

**SOUTH BRONX OVERALL ECONOMIC
DEVELOPMENT
CORPORATION AND RELATED
ORGANIZATIONS**

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

MARCH 31, 2008

**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

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Independent Auditor's Report

Board of Directors South Bronx Overall Economic Development Corporation and Related Organizations

We have audited the accompanying consolidated balance sheet of South Bronx Overall Economic Development Corporation and Related Organizations as of March 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the organizations' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from South Bronx Overall Economic Development Corporation and Related Organizations' 2007 financial statements and, in our report dated December 8, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of South Bronx Overall Economic Development Corporation and Related Organizations' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Bronx Overall Economic Development Corporation and Related Organizations as of March 31, 2008, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Loeb + Troper LLP

May 19, 2009

**SOUTH BRONX OVERALL ECONOMIC
DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

CONSOLIDATED BALANCE SHEET

MARCH 31, 2008

(With Summarized Financial Information for March 31, 2007)

	2008	2007
		(Restated)
ASSETS		
Current assets		
Cash	\$ 132,915	\$ 36,940
Cash - tenants' security deposits	66,513	63,783
Accounts receivable	1,730,188	1,207,850
Contracts receivable	1,673,653	1,928,444
Contributions receivable	3,762	49,810
Rent receivable	473,901	365,292
Loans receivable (Note 3)	29,400	41,893
Prepaid expenses and other receivables	122,651	150,577
Total current assets	4,232,983	3,844,589
Loans receivable (Note 3)	7,368	
Assets limited as to use (Note 15)	421,384	415,189
Developer fees receivable (Note 16)	952,006	952,006
Fixed assets - net (Note 4)	6,506,937	6,550,627
Financing costs - net	350,329	373,896
Total assets	\$ 12,471,007	\$ 12,136,307

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**SOUTH BRONX OVERALL ECONOMIC
DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

CONSOLIDATED BALANCE SHEET

MARCH 31, 2008

(With Summarized Financial Information for March 31, 2007)

	<u>2008</u>	<u>2007</u> (Restated)
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,325,649	\$ 1,191,827
Advances from government agencies	612,919	237,165
Loans payable (Note 5)	962,490	263,238
Mortgage notes payable (Note 6)	117,683	114,830
Capital leases payable (Note 7)	85,000	75,000
Security deposits	229,914	224,258
	<u>3,333,655</u>	<u>2,106,318</u>
Total current liabilities		
Long-term liabilities		
Loans payable (Note 5)	819,833	1,276,633
Mortgage notes payable (Note 6)	2,863,422	2,960,410
Capital leases payable (Note 7)	3,190,000	3,275,000
	<u>6,873,255</u>	<u>7,512,043</u>
Total long-term liabilities		
	<u>10,206,910</u>	<u>9,618,361</u>
Total liabilities		
Net assets (Exhibit B)		
Unrestricted	2,053,880	2,017,022
Temporarily restricted (Note 8)	210,217	500,924
	<u>2,264,097</u>	<u>2,517,946</u>
Total net assets		
	<u>\$ 12,471,007</u>	<u>\$ 12,136,307</u>
Total liabilities and net assets		

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2008
(With Summarized Financial Information
for the Year Ended March 31, 2007)

	Unrestricted	Temporarily Restricted	Totals
	2008	2007	2007
Revenues and support			
Government contracts and grants	\$ 8,223,033		\$ 8,223,033
Corporate and foundation grants	60,010	90,500	150,510
Special events income	496,888		496,888
Direct costs of special events	(138,020)		(138,020)
Rental income (Note 10)	358,868		358,868
Developer fees	1,873,333		1,873,333
Management fees (Note 1)	20,000		20,000
Contracted services (Note 1)	250,946		250,946
Interest income	818,735		818,735
Other revenue	63		63
Net assets released from restrictions (Note 8)	196,882	(381,207)	196,882
	381,207		381,207
Total revenues and support	12,183,077	(290,707)	11,892,370
Expenses			
Program services			
Youth services	4,687,471		4,687,471
Adult services and testing assessment	1,779,234		1,779,234
Commercial revitalization	317,057		317,057
Technical assistance programs	747,264		747,264
Industrial development and job creation programs	400,077		400,077
Community development	2,011,145		2,011,145
Total program services	9,942,248		9,942,248
	11,892,370	(290,707)	11,074,928
	4,687,471		4,687,471
	1,779,234		1,779,234
	317,057		317,057
	747,264		747,264
	400,077		400,077
	2,011,145		2,011,145
	9,942,248		9,942,248
	11,892,370	(290,707)	11,074,928
	4,687,471		4,687,471
	1,779,234		1,779,234
	317,057		317,057
	747,264		747,264
	400,077		400,077
	2,011,145		2,011,145
	9,942,248		9,942,248
	11,892,370	(290,707)	11,074,928

