earned on revolving loans receivable	4,821	13,072
Increase in designated funds held by NYS Urban Development Corporation	-	150,190
Increase in short-term investments	<u>(1,149,958)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(824,113)</u>	<u>187,534</u>
Cash flows from financing activities - increase (decrease) in due from NYS Urban Development Corporation	<u>131,964</u>	<u>(38,548)</u>
Net increase (decrease) in cash and equivalents	(639,104)	720,466
Cash and equivalents at beginning of year	<u>4,349,796</u>	<u>3,629,330</u>
Cash and equivalents at end of year	<u>\$ 3,710,692</u>	<u>4,349,796</u>

(Continued)

See accompanying notes to consolidated financial statements.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows, Continued

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income (loss)	\$ 231,651	(143,880)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	413	5,877
Changes in:		
Grants receivable	(416,370)	221,777
Prepaid expenses and other receivables	(40,327)	(3,239)
Accounts payable and accrued liabilities	(48,396)	82,819
Other liabilities	276,525	394,524
Unearned income	49,549	13,602
Net cash provided by operating activities	<u>\$ 53,045</u>	<u>571,480</u>

See accompanying notes to consolidated financial statements.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
March 31, 2015 and 2014

**Note 1 - Corporate Background and Activities**

**(a) Background**

Harlem Community Development Corporation ("HCDC") is the successor corporation to Harlem Urban Development Corporation ("HUDC"), a community development agency and a public benefit corporation, created in 1971 as a subsidiary of New York State Urban Development Corporation ("UDC"). UDC is a corporate governmental agency of the State of New York (the "State") constituting a political subdivision and a public benefit corporation. HUDC was dissolved in 1995 pursuant to state legislation. HCDC was created to succeed HUDC and received the assets and assumed the liabilities and obligations of HUDC, without limitation.

HCDC is also reported as a consolidated subsidiary in UDC's consolidated financial statements. Both UDC and HCDC have been determined to be component units of the State of New York and are included in the State's financial statements as component units for financial reporting purposes. Substantially all program and management/general expenses incurred by HCDC are funded by support from and advances administered by UDC and income derived from the Weatherization Program.

**(b) Activities**

The mission of HCDC is to formulate and implement a comprehensive program to revitalize the Harlem community. This includes, but is not limited to, the development and rehabilitation of residential, commercial and industrial properties, the administration of grants under a weatherization program and a tax credit program for the development and financing of low-income housing.

HCDC has targeted projects that contribute to the redevelopment of vacant or underutilized commercial and retail property with the goal of attracting new businesses, retaining and growing existing businesses and creating employment opportunities for Harlem residents. Projects are developed in partnership with UDC, State and City agencies, multiple not-for-profits, private businesses and community based organizations. HCDC also seeks to empower local businesses and entrepreneurs so that they can more fully participate in new and ongoing business opportunities. This goal is achieved by providing information and technical assistance to small businesses and community-based organizations, fostering their involvement in major projects and facilitating the community's access to New York State recourses and programs.

HARLEM COMMUNITY DEVELOPMENT  
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Notes to Consolidated Financial Statements, Continued

**Note 2 - Summary of Significant Accounting Policies**

**(a) Principles of Consolidation**

The consolidated financial statements of HCDC include the accounts of HUDC Housing Development Fund Company, Inc., a not-for-profit subsidiary, and Harlem Urban Development Corporation Tax Credit, Inc. ("HUDC TC, Inc."), which was incorporated in December 1988, as a wholly-owned subsidiary of HCDC to acquire limited partnership interests in several partnerships which own and operate residential rental apartment buildings on land leased to the limited partnerships by HCDC. The buildings are intended for occupancy by low-income families located in the Harlem community. HCDC funded the start-up costs from State appropriations. The construction costs of the five completed projects were financed through construction loans that were repaid partially by private investors and from the proceeds of individual mortgages placed with the New York City Department of Housing Preservation and Development.

**(b) Basis of Accounting and Presentation**

HCDC follows the accrual basis of accounting. In order to present the financial condition and operating results of HCDC in a manner consistent with limitations and restrictions placed upon the use of resources, HCDC classifies its net position into three categories, restricted, invested in capital assets and unrestricted net position. Net investment in capital assets includes capital assets net of accumulated depreciation. The restricted component of net position includes net position that has been restricted in use in accordance with agreements or State law. The unrestricted component of net position includes all net position not included in the above categories.

