

**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2010 AND 2009

**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

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Independent Auditor's Report

**Board of Directors
Cypress Hills Local Development
Corporation**

We have audited the accompanying balance sheet of Cypress Hills Local Development Corporation as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Cypress Hills Local Development Corporation's management. 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 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 Cypress Hills Local Development Corporation's 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 audits provide 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 Cypress Hills Local Development Corporation as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

February 17, 2011

**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

BALANCE SHEET

JUNE 30, 2010 AND 2009

| | 2010 | 2009 |
|---------------------------------------|--------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 458,135 | \$ 405,079 |
| Grants receivable | 1,319,908 | 1,199,646 |
| Contributions receivable - current | 429,838 | 577,540 |
| Prepaid expenses and deposits | 36,703 | 14,507 |
| Due from related parties (Note 4) | 638,365 | 360,005 |
| Fixed assets - net (Note 5) | 215,112 | 261,952 |
| Total assets | \$ 3,098,061 | \$ 2,818,729 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 721,177 | \$ 726,584 |
| Grant advances | | 39,628 |
| Deferred rental income | 10,650 | |
| Loans payable (Note 6) | 174,998 | 200,000 |
| Total liabilities | 906,825 | 966,212 |
| Net assets (Exhibit B) | | |
| Unrestricted | 1,498,478 | 1,273,331 |
| Temporarily restricted (Note 3) | 692,758 | 579,186 |
| Total net assets | 2,191,236 | 1,852,517 |
| Total liabilities and net assets | \$ 3,098,061 | \$ 2,818,729 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION

EXHIBIT B

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

| | 2010 | | | 2009 | | |
|--|------------------|------------------------|------------------|------------------|------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Revenues and other support | | | | | | |
| Government grants | \$ 4,497,274 | | \$ 4,497,274 | \$ 4,147,477 | | \$ 4,147,477 |
| Contributions | 215,461 | \$ 2,468,976 | 2,684,437 | 6,345 | \$ 2,071,552 | 2,077,897 |
| Management and development fees (Note 4) | 303,848 | | 303,848 | 498,535 | | 498,535 |
| Sublease rental revenue | 100,885 | | 100,885 | | | |
| Special event revenues | | | | 174,098 | | 174,098 |
| Direct costs of special event | | | | (22,733) | | (22,733) |
| Interest income | 83 | | 83 | 283 | | 283 |
| Miscellaneous income | 43,329 | | 43,329 | 11,627 | | 11,627 |
| Net assets released from restrictions (Note 3) | 2,355,404 | (2,355,404) | | 1,983,764 | (1,983,764) | |
| Total revenues and other support | 7,516,284 | 113,572 | 7,629,856 | 6,799,396 | 87,788 | 6,887,184 |
| Expenses (Exhibit C) | | | | | | |
| Program services | | | | | | |
| Youth and human services | 4,941,242 | | 4,941,242 | 4,396,172 | | 4,396,172 |
| Housing development and counseling | 1,215,689 | | 1,215,689 | 773,563 | | 773,563 |
| Economic development and community organizing | 458,594 | | 458,594 | 432,774 | | 432,774 |
| Total program services | 6,615,525 | | 6,615,525 | 5,602,509 | | 5,602,509 |
| Supporting services | | | | | | |
| Management and general | 531,827 | | 531,827 | 857,137 | | 857,137 |
| Fund raising | 143,785 | | 143,785 | 140,164 | | 140,164 |
| Total supporting services | 675,612 | | 675,612 | 997,301 | | 997,301 |
| Total expenses | 7,291,137 | | 7,291,137 | 6,599,810 | | 6,599,810 |
| Change in net assets (Exhibit D) | 225,147 | 113,572 | 338,719 | 199,586 | 87,788 | 287,374 |
| Net assets - beginning of year | 1,273,331 | 579,186 | 1,852,517 | 1,073,745 | 491,398 | 1,565,143 |
| Net assets - end of year (Exhibit A) | \$ 1,498,478 | \$ 692,758 | \$ 2,191,236 | \$ 1,273,331 | \$ 579,186 | \$ 1,852,517 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