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SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS

EXHIBIT B
-2-

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2008
(With Summarized Financial Information
for the Year Ended March 31, 2007)

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
Expenses (continued)				
Supporting services				
Management and general	\$ 2,050,320	\$	2,050,320	\$ 1,957,866
Fund raising	153,651		153,651	157,706
Total supporting services	2,203,971		2,203,971	2,115,572
Total expenses (including interest expense of \$563,352 in 2008 and \$547,535 in 2007)	12,146,219		12,146,219	11,246,203
Change in net assets before other changes	36,858	\$ (290,707)	(253,849)	(171,275)
Forgiveness of debt				16,000
Change in net assets (Exhibit C)	36,858	(290,707)	(253,849)	(155,275)
Net assets - beginning of year, as previously stated	2,017,022	500,924	2,517,946	2,401,695
Restatement (Note 14)				271,526
Net assets - beginning of year - restated	2,017,022	500,924	2,517,946	2,673,221
Net assets - end of year (Exhibit A)	\$ 2,053,880	\$ 210,217	\$ 2,264,097	\$ 2,517,946

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**SOUTH BRONX OVERALL ECONOMIC
DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED MARCH 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (253,849)	\$ (155,275)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Forgiveness of debt		(16,000)
Depreciation and amortization	466,718	588,811
Decrease (increase) in assets		
Cash - tenant security deposits	(2,730)	(285)
Accounts receivable	(522,338)	836,719
Contracts receivable	254,791	(690,973)
Contributions receivable	46,048	(22,973)
Developer fees receivable		(902,006)
Government receivable		11,250
Rent receivable	(108,609)	15,157
Prepaid expenses and other receivables	27,926	103,084
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	133,822	301,456
Advances from government agencies	375,754	(121,517)
Deferred revenues		(14,850)
Security deposits	5,656	(5,903)
Net cash provided (used) by operating activities	<u>423,189</u>	<u>(73,305)</u>
Cash flows from investing activities		
Fixed asset acquisitions	(399,461)	(101,954)
Decrease (increase) in limited use assets	(6,195)	167
Loans issued		(32,804)
Proceeds from repayment of loans	5,125	38,131
Net cash used by investing activities	<u>(400,531)</u>	<u>(96,460)</u>
Cash flows from financing activities		
Repayment of mortgage, loans, and bonds	(283,628)	(384,370)
Proceeds from loans	356,945	483,433
Net cash provided by financing activities	<u>73,317</u>	<u>99,063</u>
Net increase (decrease) in cash	95,975	(70,702)
Cash - beginning of year	36,940	107,642
Cash - end of year	<u>\$ 132,915</u>	<u>\$ 36,940</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 563,352</u>	<u>\$ 547,535</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 1 - NATURE OF ORGANIZATION

South Bronx Overall Economic Development Corporation (the "Organization" or SBOEDC) 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, SBOEDC plans, advocates and facilitates major infrastructure investments in South Bronx; directly develops and manages smaller strategic real estate projects; pursues a variety of initiatives to encourage small business in South Bronx; and advocates and undertakes projects to provide amenities and cultural programs to make downtown South Bronx more attractive and hospitable.

SBOEDC's primary sources of revenues are government contracts and grants, private grants, as well as rental revenues.