**(c) New Accounting Pronouncement**

For the year ended March 31, 2014, the HCDC adopted the provisions of the following Governmental Accounting Standards Board ("GASB") Statement:

- GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources such as changes in the determination of the major fund calculations and limiting the use of the term deferred in the financial statement presentations.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 2 - Summary of Significant Accounting Policies, Continued**

**(d) Use of Estimates**

The preparation of consolidated financial statements in conformity with generally accepted 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**(e) Investments**

Short-term investments are reported at fair value in the consolidated statements of net position. Investment income, including changes in fair value, is reported as revenue in the consolidated statements of revenue, expenses and changes in net position.

**(f) Property and Equipment**

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The useful life of the building is estimated at forty years and those of other assets range from five to ten years. Items of property and equipment, where title is held by the granting agency, are expensed when purchased.

**(g) Subsequent Events**

HCDC has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

**Note 3 - Cash and Equivalents**

Demand deposits are secured by surety bonds and collateral held by a bank or trust company as custodians. Securities are either delivered or registered by book entry in UDC's name with bond trustees or custodian banks.

At March 31, 2015 and 2014, cash held in demand and custodial deposits, as well as cash equivalents were collateralized by the depository, generally with obligations of the United States, its agencies, or New York State obligations with a remaining maturity when purchased of 90 days or less, as follows:

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 3 - Cash and Equivalents, Continued**

	<u>2015</u>		<u>2014</u>	
	<u>Carrying amount</u>	<u>Bank balance</u>	<u>Carrying amount</u>	<u>Bank balance</u>
Insured (FDIC)	\$ 58,438	58,639	37,783	37,783
Uninsured - collateral held by custodian in UDC's name	3,651,254	3,662,371	4,311,013	4,319,941
Petty cash	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Total cash and cash equivalents	\$ <u>3,710,692</u>	<u>3,722,010</u>	<u>4,349,796</u>	<u>4,358,724</u>

Cash received from State and Federal government grantors for specific programs is classified as restricted. State and Federal restricted cash as of March 31, 2015 and 2014 was held primarily for the following programs:

	<u>2015</u>	<u>2014</u>
Revolving loan program (see note 7)	\$ 114,770	201,343
Weatherization program	748,650	730,026
Other programs	<u>1,823,260</u>	<u>3,216,144</u>
	\$ <u>2,686,680</u>	<u>4,147,513</u>

**Note 4 - Short-term Investments**

Special Program Restricted Funds amounting to \$399,971 at March 31, 2015 were invested into a Farmer Mac Discount for \$399,971 for 58 days, having a par value of \$400,000, yielding an interest rate of .045 percent per annum and maturing on April 29, 2015. The fair value at March 31, 2015 of the instrument amounted to \$399,992.

Special Program Restricted Funds amounting to \$499,943 at March 31, 2015 were invested into a Federal Home Loan for \$499,943.13 for 63 days, having a par value of \$500,000, yielding an interest rate of .065 percent per annum and maturing on April 1, 2015. The fair value at March 31, 2015 of the instrument amounted to \$499,995.

Special Program Restricted Funds amounting to \$914,920 at March 31, 2015 were invested into a Federal Home Loan for \$914,920 for 63 days, having a par value of \$915,000, yielding an interest rate of .050 percent per annum and maturing on April 29, 2015. The fair value at March 31, 2015 of the instrument amounted to \$914,982.

Special Program Restricted Funds amounting to \$249,978 at March 31, 2015 were invested into a Freddie Mac Discount for \$249,978 for 72 days, having a par value of \$250,000, yielding an interest rate of .045 percent per annum and maturing on May 27, 2015. The fair value at March 31, 2015 of the instrument amounted to \$249,980.

HARLEM COMMUNITY DEVELOPMENT  
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Notes to Consolidated Financial Statements, Continued

**Note 4 - Short-term Investments, Continued**

Special Program Restricted Funds amounting to \$914,928 at March 31, 2014 were invested into a Federal Home Loan for \$914,928 for 71 days, having a par value of \$915,000, yielding an interest rate of .04 percent per annum and maturing on April 15, 2014. The fair value at March 31, 2014 of the instrument amounted to \$914,991.