| | 2010 | | | | | | |
|--|--------------------------|------------------------------------|---|--------------|------------------------|--------------|--------------|
| | Program Services | | | Total | Supporting Services | | |
| | Youth and Human Services | Housing Development and Counseling | Economic Development and Community Organizing | | Management and General | Fund Raising | Total |
| Salaries | \$ 3,113,675 | \$ 627,926 | \$ 289,012 | \$ 4,030,613 | \$ 327,875 | \$ 95,134 | \$ 4,453,622 |
| Payroll taxes and employee benefits | 891,422 | 179,770 | 82,742 | 1,153,934 | 93,868 | 27,236 | 1,275,038 |
| Total salaries and related expenses | 4,005,097 | 807,696 | 371,754 | 5,184,547 | 421,743 | 122,370 | 5,728,660 |
| Development and capital assistance | | 149,091 | | 149,091 | | | 149,091 |
| Rent and utilities (Note 8) | 43,932 | 76,965 | 5,078 | 125,975 | 7,356 | 3,500 | 136,831 |
| Supplies | 115,421 | 8,428 | 6,720 | 130,569 | 6,633 | 1,920 | 139,122 |
| Professional services and consultants | 222,419 | 38,686 | 17,562 | 278,667 | 23,477 | 2,000 | 304,144 |
| Telephone and internet | 35,951 | 9,741 | 6,217 | 51,909 | 2,833 | 2,783 | 57,525 |
| Postage | 7,243 | 3,548 | 1,565 | 12,356 | 1,091 | | 13,447 |
| Equipment rental/maintenance | 81,671 | 18,223 | 12,772 | 112,666 | 3,512 | 1,500 | 117,678 |
| Printing | 11,007 | 4,389 | 2,095 | 17,491 | 3,703 | 450 | 21,644 |
| Cleaning and maintenance | 11,556 | 2,315 | 1,060 | 14,931 | 9,635 | | 24,566 |
| Insurance | 34,892 | 26,563 | 3,342 | 64,797 | | | 64,797 |
| Travel | 74,677 | 4,155 | 1,306 | 80,138 | 4,671 | | 84,809 |
| Conferences and training | 13,528 | 8,046 | 6,988 | 28,562 | | | 28,562 |
| Interest expense | | | | | 3,557 | | 3,557 |
| Bank charges | | | | | 1,822 | | 1,822 |
| Advertising | 1,876 | 25,581 | 360 | 27,817 | 10,470 | 7,500 | 45,787 |
| Youth events | 119,805 | | 1,562 | 121,367 | | | 121,367 |
| Stipends | 42,188 | | 3,500 | 45,688 | 100 | | 45,788 |
| Dues and subscriptions | 7,119 | 2,774 | | 9,893 | 10,312 | | 20,205 |
| Fees | 285 | 5,110 | | 5,395 | 4,803 | | 10,198 |
| Refreshments | 35,954 | 3,335 | 6,272 | 45,561 | 3,500 | 163 | 49,224 |
| Depreciation and amortization | 32,278 | 7,359 | 3,678 | 43,315 | 9,198 | | 52,513 |
| Bad debt expense | 3,953 | 11,999 | | 15,952 | | 1,000 | 16,952 |
| Incentives/other expenses | 40,390 | 1,685 | 6,763 | 48,838 | 3,411 | 599 | 52,848 |
| Total expenses reported by function on the statement of activities (Exhibit B) | \$ 4,941,242 | \$ 1,215,689 | \$ 458,594 | \$ 6,615,525 | \$ 531,827 | \$ 143,785 | \$ 7,291,137 |

