SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION,
SUBSIDIARIES AND AFFILIATES

CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(WITH SUPPLEMENTAL INFORMATION)
AND INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2018

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TIDWELL group

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

We were engaged to audit the accompanying consolidated and combined financial statements of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates (the Organization), which comprise the consolidated and combined statement of financial position as of March 31, 2018, and the related consolidated and combined statements of activities, functional expenses, net assets and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements.

Management's Responsibility for the Consolidated and Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated and combined financial statements based on our conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As more fully described in Note 20, management was unable to reconcile various intercompany balances for the period ended March 31, 2018, the accumulation of which management has written off as bad debt expense for the year ended March 31, 2018. We were unable to confirm or verify by alternative means the amount of any potential misstatement or the accounts affected by this discrepancy.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated and combined financial statements referred to in the first paragraph.

Report on Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements as a whole. The consolidating and combining information on pages 34 through 36 and the supplemental information on pages 37 through 39 is presented for purposes of additional analysis of the consolidated and combined financial statements rather than to present the financial position and changes in net assets of the individual entities, and is not a required part of the consolidated and combined financial statements. The accompanying schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards on pages 41 through 44, 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*, is presented for purposes of additional analysis and is not a required part of the consolidated and combined 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 consolidated and combined financial statements. Because of the significance of the matters disclosed in the auditor's report, it is inappropriate to, and the auditors do not, express an opinion on the consolidating and combining information or on the schedule of expenditures of federal awards.

Other Matter

The financial statements of certain subsidiaries and affiliates of South Bronx Overall Economic Development Corporation were not audited in accordance with *Government Auditing Standards* as discussed at Note 1 in the Notes to Schedule of Expenditures of Federal Awards.

Adjustments to Prior Period Financial Statements

As described in Note 1, under the principles of consolidation, SoBRO Development Corporation and SoBRO Local Development Corporation are combined entities of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates. As disclosed in Note 19, SoBRO Development Corporation and SoBRO Local Development Corporation have restated their 2017 account balances during the current year. Adjustments were made to properly reflect the accounts and activities of New Roads Plaza, a wholly owned subsidiary of SoBRO Development Corporation. The accounts and activity of New Roads Plaza were previously reported incorrectly as a subsidiary of SoBRO Local Development Corporation. Our opinion is not modified with respect to that matter.

As described in Note 1, under the principles of consolidation, BUFNY II Associates, L.P. is a consolidated entity of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates. As disclosed in Note 19, BUFNY II Associates, L.P. restated its 2017 account balances during the current year due to previous errors in accounting for mortgage interest expense and payments of mortgage interest in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter. As described in Note 1, under the principles of consolidation, SoBRO Local Development Corporation is a combined entity of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates. As disclosed in Note 19, SoBRO Local Development Corporation restated its 2017 account balances during the current year to reflect property management fees it earned that were improperly recorded on a different entity in prior periods. Our opinion is not modified with respect to that matter.

As described in Note 1, under the principles of conoslidation, SoBRO Harlem Housing Development Fund Corporation is a consolidated entity of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates in which previously management did not recognize was an entity under its control. As disclosed in Note 19, beginning equity was restated to include the transactions and activities related to SoBRO Harlem Housing Development Fund Corporation. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2019 on our consideration of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' internal control over financial reporting and on our tests of their 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 South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' internal control over financial reporting and compliance.

Tidwell Group, LLC

Atlanta, Georgia
December 2, 2019

Taxpayer Identification Number:
27-1490692

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

CONSOLIDATED AND COMBINED STATEMENT OF FINANCIAL POSITION

March 31, 2018

Assets

Current assets	
Cash	$ 319,730
Restricted reserves and escrows	1,196,034
Cash - tenant's security deposits	175,019
Accounts receivable	311,895
Government contract receivable	416,209
Rents receivable, net	1,514,074
Loans receivable, net	2,769
Deferred commercial rents receivable, current portion	90,031
Prepaid expense and other receivables	940,062
Total current assets	4,965,823
Developer fees receivable	504,755
Fixed assets, net	60,730,922
Other assets, net	94,691
Deferred commercial rents receivable, net of current portion	495,115
Total assets	$ 66,791,306

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CONSOLIDATED AND COMBINED STATEMENT OF FINANCIAL POSITION - CONTINUED

March 31, 2018

Liabilities and Net Assets

Current liabilities	
Accounts payable and accrued expenses	$ 4,485,840
Accrued interest	36,360
Deferred grant revenue	547,123
Loans payable, current portion	1,017,806
Mortgage notes payable, current portion	351,501
Deferred income	540,200
Security deposits	374,367
Total current liabilities	7,353,197
Loans payable, net of current portion	3,920,321
Mortgage notes payable, net	42,235,701
Accrued interest	3,024,198
Developer fees payable	5,032,375
Other liabilities	5,813,642
Total liabilities	67,379,434
Net assets	
Unrestricted	(43,658)
Temporarily restricted	28,861
Noncontrolling interest	(573,331)
Total net assets	(588,128)
Total liabilities and net assets	$ 66,791,306

See notes to consolidated and combined financial statements.

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

CONSOLIDATED AND COMBINED STATEMENT OF ACTIVITIES

Year ended March 31, 2018

		Unrestricted	Temporarily Restricted	Total
Operating revenue				
Government contracts and grants		$ 8,103,110	$ -	$ 8,103,110
Corporate and foundation grants		36,111	-	36,111
Special events income	$ 129,400			
Direct costs of special events	(63,163)	66,237	-	66,237
Rental income		7,107,730	-	7,107,730
Management fees		72,732	-	72,732
Contracted services		131,472	-	131,472
Other income		284,562	-	284,562
Net assets released from restriction		233,467	(233,467)	-
Total revenues and support		16,035,421	(233,467)	15,801,954
Operating expenses				
Program services				
Youth services		4,350,677	-	4,350,677
Adult education and workforce services		617,010	-	617,010
Commercial revitalization		747,913	-	747,913
Technical assistance		222,391	-	222,391
Industrial development and job creation		418,761	-	418,761
Community development		6,653,486	-	6,653,486
Total program services		13,010,238	-	13,010,238
Supporting services				
Management and general		7,700,135	-	7,700,135
Total supporting services		7,700,135	-	7,700,135
Total operating expenses		20,710,373	-	20,710,373
Excess of (expense over revenue) revenue over expenses before other revenue (expense)		(4,674,952)	(233,467)	(4,908,419)
Other revenue (expenses)				
Interest income		7,415	-	7,415
Change in net assets		(4,667,537)	(233,467)	(4,901,004)
Change in net assets attributable to noncontrolling interest		(1,042,709)	-	(1,042,709)
Change in net assets attributable to SoBRO		$ (3,624,828)	$ (233,467)	$ (3,858,295)

See notes to consolidated and combined financial statements.

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

CONSOLIDATED AND COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year ended March 31, 2018

	Program Services							Supporting Services		Total
	Youth Services	Adult Education and Workforce Services	Commercial Revitalization	Technical Assistance	Industrial Development and Job Creation	Community Development	Total Program Services	Management and General	Fund Raising	Total
Salaries	$ 3,236,287	$ 487,460	$ 486,575	$ 25,083	$ 387,962	$ 244,855	$ 4,868,222	$ 2,408,235	$ -	$ 7,276,457
Payroll taxes and employee benefits	228,099	14,265	11,207	-	11,329	-	264,900	985,728	-	1,250,628
Consultant and contract services	181,927	-	130,521	37,797	1,183	141	351,569	413,846	-	765,415
Travel and conference	64,596	25,666	2,887	51,260	-	11,713	156,122	12,963	-	169,085
Occupancy	15,577	7,674	53,439	7,193	3,713	1,931,580	2,019,176	941,947	-	2,961,123
Equipment rental and maintenance	88,722	11,283	37,403	7,821	-	616,225	761,454	77,775	-	839,229
Communication and consumable supplies	452,565	47,576	20,866	56,378	645	38,518	616,548	54,019	-	670,567
Interest	-	-	-	-	-	911,716	911,716	216,730	-	1,128,446
Property taxes	-	-	-	-	-	430,767	430,767	31,933	-	462,700
Bad debts	-	-	-	-	-	331,692	331,692	2,284,242	-	2,615,934
Depreciation and amortization	67,493	12,918	1,189	25,840	13,929	1,987,053	2,108,422	251,238	-	2,359,660
Catering and entertainment	14,453	-	1,555	9,744	-	-	25,752	-	-	25,752
Administration fees	260	-	-	790	-	126,022	127,072	11,488	-	138,560
Miscellaneous	698	10,168	2,271	485	-	23,204	36,826	9,991	-	46,817
Total expenses by function	4,350,677	617,010	747,913	222,391	418,761	6,653,486	13,010,238	7,700,135	-	20,710,373
Plus expense deducted directly from revenues on the statement of activities	-	-	-	-	-	-	-	-	63,163	63,163
Total expenses by function	$ 4,350,677	$ 617,010	$ 747,913	$ 222,391	$ 418,761	$ 6,653,486	$ 13,010,238	$ 7,700,135	$ 63,163	$20,773,536

See notes to consolidated and combined financial statements.

