

**HARLEM CONGREGATIONS FOR COMMUNITY
IMPROVEMENT, INC.**

**AUDITED
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY REPORTS
RELATED TO UNIFORM GUIDANCE**

JUNE 30, 2017

**BCA WATSON RICE LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
JUNE 30, 2017**

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report.....	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Audit Standards</i>	19
Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance	21
Schedule of Expenditures of Federal Awards.....	24
Notes to Schedule of Expenditures of Federal Awards	25
Schedule of Findings and Questioned Costs.....	26

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harlem Congregations for Community Improvement, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Harlem Congregations for Community Improvement, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harlem Congregations for Community Improvement, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal award, as required by Title 2 U. S. Code Of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018 on our consideration of Harlem Congregations for Community Improvement, Inc.'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 Harlem Congregations for Community Improvement, Inc.'s internal control over financial reporting and compliance.

BCA Watson Rie LLP

New York, New York
March 21, 2018

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017**

Assets

Current Assets

Cash and cash equivalents (Note 2)	\$ 11,897
Pledges and grants receivable (Note 3)	404,790
Rent receivable, net (Note 4)	520,779
Due from subsidiaries	167,974
Other receivables	3,936
Prepaid expenses	2,655
Total Current Assets	1,112,031

Investments (Note 5)	1,086,102
Property and equipment, net (Note 6)	37,518
Security deposits	107,509
Noncurrent rent receivable (Note 4)	392,176
Services fees receivable, net (Note 7)	2,607,369
Total Assets	<u>\$ 5,342,705</u>

Liabilities and Net Assets

Liabilities

Current Liabilities

Accounts payable and accrued expenses	\$ 536,849
Accrued payroll and related taxes	94,149
Line of credit (Note 8)	399,437
Due to Limited Partnerships (Note 9)	652,945
Due to affiliates (Note 10)	56,238
Other liabilities	22,652
Total Current Liabilities	1,762,270

Security deposits payable	33,115
Total Liabilities	<u>1,795,385</u>

Net Assets

Unrestricted	3,201,520
Permanently Restricted (Note 11)	345,800
Total Net Assets	<u>3,547,320</u>
Total Liabilities and Net Assets	<u>\$ 5,342,705</u>

See notes to financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Grants	\$ 2,102,277	\$ -	\$ -	\$ 2,102,277
Fee income	1,076,548	-	-	1,076,548
Rental income	278,261	-	-	278,261
Contributions	572	-	-	572
Fundraising	250,370	-	-	250,370
Other revenue	25,000	-	-	25,000
Interest and dividend income	122	-	-	122
Total Support and Revenue	<u>3,733,150</u>	<u>-</u>	<u>-</u>	<u>3,733,150</u>
Expenses				
Program services	3,025,266	-	-	3,025,266
Management and general	520,064	-	-	520,064
Fundraising	271,517	-	-	271,517
Total Expenses	<u>3,816,847</u>	<u>-</u>	<u>-</u>	<u>3,816,847</u>
Changes in Net Assets	<u>(83,697)</u>	<u>-</u>	<u>-</u>	<u>(83,697)</u>
Net Assets at Beginning of Year, as previously reported	3,579,930	-	345,800	3,925,730
Prior Year Adjustment (Notes 8 and 15)	<u>(294,713)</u>	<u>-</u>	<u>-</u>	<u>(294,713)</u>
Net Assets at Beginning of Year, as restated	<u>3,285,217</u>	<u>-</u>	<u>345,800</u>	<u>3,631,017</u>
Net Assets at End of Year	<u>\$ 3,201,520</u>	<u>\$ -</u>	<u>\$ 345,800</u>	<u>\$ 3,547,320</u>