The investments are reported at fair value in the consolidated statements of net position as of March 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Farmer Mac Discount	\$ 399,992	-
Federal Home Loan Mortgage Corporation notes	1,414,977	914,991
Freddie Mac Discount	<u>249,980</u>	<u>-</u>
	<u>\$ 2,064,949</u>	<u>914,991</u>

**Note 5 - Real Property and Office Equipment, Net**

Property and equipment for the years ended March 31, 2015 and 2014 includes the following:

	<u>2015</u>			
	<u>Balance at March 31, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at March 31, 2015</u>
Furniture and fixtures	\$ 207,056	-	-	207,056
Equipment	425,842	-	-	425,842
Automobile/vehicles	33,610	-	-	33,610
New and upgraded computer software	<u>15,311</u>	<u>-</u>	<u>-</u>	<u>15,311</u>
	681,819	-	-	681,819
Less accumulated depreciation	<u>(681,318)</u>	<u>(413)</u>	<u>-</u>	<u>(681,731)</u>
	<u>\$ 501</u>	<u>(413)</u>	<u>-</u>	<u>88</u>

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 5 - Real Property and Office Equipment, Net, Continued**

	2014			Balance at March 31, 2014
	Balance at March 31, 2013	<u>Additions</u>	<u>Retirements</u>	
Furniture and fixtures	\$ 207,056	-	-	207,056
Equipment	425,842	-	-	425,842
Automobile/vehicles	33,610	-	-	33,610
New and upgraded computer software	15,311	-	-	15,311
	681,819	-	-	681,819
Less accumulated depreciation	(675,441)	(5,877)	-	(681,318)
	\$ 6,378	(5,877)	-	501

Depreciation expense amounted to \$413 and \$5,877 for the years ended March 31, 2015 and 2014, respectively.

**Note 6 - Investment in Property**

HCDC holds title to the Victoria Theatre, which has been leased to outside parties in connection with economic development efforts in the Harlem community. In June 2000, the lease was terminated for non-payment of rent. The carrying cost of the property amounted to \$672,012 at March 31, 2015 and 2014. HCDC management estimates that the fair market value of this property exceeds its carrying amount based on an appraisal performed by KTR Real Estate Advisors LLC in fiscal 2013.

**Note 7 - Appropriation Repayable**

In fiscal 1997, the State of New York appropriated \$350,000 for a Housing Project Pre-Development Revolving Loan Fund Program (the "Loan Fund") to be administered by HCDC. Approximately \$90,000 was recorded as income to be used for program administration. The remaining \$260,000 was earmarked for the loan program and is carried as an appropriation repayable to the State. The \$260,000 amount bears no interest and is not repayable as long as HCDC maintains an active revolving loan program. Additionally, HCDC has over time earmarked additional funds for the loan program.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 7 - Appropriation Repayable, Continued**

Revolving loans receivable under this program at March 31, 2015 and 2014 amounted to \$0 and \$297,500 respectively and are repayable to HCDC upon completion of each loan's term, which may range from 9 to 18 months, with interest at 5%. Interest earned on these loans amounted to \$4,821 and \$13,072 for the years ended March 31, 2015 and 2014, respectively, and is added to the appropriation balance repayable. Total interest earned as of March 31, 2015 and 2014 amounted to \$152,931 and \$148,110, respectively.

**Note 8 - Other Liabilities**

On November 26, 2007 the Corporation entered into a memorandum of understanding ("MOU") with Danforth Development Partners, LLC ("Danforth") for the redevelopment of the Victoria Theater property. In accordance with the MOU, Danforth funded an imprest account to be used for legal expenses and related fees incurred in the redevelopment and subsequent lease transaction. At completion of redevelopment, the Corporation will enter into a ground lease with Danforth, giving Danforth all rights in the property for the term of the lease ("the ground lease"). As of March 31, 2015 and 2014, Danforth had made total deposits of \$1,225,000 and \$1,200,000, respectively. Payments for legal expenses from these funds totaled \$1,115,087 and \$1,045,997 as of March 31, 2015 and 2014, respectively. Any balance remaining in the imprest account one year after the closing date on the ground lease will be returned to Danforth.

As of March 31, 2015 and 2014 Columbia University has provided funds for the Economic Revitalization Support Program of \$2,150,000 and \$1,575,000, respectively. As of March 31, 2015 and 2014, total disbursements for general and administrative costs were \$206,856 and \$191,541 as of March 31, 2015 and 2014, respectively.