SBOEDC is comprised of the following corporations:

<u>Abbreviations</u>	<u>Organization</u>
SBOEDC	South Bronx Overall Economic Development Corporation, the parent corporation, was formed in 1972 to help facilitate revitalization and development of South Bronx and surrounding neighborhoods into a regional subcenter in the New York metropolitan area. SBOEDC is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.
SOBRO-LDC	SOBRO Local Development Corporation was formed by SOBRO to address South Bronx's need for development of local businesses. SOBRO-LDC owns and leases properties in the South Bronx that are rented to local businesses. SBOEDC is the sole member of SOBRO-LDC. SOBRO-LDC is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.
SOBRO-DC	SOBRO Development Corporation was formed by SOBRO to address South Bronx's need for development of local businesses. SOBRO-DC owns and leases properties in the South Bronx that are rented to local businesses. SBOEDC is the sole member of SOBRO-DC. SOBRO-DC is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 1 - NATURE OF ORGANIZATION (continued)

<u>Abbreviations</u>	<u>Organization</u>
CI	Credit, Inc. was formed by SOBRO to facilitate capital and financial services for organizations, minorities and female entrepreneurs and other businesses that, due to the location in a distressed or low-income community, are not adequately served by mainstream financial institutions, thereby enabling them to succeed and thrive. SBOEDC is the sole member of CI. CI is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

SBOEDC is affiliated with various not-for-profit and for-profit organizations by shared service agreements.

SBOEDC provides management services to affiliated programs for fees. The total management and administrative fees charged to affiliated programs for the year ended 2008 was \$250,946. In addition, SBOEDC contracts with affiliates and related organizations to provide personnel services. Personnel services provided to affiliates and related organizations totaled \$818,735 for the year ended March 31, 2008.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis.

Principles of consolidation - All material intercompany transactions and balances have been eliminated.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable - Receivables are recorded for services rendered but unpaid.

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans receivable - SBOEDC records receivables based on loan agreements. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management.

Investments - Investments are recorded at fair market value, except for the guaranteed investment contract, which is valued at contract value.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could affect the amounts reported in SBOEDC's balance sheet.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are subsequently met.

Contract receivables/revenues - Contract receivables are recorded for services rendered but unpaid. Contract revenues are recognized when earned. SBOEDC charges affiliate organizations fees for providing maintenance personnel at their buildings. Services are provided at cost and are billed monthly.

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

Contributions - 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 statement of activities as net assets released from restriction.

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management fees - SBOEDC charges affiliate organizations fees for management services based on management agreements. Receivables are recorded for services rendered but unpaid.

Allowance for doubtful accounts - SBOEDC determines whether an allowance for uncollectibles should be provided for contributions, loans and accounts receivable (including development, contract and rent receivables). Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions and historical information. Contributions and accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. SBOEDC does not charge interest on outstanding receivables.

Rental income - SBOEDC leases office space to eligible tenants. All lease agreements are for at least a one-year term. All leases are operating leases and recognition is driven by Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*. Revenue is recognized on the first day of each month for the current month's rent.

Fixed assets - Fixed assets are recorded at cost. SBOEDC capitalizes all property and equipment having a cost of \$2,500 or more with an estimated useful life of two or more years. Depreciation and amortization are recorded on the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	5 - 40 years
Furniture and fixtures	5 - 7 years
Equipment	3 - 5 years

Amortization of leasehold improvements is provided over the lesser of the life of the lease or the estimated useful life of the improvements.

Assets limited as to use - Assets that are not available for unlimited use are classified as assets limited as to use. The use of these assets is limited due to a variety of reasons such as: 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 to make principal and interest payments to bond holders.

Net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

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SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing costs - Financing costs are amortized on the straight-line basis over the life of the related mortgages, bonds or letters of credit.

Rent expense - SBOEDC and Related Organizations lease space at various locations. All leases are operating leases and are driven by SFAS No. 13, *Accounting for Leases*; therefore, all leases are reflected on the straight-line basis. Rent expense is recognized on the first day of each month for the current month's rent.

Functional expenses - The costs of providing SBOEDC's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized comparative information - The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles read in conjunction with SBOEDC's financial statements for the year ended March 31, 2007, from which the information was derived.

Financial Accounting Standards Board (FASB) Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006. On November 7, 2007, the FASB voted to defer FIN 48 for one year until fiscal years beginning after December 15, 2007. On October 15, 2008, the FASB voted to continue the deferral of FIN 48 for non-public companies and not-for-profits for an additional year until fiscal years beginning after December 15, 2008.

As FIN 48 has not yet been adopted, SBOEDC is continuing to use FASB Statement No. 5, *Accounting for Contingencies* (FAS 5) to evaluate uncertain tax positions. SBOEDC is currently evaluating the impact on the financial statements of adopting FIN 48.