See notes to financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Scattered Site Housing	Other Services	Total	General and Administrative	Fundraising	Total Program and Support Services
Salaries	\$ 466,854	\$ 650,898	\$ 1,117,752	\$ 219,930	\$ 114,515	\$ 1,452,197
Payroll taxes and related expenses	120,871	227,229	348,100	48,665	47,284	444,049
	<u>587,725</u>	<u>878,127</u>	<u>1,465,852</u>	<u>268,595</u>	<u>161,799</u>	<u>1,896,246</u>
Consultant fees	-	163,817	163,817	1,547	-	165,364
Professional and contractual services	20,414	13,103	33,517	43,535	20,955	98,007
Administrative expense	116,636	-	116,636	-	-	116,636
Rent expense	715,799	163,239	879,038	21,177	-	900,215
Advertising and marketing	457	1,327	1,784	-	-	1,784
Insurance	47,368	7,614	54,982	6,283	-	61,265
Utilities	35,701	26,967	62,668	30,093	4,000	96,761
Equipment/furnishings expense	20,802	75,039	95,841	20,316	-	116,157
Repairs and maintenance	23,133	60,090	83,223	10,933	-	94,156
Office expenses	3,503	11,264	14,767	14,492	17,028	46,287
Travel, training and conferences	2,596	14,367	16,963	789	1,441	19,193
Contributions, dues and subscriptions	-	2,960	2,960	8,245	301	11,506
Service fees	-	5,436	5,436	3,726	-	9,162
Bank and finance charges	-	248	248	59,722	646	60,616
Special events and fundraising	-	-	-	-	58,052	58,052
Miscellaneous	-	-	-	12,514	7,295	19,809
	<u>1,574,134</u>	<u>1,423,598</u>	<u>2,997,732</u>	<u>501,967</u>	<u>271,517</u>	<u>3,771,216</u>
Depreciation and amortization	-	27,534	27,534	18,097	-	45,631
Total	<u>\$ 1,574,134</u>	<u>\$ 1,451,132</u>	<u>\$ 3,025,266</u>	<u>\$ 520,064</u>	<u>\$ 271,517</u>	<u>\$ 3,816,847</u>

See notes to financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

Cash Flows from Operating Activities

Change in net assets	\$ (83,697)
Adjustments to reconcile change in net assets to cash used in operating activities:	
Depreciation and amortization	45,631
(Increase) decrease in operating assets:	
Pledges and grants receivables	(120,783)
Rent receivable	(135,033)
Due from subsidiaries	32,882
Other receivables	1,537
Prepaid expenses	11,797
Security deposits	(28)
Services fees receivable	54,428
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	280,574
Accrued payroll and related taxes	44,552
Deferred grant/fee revenue	(78,747)
Due to affiliates	(170,036)
Other liabilities	(42,927)
Due to Limited Partnerships	134,351
Net cash used in operating activities	<u>(25,499)</u>

Cash Flows from Investing Activities

Purchase of investments	<u>33,292</u>
Net cash provided by investing activities	<u>33,292</u>
Net Increase in Cash and Cash Equivalents	7,793
Cash and Cash Equivalents at Beginning of Year	<u>4,104</u>
Cash and Cash Equivalents at End of Year	<u>\$ 11,897</u>

Supplemental Information

Cash paid for interest	<u>\$ 53,031</u>
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See notes to financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. ORGANIZATION

Harlem Congregations for Community Improvement, Inc. ("HCCI") is a non-profit organization incorporated on April 29, 1988 under the not-for-profit Corporation Law of the State of New York. The primary purpose of HCCI is to undertake low-income housing and community development in the Harlem community. Developments include various low-income housing tax credit limited partnerships. These partnerships have, as their general partners, entities which are owned by HCCI and these wholly-owned for-profit subsidiaries own from 0.01% to a 1% interest in the real estate limited partnerships that own the buildings. HCCI provides various services to these limited partnerships. Other activities of HCCI include the Scatter Site Housing Program, which provides housing and related assistance to persons with AIDS (Acquired Immune Deficiency Syndrome). HCCI is a 501(c)(3) tax exempt organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

HCCI prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Accounting

The organization prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the HCCI's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. HCCI's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted Net Assets

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily Restricted Net Assets

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. HCCI's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the organization, unless the donor provides more specific directions about the period of its use.

