

**BANANA KELLY COMMUNITY IMPROVEMENT
ASSOCIATION, INC.
(A NOT-FOR-PROFIT CORPORATION)
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

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Independent Auditor's Report

To the Board of Directors
Banana Kelly Community Improvement Association, Inc.
Bronx, NY

Report on the Financial Statements

We have audited the accompanying financial statements of Banana Kelly Community Improvement Association, Inc. (the "Association") which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

KBL, LLP

KBL, LLP
New York, NY
September 24, 2019

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

	2018
ASSETS	
Current assets	
Cash and cash equivalents	\$ 717,602
Residents' council-cash	8,575
Rental assistance program receivable	66,984
MSC contract receivable	31,517
Accounts receivable	574,444
Prepaid expenses	53,315
Total current assets	1,452,437
Property and equipment, net of accumulated depreciation	65,552
Other assets	
Due from buildings	1,756,906
Other receivable	220,613
Development fees receivable	374,041
Total other assets	2,351,560
TOTAL ASSETS	\$ 3,869,549
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable and accrued expenses	\$ 178,148
Loan payable	185,903
Residents' council payable	8,575
Recoverable grant payable	80,000
Deferred revenue	577,359
Total current liabilities	1,029,985
Net assets	
Without donor restrictions	2,839,564
Total net assets	2,839,564
TOTAL LIABILITIES AND NET ASSETS	\$ 3,869,549

The accompanying notes are an integral part of these financial statements.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

Revenue and other support	
Medicaid service coordination revenue	\$ 439,332
Rental assistance program fees	146,290
In-kind contribution	28,800
Grants and contributions	857,242
Monitoring, developer and management fees	811,604
Cell tower income	59,745
Rental income	279,090
	<u>2,622,103</u>
Expenses	
Medicaid services coordination program	369,806
Rental assistance program	462,765
Resident support/case management services	292,418
Building oversight/asset management	648,552
Management and general	582,349
	<u>2,355,890</u>
Change in net assets without donor restrictions	266,213
Net assets - beginning of year-without donor restrictions	2,573,351
Net assets - end of year- without donor restrictions	<u>\$ 2,839,564</u>

The accompanying notes are an integral part of these financial statements.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services					Support Services
	Medicaid Services Coordination	Rental Assistance Program	Resident Support/Case Management Services	Building Oversight/Asset Management	Total	Management & General
Salaries and wages	\$ 291,616	\$ 128,772	\$ 199,384	\$ 384,663	\$ 1,004,435	\$ 289,320
Payroll taxes and fringe benefits	40,180	19,581	28,750	45,040	133,551	123,209
Professional fees	13,677	9,134	32,447	116,695	171,953	46,664
Travel and meetings	1,155	73	1,303	1,842	4,373	1,642
Training and seminars	-	-	334	851	1,185	400
Postage	892	490	827	2,036	4,245	907
Computer and internet expenses	4,681	2,564	4,322	49,005	60,572	4,739
Miscellaneous	-	-	-	-	-	764
Rap rent	-	277,798	-	-	277,798	-
Rent	210	114	192	474	990	29,010
Insurance	2,739	2,701	2,500	6,187	14,127	2,733
Activity support	-	140	5,769	8,282	14,191	45,076
Supplies	2,734	1,688	3,237	6,437	14,096	2,635
Equipment rental	2,637	1,434	2,760	5,946	12,777	2,644
Depreciation	-	-	-	-	-	18,860
Payroll processing fees	1,586	862	1,451	3,577	7,476	1,588
Office expenses	-	13,200	-	-	13,200	-
Telephone	2,783	1,514	4,134	6,477	14,908	2,791
Repairs and maintenance	4,916	2,700	5,008	11,040	23,664	9,367
	\$ 369,806	\$ 462,765	\$ 292,418	\$ 648,552	\$ 1,773,541	\$ 582,349
						\$ 2,355,890

