

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

(A Subsidiary of New York State
Urban Development Corporation)

Consolidated Financial Statements and
Independent Auditors' Report

March 31, 2011 and 2010

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Harlem Community Development
Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Harlem Community Development Corporation and Subsidiaries ("HCDC"), a subsidiary of New York State Urban Development Corporation, as of March 31, 2011 and 2010 and the related consolidated statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of HCDC's management. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harlem Community Development Corporation and Subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2011 on our consideration of Harlem Community Development Corporation and Subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis as presented on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Toski, Schaefer & Co, P.C.

Williamsville, New York
June 3, 2011

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

March 31, 2011 and 2010

This financial report presents our discussion and analysis of Harlem Community Development Corporation and Subsidiaries' ("HCDC") financial performance during the years ended March 31, 2011 and 2010. 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 96th Street to 178th Street, from the Hudson River to the East/Harlem River. HCDC has broad functions and duties under its legislation:

- To formulate and implement a comprehensive development program;
- To promote effective community participation, representation and support for such program;
- To identify and recommend projects which may be undertaken in cooperation with Harlem stakeholders;
- To provide assistance to not-for-profit organizations engaged in economic and housing development;
- To evaluate ongoing projects of ESD in Harlem, make recommendations with respect to such projects, and cooperate in the delivery of development programs agreed upon by ESD and various community-based organizations;
- To review and make recommendations with respect to any project proposed by ESD in Harlem; and
- To initiate development projects designed to foster economic growth and community revitalization.

To implement its mission, HCDC targets the redevelopment of vacant or underutilized commercial and residential property and publicly-owned spaces. Its goal in this regard is to attract new businesses, retain and grow existing businesses, provide access to homeownership opportunities, create employment opportunities and improve the quality of life and the environment in partnership with Upper Manhattan residents, business and property owners and other agencies. Projects are developed in partnership with ESD, State and City agencies, the Upper Manhattan Empowerment Zone Development Corporation and private businesses.

HARLEM COMMUNITY DEVELOPMENT
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Management's Discussion and Analysis, Continued

HCDC has established four primary departments to effectively implement its work which are Commercial Development, Residential Development, Urban Planning and the Weatherization Assistance Program.

HCDC has participated in the New York State Weatherization Assistance Program ("WAP") for over twenty-five years. Weatherization is a need based program and HCDC receives its funding through a grant from the New York State Division of Housing and Community Renewal ("DHCR"). The grant amount is determined by a formula related to census data for its service area, which extends from 96th Street to 140th Street. The program contributes to the preservation of privately owned affordable housing by sharing the cost of retrofitting residential buildings to reduce energy consumption by increasing efficiency, to maintain buildings in a safe condition and to reduce operating costs. The WAP program places added emphasis on health and safety issues affecting the elderly, families with children and persons with disabilities. HCDC takes extra steps to inform residents of tenant controlled buildings, including low income cooperatives, of the benefits of the WAP and to encourage many more qualified minority contractors to bid on weatherization contracts.

The WAP received an additional \$5.3 million in American Recovery and Reinvestment Act ("ARRA") Funds during fiscal 2010. The new funding was to provide assistance to approximately 772 housing units and must be used in two years. During the March 31, 2011 fiscal year, the feasibility of qualifying these units and utilizing the full amount of funding in the required timeframe was reassessed. In coordination with DHCR, \$2 million was returned as program staff determined that only \$3.3 million could be utilized effectively to serve approximately 486 housing units. The additional ARRA funds provide high energy cost assistance to low income households and created new employment opportunities and jobs retention associated with weatherization activities. A comprehensive training program for subgrantees and contractors engaged in weatherization activities also occurred as a result of the added funding. The program is expected to end on September 30, 2011.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Management's Discussion and Analysis, Continued

A summarized statement of HCDC's assets, liabilities and net assets at March 31, 2011 and 2010 is as follows:

Summary of Consolidated Balance Sheets

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents, includes restricted amounts of \$3,100,332 in 2011 and \$3,320,128 in 2010	\$ 3,391,133	3,748,698
Designated funds held by New York State Urban Development Corporation	150,000	150,000
Short-term investments	1,657,937	1,657,775
Revolving loans and grant receivable	503,577	255,168
Prepaid expenses and other receivables	<u>86,861</u>	<u>236,188</u>
Total current assets	5,789,508	6,047,829
Non-current assets:		
Property and equipment, net	44,068	65,511
Investment in property	<u>672,012</u>	<u>672,012</u>
Total assets	<u>\$ 6,505,588</u>	<u>6,785,352</u>
<u>Liabilities and Net Assets</u>		
Total liabilities	<u>3,369,845</u>	<u>3,418,553</u>
Net assets:		
Restricted	2,067,955	1,683,265
Investment in capital assets	44,068	65,511
Unrestricted	<u>1,023,720</u>	<u>1,618,023</u>
Total net assets	<u>3,135,743</u>	<u>3,366,799</u>
Total liabilities and net assets	<u>\$ 6,505,588</u>	<u>6,785,352</u>

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis, Continued

A summarized statement of HCDC's revenue, expenses and changes in net assets for the years ended March 31, 2011 and 2010 is as follows:

Summary of Statements of Revenue,
Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Support from corporate parent	\$ 1,043,411	1,030,990
Grant income (Weatherization Program)	1,895,874	1,342,513
Fee income	11,750	53,045
Other income	47,580	465,612
Total operating revenue	<u>2,998,615</u>	<u>2,892,160</u>
Operating expenses:		
Grant expenses (Weatherization Program)	1,895,874	1,381,159
Other grants	204,703	86,611
General and administrative	1,138,788	1,234,365
Total operating expenses	<u>3,239,365</u>	<u>2,702,135</u>
Operating gain (loss)	(240,750)	190,025
Non-operating revenue	<u>9,694</u>	<u>35,790</u>
Excess (deficiency) of revenue over expenses	(231,056)	225,815
Net assets at beginning of year	<u>3,366,799</u>	<u>3,140,984</u>
Net assets at end of year	<u>\$ 3,135,743</u>	<u>3,366,799</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.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis, Continued

Excess (Deficiency) of Revenue over Expenses

The excess (deficiency) of revenue over expenses for the year ended March 31, 2011 amounted to (\$.23) million compared to \$.23 million for the year ended March 31, 2010. The decrease is due to a variety of changes in both revenue and expense categories.

Revenue

Operating revenue for the year ended March 31, 2011 approximated \$3.0 million compared with \$2.89 million in fiscal 2010. This increase is primarily due to increases in the following areas: \$.51 million in grant income rated to the ARRA program and \$.04 million related to the WAP program; \$.01 million in support from the corporate parent primarily attributed to general and administrative expenses, including legal fees and advertisement; and \$.01 million as a result of an increase in the fair market value of investments. These increases were offset by the following decreases in revenue: \$.39 million in rent arrearages on the Cecil Hotel; \$.04 million in closing fees related to the Kalahari Condominium; and \$.03 million in legal fees related to the Victoria Theatre.

Expenses

Operating expenses for the year ended March 31, 2011 approximated \$3.24 million compared with \$2.7 million in fiscal 2010. The increase is primarily due to additions in the following expenses: \$.33 million related to the ARRA program, including material and labor; \$.25 million in personal services and general and administrative expenses related to the ARRA and WAP program, including payroll and fringe benefits; and \$.11 million in grant expense for the Community Initiative program. These increases were offset by decreases in the following areas: \$.1 million in utility expenses for the Victoria Theatre; \$.04 million in architectural and engineering services related to residential tax credit projects; and \$.01 million in appraisal expense for the Cecil Hotel.

ANTICIPATED FUTURE TRANSACTIONS

HCDC is expecting to continue its involvement with several economic development projects in the new fiscal year. Some of the projects are as follows:

- First Time Homebuyer Education, Harlem CDC partners with mortgage lenders and other stakeholders to provide seminars to first time buyers and to current home owners on various mortgage related issues.
- Small Business Seminars, Harlem CDC works in partnership with financial institutions, City, State and Federal government agencies to host ongoing small business workshops and forums.