Permanently Restricted Net Assets

Permanently restricted net assets are resources whose use by the organization is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class, as is the organization's beneficial interest in a perpetual charitable trust held by a bank trustee.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

Contributions and unconditional grants are recognized as support and revenues when they are received or unconditionally pledged. HCCI reports such contributions and unconditional grants as restricted support and revenues if they are subject to time or donor-imposed restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions when a stipulated time restriction ends, purpose restriction is accomplished, or both. However, temporarily restricted contributions and grants are reported as unrestricted support and revenues if the restriction is met in the same fiscal year that the gift is received.

Fee income on various projects are recognized based on the nature and structure of various fee service arrangements. Certain service fees are recognized on percentage of completion basis and some fees are recognized based on qualifying expenses incurred for the project.

Service fee revenues are recognized as earned.

Rental Income

Rental income is recognized on a straight-line basis over the rental period and includes storage, parking fees, any reimbursements from tenants for common area maintenance, insurance, and real estate tax expenses.

Cash and Cash Equivalents

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less. The HCCI maintains cash balances at several financial institutions. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pledges and Grants Receivable

Pledges and grants receivable consist of unconditional promises to give that are expected to be collected in future years and grants classified as conditional promises to the extent that conditions have been met but reimbursement from the grantor has not yet been received. Pledges and grants receivable are reported as either temporarily restricted support unless explicit donor stipulations or circumstances surrounding the pledge make clear the donor intended it to be used to support activities of the current period. Pledges and grants receivable are reviewed for collectability and a provision for doubtful pledges and grants receivable is recorded based on management's judgement and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Investments

Investments in limited partnerships through HCCI's wholly-owned subsidiaries and certain real estate projects are reported at cost.

Property and Equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than 1 year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Leasehold improvements	5 years, or remaining lease term, if shorter
Furnishings and equipment	5-10 years
Equipment used under capital leases	5-7 years

Deferred grant/fee revenue

Deferred grant/fee revenue consists of grant and contract receipts and fees received in advance of the periods to which they are to be earned, and if not earned the advance(s) will have to be returned.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Expense Recognition and Functional Allocation of Expenses

The cost of providing the organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited on the basis of periodic time or usage studies.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

HCCI is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for such taxes has been included in the accompanying financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes – Continued

HCCI has evaluated the recognition requirements for uncertain income tax positions as required by accounting principles generally accepted in the United States of America, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. Accordingly, HCCI has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2017.

Reclassification

Certain items previously reported in the 2016 financial statements have been reclassified to conform to the current year financial statement presentation.

3. PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable are summarized as follows at June 30, 2017:

Government Agencies	\$ 376,891
Foundations, Corporations and Individuals	<u>27,899</u>
	<u>\$ 404,790</u>

4. RENT RECEIVABLE

Current rent receivable consists of rent due from commercial sublet tenants are as follows at June 30, 2017:

Rent receivable	\$ 529,837
Less allowance for doubtful accounts	<u>9,058</u>
	<u>\$ 520,779</u>

Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

4. RENT RECEIVABLE – CONTINUED

In 2006 HCCI entered into a payment agreement with one of its commercial sub-tenants for arrears due for rent. The resulting agreement was subsequently amended in 2011. The Term of the Lease was amended to thirty-five (35) years as of the original commencement date of October 11, 2006 through October 10, 2041. The agreement provides for sub-tenant to stay current on the rent payments due while the arrears in the amount of \$392,176 was deferred until October 2041, the end of the lease term. This amount is presented as noncurrent rent receivable in the financial statements as of June 30, 2017.