CONSOLIDATED AND COMBINED STATEMENT OF NET ASSETS

Year ended March 31, 2018

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Noncontrolling Interest	Total Net Assets
Balance, March 31, 2017, as restated	$ 3,581,170	$ 262,328	$ 469,378	$ 4,312,876
Change in net assets	(3,624,828)	(233,467)	(1,042,709)	(4,901,004)
Balance, March 31, 2018	$ (43,658)	$ 28,861	$ (573,331)	$ (588,128)

See notes to consolidated and combined financial statements.

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

CONSOLIDATED AND COMBINED STATEMENT OF CASH FLOWS

Year ended March 31, 2018

Operating activities	
Change in net assets	$ (4,901,004)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	2,352,603
Amortization	38,254
Bad debt loss on loans receivable and accounts receivable	2,615,934
Change in operating assets and liabilities	
Cash - tenants security deposits	37,977
Accounts receivable	95,147
Government contract receivable	1,443,284
Rents receivable, net	(335,179)
Due to (from) affiliates	(2,983,733)
Deferred commercial rents receivable	17,983
Prepaid expenses and other receivable	(236,801)
Developer fees receivable	(106,381)
Accounts payable and accrued expenses	2,002,575
Deferred grant revenue	45,150
Deferred income	(350,978)
Security deposit liability	(6,849)
Accrued interest	288,505
Accrued interest - developer fee	123,784
Net cash provided by operating activities	140,271

(continued)

CONSOLIDATED AND COMBINED STATEMENT OF CASH FLOWS - CONTINUED

Year ended March 31, 2018

Investing activities	
Fixed assets acquisitions	(674,795)
Change in restricted reserves and escrows	345,331
Receipts of loans receivable	3,989
Net cash used in investing activities	(325,475)
Financing activities	
Repayment of mortgages and loans	(10,795,565)
Proceeds from mortgages and loans	10,507,841
Proceeds from other liabilities	140,041
Net cash used in financing activities	(147,683)
Net decrease in cash	(332,887)
Cash, beginning of the year, as restated	652,617
Cash, end of the year	$ 319,730
Supplemental cash flow information	
Cash paid during the period for interest	$ 684,960
Supplemental schedule of non-cash investing and financing activities	
Proceeds from other liabilities	$ 247,471
Fixed asset acquisitions	(271,848)
Due to (from) affiliates	24,377
	$ -

See notes to consolidated and combined financial statements.

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

South Bronx Overall Economic Development Corporation (SoBRO) was formed to transform South Bronx, New York into a center of commerce, industry, government, culture and higher education. Working in conjunction with the government, the private sector and the community, SoBRO plans, advocates and facilitates major infrastructure investments in the South Bronx; directly develops and manages smaller strategic real estate projects; pursues a variety of initiatives to encourage small business in the South Bronx; and advocates and undertakes projects to provide amenities and cultural programs to make downtown South Bronx more attractive and hospitable.

Principles of Consolidation

The consolidated and combined financial statements include the accounts of SoBRO and 11 consolidated entities and 3 combined entities (collectively, the Organization) as required by accounting principles generally accepted in the United States of America (GAAP), both of which are further described below.

Combined entities include those whose boards of directors are appointed by SoBRO. Consolidated entities are those in which the Organization has a controlling ownership interest of the general partner (or managing member) or wholly owns. These entities are included in the consolidation according to GAAP which require that partnership accounts be consolidated for all limited partnerships (or limited liability companies) which are deemed to be controlled. GAAP establishes the presumption that the general partner (or managing member) in a limited partnership (or limited liability company) controls the limited partnership (or limited liability company) (or similar entity) regardless of the extent of the general partner's (or managing member’s) ownership interest in the limited partnership (or limited liability company).

Below is a summary of all entities which are included, consolidated or combined:

South Bronx Overall Economic Development Corporation

Consolidated entities:

East 188th Street Apt. Housing Development Fund Corporation*
Bronx NY East 188th Street Apartments, L.P. (Belmont)
BUFNY II Associates, L.P.
SoBRO - Gateway Housing Development Fund Corporation (Gateway)
SoBRO Harlem Housing Development Fund Corporation (Harlem)
Jasmine Court Associates LLC
Jasmine Court Housing Development Corp.*
Longwood Apartments L.P.
SoBRO Lenox Corp.*
Woodycrest Housing Development Fund Corp.*
Woodycrest, L.P.

Combined entities

SoBRO Local Development Corporation (SoBRO-LDC)
SoBRO Development Corporation (SoBRO-DC)
CREDIT, Inc. (CREDIT)

*Entity has immaterial activity that is eliminated upon consolidation, therefore is not included in Supplemental Information

Each of the consolidated entities operate on a December 31st fiscal year end, therefore their financial information in these consolidated and combined financial statements is reported as of December 31, 2017.

On July 20, 2015, SoBRO entered into a Bargain and Sale Deed (the Deed) with SoBRO-DC to transfer a property known as Venture Center to SoBRO-DC in exchange for $10. As the two entities are related through common board members and common corporate officers, the transaction is considered to be a transaction between entities under common control. In accordance with accounting guidance for entities under common control, the assets and liabilities are transferred and recorded at their respective net book value at the date of acquisition as reflected on the seller's books, with the difference between the consideration given and the net book value of the assets and liabilities transferred reflected as net assets transferred in the statement of activities. As of March 31, 2018, this amount has not been paid and the intercompany activity has been eliminated upon consolidation.

Fixed assets, net	$	789,159
Mortgage payable		(532,894)
Accounts receivable		36,960
Accounts payable		(43,956)
Security deposits held in trust		(21,302)
Due to affiliate		(283,838)
Net assets - unrestricted		55,881
Total consideration	$	10

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The Organization's preparation of the consolidated and combined financial statements in conformity with GAAP 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 and combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The consolidated and combined financial statements of the Organization are prepared under the accrual method of accounting in accordance with GAAP.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets - controlling - represent expendable resources that are used to carry out the operations of the Organization and are not subject to donor-imposed stipulations.

Unrestricted net assets - noncontrolling - represent the aggregate balance of limited partner (or investor member) interest other than the Organization that is included in the consolidated and combined financial statements.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When restrictions are met or expire in the same period in which they are received, the amounts are shown as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donor of these assets permit the

Organization to use all of part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets as of March 31, 2018.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less at the time of purchase. As of March 31, 2018, the Organization does not have any cash equivalents.

Debt Issuance Costs

In accordance with GAAP, the debt issuance costs are presented as an offset of the related debt instruments within the liabilities section of the balance sheet. Debt issuance costs are being amortized using the straight-line method over the term of the mortgage and amortization expense is included in interest expense on the accompanying consolidated and combined statement of activities.

GAAP requires that the effective interest method be used to amortize debt issuance costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective interest method. Estimated amortization expense for each of the five ensuing years is expected to be $31,197 annually.

Accounts Receivable and Bad Debts

Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of current status of accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of March 31, 2018, the allowances for doubtful accounts were $0.

Government Contracts Receivable

Government contracts receivable represent outstanding expense reimbursements from various granting agencies for expenses incurred under the Organization's programs. Government contracts receivable are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. GAAP require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Rent Receivables

Tenant receivables are either reported net of an allowance or charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Management's estimate of the allowance is based on historical collection experience and a review of current status of accounts receivable. It is reasonably possible that management's estimate of the allowance will change. GAAP requires that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. As of March 31, 2018, the tenant receivables balance net of allowance for bad debt was $1,514,074, and as of March 31, 2018, the allowance for bad debts was $384,806.

Loans Receivable

The Organization records loans receivable at unpaid principal balances, less an allowance for loan losses and net deferred loan fees and unearned discounts. Loan origination and commitment fees, as well as certain direct origination costs, are recognized as income at the inception of the loan. GAAP require fees of this nature to be deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. However, the effect of using the direct income recognition method is not materially different from the results that would have been obtained under the deferral and amortization method.

Loans are placed on nonaccrual at the inception of the loan due to economic conditions, business conditions, and the environment in which the businesses operate. All interest payments received by CREDIT, Inc. are remitted directly to New York State Urban Development Corporation (UDC).

Allowance for Loan Loss

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb potential losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, reflecting the nature of the portfolio, credit concentrations, trends in historical loss experience, and general economic conditions. The allowance is increased by an annual provision for loan losses, which is reported as an expense and is reduced by any loan write-offs, net of recoveries. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio, and the related allowance, may change in future periods.

Restricted Reserves and Escrows

Restricted reserves and escrows consist of amounts held in escrow by, or on deposit with, financial institutions that collateralize loan or mortgage obligations; placed on deposit with banks participating in letters of credit; and money held by the Trustee, as defined, to make principal and interest payments to bondholders as well as funds held for acquisition of capital improvements.