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STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

| | 2009 | | | | | | | |
|--|--------------------------|------------------------------------|---|--------------|------------------------|--------------|---|--------------|
| | Program Services | | | | Supporting Services | | | |
| | Youth and Human Services | Housing Development and Counseling | Economic Development and Community Organizing | Total | Management and General | Fund Raising | Cost of Direct Benefits of Special Events | Total |
| Salaries | \$ 2,786,314 | \$ 509,641 | \$ 254,822 | \$ 3,550,777 | \$ 594,028 | \$ 102,208 | | \$ 4,247,013 |
| Payroll taxes and employee benefits | 745,477 | 132,507 | 66,253 | 944,237 | 149,827 | 25,450 | | 1,119,514 |
| Total salaries and related expenses | 3,531,791 | 642,148 | 321,075 | 4,495,014 | 743,855 | 127,658 | | 5,366,527 |
| Development and capital assistance | | 34,553 | 14,352 | 48,905 | | | | 48,905 |
| Rent and utilities (Note 8) | 22,840 | 13,135 | 4,736 | 40,711 | 3,795 | 584 | | 45,090 |
| Supplies | 127,702 | 20,750 | 11,174 | 159,626 | 3,326 | 3,326 | | 166,278 |
| Professional services and consultants | 125,084 | 11,771 | 52,938 | 189,793 | 8,264 | 1,962 | | 200,019 |
| Telephone and internet | 35,322 | 6,326 | 3,164 | 44,812 | 6,853 | 1,054 | | 52,719 |
| Postage | 8,805 | 1,577 | 788 | 11,170 | 1,709 | 263 | | 13,142 |
| Equipment rental/maintenance | 51,910 | 8,556 | 3,279 | 63,745 | 6,269 | 1,426 | | 71,440 |
| Printing | 10,281 | 1,841 | 921 | 13,043 | 1,995 | 307 | | 15,345 |
| Cleaning and maintenance | 11,453 | 1,518 | 828 | 13,799 | 36,797 | 511 | | 51,107 |
| Insurance | 26,496 | 4,746 | 2,373 | 33,615 | 5,141 | 791 | | 39,547 |
| Travel | 35,225 | 1,544 | 3,000 | 39,769 | 5,943 | | | 45,712 |
| Conferences and training | 22,028 | 3,945 | 1,973 | 27,946 | 4,932 | | | 32,878 |
| Interest expense | | | | | 1,376 | | | 1,376 |
| Bank charges | | | | | 1,470 | | | 1,470 |
| Advertising | 5,618 | 974 | 1,323 | 7,915 | 1,040 | 1,281 | | 10,236 |
| Youth events | 133,635 | | 750 | 134,385 | | | | 134,385 |
| Stipends | 61,424 | | | 61,424 | | | | 61,424 |
| Dues and subscriptions | 419 | 1,675 | 850 | 2,944 | 11,000 | | | 13,944 |
| Fees | 5,880 | 1,053 | 525 | 7,458 | 1,317 | | | 8,775 |
| Refreshments | 36,550 | 6,009 | 3,004 | 45,563 | 6,509 | 1,001 | | 53,073 |
| Depreciation and amortization | 16,635 | 3,793 | 1,896 | 22,324 | 4,741 | | | 27,065 |
| Bad debt expense | 74,187 | | | 74,187 | | | | 74,187 |
| Event catering and rental | | | | | | | \$ 22,733 | 22,733 |
| Incentives/other expenses | 52,887 | 7,649 | 3,825 | 64,361 | 805 | | | 65,166 |
| | 4,396,172 | 773,563 | 432,774 | 5,602,509 | 857,137 | 140,164 | 22,733 | 6,622,543 |
| Less cost of direct benefits of special events | | | | | | | (22,733) | (22,733) |
| Total expenses reported by function on the statement of activities (Exhibit B) | \$ 4,396,172 | \$ 773,563 | \$ 432,774 | \$ 5,602,509 | \$ 857,137 | \$ 140,164 | \$ - | \$ 6,599,810 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets (Exhibit B) | \$ 338,719 | \$ 287,374 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 52,513 | 27,065 |
| Decrease (increase) in assets | | |
| Grants receivable | (120,262) | (11,873) |
| Contributions receivable | 147,702 | 53,897 |
| Prepaid expenses and deposits | (22,196) | 4,722 |
| Due from related parties | (278,360) | (51,880) |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | (5,407) | (109,222) |
| Grant advances | (39,628) | (4,572) |
| Deferred rental income | 10,650 | |
| | <u>83,731</u> | <u>195,511</u> |
| Net cash provided by operating activities | | |
| Cash flows from investing activities | | |
| Fixed asset acquisitions | <u>(5,673)</u> | <u>(26,753)</u> |
| Cash flows from financing activities | | |
| Proceeds from loans | 25,000 | 200,000 |
| Principal payments on loans | <u>(50,002)</u> | <u>(89,659)</u> |
| Net cash provided (used) by financing activities | <u>(25,002)</u> | <u>110,341</u> |
| Net change in cash and cash equivalents | 53,056 | 279,099 |
| Cash and cash equivalents - beginning of year | <u>405,079</u> | <u>125,980</u> |
| Cash and cash equivalents - end of year | <u>\$ 458,135</u> | <u>\$ 405,079</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | <u>\$ 3,557</u> | <u>\$ 1,376</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - NATURE OF ORGANIZATION