The accompanying notes are an integral part of these financial statements.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash flows from operating activities	\$ 266,213
Change in net assets	<u>266,213</u>
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>	
Depreciation	18,860
(Increase) decrease in operating assets:	
Residents' council-cash	(100)
Rental assistance program receivable	314
Accounts receivable	(437,952)
MSC contract receivable	79,871
Developer fees receivable	(112,423)
Other receivable	(220,613)
Due from buildings	(204,139)
Prepaid expenses	(5,036)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(106,109)
Deferred revenue	185,813
Recoverable grant payable	(40,000)
Resident council payable	100
Total adjustments	<u>(841,414)</u>
Net cash provided by operating activities	<u>(575,201)</u>
 Cash flows from investing activities	
Acquisition of office equipment	<u>(29,351)</u>
Net cash used in investing activities	<u>(29,351)</u>
 Cash flows from financing activities	
Loan payable	<u>185,903</u>
Net cash provided by financing activities	<u>185,903</u>
 Net decrease in cash and cash equivalents	(418,649)
 Cash and cash equivalents, beginning of year	1,136,251
 Cash and cash equivalents, end of year	<u><u>\$ 717,602</u></u>
 Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Income taxes	\$ -
Interest expense	\$ -

The accompanying notes are an integral part of these financial statements.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

1. THE ASSOCIATION

Banana Kelly Community Improvement Association, Inc. (the "Association") is a not-for-profit corporation created in November 1978 under the New York State Not-For-Profit Corporation Law. The Association is a not-for-profit and tax-exempt corporation organized to upgrade deteriorated neighborhoods in the City of New York, through the development of affordable housing programs and the provision of educational, cultural, employment, and social services in support of that core housing mission. The Association serves the residents of the South Bronx, providing direct services to approximately 5,000 residents, and support services to the community at large.

In 2018, the Association continued to provide asset management, property management oversight, direct property management services, advocacy, along with organizing ESL, Summer Camp, and after school program and supportive services, and the Association again dedicated itself to residents of its affiliated housing companies (HDFCs) and the community at large. During the year, the Association took on a number of new preservation projects, including projects obtained through the City's Third party Transfer, ANCP (cooperative), and CLT programs. Working with affiliates we also took on the ownership and management of former Cluster Shelter (homeless) buildings. In 2018, construction was commenced on the BK Union Avenue cluster, a Low Income Housing Tax Credit Project, comprising 124 units in five buildings. The Association retained the services of LISC to assist in the pre-development work. In addition, in 2018 the Association utilized the services of LISC to apply for the 2019 round of 9% Low Income Tax Credits and was awarded the credits. This project is scheduled to commence with construction late in 2018.

Supportive Housing Program (SHP/RAP)

The Association entered into a renewal contract with the U.S. Department of Housing and Urban Development to develop supportive housing and services that will allow homeless and disabled persons to live as independently as possible. The primary objectives of the program are to help homeless persons meet three overall goals: achieve residential stability, increase their skill levels and/or incomes, and obtain more influence over decisions that affect their lives. A total of 63 individuals among 31 households were assisted through this program.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

1. *THE ASSOCIATION (CONTINUED)*

Medical Services Coordination (MSC)

Throughout 2018, the Association assisted about approximately 135 consumers. Effective July 1, 2018, the Association entered into a Health Home Care Management Administrative Services Agreement with Tri-County Care, LLC. Tri-County Care, LLC is a designated Care Coordination Organization by OPWDD, representing a major overhaul of the way in which OPWDD serves families with members who have developmental disabilities. This change was made by New York State based upon federal requirements. The Association agreement with Tri-County Care was originally scheduled to run through June 30, 2019, during which time the MSC staff would no longer be a part of the Association and would become employees of Tri-County Care, LLC. However, that change actually became effective May of 2019.

Resident Support/Case Management Services

The Association provides all of its residents with case management and eviction prevention services. Usually, these services are combined when residents are at risk of eviction, and the Association is then able to also review individual circumstances and fully address the comprehensive needs of families. Furthermore, even for residents not facing eviction, the Association still provides entitlement screening, family support, career advancement, and other services. Most recently, its support services have expanded to include organizing residents into building-specific tenant associations, working with resident leaders through neighborhood-wide Resident's Council, assisting residents in working on broader policy issues for both the improvement of their neighborhoods and for the protection of their rights as tenants.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Basis of presentation

The financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

Income taxes

The Association is a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

The Association has no unrecognized tax benefits at December 31, 2018. The Association's Federal and State tax returns prior to fiscal year 2015 are closed, and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

Deferred revenue

Income from programs is deferred and recognized over the periods to which the programs relate.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fundraising event

Fundraising event revenue and expenses are recognized in the period of the event. Fundraising event income received in advance of the event is recorded as deferred revenue and related costs expended prior to the event are recorded as prepaid expenses.