Fixed Assets

Fixed assets are recorded at cost. The Organization capitalizes all property and equipment having a cost of $2,500 or more and a useful life of greater than one year. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets:

Building and improvements	25 - 40 years
Leasehold improvements	25 years
Land improvements	15 years
Furniture and fixtures	5 - 7 years
Equipment	3 - 5 years

Impairment of Long-Lived Assets

The Organization reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended March 31, 2018.

Deferred Grant Revenue

Deferred grant revenue represent advances to cover upfront operating costs of newly established programs. Advances are recognized in revenue as the expenses are incurred.

Revenues

Revenue from government agencies is recognized when earned. Expense-based grants are recognized as allowable expenses are incurred. Performance based grants are recognized as milestones are achieved.

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated and combined statement of activities as net assets released from restriction.

Commercial rent income from leasing office, manufacturing and warehousing space to eligible tenants is recognized on a straight-line basis where contractual rent increases are recognized equally over the lease term. Rental income recorded on the straight-line basis in excess of the rents billed is recognized as deferred commercial rents receivable. The Organization bills certain tenants proportionally for their share of utility and maintenance costs. All lease agreements are for at least a one-year term. All leases are considered to be operating leases in accordance with GAAP.

Residential rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the entities and the tenants of the properties are operating leases and the terms are typically one year or less.

Management fees are recognized on a contractual basis as earned.

Development fees are recorded as income in the period earned based on the percentage of completion method, taking into account the total anticipated development costs of the related project including completion, tax credit guarantees and operating deficit guarantee obligations of the Organization. Development fees are carried at their net realizable value. Only the portion of the development fees to be paid from operating cash flow is eliminated in consolidation.

Rent Expense

Rent expense is recognized on the first day of each month for the current month's rent. Expense is reflected on the straight-line basis. Deferred rent is recorded for the difference between the fixed payment and rent expense. The Organization leases space at various locations. All leases are operating leases and are accounted for in accordance with GAAP.

Functional Expenses

The costs of providing the Organization's services have been summarized on a functional basis in the accompanying consolidated and combined statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization's program services are related to various programs including Youth Services, Adult Education and Workforce Services, Commercial Revitalization, Community Development, Technical Assistance Programs, and Industrial Development and Job Creation Programs. The Organization's supporting services are related to various support including Management and General, Fund Raising, and Direct Costs of Special Events.

Uncertainty in Income Taxes

SoBRO, SoBRO-DC, SoBRO-LDC, and CREDIT, Inc. (collectively, the Not-For-Profit Entities) have received determination letters from the Internal Revenue Service to be treated as tax-exempt entities pursuant to Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation. Currently, the Not-For-Profit Entities have no obligation for any unrelated business income tax. Due to their tax-exempt status, the Not-For-Profit Entities are not subject to income taxes. The Not-For-Profit Entities are required to file, and do file, tax returns with the Internal Revenue Service and other taxing authorities. Tax years still open for Internal Revenue Service examination for the Not-For-Profit Entities are the years ended March 31, 2015, 2016 and 2017.

East 188th Street Apt. Housing Development Fund Corporation, SoBRO - Gateway Housing Development Fund Corporation, Jasmine Court Housing Development Corp., SoBRO Lenox Corp. and Woodycrest Housing Development Fund Corp. are all tax-exempt corporations. Due to their tax-exempt status, these entities are required to file, and do file, electronic notices with the Internal Revenue Service. Tax years still open for Internal Revenue Service examinations for these entities are the years ended December 31, 2015, 2016 and 2017.

All other entities consolidated in these consolidated and combined financial statements are partnerships or entities whose activity is passed through and reported directly by their partners or members. Accordingly, these consolidated and combined financial statements do not reflect a provision for income taxes and SoBRO has no other tax positions which must be considered for disclosure related to these entities. Tax years still open for Internal Revenue Service examinations for these entities are the years ended December 31, 2015, 2016 and 2017.

Noncontrolling Interest in Limited Partnerships

Noncontrolling interest represents the aggregate balance of Limited Partner or Investor Member equity interests in the non-wholly owned limited partnerships or limited liability companies that are included in the consolidated and combined financial statements.

NOTE 3 - LOANS RECEIVABLE

Loans receivable represent short-term and long-term low-interest loans to aid in the expansion and revitalization of commercial and industrial businesses in the South Bronx, New York area. The loan portfolio contains loans with interest rates ranging from 6.00% to 8.00% and with repayment terms of up to three years. Loans outstanding at March 31, 2018 consisted of the following:

Current Loans	March 31, 2018 Principal Balance
CREDIT, Inc.	
Regina Daycare and Education Center	$ 5,260
Calentito	8,235
Plaza Associates	745
El Nuevo Delicioso	3,275
El Cibaeno Bakery	10,666
Delmy Foods, Inc.	7,442
Bronx Auto	13,127
SBOEDC	
C&S Leather, LLC	2,769
	51,519
Alllowance for loan losses	(48,750)
	$ 2,769

An aging of loans receivable as of March 31, 2018 is as follows:

March 31, 2018	Current	31 - 60 days past due	61 - 90 days past due	91- 180 days past due	181+ days past due	Total
CREDIT, Inc.						
Past due loans	$ -	$ -	$ -	$ -	$ 48,750	$ 48,750
SBOEDC						
C&S Leather, LLC	2,769	-	-	-	-	2,769
	$ 2,769	$ -	$ -	$ -	$ 48,750	$ 51,519

As of March 31, 2018, the allowance for loan losses is as follows:

March 31, 2018	Beginning balance	Provision (recovery) for loan loss	Write-off	Recoveries	Total
CREDIT, INC.					
Calentino	$ 8,235	$ -	$ -	$ -	$ 8,235
Bronx Auto	13,127	-	-	-	13,127
Regina Daycare and Education Center	5,564	-	-	(304)	5,260
El Nuevo Delicioso	1,643	1,632	-	-	3,275
El Cibaeno Bakery	10,666	-	-	-	10,666
Delmy Foods, Inc.	7,442	-	-	-	7,442
Plaza Associates	-	745	-	-	745
	$ 46,677	$ 2,377	$ -	$ (304)	$ 48,750

Loans receivable, by credit quality category, as of March 31, 2018, are as follows:

March 31, 2018	Strong	Good	Acceptable	Weak	Doubtful	Total
CREDIT, Inc.						
Regina Daycare and Education Center	$ -	$ -	$ -	$ -	$ 5,260	$ 5,260
Calentito	-	-	-	-	8,235	8,235
Plaza Associates	-	-	-	-	745	745
El Nuevo Delicioso	-	-	-	-	3,275	3,275
El Cibaeno Bakery	-	-	-	-	10,666	10,666
Delmy Foods, Inc.	-	-	-	-	7,442	7,442
Bronx Auto	-	-	-	-	13,127	13,127
SBOEDC						
C&S Leather	2,769	-	-	-	-	2,769
	$ 2,769	$ -	$ -	$ -	$ 48,750	$ 51,519

NOTE 4 - FIXED ASSETS

As of March 31, 2018, fixed assets consist of the following:

Land	$	1,472,808
Building and improvements		79,697,074
Land improvements		322,580
Leasehold improvements		12,350
Furniture and fixtures		321,434
Equipment		704,932
Construction-in-progress		6,071,283
		88,602,461
Accumulated depreciation and amortization		(27,871,539)
	$	60,730,922

NOTE 5 - MORTGAGE NOTES AND LOANS PAYABLE

Mortgage Notes Payable

Mortgage notes payable in the amounts of $42,587,202, net of unamortized debt issuance costs of $624,497, as of March 31, 2018, include mortgage notes due to various unaffiliated entities. Interest rates on the mortgage notes range from 1% to 9%. Maturity dates range from fiscal years 2021 to 2047. At March 31, 2018, all of the mortgage notes payable are collateralized by real estate. Under agreements with the mortgage lenders, the Organization may be required to make monthly escrow deposits for taxes and insurance, replacement of project assets, and operating reserves. Accrued interest as of March 31, 2018 was $2,942,933, which is included in accrued interest on the accompanying consolidated and combined statement of financial position.

Loans Payable

Loans payable in the amounts of $4,938,127 as of March 31, 2018, consist of notes payable and revolving notes due to various unaffiliated entities. Interest rates on the loans range from 0% to 10%. Maturity dates of the nonrevolving notes range from fiscal years 2018 to 2044. The notes payable are either unsecured or collateralized by program receivables, future financing arrangements, and SBOEDC's assets. As of March 31, 2018, accrued interest on loans payable was $117,625, which is included in accrued interest on the accompanying consolidated and combined statement of financial position.