Cypress Hills Local Development Corporation (Cypress Hills) is a not-for-profit community organization founded in May 1983 to revitalize the Cypress Hills community in northeast Brooklyn. The organization sponsors comprehensive housing preservation, economic development, community organizing and youth and human services programs that serve 8,000 residents annually. Cypress Hills' current programs and services include: tenant organizing, housing and homeownership counseling, mortgage foreclosure prevention, commercial revitalization, summer youth employment, after-school centers at Primary and Intermediate Public Schools 7, 65, 89, 171, and 302, a beacon school-based community center, a foster care prevention program, intergenerational services, affordable housing development and the development of community facilities, parent leadership and community organizing activities focused on educational reform and community building. The primary sources of revenues to Cypress Hills are government grants and contributions.

Cypress Hills is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FASB Accounting Standards Codification - In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents consist of cash and highly liquid investments with maturity dates when acquired of three months or less.

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CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants receivable - Grants receivable are recorded based on contracts for services provided.

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-adjusted 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 substantially met. Interest is not charged on outstanding receivables.

Allowance for doubtful accounts - Cypress Hills determines whether an allowance for uncollectible accounts should be provided for grants and contributions receivable. Such estimates are based on management's assessment of the aged basis of its contributions and grants, current economic conditions, subsequent receipts and historical information. Contributions and grants receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Cypress Hills has determined that no allowance for uncollectible accounts for grants and contributions receivable is necessary as of June 30, 2010 and 2009.

Fixed assets - Fixed assets and leasehold improvements are recorded at cost and are depreciated on the straight-line method over their estimated useful lives of 5 years for furniture and equipment. Amortization of leasehold improvements is recorded on the straight-line method over the term of the lease or the life of the asset, whichever is shorter. Items with a cost of \$500 and estimated useful life of greater than one year are capitalized.

Grant advances - Payments from government agencies in excess of qualified expenses under the terms of the contract are reflected on the balance sheet as grant advances.

Deferred rental income - Rental income received for the next fiscal year is reported as deferred income.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use by Cypress Hills has been limited by donors to a specific time period or purpose.

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CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grant revenues - Revenues from government contracts are recognized when reimbursable expenses are incurred under the terms of the contract. No provision for any disallowances is reflected in the financial statements, since management does not anticipate any material adjustments.

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 as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Rental income - Rental income is recognized based on signed rental agreements. When material, an adjustment is made to straight-line the income over the life of the lease.

Functional allocation of expenses - The costs of providing Cypress Hills' services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Rental expense - Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Advertising - Advertising costs are expensed when incurred.

Reclassifications - Certain amounts that had been included in fixed assets were reclassified to due from related parties to conform to the 2010 presentation.