Other liabilities at March 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Danforth deposits	\$ 1,225,000	1,200,000
Danforth legal expenses	(1,115,087)	(1,045,997)
Columbia University deposits	2,150,000	1,575,000
Columbia University general and administrative costs	(206,856)	(91,541)
Transfers to other programs	(508,000)	(200,000)
Due to SONYMA	96,622	96,622
Restricted interest	141,957	137,856
Litigation settlement	100,000	-
Due to landlords of weatherization projects	250,597	83,550
Other	<u>(2,218)</u>	<u>-</u>
	<u>\$ 2,132,015</u>	<u>1,755,490</u>

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 9 - Deferred Inflows of Resources**

To execute the MOU, Danforth made a \$1,000,000 non-refundable deposit on the ground lease of the Victoria Theater. Revenue from the deposit will remain deferred until the ground lease is executed.

**Note 10 - Retirement Plans**

**(a) New York State and Local Employees' Retirement System**

HCDC participates in the New York State and Local Employees' Retirement System (the "System"), which is a multiple public employer cost-sharing system. The System offers a wide range of plans and benefits, which are related to years of service and final average salary, and provides for death and disability benefits and for optional methods of benefit payments. All benefits generally vest after five years of credited service.

The Comptroller of the State of New York serves as sole trustee and administrative head of the System. Plan benefits are provided under the provisions of the New York State Retirement and Social Security Law ("NYSRSSL") and are guaranteed by the State Constitution. Once a public employer elects to participate in the System, the election is irrevocable. The Plan cannot be terminated and Plan benefits cannot be diminished or impaired. Benefits can be reduced for future members only by an act of the State Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Retirement Systems, 110 State Street, Albany, New York 12244-0001

Participating employers are required under the NYSRSSL to contribute annually to the System. The funding of the System is accomplished through member and employer contributions and the investment earnings on these contributions, according to the NYSRSSL. The aggregate actuarial funding method is used by the System. Generally, participating employers that have adopted the same benefit plans contribute at the same rate of pay. Generally, all employees, except certain part-time employees, participate in the System. The Systems Tiers I through IV are noncontributory except for employees with less than 10 years of service who contribute 3% of their salary. Tier V employees contribute 3% of their salary. Tier VI employees contributed 3% of their salary for the period from their hire date until March 31, 2013, and will contribute at rates from 3% to 6%, dependent on annual salary, for all future periods. Employee contributions are deducted from employees' compensation for remittance to the System. The total payroll of all HCDC employees for the years ended March 31, 2015 and 2014 amounted to \$1,185,148 and \$1,238,714, respectively. Contributions are billed annually, which for the years ended March 31, 2015, 2014 and 2013 amounted to \$234,130, \$260,498 and \$235,872, respectively.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 10 - Retirement Plans, Continued**

**(b) New York State Voluntary Defined Contribution Program**

In March 2012, Chapter 18 of the Laws of 2012 was signed into law and allows HCDC employees, that meet certain requirements, to participate in the State University of New York (SUNY) optional retirement plan called the NYS Voluntary Defined Contribution Plan (VDC Program).

Beginning July 1, 2013, employees who earned \$75,000 or more were given the option of joining the VDC program or the NYS Employees Employee's Retirement System. The VDC program provides benefits that are based on contributions made by both HCDC and the participant. Employee contribution rates range from 4.5% to 6%, dependent upon annual salary. The employer contribution rate is 8% of gross income. All contributions and any subsequent earnings are held by HCDC in a segregated account and credited to individual accounts for each plan participant. Employees vest after one year of service, at which time their entire account balance is transferred to an investment firm of their choosing within the VDC program. HCDC's involvement with their account ends at that time. The amount owed to participants upon retirement is based solely on the account balance at the time of withdrawal.

**Note 11 - Commitments and Contingencies**

Commitments and contingencies at March 31, 2015 consist of the following:

**(a) Litigation**

**(1) Proposed Settlement**

On May 27, 2015, a tentative settlement agreement was reached in Vinson v. HCDC, 14-CV-4068, an employment case pending in the Southern District of NY. The case involves four former employees of ESD, the parent of HCDC. Plaintiffs allege that they were discriminated against by HCDC, where they worked, on the basis of their national origin. All four plaintiffs had previously filed EEOC charges in March 2013, all of which were dismissed.