Default on Loan Payable

On February 22, 2016, Community Partnership Development Corporation (CPDC) notified SoBRO in writing of SoBRO’s failure to comply with the provisions of a commitment letter originally dated February 22, 2008 for a $250,000 note after SoBRO’s failure to repay the debt. As disclosed in Note

21, subsequent to March 31, 2018 a settlement and release agreement was reached between SoBRO and CPDC. Pursuant to the settlement agreement dated June 1, 2018, SoBRO shall pay the entirety of the note to CPDC through monthly payments of $5,000, along with various milestone payments as defined in the settlement agreement. In the event the loan has not been repaid by June 30, 2021, the entire outstanding balance will be due and payable on that date. As of March 31, 2018, the balance on the note is $250,000, which is included in loans payable, current portion on the accompanying consolidated and combined statement of financial position.

Aggregate maturities of all of the mortgage notes and loans payable for each of the next five years and thereafter following March 31, 2018 are as follows:

	Mortgage notes payable	Loans payable	Total
2019	$ 351,501	$ 1,017,806	$ 1,369,307
2020	370,557	38,443	409,000
2021	390,270	-	390,270
2022	411,820	-	411,820
2023	434,178	-	434,178
Thereafter	41,253,373	3,881,878	45,135,251
Total	43,211,699	4,938,127	48,149,826
Less unamortized debt issuance costs	(624,497)	-	(624,497)
	42,587,202	4,938,127	47,525,329
Less current maturities	(351,501)	(1,017,806)	(1,369,307)
Net long-term portion	$ 42,235,701	$ 3,920,321	$ 46,156,022

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets consist of the following balances as of March 31, 2018:

L.E.A.D. program	$ 10,361
Excel in school program	18,500
Total temporarily restricted net assets	$ 28,861

Net assets were released from restriction by satisfying the following program restrictions during the year ended March 31, 2018:

L.E.A.D. program	$	43,521
Excel in school program		189,946
Total net assets released from restriction	$	233,467

NOTE 7 - OPERATING LEASES

SoBRO-DC is the lessee of the premises located at 131 Walnut Avenue, Bronx, New York, under the terms of a 30-year lease agreement with the City of New York dated June 7, 1982. The lease was amended on September 18, 1984 and given a 30-year term beginning October 1, 1984. The lease agreement was subsequently amended on October 1, 1986, November 25, 2002, and December 28, 2007. The initial term of the lease expired on September 30, 2014. However, under the terms of the December 28, 2007 amendment, the lease was extended an additional 10 years, beyond the initial expiration date, and will expire on September 30, 2024. The lease requires annual rentals payable to the City of New York of an amount equal to a percentage of gross rentals received, based upon the annual occupancy level of the leased premises. Per the terms of the original and amended lease, SoBRO-DC is required to make payments in lieu of taxes (PILOT) as a percentage of the annual rental payments to the City of New York. For the year ended March 31, 2018, rent expense of $184,207 was incurred and is included in occupancy expense on the consolidated and combined statement of functional expenses. Per the terms of the original lease, SoBRO-DC is required to make payments in lieu of taxes (PILOT) as a percentage of the annual rental payments to the City of New York. During the year ended March 31, 2017, in connection with the lease, the Organization received a final tax bill from the City of New York covering previous years. As of March 31, 2018, $1,434,498 of taxes is owed to the City of New York and is included in accounts payable and accrued expenses on the accompanying consolidated and combined statement of financial position.

SoBRO leases office space under a noncancelable operating lease with 149th Street Realty Associates, L.P. The lease provides for certain escalation charges based on increases in operating expenses of the buildings in addition to the base annual rent. In 2001, SoBRO entered into a 25-year noncancelable lease agreement (through August 16, 2026) for its headquarters, with an option to renew for an additional 20 years. For the year ended March 31, 2018, rent expense of $434,059 was incurred and is included in occupancy expenses on the accompanying consolidated and combined statement of functional expenses. As of March 31, 2018, $22,917 is owed on the lease and is included in accounts payable and accrued expenses on the accompanying consolidated and combined statement of financial position.

SoBRO leases office space under a noncancelable operating lease with Samuel D. Proctor HDFC. The lease has been renewed through June 30, 2019. For the year ended March 31, 2018, rent expense of $150,000 was incurred and is included in occupancy expenses on the accompanying consolidated and combined statement of functional expenses. As of March 31, 2018, $312,500 is owed on the lease and is included in accounts payable and accrued expenses on the accompanying consolidated and combined statement of financial position.

The future minimum rental payments under noncancelable operating leases with terms in excess of one year are as follows:

Fiscal Year	Amount
2019	$ 800,531
2020	690,446
2021	672,920
2022	676,632
2023	676,475
Thereafter	3,002,266
Total	$ 6,519,270

NOTE 8 - FUTURE NONCANCELABLE LEASE REVENUE

The Organization leases office and commercial space to various businesses. Lease agreements range from month-to-month to 25 years. All leases are recorded on a straight-line basis. Future noncancelable lease revenue for the next five years and thereafter for the Organization is expected as follows:

Fiscal Year	Amount
2019	$ 1,468,911
2020	1,413,296
2021	1,228,099
2022	1,119,543
2023	1,024,352
Thereafter	7,660,000
Total	$ 13,914,201

NOTE 9 - PENSION PLAN

SoBRO has a defined contribution pension plan covering all employees who meet age and length of service requirements. The organization contributes 100% of the first 6% of base compensation that a participant contributes to the plan. The Organization's contributions during the year ended March 31, 2018 were $154,512.

NOTE 10 - RESTRICTED RESERVES AND ESCROWS

Certain assets limited as to use are held in cash, investment and mortgage escrow accounts in accordance with the terms of applicable agreements. The composition of assets limited as to use at March 31, 2018 is as follows:

SBOEDC violations escrow	$	25,000
SBOEDC rent escrow		324
SoBRO-DC capital replacement fund		958
Woodycrest L.P. replacement reserve		138,051
Woodycrest L.P. operating reserve		10,159
Longwood Apartments L.P. replacement reserve		90,916
Longwood Apartments L.P. operating reserve		3,054
Longwood Apartments L.P. mortgage escrow		(16,140)
BUFNY II Associates, L.P. replacement reserve		94,185
BUFNY II Associates, L.P. operating reserve		444,443
BUFNY II Associates, L.P. tax escrow		65,296
BUFNY II Associates, L.P. insurance escrow		32,501
BUFNY II Associates, L.P. utilities escrow		4,060
Jasmine Court Associates LLC replacement reserve		20,257
Belmont replacement reserve		1,000
Belmont operating reserve		140,944
Belmont violations escrow		5,000
Belmont other escrows		41,827
Belmont utilities escrow		(19,676)
Belmont insurance escrow		802
Belmont final holdback escrow		25,000
Gateway HDFC cash collateral - CPC		86,573
Gateway HDFC cash collateral - Esquire Bank		1,500
	$	1,196,034

NOTE 11 - DUE FROM AFFILIATES

Amounts due from affiliates ordinarily consist of temporary advances and expenses paid on behalf of various subsidiaries and affiliates. These amounts do not bear interest and are due on demand. As discussed further in Note 20, during the year ended March 31, 2018 management wrote off significant unreconciled due from affiliates of $2,247,312 as bad debt expense. As of March 31, 2018, the balance of due from affiliates was $0.

NOTE 12 - JOINT VENTURES AND OTHER LIABILITIES

SoBRO-DC entered into a joint venture with a for-profit organization to develop condominium and other residential units in the Bronx. The partner is responsible for incurring all expenditures on developing the project. SoBRO-DC is responsible for the development of the project. The project has incurred approximately $1,537,523 of capital costs and an equal amount of debt relating to the project. Should the project not come to fruition, SoBRO-DC will not be held liable for any unpaid liabilities of the project. The $1,537,523 owed is included in other liabilities on the accompanying consolidated and combined statement of financial position.

On October 31, 2016, the SoBRO-DC, Apex Building Company, Inc. (APEX Builders) and E&T Skyline Construction (E&T) entered into an agreement to develop affordable housing and church condo units at a property owned by the Organization. Upon execution of the agreement, the SoBRO-DC was advanced $100,000 from E&T. During the year ended March 31, 2018, APEX Builders paid $147,044 of construction period interest to Raza on behalf of the Organization. As of March 31, 2018, $247,044 is owed on the advance and is included in other liabilities on the accompanying consolidated and combined statement of financial position.

On November 23, 2015, SoBRO-DC entered into loan agreement with Raza Development Fund, Inc. to fund development costs. As of March 31, 2018, $3,900,000 is owed on the loan and is included in other liabilities on the accompanying consolidated and combined statement of financial position.

NOTE 13 - OPERATING DEFICIT LOAN GUARANTEE

The Organization, through its role as general partner in some of the consolidated entities, is obligated to provide funds necessary to pay any operating deficits in the form of a loan. Operating deficit loans are noninterest bearing and are repayable from available net operating income, as defined in the respective partnership and operating agreements. The maximum aggregate amount of operating loans that the Organization is required to lend shall not exceed $302,023. The Organization has not disbursed any funds in the form of operating deficit loans and no amounts are repayable as of March 31, 2018.