5. INVESTMENTS

HCCI's investments in limited partnerships through its wholly-owned subsidiaries are reported at cost, representing the investee's common stock. The investments in the common stock of the wholly-owned subsidiaries are as follows at June 30, 2017:

15-21 West 137th Street Corporation	\$	100
60 St. Nicholas, Inc.		100
Angelou of Harlem, Inc.		100
Eden of Harlem, Inc.		100
Macombs Manor of Harlem, Inc.		100
Parkside of Harlem, Inc.		100
		<u>100</u>
	\$	<u>600</u>

HCCI's investment in the common stock of a wholly-owned subsidiary engaged in real estate is as follows at June 30, 2017:

HCCI Homeowners Corporation	\$	<u>100</u>
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**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

5. INVESTMENTS – CONTINUED

HCCI's investments in various real estate projects, which are reported at cost in the financial statements, are as follows at June 30, 2017:

Northern Manhattan Equities	\$ 732,149
Sutton 1 HDFC	275,000
David Dinkins Apartments	72,047
Hurston Place HDFC	<u>6,206</u>
Total investments	<u>1,085,402</u>
 Grand Total	 <u><u>\$ 1,086,102</u></u>

In addition to the entities listed above, HCCI has various related-party entities within Central Harlem. The records of affiliations are available in the Fiscal Office of HCCI.

6. PROPERTY AND EQUIPMENT

As of June 30, 2017 this consisted of:

Leasehold improvements	\$ 334,642
Furniture and equipment	769,527
Less accumulated depreciation and amortization	<u>(1,066,651)</u>
	<u><u>\$ 37,518</u></u>

Depreciation and amortization expense for the year ended June 30, 2017 amounted to \$45,631.

7. SERVICES FEES RECEIVABLE

HCCI renders development, management and marketing services to the limited partnerships in which its wholly-owned subsidiaries are general partners, in addition to marketing services for other entities. Services fees receivable are stated at the amount earned net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

7. SERVICES FEES RECEIVABLE – CONTINUED

Services fees receivable as of June 30, 2017 consisted of the following:

Partnership and property management fees	\$ 1,211,038
Development fees	723,187
Asset management fees	89,585
Distribution fees	445,306
Social service fees	209,856
Others	28,626
	<hr/> 2,707,598
Less allowance for doubtful accounts	(100,229)
	<hr/> <u>\$ 2,607,369</u>

8. LINE OF CREDIT

HCCI entered into various unsecured revolving line of credit with a certain financial institution to be drawn upon as needed with interest rates of 4.75% to 5.00%. The outstanding balance under the line of credit amounted to \$399,437.

9. DUE TO LIMITED PARTNERSHIPS

Due to limited partnerships represents various net transactions between HCCI and the limited partnerships, as well as, the assumed share of the wholly-owned subsidiary general partners' losses in the limited partnerships. The wholly-owned subsidiaries have a 0.001% to 1% interest in the limited partnerships. The limited partnerships provide affordable housing to persons of low income under the Low Income Housing Tax Credit program as defined by Section 42 of the Internal Revenue Code. Due to limited partnerships for the year ended June 30, 2017 was \$652,945.

10. DUE TO AFFILIATES

Due to affiliates represents the net results of transactions among various non-consolidated affiliates. The total amount of due to affiliates as of June 30, 2017 was \$56,328.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2017 consist of the following:

HCCI Loan Fund	\$	300,000
Other		45,800
	\$	<u>345,800</u>

The \$300,000 represents Micro Loan Funds received from Empire State Development Corporation for the purpose of providing small business owners on the 145th Street and above with access to business loans which would not otherwise be available through conventional banks or other financial institutions. The purpose of the loan program is to provide funds for upgrading, modernizing, and enhancing both the exterior and interior of local business establishments.

12. COMMITMENTS AND CONTINGENCIES

HCCI leases office and commercial facilities from several of its sponsored limited partnerships and leases residential apartments for its Scatter Site Program. HCCI utilizes the space for administrative and programmatic functions and has sublet some of the commercial spaces. The lease agreements expire at various times through 2030.