Uncertainty in income taxes - Effective July 1, 2009, Cypress Hills adopted the provision pertaining to uncertain tax positions (ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2007 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through February 17, 2011, which is the date the financial statements were available to be issued.

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**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 and 2009 are available for the following purposes or periods:

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| Youth and human services | \$ 375,498 | \$ 85,056 |
| Housing development and counseling | 32,049 | |
| Economic development and community organizing | 143,209 | 143,209 |
| Community development | 132,002 | 169,921 |
| For periods after June 30 | <u>10,000</u> | <u>181,000</u> |
| | <u>\$ 692,758</u> | <u>\$ 579,186</u> |

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Youth and human services | \$ 1,073,526 | \$ 1,199,868 |
| Housing development and counseling | 247,759 | 297,075 |
| Economic development and community organizing | 117,050 | 258,105 |
| Community development | 746,069 | 178,716 |
| Lapse of time restriction | <u>171,000</u> | <u>50,000</u> |
| | <u>\$ 2,355,404</u> | <u>\$ 1,983,764</u> |

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**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 4 - RELATED PARTIES

Cypress Hills is related through common board members to the following organizations:

Liberty/125 Fountain LP
 Cypress Court Housing Corporation
 Cypress Corners Housing Corporation
 Cypress Hills Community School Development Corporation, Inc.
 Cypress Hills Housing Corporation
 Hills Associates LP
 Arlington Apartments HDFC
 Cypress Homes HDFC
 Cypress Plaza Group HDFC
 Cypress West HDFC
 Glenmore Gardens HDFC
 Cypress Hills Child Care Corp.

During 2010 and 2009, Cypress Hills received management and development fees of \$303,848 and \$498,535, respectively, from these related parties.

NOTE 5 - FIXED ASSETS

| | <u>2010</u> | <u>2009</u> | <u>Estimated Useful Lives</u> |
|--|-------------------|-------------------|-----------------------------------|
| Leasehold improvements | \$ 303,054 | \$ 303,054 | 25 years |
| Equipment | <u>441,129</u> | <u>435,456</u> | 5 years |
| | 744,183 | 738,510 | |
| Accumulated depreciation and amortization | <u>(529,071)</u> | <u>(476,558)</u> | |
| | <u>\$ 215,112</u> | <u>\$ 261,952</u> | |

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**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 6 - LOANS PAYABLE

Cypress Hills entered into Deutsche Bank's working capital program. Under this program, Cypress Hills will receive three installments of \$25,000 each as an unsecured, interest-free working capital loan. The loan is to be used for development of affordable housing. Each loan is due three years from the date of receipt from Deutsche Bank. In 2009, Cypress Hills received a \$75,000 loan due in 2011 and a \$25,000 first installment of the next loan due in 2012. In 2010, Cypress Hills repaid \$25,000 of the 2011 loan and received the next \$25,000 installment toward the 2012 loan. The balance, as of June 30, 2010 and 2009, was \$100,000.

During 2009, Cypress Hills obtained a \$300,000 line of credit from Capital One Bank with an interest rate of 3%. As of June 30, 2010 and 2009, the balances due were \$74,998 and \$100,000, respectively. The balance was fully paid by the due date of October 1, 2010.

Interest expense for the years ended June 30, 2010 and June 30, 2009 was \$3,557 and \$1,376, respectively.

Future loan payments are as follows:

| | |
|------|-------------------|
| 2011 | \$ 124,998 |
| 2012 | 25,000 |
| 2013 | <u>25,000</u> |
| | <u>\$ 174,998</u> |

NOTE 7 - GOVERNMENT AUDITS

Revenues and expenses for services rendered are subject to fiscal and compliance audits by the government grantor agencies. No provision for audit adjustments has been recorded in the financial statements. Management is of the opinion that adjustments, if any, will not have a material effect on the financial statements.

NOTE 8 - LEASE COMMITMENTS

Office space is leased under a 25-year operating lease expiring in 2015 at \$1 per year. Under the terms of the lease, Cypress Hills spent \$250,550 renovating the office space, which was capitalized and is being amortized over the life of the lease. The yearly amortization of \$10,022 on the original renovation approximates the fair value of the rental of the office space. Accordingly, Cypress Hills has not recorded donated rent or additional rent expense for this office space.