NOTE 14 - RELATED PARTY FEES

<u>Local Administrative Fees and Asset Management Fees</u>

Certain consolidated entities are required to pay annual fees ranging from $5,000 to $5,500 to affiliates of the limited partners for annual review of operations of the partnerships and the apartment projects. These fees are adjusted on an annual basis by the changes in the consumer price index. During the year ended March 31, 2018, $19,646 of fees were incurred. As of March 31, 2018, $84,863 remains payable and is included in accounts payable and accrued expenses on the accompanying consolidated and combined statement of financial position.

General Partner Fees

Certain consolidated entities are required to pay annual fees to SoBRO for services in monitoring programs. Some of these fees are fixed while others are based on a percentage of revenue. As of March 31, 2018, $25,000 remains payable to SoBRO and is eliminated upon consolidation.

Developer Fees Receivable

SoBRO entered into development agreements with Taino Plaza Associates, LLC (Taino) and Brook Avenue Gardens, LLC (Brook Avenue). In exchange for services in developing the projects, SoBRO earned developer fees of $306,979 and $361,276 from Taino and Brooke Avenue, respectively. As of March 31, 2018, developer fees of $143,479 and $361,276 remain receivable from Taino and Brook Avenue, respectively, which is included in developer fees receivable on the accompanying consolidated and combined statement of financial position. As disclosed in Note 21, subsequent to March 31, 2018, the Organization sold its interest in both Taino and Brook Avenue, precluding the Organization from entitlement to further receipts of developer fees.

NOTE 15 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in several accounts at various financial institutions. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at March 31, 2018.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Governmental Programs

Reimbursements for program expense and overhead applicable to various programs conducted under contract with governmental agencies is based on complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. No such fines or penalties were imposed on the Organization. The Organization is subject to audit, which may result in adjustments or disallowances. The amount of disallowance, if any, cannot be determined. Therefore, no provision is made for these potential liabilities. Management does not anticipate any material adjustments as a result of this audit.

Litigation

The Organization is involved in litigation arising in the normal course of business. Management estimates that such matters will be resolved without material adverse effect on SBOEDC's future financial position.

NOTE 17 - ECONOMIC DEPENDENCY

The Organization's operations are concentrated in multifamily and commercial real estate and economic development markets in a limited geographic area. In addition, the Organization operates in a heavily regulated environment. The operations of the Organization are subject to the administrative directives, rules and regulations of federal, state and local agencies, including, but not limited to, the Department of Labor, the Department of Health and Human Services, the Department of Defense, New York State Department of State, New York City Small Business Administration, and the New York City Department of Youth and Community Development (collectively, the Agencies). Such administrative directives, rules and regulations are subject to change by an act of Congress, other governmental agencies or an administrative change mandated by the Agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Credit risk related to government contracts receivable is limited due to the nature of the grants. The Organization regularly monitors its government contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed.

NOTE 18 - FUND-RAISING EXPENSE

Total fund-raising expense incurred during the year ended March 31, 2018 was $63,163.

NOTE 19 - PRIOR PERIOD ADJUSTMENTS

During the year ended March 31, 2018, the transactions and activities related to New Roads Plaza, an entity fully owned by SoBRO-DC as of March 31, 2018, were included in SoBRO-DC's financial statements and removed from SoBRO-LDC's financial statements. The transactions and activities related to New Roads Plaza were not included in SoBRO-DC's financial statements and incorrectly included in SoBRO-LDC's financial statements in prior years. The inclusion and removal of these activities, respectively, did not have an effect on net assets of either entity or the Organization.

During the year ended March 31, 2018, management discovered misstatements related to BUFNY II Associates, L.P. relating to the recording of mortgage interest expense and payments of mortgage interest. Management has corrected and accounted for these misstatements as a prior period adjustment. As of April 1, 2017, the Organization's beginning net assets was overstated by $20,000.

During the year ended March 31, 2018, management discovered that certain management fees recorded on SoBRO should have been recorded on SoBRO-LDC for several years based on the stated parties to the agreement. Management has corrected and accounted for these misstatements as a prior period adjustment. As of April 1, 2017, SoBRO-LDC's net assets were understated by $330,723 and due from affiliates was understated by $330,723. As of April 1, 2017, SoBRO's net assets were overstated by $330,723 and due to affiliates was understated by $330,723. The result of these adjustments had no net effect on net assets of the Organization as a whole.

During the year ended March 31, 2018, management discovered that Harlem, an entity wholly owned by the Organization, was not previously consolidated but should have been included in prior years. As of April 1, 2017, the Organization's beginning net assets was understated by $493,801 as a result of excluding this entity's activities.

NOTE 20 - DISCLAIMER OF OPINION

As disclosed in finding 2017-001 and 2018-001, management purchased and implemented a new financial software. The conversion process lacked the supervision needed and led to the creation of significantly more accounts than in previous years, many of which lacked appropriate account descriptions and contained extensive activity with no description. Because of the significant amount of unlabeled activity, pervasive absence of appropriate account descriptions, and lack of support for this activity, management has been unable to reconcile $2,247,312 of intercompany balances, which management has written off as bad debt and is included in management and general expenses on the accompanying consolidated and combined statement of activities for the year ended March 31, 2018.

As a result of this matter, we were unable to determine whether any adjustments might have been found necessary in respect to due from affiliates and bad debt expense in the consolidated and combined statement of financial position as of March 31, 2018, and the related consolidated and combined statements of activities, net assets and cash flows for the year ended March 31, 2018, leading to the conclusion of opinion reached in the independent auditor's report.

NOTE 21 - SUBSEQUENT EVENTS

Events that occur after the consolidated and combined statement of financial position date but before the consolidated and combined financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated and combined statements of financial position date are recognized in the accompanying consolidated and combined financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated and combined statements of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through December 2, 2019 (the date the consolidated and combined financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated and combined financial statements or disclosure in the notes to the consolidated and combined financial statements, except for the items discussed below.

On May 11, 2018, the Organization sold its indirect ownership interest in Brook Avenue Gardens Associates L.P. for $850,000 to an unrelated party.

On June 1, 2018, as further described in Note 5, the Organization and CPDC reached a settlement agreement related to the Organization's default on a $250,000 note.

On June 12, 2018, the Organization entered into a contract to sell its indirect ownership interest in Taino Plaza Associates LLC for $1,650,000 to an unrelated party.

On August 23, 2018, all loans owned to U.S. Tech by SoBRO-DC were paid in full with proceeds from the partial sale of New Roads Plaza to Monadnock New Roads LLC, a new joint-venture partner, for the purchase price of $1,518,530.

On September 25, 2018, the Organization entered into a contract to sell its ownership of property located at 370 East 149th Street for $4,500,000 to an unrelated party.

On September 25, 2018, the Organization entered into a contract to sell its ownership of property located at 3285 Third Avenue for $3,150,000.

SUPPLEMENTAL INFORMATION

CONSOLIDATING AND COMBINING SCHEDULES

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

SUPPLEMENTAL INFORMATION

CONSOLIDATING AND COMBINING SCHEDULE OF FINANCIAL POSITION

March 31, 2018

Assets	SBOEDC	Subsidiaries and Affiliates	Consolidating Eliminations	Consolidated Total
Current assets				
Cash	$ -	$ 319,730	$ -	$ 319,730
Restricted reserves and escrows	25,324	1,170,710	-	1,196,034
Cash - tenants' security deposits	45,140	129,879	-	175,019
Accounts receivable	211,801	100,094	-	311,895
Government contract receivable	416,209	-	-	416,209
Rents receivable, net	105,806	1,408,268	-	1,514,074
Loans receivable, net	2,769	-	-	2,769
Due from affiliates	1,088,198	1,318,792	(2,406,990)	-
Deferred commercial rents receivable, current portion	11,039	78,992	-	90,031
Prepaid expenses and other receivables	80,794	859,268	-	940,062
Total current assets	1,987,080	5,385,733	(2,406,990)	4,965,823
Developer fees receivable	859,755	-	(355,000)	504,755
Fixed assets, net	2,498,252	58,478,764	(246,094)	60,730,922
Other assets, net	-	94,691	-	94,691
Deferred commercial rents receivable, net of current portion	-	495,115	-	495,115
Total assets	$ 5,345,087	$ 64,454,303	$ (3,008,084)	$ 66,791,306

(continued)

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

SUPPLEMENTAL INFORMATION - CONTINUED

CONSOLIDATING AND COMBINING SCHEDULE OF FINANCIAL POSITION - CONTINUED

March 31, 2018

Liabilities and Net Assets	SBOEDC	Subsidiaries and Affiliates	Consolidating Eliminations	Consolidated Total
Current liabilities				
Accounts payable and accrued expenses	$ 1,265,250	$ 3,220,590	$ -	$ 4,485,840
Accrued interest	-	36,360	-	36,360
Due to affiliates	-	1,397,797	(1,397,797)	-
Deferred grant revenue	547,123	-	-	547,123
Loans payable, current portion	1,017,806	-	-	1,017,806
Mortgage notes payable, current portion	110,259	241,242	-	351,501
Deferred income	535,709	4,491	-	540,200
Security deposits	46,124	328,243	-	374,367
Total current liabilities	3,522,271	5,228,723	(1,397,797)	7,353,197
Loans payable, net of current portion	-	3,920,321	-	3,920,321
Mortgage notes payable, net	2,272,413	39,963,288	-	42,235,701
Due to affiliates	-	1,009,193	(1,009,193)	-
Accrued interest	-	3,024,198	-	3,024,198
Developer fees payable	-	5,387,375	(355,000)	5,032,375
Other liabilities	126,725	5,686,917	-	5,813,642
Total liabilities	5,921,409	64,220,015	(2,761,990)	67,379,434
Net assets				
Unrestricted	(594,822)	797,258	(246,094)	(43,658)
Temporarily restricted	18,500	10,361	-	28,861
Noncontrolling interest	-	(573,331)	-	(573,331)
Total net assets	(576,322)	234,288	(246,094)	(588,128)
Total liabilities and net assets	$ 5,345,087	$ 64,454,303	$ (3,008,084)	$ 66,791,306

See Independent Auditor’s Report.