HARLEM COMMUNITY DEVELOPMENT
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Management's Discussion and Analysis, Continued

- Harlem River Park Taskforce, an initiative to develop a state-of-the-art, environmentally sustainable waterfront park along the Harlem River; program community events in the park, including permanent art projects; coordinate design and funding of "green" comfort station; maintain the Harlem River website.
- HCDC Community Initiatives Loan and Grant Program, provides grants and low interest loans to a wide range of planning and development initiatives.
- HUDC TC limited Partnership Low-Income Tax Credit Projects, the five low-income tax credit projects developed in the early 1990's will have detailed existing conditions surveys and capital needs assessments performed.
- Greater Harlem Housing Capital Improvement Project provide repairs and improvements to 13 occupied residential properties located in Central Harlem which contain 117 low-income rental units. Harlem CDC provided a predevelopment loan to support the project.

HCDC holds title to the Cecil Hotel (the "Cecil"). The Cecil is leased on a long-term basis to Housing and Services, Inc. which operates the facility as a SRO residential facility for formerly homeless senior citizens. The Cecil is undergoing a capital improvement project estimated at over \$5.4 million and a completion date of June 2011. The cost of the capital improvement project is fully funded by the City of New York through its Department of Housing Preservation and Development.

HCDC holds title to the Victoria Theatre. The redevelopment project will involve converting the approximately 300,000 square foot facility into a mixed-use building consisting of a hotel, mixed-income residential, cultural and arts space, retail and parking. Total development costs are estimated at \$160 million and closing on project financing is expected to take place in June 2012.

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 and Administrative Officer, Empire State Development, 633 Third Avenue, New York, New York 10017.

CONSOLIDATED FINANCIAL STATEMENTS

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents, includes restricted amounts of \$3,100,332 in 2011 and \$3,320,128 in 2010	\$ 3,391,133	3,748,698
Designated funds held by New York State Urban Development Corporation	150,000	150,000
Short-term investments	1,657,937	1,657,775
Loans receivable	297,500	197,500
Grants receivable	206,077	57,668
Prepaid expenses and other receivables	86,861	78,649
Due from New York State Urban Development Corporation	<u>-</u>	<u>157,539</u>
Total current assets	5,789,508	6,047,829
Property and equipment, net	44,068	65,511
Investment in property	<u>672,012</u>	<u>672,012</u>
Total assets	<u>\$ 6,505,588</u>	<u>6,785,352</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	388,582	296,372
Due to New York State Urban Development Corporation	175,954	-
Appropriation repayable	366,489	342,235
Other liabilities	<u>2,438,820</u>	<u>2,779,946</u>
Total current liabilities	<u>3,369,845</u>	<u>3,418,553</u>
Net assets:		
Restricted	2,067,955	1,683,265
Investment in capital assets	44,068	65,511
Unrestricted	<u>1,023,720</u>	<u>1,618,023</u>
Total net assets	<u>3,135,743</u>	<u>3,366,799</u>
Commitments and contingencies (note 10)	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 6,505,588</u>	<u>6,785,352</u>

See accompanying notes to consolidated financial statements.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Revenue, Expenses
and Changes in Net Assets
Years ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Support from corporate parent	\$ 1,043,411	1,030,990
Grant income (Weatherization Program)	1,895,874	1,342,513
Fee income	11,750	53,045
Other income	<u>47,580</u>	<u>465,612</u>
Total operating revenue	<u>2,998,615</u>	<u>2,892,160</u>
Operating expenses:		
Grant expenses (Weatherization Program)	1,895,874	1,381,159
Other grants	204,703	86,611
General and administrative expenses	<u>1,138,788</u>	<u>1,234,365</u>
Total operating expenses	<u>3,239,365</u>	<u>2,702,135</u>
Operating gain (loss)	(240,750)	190,025
Non-operating revenue - interest income	<u>9,694</u>	<u>35,790</u>
Excess (deficiency) of revenue over expenses	(231,056)	225,815
Net assets at beginning of year	<u>3,366,799</u>	<u>3,140,984</u>
Net assets at end of year	<u>\$ 3,135,743</u>	<u>3,366,799</u>