Minimum annual rental commitments under non-cancelable leases for the next 5 years and thereafter are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 48,570
2019	50,027
2020	51,528
2021	53,074
2022	54,666
Thereafter	<u>701,793</u>
Total	<u>\$ 959,658</u>

HCCI has provided guarantees to various limited partnerships for the obligations under partnerships agreements of its wholly-owned subsidiaries' general partner interest in those partnerships. Nature of these guarantees is such that amounts of guarantees cannot be quantified.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

12. COMMITMENTS AND CONTINGENCIES – CONTINUED

Certain government and other grants may be subject to audit by the funding sources. No provision has been made for any liabilities which may arise from such audits since the amounts, if any, cannot be determined at this time. Disallowances or adjustments, if any, will be reflected in the financial statements in the years of settlement.

13. RETIREMENT PLAN

HCCI offers a deferred annuity 403(b) investment plan for all its full-time employees meeting certain age and service requirements. All employees' contributions are voluntary and HCCI does not make any matching or contribution amounts.

14. OTHER REAL ESTATE ACTIVITIES

Consistent with its commitment to the community in the area of providing affordable housing and improved living conditions in the Harlem community, HCCI in recent years entered into deals with large scale developers in conjunction with government agencies, financial institutions, private equity lenders and others to expand the scope of its real estate holdings. Most of these deals resulted when properties and projects previously under the first phase of the federally mandated low income housing tax credit compliance period under Section 42 of the Internal Revenue Code reached the year 15 milestone. At the juncture, the investor limited partner in the limited partnership projects are required to exit and sell their interest at a nominal price to the community based project sponsor and/or general partner who determines what option is most viable for repositioning the projects for the second phase of its compliance period. Owner entities can either opt to re-syndicate the projects or arrange for funds to pay off existing government agencies or other subsidized mortgages if certain preset conditions are met. Under either option the initial low income housing regulatory and operating agreements shall remain in effect during the second phase of the compliance period.

Central Harlem Associates

On May 9, 2011, a purchase and sale agreement was entered into between Central Harlem Associates LLC, a New York limited liability company, as purchaser and six HCCI sponsored limited partnership projects with 477 units. In this deal worth over \$74 million, HCCI partnered with L&M Development Partners, Inc. to re-syndicate the projects. The deal generated a gross development fee of \$6,252,345 payable to an affiliate of the managing member for the development of the project and was payable to the developer upon stabilization of the project as defined in the operating agreement. Any amount not paid upon stabilization will be deferred and evidenced by a developer fee note which will earn interest at 5% per annum and will mature 15 years from such date.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

14. OTHER REAL ESTATE ACTIVITIES – CONTINUED

Central Harlem Associates – Continued

At June 30, 2017 \$430,597 was the balance on the developer fee note. HCCI is a 50% member of Central Harlem Managers LLC which in turn owns .01% of Central Harlem Associates LLC and the investor member GS Central Harlem Investor LLC owns 99.99%. HCCI is entitled to 50% of the net annual cash flow, as well as certain project acquisition fee.

Northern Manhattan Equities LLC Phases I & II

Northern Manhattan Equities I LLC consists of 390 units of affordable housing acquired at the end of the first phase of the low income housing tax credit compliance period. Under the deal following the year 15 repositioning, HCCI, through its wholly-owned subsidiary Harlem Equitable Development Corporation (“HEDC”), together with Exact NME II LLC and Prestige Management, Inc. formed the Northern Manhattan Equities LLC. The deal is worth in excess of \$36 million and included Creations of Harlem, Inc. and Zipporah of Harlem, Inc. Projects. As of December 31, 2014, Northern Manhattan Equities LLC has total assets of \$36,192,135 and outstanding mortgage advances or non-recourse loans in the amount of \$33,624,494. The acquisition fee received was \$798,000. HCCI through HEDC owns 51% of Northern Manhattan Equities LLC’s capital and receives 30% of its profits. Northern Manhattan Equities II LLC closed on July 2, 2015.