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

SUPPLEMENTAL INFORMATION - CONTINUED

CONSOLIDATING AND COMBINING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended March 31, 2018

	SBOEDC	Subsidiaries and Affiliates	Consolidating Eliminations	Consolidated Total
Operating revenue				
Government contracts and grants	$ 8,092,863	$ 10,247	$ -	$ 8,103,110
Corporate and foundation grants	36,111	-	-	36,111
Special events income	66,237	-	-	66,237
Rental income	600,623	6,507,107	-	7,107,730
Management fees	271,308	84,401	(282,977)	72,732
Contracted services	1,577,270	-	(1,445,798)	131,472
Other operating income	387,062	218,160	(320,660)	284,562
Total operating income	11,031,474	6,819,915	(2,049,435)	15,801,954
Operating expenses				
Program services				
Youth services	4,350,677	-	-	4,350,677
Adult education and workforce services	617,010	-	-	617,010
Commercial revitalization	747,913	-	-	747,913
Technical assistance	209,442	12,949	-	222,391
Industrial development and job creation programs	417,578	1,183	-	418,761
Community development	382,614	7,999,647	(1,728,775)	6,653,486
Supporting services				
Management and general	7,239,948	469,562	(9,375)	7,700,135
Total operating expenses	13,965,182	8,483,341	(1,738,150)	20,710,373
Excess of expense over revenue before other income	(2,933,708)	(1,663,426)	(311,285)	(4,908,419)
Other Revenue				
Interest income	47	7,368	-	7,415
Changes in net assets	(2,933,661)	(1,656,058)	(311,285)	(4,901,004)
Net assets				
Beginning of year, as restated	2,357,339	2,211,006	(255,469)	4,312,876
Contributions to related organizations	-	(320,660)	320,660	-
End of year	$ (576,322)	$ 234,288	$ (246,094)	$ (588,128)

See Independent Auditor's Report.

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

SUPPLEMENTAL INFORMATION - CONTINUED

SCHEDULE OF SUBSIDIARIES AND AFFILIATES’ STATEMENT OF FINANCIAL POSITION

March 31, 2018

	SoBRO-LDC	SoBRO-DC	CREDIT, Inc.	Jasmine Court	Woodycrest	BUFNY II	Longwood	Gateway	Harlem	Belmont	Total
Current assets											
Cash	$ -	$ 11,599	$ 934	$ 969	$ 158,881	$ 21,495	$ 11,206	$ 69,010	$ 32,348	$ 13,288	$ 319,730
Restricted reserves and escrows	-	958	-	20,257	148,210	640,485	77,830	88,073	-	194,897	1,170,710
Cash - tenants' security deposits	20	-	-	-	-	72,120	22,454	20,846	-	14,439	129,879
Accounts receivable	-	47,867	-	-	-	-	-	-	39,772	12,455	100,094
Rents receivable, net	48,684	605,142	-	410,930	75,386	142,094	9,659	24,708	-	91,665	1,408,268
Due from affiliates	1,232,131	-	86,661	-	-	-	-	-	-	-	1,318,792
Deferred commercial rents receivable, current portion	-	78,992	-	-	-	-	-	-	-	-	78,992
Prepaid expenses and other receivables	-	38,134	-	258,495	447,503	79,701	-	-	708	34,727	859,268
Total current assets	1,280,835	782,692	87,595	690,651	829,980	955,895	121,149	202,637	72,828	361,471	5,385,733
Fixed assets, net	294,646	7,450,392	8,643	7,829,323	6,776,667	5,874,373	3,069,021	4,689,928	10,167,596	12,318,175	58,478,764
Other assets, net	-	-	-	-	-	-	10,000	-	-	84,691	94,691
Deferred commercial rents receivable, net of current portion	431	494,684	-	-	-	-	-	-	-	-	495,115
Totals	$ 1,575,912	$ 8,727,768	$ 96,238	$ 8,519,974	$ 7,606,647	$ 6,830,268	$ 3,200,170	$ 4,892,565	$10,240,424	$ 12,764,337	$ 64,454,303

(continued)

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

SUPPLEMENTAL INFORMATION - CONTINUED

SCHEDULE OF SUBSIDIARIES AND AFFILIATES' STATEMENT OF FINANCIAL POSITION - CONTINUED

March 31, 2018

	SoBRO-LDC	SoBRO-DC	CREDIT, Inc.	Jasmine Court	Woodycrest	BUFNY II	Longwood	Gateway	Harlem	Belmont	Total
Current liabilities											
Accounts payable and accrued expenses	$ 56,179	$ 2,313,497	$ 20,500	$ 217,127	$ 80,300	$ 72,499	$ 49,161	$ 54,306	$ 97,364	$ 259,657	$ 3,220,590
Accrued interest	-	3,010	-	-	-	8,288	5,276	-	15,630	4,156	36,360
Due to affiliates	-	404,280	-	14,024	46,539	-	-	418,073	377,729	137,152	1,397,797
Mortgage notes payable, net	-	32,428	-	-	-	51,411	31,667	42,447	55,086	28,203	241,242
Deferred income	435	1,441	-	-	-	-	-	-	2,615	-	4,491
Security deposits	35,993	134,323	-	-	-	89,668	22,789	16,057	12,330	17,083	328,243
Total current liabilities	92,607	2,888,979	20,500	231,151	126,839	221,866	108,893	530,883	560,754	446,251	5,228,723
Loans payable, net of current portion	-	-	38,443	-	-	-	-	3,881,878	-	-	3,920,321
Mortgage notes payable, net of current portion	-	694,244	-	10,521,124	6,117,884	5,067,862	857,675	1,362,459	10,439,188	4,902,852	39,963,288
Due to affiliates	-	-	-	87,921	-	293,803	627,469	-	-	-	1,009,193
Accrued interest	-	-	-	1,469,108	1,062,464	329,877	-	117,625	10,295	34,829	3,024,198
Developer fees payable	-	-	-	-	722,843	2,707,454	355,000	-	-	1,602,078	5,387,375
Other liabilities	-	5,686,917	-	-	-	-	-	-	-	-	5,686,917
Total liabilities	92,607	9,270,140	58,943	12,309,304	8,030,030	8,620,862	1,949,037	5,892,845	11,010,237	6,986,010	64,220,015
Net assets											
Unrestricted	1,483,305	(542,372)	26,934	349,657	(336)	(819)	1,251,133	(1,000,280)	(769,813)	(151)	797,258
Temporarily restricted	-	-	10,361	-	-	-	-	-	-	-	10,361
Noncontrolling interest	-	-	-	(4,138,987)	(423,047)	(1,789,775)	-	-	-	5,778,478	(573,331)
Total net assets	1,483,305	(542,372)	37,295	(3,789,330)	(423,383)	(1,790,594)	1,251,133	(1,000,280)	(769,813)	5,778,327	234,288
Total liabilities and net assets	$ 1,575,912	$ 8,727,768	$ 96,238	$ 8,519,974	$ 7,606,647	$ 6,830,268	$ 3,200,170	$ 4,892,565	$ 10,240,424	$ 12,764,337	$ 64,454,303

See Independent Auditor's Report.