Government contracts

Revenue from government contracts is recognized when reimbursable expenses are incurred under the terms of the contract. Contract payments in excess of qualified expenses are accounted for as contract advances.

Grants and contributions

The Association reports grants and contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor's 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 restrictions.

Donated materials and services

In-kind contributions are reflected as revenue and expense in the accompanying statement of activities at their estimated fair market value on the date of receipt.

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to Non-Profit Organization, Inc.'s ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Non-Profit Organization, Inc. has adjusted the presentation accordingly. The ASU has been applied retrospectively to all period presented.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation

Fixed assets are stated at cost. Depreciation is computed using accelerated and straight-line methods over the following periods:

<i>Description</i>	<i>Estimated useful life</i>
Furniture and Equipment	5 years
Leasehold Improvements	39 years

Functional allocation of expenses

The costs of providing the various programs and other activities of the Institute have been summarized on a functional basis in the statement of activities and changes in net assets, which included all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and other activities benefited. Such allocations are determined by management in accordance with grant provisions and/or other equitable bases.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salary and benefits	Time and Effort
RAP rent	Program Expenses
Rent	Square Footage
Professional fees	Full Time Equivalent
Telephone	Time and Effort
Travel	Time and Effort
Other	Time and Effort

Concentration of credit

Financial instruments that potentially expose the Association to concentrations of credit risk consist principally of bank deposits in excess of insurance limits. Cash balances are maintained in a financial institution that, from time to time, exceed the Federal Depository Insurance limit and subject the Association to concentration of credit risk.

The Association does not believe that the concentration of credit risk of bank deposits represents a material risk of loss with respect to its financial position as of December 31, 2018.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments

The fair value of financial instruments classified as current assets or liabilities approximate their carrying value due to the short-term maturity of the instruments.

Recently issued accounting pronouncements

The Association does not believe that any recently issued, but not yet effective accounting pronouncements, if adopted, would have a significant effect on the accompanying financial statements.

Subsequent events

In December 2011, the Association commenced action against former property manager, Schur Management Company, Ltd. ("Schur") in Bronx County Supreme Court, seeking injunctive relief and money damages for breach of contract. Schur filed an action against the Association at around the same time seeking injunctive relief and money damages for breach of contract. Both have been consolidated. As a result of the litigation, the Association was able to take possession of its tenant's files and other books and records from Schur, and Schur was initially required to turn over rent money it had been improperly withholding from the Association.

Pursuant to court order, the Association was required in April-May 2018 to deposit the sum of \$232,625 into an escrow account under the control of the Association's law firm as escrow agent (the "Escrow Sum"). The Escrow Sum, which represents rents collected by Schur after it was terminated as property manager, and which was turned over to the Association pursuant to prior order, is to be kept in escrow pending a final determination of the parties' respective claims. The case is still open and the Association anticipates that the damages, if any, will be adequately covered by the amount held in escrow.

NOTE 3 – LIQUIDITY

The Association's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ 717,602
Rental assistance program receivable	66,984
MSC contact receivable	31,517
Accounts receivable	574,444
Prepaid expenses	53,315
	<u>\$ 1,443,862</u>

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment less accumulated depreciation as of December 31, 2018. Depreciation expense for the year then ended was \$18,860.

Building improvements	\$ 25,785
Machinery and equipment	<u>156,985</u>
	182,770
Less: Accumulated depreciation	<u>117,218</u>
	<u>\$ 65,552</u>

NOTE 5 - DUE FROM BUILDINGS

As of December 31, 2018, due from buildings consists of the followings:

1244-46 Westchester Avenue, HDFC	\$ 205,772
783 Beck Street, HDFC	360,799
788 Fox Street, HDFC	61,519
850 Longwood Avenue, HDFC	134,290
866 Beck Street, HDFC	102,992
Banana Kelly Home Street, HDFC	282,893
Banana Kelly Longwood, HDFC	202,876
Banana Kelly Prospect Avenue, HDFC	142,319
Banana Kelly Union, HDFC	--
Maria & Berardo Houses, HDFC	145,464
BK Simpson Dawson, HDFC	49,012
830 Fox Street, HDFC	47,416
824-834 E 161st Street, HDFC	13,408
Other	<u>8,146</u>
	<u>\$ 1,756,906</u>

In January 2016, the Association started receiving regular payments from cash flow in order for its various affiliated housing entities to pay down their receivables. This has been sporadic based upon cash flow in some of the buildings. However, having been awarded financing on two of the projects and also due to improved cash flow, it is projected that the extent of the receivables will be reduced by about a third in 2019 and 2020.

BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - DEVELOPMENT FEES RECEIVABLE

As of December 31, 2018, development fees are due from the following HDFC's:

Banana Kelly Home Street, HDFC	\$ 118,481
BK Simpson Dawson, Lp	189,203
Maria & Berardo Houses, HDFC	<u>66,357</u>
	<u>\$ 374,041</u>

Based upon the City's approval of financing for Home Street, the \$118,481 is now a questionable receivable and will likely be written off in 2019. However, based upon this same financing, the Association is scheduled to receive in excess of \$2 million in new developer fees. It is anticipated that the fees due from Simpson Dawson will be entirely paid off by the first quarter of 2020. In 2019, \$149,992 was paid down. It is likely that the developer fees for Maria Berardo will be written off in 2019 as well.

NOTE 6 - OTHER RECEIVABLE

The association paid expenses on behalf of various buildings, which are reflected as other receivables on the financial position.

NOTE 7 - RESIDENT'S COUNCIL PAYABLE

The Association actively supports resident participation in its housing and activities. To that end, the Association has organized a Resident's Council that works with staff and boards on issues, engages in grass roots fundraising and also oversees the use of our community space. Excess funds generated from these events go into a segregated account that is utilized pursuant to the priorities set by the Resident's Council. Such priorities thus far have ranged from holiday parties to the installation of security cameras in many of our buildings.

NOTE 8 - IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following:

Office Space	\$ 28,800
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BANANA KELLY COMMUNITY IMPROVEMENT ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – OPERATING LEASE

The Association leased office space under a 10-year lease that began June 1, 2012. The base monthly rent is \$100. The lease will expire on May 31, 2022. The Company paid \$1,200 in office rent for 2018. Future minimum lease payments are as follows:

December 31, 2019	\$ 1,200
2020	1,200
2021	1,200
2022	<u>500</u>
	\$ 4,100

NOTE 10 - RECOVERABLE GRANT PAYABLE

The association received a 3-year grant of \$375,000 (\$125,000 each year) from Deutsche Bank, for support of the working capital 9 program. As part of the grant agreement, \$255,000 will be recognized as grant income, and \$120,000 will be paid back to the funder. \$40,000 is the outstanding balance on the recoverable grant payable as of December 31, 2018. The Association made first grant payable payment of \$40,000 in April 2018 and second grant payable payment of \$40,000 in March 2019 as per the grant agreement.

In December 2017, the association received an additional 3-year grant of \$375,000 (\$125,000 each year) from Deutsche Bank, for support of the working capital 10 program. As part of the grant agreement, \$255,000 will be recognized as grant income, and \$120,000 will be paid back to the funder.

NOTE 11 – LITIGATION

In December 2011, the Association commenced action against former property manager, Schur Management Company, Ltd. (“Schur”) in Bronx County Supreme Court, seeking injunctive relief and money damages for breach of contract. Schur filed an action against the Association at around the same time seeking injunctive relief and money damages for breach of contract. Both have been consolidated. As a result of the litigation, the Association was able to take possession of its tenant’s files and other books and records from Schur, and Schur was initially required to turn over rent money it had been improperly withholding from the Association.

Pursuant to court order, the Association was required in April-May 2018 to deposit the sum of \$232,625 into an escrow account under the control of the law firm as escrow agent (the “Escrow Sum”). The Escrow Sum, which represents rents collected by Schur after it was terminated as property manager, and which was turned over to the Association pursuant to prior order, is to be kept in escrow pending a final determination of the parties’ respective claims.

The Association evaluation of this matter as a loss contingency is remote. That is, the chance of the likelihood of an unfavorable outcome is not likely to occur, and, to the extent that it does occur, the Association believes that our exposure is adequately covered by the amount held by its attorneys in escrow.