

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

**AUDITED
FINANCIAL STATEMENTS**

**JUNE 30, 2016
(With Comparative Totals for 2015)**

**BCA WATSON RICE LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
JUNE 30, 2016**

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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. ("HCCI"), which comprise the statement of financial position as of June 30, 2016, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2016, and the change in 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 Matter

The financial statements of the Harlem Congregations for Community Improvement, Inc., as of and for the year ended June 30, 2015, before they were restated for the matter discussed in Notes 8 and 16 to the financial statements, were audited by other auditor, whose report, dated October 30, 2015, expressed an unmodified opinion on those statements.

New York, New York
March 9, 2017

BCA Watson Rice LLP

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With Comparative Total for June 30, 2015)**

	<u>2016</u>	<u>(Restated) 2015</u>
Assets		
<u>Current Assets</u>		
Cash and cash equivalents (Note 2)	\$ 4,104	\$ 421,391
Pledges and grants receivable (Note 3)	284,007	263,746
Rent receivable, net (Note 4)	385,746	313,980
Due from subsidiaries	131,449	126,073
Other receivables	5,473	575
Prepaid expenses	14,452	49,911
Total Current Assets	<u>825,231</u>	<u>1,175,676</u>
Investments (Note 5)	1,119,394	1,119,394
Property and equipment, net (Note 6)	83,149	126,394
Security deposits	107,481	107,440
Noncurrent rent receivable (Note 4)	392,176	392,176
Services fees receivable, net (Note 7)	2,661,797	2,293,282
Long-term note receivable (Note 8)	-	820,282
Total Assets	<u>\$ 5,189,228</u>	<u>\$ 6,034,644</u>
Liabilities and Net Assets		
<u>Liabilities</u>		
<i>Current Liabilities</i>		
Accounts payable and accrued expenses	\$ 148,077	\$ 1,460,362
Accrued payroll and related taxes	49,597	261,255
Line of credit (Note 9)	399,437	399,437
Due to Limited Partnerships (Note 10)	342,321	81,876
Due to affiliates (Note 11)	156,867	230,730
Other liabilities	55,337	55,337
Capital lease obligation	-	2,250
Deferred grant/fee revenue	78,747	-
Total Current Liabilities	<u>1,230,383</u>	<u>2,491,247</u>
Security deposits payable	<u>33,115</u>	<u>33,115</u>
Total Liabilities	<u>1,263,498</u>	<u>2,524,362</u>
<u>Net Assets</u>		
Unrestricted	3,579,930	2,762,138
Temporarily Restricted	-	402,344
Permanently Restricted (Note 12)	<u>345,800</u>	<u>345,800</u>
Total Net Assets	<u>3,925,730</u>	<u>3,510,282</u>
Total Liabilities and Net Assets	<u>\$ 5,189,228</u>	<u>\$ 6,034,644</u>

See notes to financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(With Comparative Total for June 30, 2015)**

	2016			(Restated) 2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue					
Grants	\$ 1,750,254	\$ -	\$ -	\$ 1,750,254	\$ 1,959,222
Fee income	1,475,213	-	-	1,475,213	772,224
Rental income	327,109	-	-	327,109	417,262
Contributions	1,896	-	-	1,896	3,936
Fundraising	138,221	-	-	138,221	156,309
Other revenue	529,137	-	-	529,137	1,369,831
Interest and dividend income	10,628	-	-	10,628	10,683
Net assets released from restrictions	402,344	(402,344)	-	-	-
Total Support and Revenue	<u>4,634,802</u>	<u>(402,344)</u>	<u>-</u>	<u>4,232,458</u>	<u>4,689,467</u>
Expenses					
Program services	2,543,341	-	-	2,543,341	3,089,980
Management and general	1,053,493	-	-	1,053,493	1,032,631
Fundraising	220,176	-	-	220,176	284,766
Total Expenses	<u>3,817,010</u>	<u>-</u>	<u>-</u>	<u>3,817,010</u>	<u>4,407,377</u>
Change in Net Assets	<u>817,792</u>	<u>(402,344)</u>	<u>-</u>	<u>415,448</u>	<u>282,090</u>
Net Assets at Beginning of Year, as previously reported	2,762,138	402,344	345,800	3,510,282	3,802,913
Prior Year Adjustment (Notes 8 and 16)	-	-	-	-	(574,721)
Net Assets at Beginning of Year, as restated	<u>2,762,138</u>	<u>402,344</u>	<u>345,800</u>	<u>3,510,282</u>	<u>3,228,192</u>
Net Assets at End of Year	<u>\$ 3,579,930</u>	<u>\$ -</u>	<u>\$ 345,800</u>	<u>\$ 3,925,730</u>	<u>\$ 3,510,282</u>

See notes to financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
(With Comparative Total for June 30, 2015)**