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**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 8 - LEASE COMMITMENTS (continued)

On January 1, 2007, Cypress Hills renewed its operating lease for a second office located at 3214 Fulton Street, Brooklyn, New York. The lease expired on December 31, 2009. Cypress Hills continues to make rental payments of \$990 on a month to month basis.

On January 1, 2007, Cypress Hills entered into an additional lease for an office located at 2836 Fulton Street, Brooklyn, New York. The lease expired on December 31, 2009. Cypress Hills continues to make rental payments of \$715 on a month to month basis.

During 2010, Cypress Hills entered an operating lease for additional office space at 832 Jamaica Avenue. The lease expires in October 2011. Monthly payments are \$1,750 and are not subject to any increases.

During 2010, Cypress Hills entered into an operating lease agreement with Cypress Plaza Group L.P. for additional office space. This lease expires in 2024. Monthly rental payments are subject to annual increases.

Rent expense for the years ended June 30, 2010 and 2009 was \$113,047 and \$20,460, respectively.

The future rental payments are as follows:

| | |
|------------|---------------------|
| 2011 | \$ 94,458 |
| 2012 | 97,886 |
| 2013 | 82,887 |
| 2014 | 54,543 |
| 2015 | 86,241 |
| Thereafter | <u>831,882</u> |
| Total | <u>\$ 1,247,897</u> |

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**CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 9 - RENTAL INCOME

Cypress Hills receives rental income from four leases for use of their facilities. The leases expire in 2019. Minimum rental income is as follows:

| | |
|------------|---------------------|
| 2011 | \$ 105,000 |
| 2012 | 105,165 |
| 2013 | 109,983 |
| 2014 | 115,406 |
| 2015 | 118,937 |
| Thereafter | <u>501,581</u> |
| Total | <u>\$ 1,056,072</u> |

NOTE 10 - CONCENTRATIONS

The majority of Cypress Hills' government grants are funded through New York State and New York City government programs. The outstanding grants receivable due from New York City as of June 30, 2010 and 2009 are \$676,320 and \$846,285, respectively. The outstanding grants receivable due from New York State as of June 30, 2010 and 2009 are \$333,575 and \$281,646, respectively.

Financial instruments which potentially subject Cypress Hills 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 11 - PENSION PLAN

In December 1999, Cypress Hills established a Section 403(b) retirement plan covering all full-time employees after one year of service. Cypress Hills may match the employees' contribution up to a maximum limit, as determined on a yearly basis. The pension expense for the years ended June 30, 2010 and 2009 was \$41,627 and \$55,616, respectively.

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CYPRESS HILLS LOCAL DEVELOPMENT
CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 12 - COMMITMENTS

Cypress Hills has guaranteed a loan for the following Corporations:

- A. Cypress Hills Child Care Corp for the benefit of Local Initiatives Support Corporation (LISC). The maximum value of the loan is \$575,000. At June 30, 2010, the balance was \$106,059.
- B. Glenmore Gardens HDFC for the benefit of LISC - The maximum value of the loan is \$150,000. At June 30, 2010, the balance was \$75,737.
- C. Glenmore Gardens HDFC for the benefit of Capital One Bank - The maximum value of the loan is \$2,442,632. At June 30, 2010, the balance was \$1,860,144.
- D. Cypress West HDFC for the benefit of LISC - The maximum value of the loan is \$98,000. At June 30, 2010, the balance was \$98,000.
- E. Cypress Homes HDFC for the benefit of LISC - The maximum value of the loan is \$2,000,000. At June 30, 2010, the balance was \$1,867,797.
- F. Cypress Homes HDFC for the benefit of Low Income Investment Fund (LIIF) - The maximum value of the loan is \$2,328,378. At June 30, 2010, the balance was \$2,233,678.