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

SUPPLEMENTAL INFORMATION - CONTINUED

SCHEDULE OF SUBSIDIARIES AND AFFILIATES' STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended March 31, 2018

	SoBRO-LDC	SoBRO-DC	CREDIT, Inc.	Jasmine Court	Woodycrest	BUFNY II	Longwood	Gateway	Harlem	Belmont	Total
Operating revenue											
Government contracts and grants	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,247	$ -	$ -	$ 10,247
Rental income	359,507	1,123,815	-	1,221,250	1,117,542	1,078,394	283,608	304,740	560,663	457,588	6,507,107
Management fee income	84,401	-	-	-	-	-	-	-	-	-	84,401
Other operating income	-	11,090	5,275	174,873	1,686	2,600	14,130	3,984	-	4,522	218,160
Total operating income	443,908	1,134,905	5,275	1,396,123	1,119,228	1,080,994	297,738	318,971	560,663	462,110	6,819,915
Operating expenses											
Program expenses											
Community development	257,838	849,552	-	1,492,828	1,258,941	1,500,104	424,769	485,758	873,306	856,551	7,999,647
Technical assistance programs	-	-	12,949	-	-	-	-	-	-	-	12,949
Industrial development and job creation programs	-	-	1,183	-	-	-	-	-	-	-	1,183
Supporting services											
Management and general	168,684	274,889	25,989	-	-	-	-	-	-	-	469,562
Total operating expenses	426,522	1,124,441	40,121	1,492,828	1,258,941	1,500,104	424,769	485,758	873,306	856,551	8,483,341
Revenue over expenses (expenses over revenue) before other revenue	17,386	10,464	(34,846)	(96,705)	(139,713)	(419,110)	(127,031)	(166,787)	(312,643)	(394,441)	(1,663,426)
Other revenue											
Interest income	-	32	158	2	404	6,751	6	15	-	-	7,368
Change in net assets	17,386	10,496	(34,688)	(96,703)	(139,309)	(412,359)	(127,025)	(166,772)	(312,643)	(394,441)	(1,656,058)
Net assets											
Beginning of year, as restated	1,465,919	(232,208)	71,983	(3,692,627)	(284,074)	(1,378,235)	1,378,158	(833,508)	(457,170)	6,172,768	2,211,006
Contributions to related organization	-	(320,660)	-	-	-	-	-	-	-	-	(320,660)
End of year	$ 1,483,305	$ (542,372)	$ 37,295	$ (3,789,330)	$ (423,383)	$ (1,790,594)	$ 1,251,133	$ (1,000,280)	$ (769,813)	$ 5,778,327	$ 234,288

See Independent Auditor's Report.

SUPPLEMENTAL INFORMATION

SUPPORTING DATA REQUIRED BY OMB

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

SUPPLEMENTAL INFORMATION -
SUPPORTING DATA REQUIRED BY OMB

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended March 31, 2018

Federal Grantor/Program or Cluster Title	CFDA Number	Contract number	Pass-through Grantor	Federal Expenditures
U.S. Department of Housing and Urban				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	80120151407054	New York City Department of Small Business Services (SBS)	$ 16,134
Total Community Development Block Grants/Entitlement Grants				16,134
Total CDBG - Entitlement Grants Cluster				16,134
U.S. Department of Housing and Urban Development				16,134
U.S. Department of Health and Human Services				
477 Cluster				
Community Services Block Grant	93.569	134114A	New York City Department of Youth and Community Development (P3)	588,966
Community Services Block Grant	93.569	151016	New York City Department of Youth and Community Development (Evander HSCT)	74,602
Community Services Block Grant	93.569	99229	New York City Department of Youth and Community Development (Cornerstone)	338,633
Community Services Block Grant	93.569	134114	New York City Department of Youth and Community Development (Gloria House)	78,101
Total Community Services Block Grant				1,080,302
Total 477 Cluster				1,080,302
TANF Cluster				
Temporary Assistance for Needy Families (TANF) State Programs	93.558	20181402957	New York City Department of Homeles Services (DHS program)	855,126
Temporary Assistance for Needy Families (TANF) State Programs	93.558	C00028GG	New York State Office of Temporary & Disability Assistance (Wage Subsidy)	11,514
Temporary Assistance for Needy Families (TANF) State Programs	93.558	C021728	New York State Office of Temporary & Disability Assistance (Career Pathway)	306,874
Total Temporary Assistance for Needy Families (TANF) State Programs				1,173,514
Total TANF Cluster				$ 1,173,514

(continued)

SUPPLEMENTAL INFORMATION - SUPPORTING DATA REQUIRED BY OMB - CONTINUED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUTED

Year ended March 31, 2018

Federal Grantor/Program or Cluster Title	CFDA Number	Contract number	Pass-through Grantor	Federal Expenditures
PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)	93.305	NYHHU0034-16	Columbia University	$ 112,747
Total PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)				112,747
Community Services Block Grant Discretionary Awards	93.570	90EE1141-01-00	New York State Office of Coummnity Services (Born Juice program)	48,855
Total Community Services Block Grant Discretionary Awards				48,855
Total U.S. Department of Health and Human Services				2,415,418
U.S. Department of Agriculture				
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C00269GG	New York State Office of Temporary and Disability Assistance	48,057
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				48,057
Total SNAP Cluster				48,057
Total U.S. Department of Agriculture				$ 48,057

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SUPPLEMENTAL INFORMATION - SUPPORTING DATA REQUIRED BY OMB - CONTINUED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUTED

Year ended March 31, 2018

Federal Grantor/Program or Cluster Title	CFDA Number	Contract number	Pass-through Grantor	Federal Expenditures
U.S. Department of Commerce				
MBDA Business Center	11.805	MB 160BD8050042		$ 313,936
Total MBDA Business Center				313,936
Total U.S. Department of Commerce				313,936
U.S. Department of Defense				
Procurement Technical Assistance For Business Firms	12.002	SP4800-16-2-1675		331,491
Total Procurement Technical Assistance For Business Firms				331,491
Total U.S. Department of Defense				331,491
U.S. Department of Labor				
YouthBuild	17.274	YB30069	New York State Department of Labor	404,827
Total YouthBuild				404,827
Total U.S. Department of Labor				404,827
Total Expenditures of Federal Awards				$ 3,529,863

See Independent Auditor’s Report and Notes to Schedule of Expenditures of Federal Awards

SUPPLEMENTAL INFORMATION -
SUPPORTING DATA REQUIRED BY OMB

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended March 31, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of South Bronx Overall Economic Development Corporation and Related Organizations under programs of the federal government for the year ended March 31, 2018. 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 South Bronx Overall Economic Development Corporation and Related Organizations., it is not intended to and does not present the financial position, changes in net assets, or cash flows of South Bronx Overall Economic Development Corporation and Related Organizations. The financial statements of certain subsidiaries and affiliates included in the consolidated and combined financial statements were not audited in accordance with *Government Auditing Standards* as they are not subject to the requirement under Uniform Guidance.

NOTE 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 OMB Circular A-122, “Cost Principles for Non-Profit Organizations” and the cost principles contained in the Uniform Guidance.

South Bronx Overall Economic Development Corporation and Related Organizations has elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

NOTE 3 - PAYMENTS TO SUBRECIPIENTS

For federal awards received during the year ended March 31, 2018, there were no payments made to subrecipients.

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

To the Board of Directors
South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

We have audited, 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, the consolidated and combined financial statements of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates, which comprise the consolidated and combined statement of financial position as of March 31, 2018, and the related consolidated and combined statements of activities, functional expenses, net assets and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements and have issued our report thereon dated December 2, 2019. The financial statements of certain subsidiaries and affiliates were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those subsidiaries and affiliates.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated and combined financial statements, we considered South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated and combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' consolidated and combined 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' consolidated and combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the determination of consolidated and combined 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005.

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' Response to Findings

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates’ responses to the findings identified in our audit are described in the accompanying schedule of findings, questioned costs and recommendations. South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates’ responses were not subjected to the auditing procedures applied in the final audit of the consolidated and combined financial statements and, accordingly, we express no opinion on them.

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 South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates’ internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tidwell Group, LLC

Atlanta, Georgia
December 2, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates

Report on Compliance for Each Major Federal Program

We have audited South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' compliance with the compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' major federal programs for the year ended March 31, 2018. South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings, questioned costs and recommendations.

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 South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' major federal programs based on our audit of the 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 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 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 South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major programs. However, our audit does not provide a legal determination of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in the accompanying schedule of findings, questioned costs and recommendations, South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates did not comply with requirements regarding the major federal program as described in Finding No. 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005. Compliance with such requirements is necessary, in our opinion, for South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates to comply with requirements applicable to that program.

Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis of Qualified Opinion paragraph, South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended March 31, 2018.

Other Matters

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings, questioned costs and recommendations. South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates’ response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates’ internal control over compliance with the requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs 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 South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates’ 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 compliance requirement of the federal programs 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 compliance requirement of the federal programs will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a compliance requirement of the federal programs that is less severe than a material weakness in internal control over compliance, yet important enough to merit the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings, questioned costs and recommendations as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005 that we considered to be material weaknesses.

South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings, questioned costs and recommendations. South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates' response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Tidwell Group, LLC

Atlanta, Georgia
December 2, 2019

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS

March 31, 2018

A. Summary of Auditor's Results

1. The auditor's report expressed a disclaimer of opinion on whether the consolidated and combined financial statements of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates were prepared in accordance with generally accepted accounting principles.

2. Five material weaknesses related to the audit of the consolidated and combined financial statements were reported in the Independent Auditor's 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*. No significant deficiencies were reported.