	2016					(Restated) 2015	
	Scattered Site Housing	Other Services	Total	General and Administrative	Fundraising	Total Program and Support Services	Total Program and Support Services
Salaries	\$ 492,922	\$ 434,385	\$ 927,307	\$ 534,668	\$ 107,639	\$ 1,569,614	\$ 1,719,681
Payroll taxes and related expenses	136,037	170,987	307,024	210,671	43,828	561,523	595,382
	628,959	605,372	1,234,331	745,339	151,467	2,131,137	2,315,063
Consultant fees	-	93,135	93,135	11,746	9,179	114,060	124,684
Professional and contractual services	13,500	25,146	38,646	30,150	13,400	82,196	140,889
Administrative expense	120,743	-	120,743	-	-	120,743	123,715
Rent expense	764,975	26,500	791,475	6,955	-	798,430	1,113,338
Advertising and marketing	125	390	515	4,650	1,800	6,965	5,963
Insurance	44,971	3,275	48,246	4,227	-	52,473	50,632
Utilities	37,631	33,693	71,324	55,575	7,313	134,212	111,106
Equipment/furnishings expense	7,987	6,324	14,311	51,753	165	66,229	48,119
Repairs and maintenance	3,890	32,596	36,486	22,988	225	59,699	62,636
Office expenses	4,360	20,359	24,719	27,079	14,644	66,442	49,773
Travel, training and conferences	3,839	2,064	5,903	5,905	1,086	12,894	24,682
Contributions, dues and subscriptions	-	1,292	1,292	7,094	-	8,386	12,648
Service fees	-	3,224	3,224	-	-	3,224	18,362
Dues and subscription	-	-	-	-	1,022	1,022	-
Bank and finance charges	-	632	632	31,906	-	32,538	35,195
Special events and fundraising	-	-	-	1,000	19,875	20,875	65,693
Miscellaneous	-	58,359	58,359	1,495	-	59,854	59,248
	1,630,980	912,361	2,543,341	1,007,862	220,176	3,771,379	4,361,746
Depreciation and amortization	-	-	-	45,631	-	45,631	45,631
Total	\$ 1,630,980	\$ 912,361	\$ 2,543,341	\$ 1,053,493	\$ 220,176	\$ 3,817,010	\$ 4,407,377

See notes to financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(With Comparative Total for June 30, 2015)**

	<u>2016</u>	<u>(Restated) 2015</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 415,448	\$ 282,090
Adjustments to reconcile changes in net assets to cash (used in) provided by operating activities:		
Depreciation and amortization	45,631	45,631
(Increase) decrease in operating assets:		
Pledges and grants receivables	(20,261)	(26,005)
Rent receivable	(71,766)	(126,370)
Due from subsidiaries	(5,376)	(25,773)
Other receivables	(4,898)	102,087
Prepaid expenses	35,459	25,678
Security deposits	(41)	695
Services fees receivable	(368,515)	-
Long-term note receivable	820,282	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(1,312,285)	870,728
Accrued payroll and related taxes	(211,658)	722,521
Deferred grant/fee revenue	78,747	48,531
Capital lease obligation	(2,250)	-
Due to affiliates	(73,863)	(85,609)
Due to Limited Partnerships	260,445	(433,246)
Net cash (used in) provided by operating activities	<u>(414,901)</u>	<u>1,400,958</u>
Cash Flows from Investing Activities		
Purchase of investments	-	(727,649)
Purchase of property and equipment	(2,386)	(9,540)
Net cash used in investing activities	<u>(2,386)</u>	<u>(737,189)</u>
Cash Flows from Financing Activities		
Decrease in line of credit	-	(317,878)
Decrease in long-term debt	-	(40,149)
Net cash used in financing activities	<u>-</u>	<u>(358,027)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(417,287)	305,742
Cash and Cash Equivalents at Beginning of Year	<u>421,391</u>	<u>115,649</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,104</u>	<u>\$ 421,391</u>
Supplemental Information		
Cash paid for interest	<u>\$ 25,694</u>	<u>\$ 30,067</u>

See notes to financial statements.

**HARLEM CONGREGATIONS FOR
COMMUNITY IMPROVEMENT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(With Comparative Totals for June 30, 2015)**

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

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting and are presented in accordance with accounting requirements for not-for-profit organizations as stipulated in the Statement of Financial Standard Board FASB ASC 958-205, “*Not-For-Profit Entities Presentation of Financial Statements.*” These require that all not-for-profit organizations provide a statement of financial position, a statement of activities, a statement of functional expenses and a statement of cash flows and that net assets be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor stipulations regarding the use of such assets.

Net assets are classified and reported as follows:

Unrestricted – represents funds available for HCCI’s general operations;

Temporarily restricted – represents the portion of net assets that have been restricted by donors for either specified purposes or timing of use; and

Permanently restricted – represents the portion of net assets that have been restricted by donors who require the principal of the gift to be maintained in perpetuity with only the earnings to be used for a specified purpose.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

HCCI have adopted FASB ASC 958-205-25. 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

HCCI maintains its cash in bank deposit accounts which at times may exceed federally insured limits. HCCI has not experienced any losses in such accounts. HCCI believes it is not exposed to any significant credit risk on cash. For financial statement purposes, HCCI considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

HCCI maintains its cash balances in various financial institutions. Deposits with such institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000.