See accompanying notes to consolidated financial statements.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Grants received	\$ 1,077,726	3,133,619
Support received from corporate parent	1,035,199	1,017,711
Cash received from fees	11,750	53,045
Miscellaneous cash received	47,580	465,612
Special project payments	(40,086)	24,042
Program payments	(1,813,372)	(1,755,998)
Grant payments	(204,703)	(86,611)
Payments for general and administrative expense	<u>(738,938)</u>	<u>(1,042,457)</u>
Net cash provided by (used in) operating activities	<u>(624,844)</u>	<u>1,808,963</u>
Cash flows from investing activities:		
Interest income	9,694	35,790
Loans awarded	(100,000)	-
Loans repaid	-	100,000
Interest earned on revolving loans receivable	24,254	4,063
Decrease in designated funds held by New York State Urban Development Corporation	-	50,000
Increase in short-term investments	(162)	(1,234)
Increase in property and equipment	<u>-</u>	<u>(5,395)</u>
Net cash provided by (used in) investing activities	<u>(66,214)</u>	<u>183,224</u>
Cash flows from financing activities - proceeds from (payments to) New York State Urban Development Corporation	<u>333,493</u>	<u>(157,199)</u>
Net increase (decrease) in cash and equivalents	(357,565)	1,834,988
Cash and equivalents at beginning of year	<u>3,748,698</u>	<u>1,913,710</u>
Cash and equivalents at end of year	<u>\$ 3,391,133</u>	<u>3,748,698</u>

(Continued)

See accompanying notes to consolidated financial statements.

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

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating gain (loss)	\$ (240,750)	190,025
Adjustments to reconcile operating gain (loss) to net cash provided by (used in) operating activities:		
Depreciation	21,443	20,472
Changes in:		
Grants receivable	(148,409)	574,432
Prepaid expenses and other receivables	(8,212)	(13,279)
Accounts payable and accrued liabilities	92,210	(461,112)
Other liabilities	<u>(341,126)</u>	<u>1,498,425</u>
Net cash provided by (used in) operating activities	<u>\$ (624,844)</u>	<u>1,808,963</u>

See accompanying notes to consolidated financial statements.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2011 and 2010

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 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.

Since its inception, HCDC's major priority has been to serve as a catalyst for the community's revitalization by initiating community development activities, which remove barriers to economic growth, stimulate the local economy, and create jobs. Every year HCDC implements a number of community based initiatives, which impact the community in a number of substantial ways.

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, the Upper Manhattan Empowerment Zone Development Corporation and private businesses.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

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 assets into three categories, restricted, invested in capital assets and unrestricted net assets. Invested in capital assets includes capital assets net of accumulated depreciation. Restricted net assets include net assets that have been restricted in use in accordance with agreements or State law. Unrestricted net assets include all net assets not included in the above categories.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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.

(d) Investments

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

(e) 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 was 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.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 2 - Summary of Significant Accounting Policies, Continued

(f) Subsequent Events

HCDC has evaluated events after March 31, 2011, and through June 3, 2011, which is the date the consolidated financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in the consolidated financial statements.

Note 3 - Cash and Equivalents

As a public unit of the State of New York, HCDC receives up to \$250,000 FDIC coverage each for the aggregate of all interest-bearing accounts and unlimited FDIC coverage on all non-interest bearing accounts held in a single insured financial institution located in the same state as HCDC. At March 31, 2011 and 2010, all of HCDC's bank balances were fully collateralized.

Cash received from State and Federal government grantors for specific programs is classified as restricted. State and Federal restricted cash as of March 31, 2011 and 2010 was held primarily for the following programs:

	<u>2011</u>	<u>2010</u>
Revolving loan program (see Note 7)	\$ 158,624	233,759
Weatherization program	1,737,315	1,902,374
Other programs	<u>1,204,393</u>	<u>1,183,995</u>
	<u>\$ 3,100,332</u>	<u>3,320,128</u>

Note 4 - Short-term Investments

Financial Investments

Special Program Restricted Funds amounting to \$1,657,585 at March 31, 2011 were invested into two instrument types as follows:

- (1) On January 19, 2011, invested in Federal Home Loan Discount Notes for \$742,723 for 84 days, having a par value of \$743,000 yielding an interest rate of 0.16 percent per annum and maturing on April 13, 2011.
- (2) On March 17, 2011, invested in Freddie Mac Discount Notes for \$914,862 for 54 days, having a par value of \$915,000, yielding an interest rate of 0.10 percent per annum and maturing on May 10, 2011.