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 3 - LOANS RECEIVABLE

CI provides low interest loans to aid in the expansion and revitalization of commercial and industrial businesses in the South Bronx, New York area.

In addition, CI occasionally provides loans to businesses for specific uses from its own unrestricted funds. The loans receivable balances at March 31, 2008 total \$58,589, with an allowance of uncollectible accounts of \$50,000.

SBOEDC occasionally provides loans to its tenants for specific uses from its own unrestricted funds. The loans receivable balances from tenant loans at March 31, 2008 total \$28,179.

Future loan receivable payments are due as follows:

Past due	\$ 58,589
2009	20,811
2010	<u>7,368</u>
	86,768
Allowance for doubtful accounts	<u>(50,000)</u>
	<u>\$ 36,768</u>

NOTE 4 - FIXED ASSETS

Fixed assets consist of the following:

Land	\$ 162,295
Buildings and improvements	6,539,313
Leasehold improvements	2,316,383
Furniture and fixtures	583,012
Equipment	1,021,635
Construction in progress	<u>250,703</u>
	10,873,341
Accumulated depreciation and amortization	<u>(4,366,404)</u>
	<u>\$ 6,506,937</u>

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 5 - LOANS PAYABLE

The balance at March 31, 2008 consists of the following:

<u>Description</u>	<u>Effective Interest Rate at 3/31/08</u>	<u>Amount Payable</u>
<i><u>Lines of Credit</u></i>		
A. A secured line of credit for \$750,000 payable to Citibank with an interest rate floating at Lender's base rate plus .50%, collateralized by the program receivables of the Organization, subject only to existing liens of records on the closing date. The line of credit expires on October 31, 2008.	5.75%	\$ 700,000
B. A secured loan, payable to Local Initiatives Support Corporation, was due on January 31, 2008 and is being extended on a month-to-month basis, collateralized by pledges and assignment of proceeds from capital campaign.	6.30%	207,307
C. Unsecured loan, payable to Citibank, in a single installment at a fixed interest rate of 4% and due on March 1, 2010. The line is secured by the Organization's annual Gala fund-raising receipts.	4.00%	450,000
D. Unsecured, non-interest-bearing loan payable to the Community Partnership Development Corporation, in a single installment to be paid upon construction loan closing. Management anticipates closing to occur by March 31, 2011.	0.00%	250,000
E. Unsecured, non-interest-bearing loan payable to Treuhold Capital Group LLC in a single installment to be paid when the construction project procures financing. Management anticipates this to occur by March 31, 2011.	0.00%	100,000

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 5 - LOANS PAYABLE (continued)

<u>Description</u>	<u>Effective Interest Rate at 3/31/08</u>	<u>Amount Payable</u>
<i>Lines of Credit (continued)</i>		
F. A secured loan with New York National Bank for \$34,000, collateralized by all the assets of CI, due on February 6, 2012.	8.25%	\$ 26,633
G. A revolving loan fund account, payable to New York State Urban Development Corporation (UDC). The maximum amount of funds available under the agreement is \$100,000. The agreement requires CI to use due diligence in evaluating prospective borrowers and good faith efforts to collect repayment from borrows. As borrowers repay the loans, CI remits the proceeds to UDC. In the event that these good faith collections efforts fail and a loan is declared uncollectible, CI is not liable to UDC for the unpaid principal on the loan. The loan from UDC is interest-free.	0.00%	<u>48,383</u>
Total loans payable		<u>\$ 1,782,323</u>

Principal payments for these loans for the next five years are as follows:

<u>Year Ending</u>	
3/31/09	\$ 962,490
3/31/10	456,800
3/31/11	356,800
3/31/12	<u>6,233</u>
Total loans payable	<u>\$ 1,782,323</u>

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 6 - MORTGAGE NOTES PAYABLE

The balances at March 31, 2008 consist of the following:

<u>Description</u>	<u>Effective Interest Rate at 3/31/08</u>	<u>Amount Payable</u>
A. On May 25, 2005, SBOEDC obtained a ten-year mortgage note from Washington Mutual in the aggregate principal sum of \$2,189,553, with a variable interest rate based on the Monthly Average 1 Year Treasury Index plus 2.65%. The mortgage note matures on July 1, 2015 and requires payment of principal and interest in monthly installments of \$14,446. The mortgage note is collateralized by the premises located at 1-9 East 170th Street, Bronx, New York and at 15-19 West 183rd Street, Bronx, New York and the property known as Unit B in the East 170th Street Condominium.	7.4%	\$ 2,027,420
B. In fiscal year 2001, SBOEDC obtained a mortgage from the Bronx Overall Economic Development Corporation, a not-for-profit local development corporation, in the aggregate principal amount of \$1.2 million with a fixed interest rate of 5% per annum. The mortgage loan matures on November 7, 2021. The loan requires payment of principal in monthly installments of \$7,919. The mortgage loan is collateralized by the premises located at 270 East 137th Street, Bronx, New York.	5.0%	<u>953,685</u>
Total mortgage notes payable		<u>\$ 2,981,105</u>

All of the mortgages are secured by real estate owned by SBOEDC.

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 6 - MORTGAGE NOTES PAYABLE (continued)

Principal payments on these mortgages payable for the next five years and thereafter are as follows:

Year Ending

3/31/09	\$ 117,683
3/31/10	124,616
3/31/11	131,962
3/31/12	139,450
3/31/13	147,977
Thereafter	<u>2,319,417</u>
Total mortgage notes payable	<u>\$ 2,981,105</u>

NOTE 7 - CAPITAL LEASE PAYABLE

On September 1, 2000, SBOEDC entered into an agreement with New York City Industrial Development Agency (the "IDA") to issue Civic Facility Revenue Bonds (South Bronx Overall Economic Development Corporation Project), Series 2000, in the aggregate principal amount of \$3,695,000, with a fixed interest rate of 8.65% per annum, to finance a portion of the costs of a project consisting of the acquisition, renovation and equipping of a commercial leasehold located at 2856-2870 Third Avenue, Bronx, New York (the "Facility"). The Series 2000 bonds are scheduled to mature in various amounts through 2025. Quarterly interest payments began on December 1, 2000 and required annual principal repayments began starting December 1, 2002. As part of the agreement, SBOEDC transferred leasehold title to the building and its contents to the IDA. Capital leased assets are \$3,563,431 with accumulated amortization of \$1,536,107 as of March 31, 2008.

Principal and interest payments are guaranteed by SOBRO-LDC and SOBRO-DC.

-continued-

**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 7 - CAPITAL LEASE PAYABLE (continued)

Principal payments for each of the next five years and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 85,000	\$ 280,636	\$ 365,636
2010	90,000	273,197	363,197
2011	95,000	265,327	360,327
2012	105,000	256,917	361,917
2013	115,000	247,645	362,645
Thereafter	<u>2,785,000</u>	<u>1,892,161</u>	<u>4,677,161</u>
	<u>\$ 3,275,000</u>	<u>\$ 3,215,883</u>	<u>\$ 6,490,883</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets consist of the following balances:

Excel in School program \$ 210,217

Net assets were released from restriction by satisfying the following program restrictions:

Excel in School program	\$ 334,196
Passage of time	21,712
Strive & Excel	13,350
Other	<u>11,949</u>
	<u>\$ 381,207</u>

NOTE 9 - OCCUPANCY

SOBRO-DC is the lessee of the premises located at 131 Walnut Ave., Bronx, NY, under the terms of a 30-year lease agreement with the City of New York (lessor) dated June 7, 1982. The lease was amended in 1994, 1996, 1997 and 2007, to require annual rentals payable to the City of New York of an amount equal to a percentage of gross rentals received, based upon the occupancy level. In addition to the basic rent, the lease agreement requires that a capital replacement fund be set up to provide funds for capital expenditures for the buildings. At March 31, 2008 SOBRO-DC had a balance of \$1,126 in the fund.

-continued-

**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 9 - OCCUPANCY (continued)

The initial term of the lease was to expire on June 6, 2012, but the lease term was extended to September 20, 2024.

SOBRO-DC is also required, under the lease agreement, to maintain an excess of revenue over expenses before capital expenditures of at least \$15,000 to cover future expenditures. At March 31, 2008, SOBRO-DC met that requirement.

SOBRO-LDC is the lessee of the premises located at 430 Westchester Ave., Bronx, New York and 553-555 Brook Avenue, Bronx, New York. Both leases are on a month-to-month basis and are cancelable at any time.