**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

HCCI capitalizes all fixed assets at cost. Depreciation of fixed assets has been provided using the straight-line method over the estimated useful lives of the assets.

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.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 a non-profit organization, 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.

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, 2016.

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total and was presented by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with HCCI's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Reclassification

Certain items previously reported in the 2015 financial statements have been reclassified to conform to the current year financial statement presentation.

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

3. PLEDGES AND GRANTS RECEIVABLE

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

	<u>2016</u>	<u>2015</u>
Government Agencies	\$ 267,086	\$ 244,156
Foundations, Corporations and Individuals	<u>16,921</u>	<u>19,590</u>
	<u>\$ 284,007</u>	<u>\$ 263,746</u>

4. RENT RECEIVABLE

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

	<u>2016</u>	<u>2015</u>
Rent receivable	\$ 394,804	\$ 323,038
Less allowance for doubtful accounts	<u>9,058</u>	<u>9,058</u>
	<u>\$ 385,746</u>	<u>\$ 313,980</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.

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, 2016 and 2015.

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

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:

	<u>2016</u>	<u>2015</u>
15-21 West 137th Street Corporation	\$ 100	\$ 100
60 St. Nicholas, Inc.	100	100
Angelou of Harlem, Inc.	100	100
Eden of Harlem, Inc.	100	100
Macombs Manor of Harlem, Inc.	100	100
Parkside of Harlem, Inc.	100	100
	<u>\$ 600</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:

	<u>2016</u>	<u>2015</u>
HCCI Homeowners Corporation	\$ 100	\$ 100

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

	<u>2016</u>	<u>2015</u>
Northern Manhattan Equities	\$ 732,149	\$ 732,149
Sutton 1 HDFC	275,000	275,000
David Dinkins Apartments	72,047	72,047
Hurston Place HDFC	39,498	39,498
Total investments	<u>1,118,694</u>	<u>1,118,694</u>
Grand Total	<u>\$ 1,119,394</u>	<u>\$ 1,119,394</u>

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

6. PROPERTY AND EQUIPMENT

As of June 30, this consisted of:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 334,642	\$ 334,642
Furniture and equipment	769,527	767,141
Less accumulated depreciation and amortization	<u>(1,021,020)</u>	<u>(975,389)</u>
	<u>\$ 83,149</u>	<u>\$ 126,394</u>

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 amounted to \$45,631 and \$45,631, respectively.

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.

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

	<u>2016</u>	<u>2015</u>
Partnership and property management fees	\$ 1,868,261	\$ 1,476,440
Development fees	666,637	723,631
Asset management fees	69,385	70,594
Social service fees	110,828	72,846
Others	<u>46,915</u>	<u>50,000</u>
	2,762,026	2,393,511
Less allowance for doubtful accounts	<u>(100,229)</u>	<u>(100,229)</u>
	<u>\$ 2,661,797</u>	<u>\$ 2,293,282</u>

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

8. LONG-TERM NOTE RECEIVABLE

Long-term note receivable relates to a promissory note dated November 5, 2001, from Site 13 Apartment Owners LLC in the principle amount of \$1,050,000. The note is an interest only note and bears interest at one percent per annum. The note and any unpaid interest is payable at maturity on November 4, 2033. The note is paid in monthly installments of interest on the outstanding balance in the amount of \$875. At June 15, 2015, all required interest payments were made. This note has not been reported in prior year's financial statements and is being reflected in the current year as a prior year adjustment.

On June 29, 2016, this long-term note was assigned to the Site 13 Holders, LLC with a consideration of \$240,000 to HCCI as its redemption of its present value.

9. 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 and \$399,437 as of June 30, 2016 and 2015, respectively.

10. 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 years ended June 30, 2016 and 2015 was \$342,321 and \$81,876, respectively.

11. 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, 2016 and 2015 was \$156,867 and \$230,730, respectively.

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

12. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
HCCI Loan Fund	\$ 300,000	\$ 300,000
Other	45,800	45,800
	<u>\$ 345,800</u>	<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.

13. 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 2021.

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>
2017	\$ 56,050
2018	56,050
2019	56,050
2020	56,050
2021	56,050
Thereafter	<u>112,100</u>
Total	<u>\$ 392,350</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**

13. 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.

14. 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.

15. 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**

15. OTHER REAL ESTATE ACTIVITIES – CONTINUED

At June 30, 2016, \$1,377,623 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.

16. RESTATEMENT OF FINANCIAL STATEMENTS

The 2015 financial statements have been restated to recognize the adjustments made on the assignment of the long-term note receivable and adjustment of various accruals from prior years which resulted to a net decrease of \$574,721 in net assets for the year, bringing the cumulative net assets to \$3,510,282 as of June 30, 2015. The restatement has no effect on the results of the current year’s activities.

17. EVALUATION OF SUBSEQUENT EVENT

Subsequent events have been evaluated through March 9, 2017, the date the financial statements were available to be issued.