The proposed settlement, which is not an admission of liability in the case, provides for a total payment of \$325,000 for all four plaintiffs, inclusive of legal fees, subject to approval by ESD's directors. The settlement will be presented for consideration by ESD in June 2015. If approved, the settlement amount will be covered by insurance maintained by ESD, subject to a \$100,000 deductible. Therefore, if the proposed settlement is approved by ESD, the total exposure will be \$100,000. At March 31, 2015, HCDC recorded a liability of \$100,000, the full amount of the deductible, in the statement of net position.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Commitments and Contingencies, Continued**

**(a) Litigation, Continued**

**(2) Other Matters**

HCDC has been named as a defendant in a variety of personal injury actions arising in the normal course of its activities. HCDC believes that the ultimate outcome of such litigation will not have a material adverse effect on its financial condition.

**(b) Federal Grants**

HCDC, as a sub-recipient of U.S. Government grants to the State, is subject to periodic audit. Accordingly, HCDC could be required to reimburse the granting governmental agencies for any disallowed costs. No provisions have been made in the consolidated financial statements for any potential disallowable costs as management believes that they have documentation to support costs that would be acceptable to the granting agencies and any disallowed costs would not be material.

**Note 12 - Community Initiatives Program**

In July 2001, the Board authorized the establishment of the Community Initiatives Program. The Program authorizes the President and/or his designee(s) to give grants and loan advances to community-based organizations. The program is funded with an allocation from operating funds of \$600,000 into a Community Initiatives Fund Account.

As of March 31, 2015 and 2014, the Board has approved grants to various organizations amounting to \$25,500 and \$204,960, respectively. During the years ended March 31, 2015 and 2014, total community initiatives program grant expenditures, including those previously approved by the Board, amounted to \$104,044 and \$74,462, respectively.

**Note 13 - Accounting Standards Issued But Not Yet Implemented**

GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The requirements of this statement are effective for periods beginning after June 15, 2014, which is the fiscal year beginning April 1, 2015 for HCDC. Management is in the process of evaluating the potential impact due to the implementation of this statement on the consolidated financial statements of HCDC.

HARLEM COMMUNITY DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 13 - Accounting Standards Issued But Not Yet Implemented, Continued**

GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date" addresses an issue regarding application of the transition provisions of GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions." This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this statement are effective for the same period that the entity implements GASB Statement No. 68. Management is in the process of evaluating the potential impact due to the implementation of this statement on the consolidated financial statements of the HCDC.

GASB Statement No. 72 - "Fair Value Measurement and Application" provides guidance regarding accounting and financial reporting relate to fair value measures of certain investments. The requirements of this statement are effective for periods beginning after June 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this statement on the consolidated financial statements of HCDC.

INDEPENDENT AUDITORS' REPORT 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

The Board of Directors  
Harlem Community Development  
Corporation:

We have audited, in accordance with the 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 consolidated financial statements of Harlem Community Development Corporation and Subsidiaries ("HCDC"), a subsidiary of New York State Urban Development Corporation, which comprise the consolidated statement of net position as of March 31, 2015, and the related consolidated statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated June 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered HCDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of HCDC's internal control. Accordingly, we do not express an opinion on the effectiveness of HCDC'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 HCDC's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether HCDC's consolidated 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.

#### Purpose of this Report

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

Toski & Co., CPAs, P.C.

Williamsville, New York  
June 12, 2015

INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

The Board of Directors  
Harlem Community Development  
Corporation:

Report on Investment Program Compliance

We have audited the Harlem Community Development Corporation and Subsidiaries ("HCDC"), a subsidiary of New York State Urban Development Corporation, compliance with the types of compliance requirements described in the Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program during the year ended March 31, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of HCDC's investment program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the investment program occurred. An audit includes examining, on a test basis, evidence about HCDC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the investment program. However, our audit does not provide a legal determination of HCDC's compliance.

Opinion on Investment Program

In our opinion, the Harlem Community Development Corporation and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its investment program for the year ended March 31, 2015.

## Report on Internal Control Over Compliance

Management of HCDC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HCDC's internal control over compliance with the types of requirement that could have a direct and material effect on the investment program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the investment program and to test and report on internal control over compliance in accordance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HCDC's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York. Accordingly, this report is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York  
June 12, 2015