15. RESTATEMENT OF FINANCIAL STATEMENTS

The 2016 financial statements have been restated to recognize the adjustments made in relation to the income distributions in prior years received from Central Harlem which was determined to be a loan for the amount of \$245,261; an audit findings of \$10,242 that needs to be paid back to NYC HRA; and additional accruals of \$39,210. The total prior period adjustment was \$294,713 which resulted to a decrease in net assets at the beginning of the period, bringing the cumulative net assets to \$3,631,017 as of June 30, 2016. The restatement has no effect on the results of the current year’s activities.

16. EVALUATION OF SUBSEQUENT EVENT

Subsequent events have been evaluated through March 21, 2018, the date the financial statements were available to be issued.

**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**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harlem Congregations for Community Improvement, Inc.
New York, New York

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 financial statements of Harlem Congregations for Community Improvement, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlem Congregations for Community Improvement, Inc.'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlem Congregations for Community Improvement, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Harlem Congregations for Community Improvement, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

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* – CONTINUED

Compliance and Other Matters

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

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BCA Watson Rial LP

New York, New York
March 21, 2018

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harlem Congregations for Community Improvement, Inc.
New York, New York

Report on Compliance for Each Major Federal Program

We have audited Harlem Congregations for Community Improvement, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of Harlem Congregations for Community Improvement, Inc.'s major federal program for the year ended June 30, 2017. Harlem Congregations for Community Improvement, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Harlem Congregations for Community Improvement, Inc.'s major federal 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlem Congregations for Community Improvement, Inc.'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 each major federal program. However, our audit does not provide a legal determination of Harlem Congregations for Community Improvement, Inc.'s compliance.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
– CONTINUED**

Opinion on Each Major Federal Program

In our opinion, Harlem Congregations for Community Improvement, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Harlem Congregations for Community Improvement, Inc. 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 Harlem Congregations for Community Improvement, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Harlem Congregations for Community Improvement, Inc.'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 of a federal program 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 of a federal program 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 of a federal program 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.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
– CONTINUED**

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BCA Watson Rice LLP

New York, New York
March 21, 2018

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Grantor / Passed-Through Grantor / Program or Cluster Title	Federal CFDA#	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Passed through the New York City, Human Resources Administration Housing Opportunities for Person with AIDS	14.241	20141407128	\$ -	\$ 1,018,629
Passed through the New York City, Department of Small Business Services Community Development Block Grants Entitlement Cluster	14.218	20171412776	-	35,000
Passed through the New York City, New York Mortgage Coalition Housing Counseling Assiatance Program	14.169	HC160011028	-	15,356
Total U.S. Department of Housing and Urban Development			-	1,068,985
<u>U.S. Department of Health and Human Services</u>				
Passed through the New York City, Human Resources Administration Temporary Assistance for Needy Families Cluster	93.558	20141407128	-	93,654
Total U.S. Department of Health and Human Services			-	93,654
Total Expenditures of Federal Awards			\$ -	\$ 1,162,639

See notes to schedule of expenditures of federal awards.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Harlem Congregations for Community Improvement, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of HCCI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HCCI.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. INDIRECT COST RATE

Harlem Congregations for Community Improvement, Inc. elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance, instead, uses the rate provided in the contract with New York City Human Resources Administration.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> yes	<u>✓</u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u>✓</u> no reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u>✓</u> no

Federal Awards

Internal control over major federal program:

Material weakness(es) identified?	<u> </u> yes	<u>✓</u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u>✓</u> no reported

Type of auditor’s report issued on compliance
for major program Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
2CFR 200.516(a)? yes ✓ no

Identification of Major Program

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
14.241	Housing Opportunities for Person with AIDS

Dollar threshold used to distinguish
between Type A and Type B program: \$750,000

Auditee qualified as a low-risk auditee? yes ✓ no

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

SECTION IV – SUMMARY OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None noted.