SBOEDC leases office space and uses equipment under a noncancelable operating lease. 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, SBOEDC entered into a 25-year non-cancelable lease agreement, with an option to renew for an additional twenty years, for its headquarters.

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

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 448,646
2010	448,646
2011	573,646
2012	573,646
2013	573,646
Thereafter	<u>7,066,356</u>
Total	<u>\$ 9,684,586</u>

Total rent expense for the fiscal year ended March 31, 2008 was \$451,085.

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 10 - FUTURE NON-CANCELABLE LEASE REVENUE

Future non-cancelable lease revenue through 2031 for SBOEDC, SOBRO-LDC and SOBRO-DC is expected as follows:

2009	\$ 1,321,412
2010	1,279,625
2011	1,157,786
2012	1,084,386
2013	914,153
Thereafter	<u>10,554,505</u>
	<u>\$ 16,311,867</u>

NOTE 11 - PENSION PLAN

SBOEDC has a defined contribution pension plan covering employees who meet age and length of service requirements. Pension expense for the year ended March 31, 2008 was \$260,122.

NOTE 12 - CONCENTRATIONS

Financial instruments which potentially subject SBOEDC to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Reimbursements for program expense and overhead applicable to various programs conducted under contract with governmental agencies are 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 these audits.

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 14 - RESTATEMENT

SBOEDC overaccrued their liability for payroll taxes and employee benefits payable. A restatement was recorded in 2007 to correct this error.

The 2007 balance sheet has been restated to correct the balances in the financing cost, the capital lease payable and development fees receivable accounts. This had no impact on the net assets or on the statement of activities.

NOTE 15 - ASSETS LIMITED AS TO USE

Certain assets limited as to use are held in a Guaranteed Investment Contract ("GIC"), which is carried at contract value. The GIC earns a fixed rate of interest of 5.70%. The composition of assets limited as to use at March 31, 2008 is as follows:

Cash (tax escrow)	\$ 52,789
Cash (capital replacement fund)	1,126
Guaranteed investment contract (debt reserve fund)	<u>367,469</u>
	<u>\$ 421,384</u>

NOTE 16 - DEVELOPER FEES

Developer fees consist of the fees related to the development and renovation of potential and existing projects. These projects will reimburse SBOEDC for the outstanding developer fees.

NOTE 17 - FUNCTIONAL EXPENSES

Program services	\$ 9,942,248
Management and general	2,050,320
Fund raising	153,651
Direct cost of special events	<u>138,020</u>
Total expenses	<u>\$ 12,284,239</u>

SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS

SCHEDULE 1

CONSOLIDATING BALANCE SHEET

MARCH 31, 2008
(With Summarized Financial Information
for the Year Ended March 31, 2007)

	SBOEDC	SOBRO- LDC	SOBRO- DC	CI	2008	Totals 2007 (Restated)
ASSETS						
Current assets						
Cash	\$ 91,386	\$ 27,462	\$ 572	\$ 13,495	\$ 132,915	\$ 36,940
Cash - tenants' security deposits	56,989		9,524		66,513	63,783
Accounts receivable	1,730,188				1,730,188	1,207,850
Contracts receivable	1,673,653				1,673,653	1,928,444
Contributions receivable - current	3,762				3,762	49,810
Rent receivable	133,062	81,919	258,920		473,901	365,292
Loans receivable	20,811			8,589	29,400	41,893
Prepaid expenses and other receivables	121,322	1,329			122,651	150,577
Total current assets	3,831,173	110,710	269,016	22,084	4,232,983	3,844,589
Loans receivable	7,368				7,368	
Assets limited as to use	420,258		1,126		421,384	415,189
Developer fees receivable	952,006				952,006	952,006
Fixed assets - net	6,231,844	192,861	82,232		6,506,937	6,550,627
Financing costs - net	350,329				350,329	373,896
Total assets	\$ 11,792,978	\$ 303,571	\$ 352,374	\$ 22,084	\$ 12,471,007	\$ 12,136,307

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**SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS**

**SCHEDULE 1
-2-**

CONSOLIDATING BALANCE SHEET

MARCH 31, 2008
(With Summarized Financial Information
for the Year Ended March 31, 2007)