The fair value at March 31, 2011 of the two instruments amounted to \$1,657,937.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 4 - Short-term Investments, Continued

Special Program Restricted Funds amounting to \$1,657,351 at March 31, 2010 were invested into two instrument types as follows:

- (1) On February 23, 2010, invested in Federal Home Loan Discount Notes for \$742,764 for 104 days, having a par value of \$743,000 yielding an interest rate of .11 percent per annum and maturing on June 7, 2010.
- (2) On December 24, 2009, invested in Freddie Mac Discount Notes for \$914,587 for 125 days, having a par value of \$915,000, yielding an interest rate of .13 percent per annum and maturing on April 28, 2010.

The fair value at March 31, 2010 of the two instruments amounted to \$1,657,775.

Fair Value Measurements

The Financial Accounting Standards Board established a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Level 1 are assets and liabilities whose inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that HCDC has the ability to access. The Corporation holds Federal Agency obligations with quoted prices in active markets for identical assets (level 1) of \$1,657,937 and \$1,657,775 at March 31, 2011 and 2010, respectively.

The investments are reported at fair value in the consolidated balance sheets as of March 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Federal Home Loan Mortgage Corporation notes	\$ 742,993	742,830
Federal National Mortgage Association notes	<u>914,944</u>	<u>914,945</u>
	\$ <u>1,657,937</u>	<u>1,657,775</u>

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 5 - Property and Equipment

Property and equipment for the years ended March 31, 2011 and 2010 includes the following:

	2011			
	Balance at March 31, <u>2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance at March 31, <u>2011</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>(616,308)</u>	<u>(21,443)</u>	<u>-</u>	<u>(637,751)</u>
	<u>\$ 65,511</u>	<u>(21,443)</u>	<u>-</u>	<u>44,068</u>
	2010			
	Balance at March 31, <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance at March 31, <u>2010</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>9,916</u>	<u>5,395</u>	<u>-</u>	<u>15,311</u>
	676,424	5,395	-	681,819
Less accumulated depreciation	<u>(595,836)</u>	<u>(20,472)</u>	<u>-</u>	<u>(616,308)</u>
	<u>\$ 80,588</u>	<u>(15,077)</u>	<u>-</u>	<u>65,511</u>

Depreciation expense for the years ended March 31, 2011 and 2010 amounted to \$21,433 and \$20,472, respectively.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 6 - Investment in Property

HCDC holds title to the Victoria Theatre, which had 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, 2011 and 2010. HCDC management estimates that the fair market value of this property exceeds its carrying amount based on an appraisal performed by Jerome Haims Realty, Inc.

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.

Revolving loans receivable under this program at March 31, 2011 and 2010 amounted to \$297,500 and \$197,500, 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 \$24,254 and \$4,063 for the years ended March 31, 2011 and 2010, respectively, and is added to the appropriation balance repayable. Total interest earned as of March 31, 2011 and 2010 amounted to \$106,489 and \$82,235, respectively.

Note 8 - Other Payable

In fiscal 2008, funds were received from Danforth Development Partners of \$1,000,000 and \$500,000 for the Victoria Theatre Redevelopment Fund. As of March 31, 2011, \$529,221 was disbursed for legal expenses.

Note 9 - Retirement Plan

Substantially all of HCDC's full-time employees are members of 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.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 9 - Retirement Plan, Continued

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. 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, 2011 and 2010 amounted to \$1,247,244 and \$1,112,741, respectively. Contributions are billed annually, which for the years ended March 31, 2011 and 2010 amounted to \$130,040 and \$79,015, respectively.

Note 10 - Commitments and Contingencies

Commitments and contingencies at March 31, 2011 consist of the following:

(a) Litigation

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.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 10 - Commitments and Contingencies, Continued

(c) Lease Commitments

HCDC has an operating lease for a storage facility expiring on April 30, 2014. Rental expense for the years ended March 31, 2011 and 2010 amounted to \$21,300 and \$23,075, respectively. Future minimum lease payments as of March 31, 2011, are as follows:

2012	\$ 21,300
2013	21,300
2014	<u>1,775</u>
	\$ <u>44,375</u>

Note 11 - 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, 2011 and 2010, the Board has approved grants to various organizations amounting to \$90,000 and \$268,201, respectively. During the years ended March 31, 2011 and 2010, total grant expenditures incurred amounted to \$204,703 and \$86,611, respectively.