3. Five instances of noncompliance material to the consolidated and combined financial statements of South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. Five material weaknesses in internal control over major federal award programs were disclosed in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance. No significant deficiencies were reported.

5. The auditor's report on compliance for the major federal award programs for South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates expresses a qualified opinion.

6. There are five audit findings relative to the major federal award programs for South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates.

7. The programs tested as a major program included

   <u>Name of Federal Program</u>

   U.S. Department of Health and Human Services - Temporary Assistance for Needy Families - 93.558

   US Department of Health and Human Services - Community Services Block Grants - 93.569

8. The threshold for distinguishing Type A and B programs was $750,000.

9. South Bronx Overall Economic Development Corporation, Subsidiaries and Affiliates did not qualify as a low-risk auditee.

B. Findings

Finding No. 2018-001: Controls over accounting software

Criteria

Internal controls over financial reporting should exist to ensure that material misstatements are detected and corrected by management in a timely manner.

Condition

The accounting records required numerous material adjustments to be proposed and recorded in order for the financial statements to be fairly presented in accordance with generally accepted accounting principles in the United States of America.

Questioned Cost:

None

Cause

Management did not have sufficient controls over financial reporting.

Effect

Management may produce financial statements that are materially misstated.

Recommendation:

Management should undertake a review of internal controls over financial reporting and ensure that financial data is properly recorded in the books and records of the project to prevent misstatements from occurring in the future.

Views of Responsible Officials

Management has purchased a new accounting software database that will support management's commitment to providing accurate, timely financial reporting to all stakeholders - funders, lenders, investors, auditors and others, and improve the organization's audit completion and timely filing of required forms and documents. Management has also ensured that there are procedures in place to ensure that the Real Estate and Finance Departments coordinates and communicates all activities to make sure they are properly recorded in the general ledger. The Real Estate Development Department has been instructed to immediately notify finance of any property acquisitions even if they are purchased by third party partners. In addition, the fiscal department has implemented a monthly close process for the real estate department as of December 2019. We are providing timely quarterly reports to all investors and funders.

Finding No. 2018-002: Controls over financial reporting

Criteria

The finance department and the development department should have coordinated communication and documentation to report all balances and activity of the combined and consolidated entities to prevent the misstating of future financial statements.

Condition

During the audit for the year ended March 31, 2018, it was discovered that activity for Harlem, an entity wholly-owned by the Organization, had not been consolidated since its inception.

Questioned Cost:

None

Cause

The lack of controls over coordination between the development department and the finance department caused certain activity to not be reported in the financial statements.

Effect

Assets, liabilities, and net assets were understated in the March 31, 2017 financial statements.

Recommendation:

Management should coordinate all development activity between the development department and the finance department to ensure that all activity is properly recorded in the general ledger. Management should do this both retroactively and going forward.

Views of Responsible Officials

Management will implement procedures to ensure that all development activity is properly reported in the general ledger. In response to prior audit findings, the Board directed management to identify and develop an internal control plan to enhance operations and mitigate risk exposures. Management has held meetings with all of the departments and began revising policies and procedures organization-wide. Since August

2019, management has instituted nine (9) policy and procedure documents reviewed and approved by the Board of Directors.

Finding No. 2018-003: Controls over timely filing with the Federal Audit Clearinghouse

Criteria

The Federal Audit Clearinghouse requires that the Data Collection Form be submitted within nine months of year end.

Condition

The Data Collection Form for the year ended March 31, 2017 was not filed electronically with the Federal Audit Clearinghouse within nine months of the fiscal year end of the Organization.

Questioned Cost:

None

Cause

The significant audit adjustments required to the trial balance resulted in a lengthy audit process.

Effect

Management is not in compliance with the requirement to timely submit the Data Collection Form with the Federal Audit Clearinghouse.

Recommendation:

Management should institute procedures to ensure that the Data Collection form is electronically filed with the Federal Audit Clearinghouse within nine months of year end.

Views of Responsible Officials

Management will implement procedures to ensure that the form is timely submitted in the future. While management anticipates adjustments may be required for its fiscal year 2019 and 2020 audits, the audit process will be more efficient compared to prior years due to the implemented audit and accounting best practices designed to build internal processes, create schedules and general acceptable supporting documentation for accounting transactions.

Finding No. 2018-004: Controls over program reimbursement

Criteria

The finance department and the programs department should have coordinated communication and documentation to properly report all activity submitted for reimbursement from funding providers, and maintain proper records allowing for necessary testing of federal expenditures.

Condition

12 months of vouchers for reimbursement were selected relating to a total of 120 expenditures across the major CFDA programs. Management was unable to provide supporting documentation for any of the selections made that directly linked the individual expenditures to the amounts being submitted for reimbursement.

Questioned Cost:

12 months of vouchers for reimbursement supporting 120 individual expenditures totaling $182,546.

Cause

The lack of controls over coordination between the programs department and the finance department caused certain federal expenditure activity to not be tracked properly by management’s recordkeeping.

Effect

Management may not be properly billing programs for expenditures that were directly related to the respective programs.

Recommendation:

Management should coordinate all reimbursement activity between the programs department and the finance department to ensure that all activity is properly recorded in the general ledger with easily sorted and identifiable expenditures allocated by program before submitting vouchers for reimbursement.

Views of Responsible Officials

Management will implement procedures to ensure that all program expense and reimbursement activity is properly reported in the general ledger and relates directly to vouchers submitted for reimbursement. New leadership with deep institutional knowledge and experience have contributed towards a proactive and accelerated internal review and enhanced internal operating procedures and processes for general operations, programs, and property management. In addition, SoBro has transitioned all of their temporary staff and hired permanent staff in the fiscal department to ensure the continuity of record keeping and the integrity of the transactions being performed. Manage has also implemented monthly meetings between fiscal and program staff with new checklist requirements to ensure billing and vouchers are supported by the general ledger prior to submission of vouchers.

Finding No. 2018-005: Controls over program expenditures

Criteria

The finance department and the programs department should have coordinated communication and documentation to properly record and maintain records allowing for necessary testing of federal expenditures.

Condition

120 expenditures were selected for testing, 4 of which did not have direct support.

Questioned Cost:

4 expenditures totaling $14,738.

Cause

The lack of controls over coordination between the programs department and the finance department caused certain federal expenditure activity to not be tracked properly by management's recordkeeping.

Effect

Management may not be properly billing programs for expenditures that were directly related to the respective programs.

Recommendation:

Management should coordinate all reimbursement activity between the programs department and the finance department to ensure that all activity being submitted for reimbursement is backed up by proper support that management retains for audit and compliance purposes.

Views of Responsible Officials

Management will implement procedures to ensure that all program expense and reimbursement activity is properly reported in the general ledger and relates directly to vouchers submitted for reimbursement. New leadership with deep institutional knowledge and experience have contributed towards a proactive and accelerated internal review and enhanced internal operating procedures and processes for general operations, programs, and property management. In addition, SoBro has transitioned all of their temporary staff and hired permanent staff in the fiscal department to ensure the continuity of record keeping and the integrity of the transactions being performed. Manage has also implemented monthly meetings between fiscal and program staff with new checklist requirements to ensure billing and vouchers are supported by the general ledger prior to submission of vouchers.

SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS (UNAUDITED)

March 31, 2018

1. Audit Report, dated June 11, 2018, for the year ended March 31, 2017, issued by Tidwell Group, LLC.

   See the status below of findings from the prior audit report:

Finding No. 2017-001

Criteria:

Internal controls over financial reporting should exist to ensure that material misstatements are detected and correct by management in a timely manner.

Statement of Condition

The accounting records required numerous material adjustments to be proposed and recorded in order for the financial statements to be fairly presented in accordance with generally accepted accounting principles in the United States of America.

Status

Not Cleared.

Finding No. 2017-002

Criteria:

The finance department and the development department should have coordinated communication and documentation to report all balances and activity of the combined and consolidated entities to prevent the misstating of future financial statements.

Statement of Condition

During the audit for the year ended March 31, 2017, it was discovered that certain land and the associated liability was not recorded by SoBRO Local Development Corporation.

Status

Not Cleared.

SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS,
QUESTIONED COSTS AND RECOMMENDATIONS (UNAUDITED) - CONTINUED

March 31, 2018

Finding No. 2017-003

Criteria:

The Federal Audit Clearinghouse requires that the Data Collection Form be submitted within nine months of year end.

Statement of Condition

The accounting records required numerous material adjustments to be proposed and recorded in order for the financial statements to be fairly presented in accordance with generally accepted accounting principles in the United States of America.

Status

Cleared.

Finding No. 2017-004

Criteria:

The Federal Audit Clearinghouse requires that the Data Collection Form be submitted within nine months of year end.

Statement of Condition

The accounting records required numerous material adjustments to be proposed and recorded in order for the financial statements to be fairly presented in accordance with generally accepted accounting principles in the United States of America.

Status

Cleared.