	SBOEDC	SOBRO- LDC	SOBRO- DC	CI	2008	Totals 2007 (Restated)
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable and accrued expenses	\$ 1,102,747	\$ 69,704	\$ 153,198		\$ 1,325,649	\$ 1,191,827
Due to (from) related organizations	625,800	(548,660)	(24,074)	(53,066)		
Advances from government agencies	612,919				612,919	237,165
Loans payable	907,307			55,183	962,490	263,238
Mortgage notes payable	117,683				117,683	114,830
Capital leases payable	85,000				85,000	75,000
Security deposits	140,551	35,963	53,400		229,914	224,258
Total current liabilities	3,592,007	(442,993)	182,524	2,117	3,333,655	2,106,318
Long-term liabilities						
Loans payable	800,000			19,833	819,833	1,276,633
Mortgage notes payable	2,863,422				2,863,422	2,960,410
Capital leases payable	3,190,000				3,190,000	3,275,000
Total long-term liabilities	6,853,422			19,833	6,873,255	7,512,043
Total liabilities	10,445,429	(442,993)	182,524	21,950	10,206,910	9,618,361
Net assets						
Unrestricted	1,137,332				2,053,880	2,017,022
Temporarily restricted	210,217				210,217	500,924
Total net assets	1,347,549	746,564	169,850	134	2,264,097	2,517,946
Total liabilities and net assets	\$ 11,792,978	\$ 303,571	\$ 352,374	\$ 22,084	\$ 12,471,007	\$ 12,136,307

See independent auditor's report.

SOUTH BRONX OVERALL ECONOMIC DEVELOPMENT CORPORATION
AND RELATED ORGANIZATIONS

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED MARCH 31, 2008

(With Summarized Financial Information
for the Year Ended March 31, 2007)

	SBOEDC	SOBRO- LDC	SOBRO- DC	CI	Intercompany Eliminations	Totals	
						2008	2007
Revenues, gains, losses and other support							
Government contracts and grants	\$ 8,223,033					\$ 8,223,033	\$ 7,601,277
Corporate and foundation grants	150,510					150,510	236,811
Special events income	\$ 496,888						
Direct costs of special events	(138,020)					358,868	245,914
Rental income	1,039,117	\$ 337,615	\$ 496,601			1,873,333	1,939,965
Developer fees	20,000					20,000	4,166
Management fees	250,946					250,946	255,417
Contracted services	1,053,158				\$ (234,423)	818,735	673,597
Interest income	63					63	9,062
Other revenue	196,882					196,882	108,719
Total revenues, gains, losses and other support	11,292,577	337,615	496,601		(234,423)	11,892,370	11,074,928
Expenses							
Program services							
Youth services	4,687,471					4,687,471	3,988,431
Adult services and testing assessment	1,779,234					1,779,234	1,604,456
Commercial revitalization	317,057					317,057	304,738
Technical assistance programs	747,264					747,264	686,679
Industrial development and job creation programs	400,077					400,077	458,281
Community development	1,705,689	275,520	259,453	\$ 4,906	(234,423)	2,011,145	2,088,046
Total program services	9,636,792	275,520	259,453	4,906	(234,423)	9,942,248	9,130,631
Supporting services							
Management and general	1,889,608	69,125	75,327	16,260		2,050,320	1,957,866
Fund raising	153,651					153,651	157,706
Total supporting services	2,043,259	69,125	75,327	16,260		2,203,971	2,115,572
Total expenses	11,680,051	344,645	334,780	21,166	(234,423)	12,146,219	11,246,203
Change in net assets before other changes	(387,474)	(7,030)	161,821	(21,166)		(253,849)	(171,275)
Forgiveness of debt							16,000
Contributions from (to) related organizations	43,086		(146,796)	103,710			
Change in net assets	(344,388)	(7,030)	15,025	82,544		(253,849)	(155,275)
Net assets - beginning of year, as previously stated	1,691,937	753,594	154,825	(82,410)		2,517,946	2,401,695
Restatement							271,526
Net assets - beginning of year - restated	1,691,937	753,594	154,825	(82,410)		2,517,946	2,673,221
Net assets - end of year	\$ 1,347,549	\$ 746,564	\$ 169,850	\$ 134	\$ -	\$ 2,264,097	\$ 2,517,946

See independent auditor's report.