Note 12 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions," enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The requirements of the Statement are effective for periods beginning after June 15, 2010, which is the fiscal year beginning April 1, 2011 for HCDC. This statement is not expected to have a material effect on the consolidated financial statements of HCDC.

GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," amends GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," to allow agent employers that have individual employer OPEB plans, with less than 100 plan members to use the alternate measurement method, regardless of the total number of plan members in the multiple-employer OPEB plan in which it participates. The requirements of this statement are effective for periods beginning after June 15, 2011, which is the fiscal year beginning April 1, 2012 for HCDC. This statement is not expected to have a material effect on the consolidated financial statements of HCDC.

HARLEM COMMUNITY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 12 - Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 59 - "Financial Instruments Omnibus" updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The requirements of this statement are effective for periods beginning after June 15, 2010, which is the fiscal year beginning April 1, 2011 for HCDC. This statement is not expected to have a material effect on the consolidated financial statements of HCDC.

GASB Statement No. 60 - "Accounting and Financial Reporting for Service Concession Arrangements" addresses how to account for and report service concession arrangements, a type of public-private partnership. This statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue and how to record any obligation of the transferor to the operator. The requirements of this statement are effective for periods beginning after December 15, 2011, which is the fiscal year beginning April 1, 2012 for HCDC. This statement is not expected to have a material effect on the consolidated financial statements of HCDC.

GASB Statement No. 61 - "The Financial Reporting Entity: Omnibus" is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14 "The Financial Reporting Entity" and No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." This statement amends the criteria for including component units by only including those component units for which the elected officials are financially accountable or that the government determines would be misleading to exclude. This statement also amends the criteria for blending of component units to include only those component units that are so intertwined with the primary government that they are essentially the same as the primary government. The requirements of the statement are effective for periods beginning after June 15, 2012, which is the fiscal year beginning April 1, 2013 for HCDC. This statement is not expected to have a material effect on the consolidated financial statements of HCDC.

GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature the applicable guidance issued before November 30, 1989 from FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The requirements of the statement are effective for periods beginning after December 15, 2011, which is the fiscal year beginning April 1, 2012 for HCDC. This statement is not expected to have a material effect on the consolidated financial statements of HCDC.

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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 and Subsidiaries:

We have audited the consolidated financial statements of Harlem Community Development Corporation and Subsidiaries ("HCDC"), a subsidiary of New York State Urban Development Corporation, as of and for the year ended March 31, 2011, and have issued our report thereon dated June 3, 2011. 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.

Internal Control over Financial Reporting

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

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HCDC's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters, noncompliance with which could have a direct and material effect on the determination of consolidated 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.

This report is intended solely for the information and use of the board, management, others within HCDC, and the New York State Office of State Comptroller, and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co. P.C.

Williamsville, New York
June 3, 2011

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INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

The Board of Directors
Harlem Community Development
Corporation and Subsidiaries:

We have examined the Harlem Community Development Corporation and Subsidiaries ("HCDC"), a subsidiary of New York State Urban Development Corporation, compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York during the year ended March 31, 2011. Management is responsible for HCDC's compliance with those requirements. Our responsibility is to express an opinion on HCDC's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting HCDC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on HCDC's compliance with specified requirements.

In our opinion, HCDC complied, in all material respects, with the aforementioned requirements during the year ended March 31, 2011.

In accordance with Government Auditing Standards, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grants, and abuse that are material to 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 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether HCDC complied with the aforementioned requirements and not for the purpose of expressing an opinion on the internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management, the New York State Legislature, the New York State Office of the State Comptroller, the New York State Senate, the New York State Division of the Budget, and the New York State Authorities Budget Office and is not intended to be and should not be used by anyone other than those specified parties.

Toski, Schaefer & Co, P.C.

Williamsville, New York
June 3, 2011